Economics

Weekly — January 16, 2026

Weekly Economic & Financial Commentary

United States: **A Moderating but Resilient U.S. Economy**

- This week's data depict an economy cooling in an orderly fashion: Inflation is easing gradually, consumer spending retains underlying resilience, and housing is finding a foothold as financing costs modestly retreat.
- Next week: Construction Spending (Wed.), Personal Income & Spending (Thu.)

International: **Gentle Data Shifts, Anchored Policy Paths**

- In an otherwise relatively quiet week for global economic data releases, the U.K.'s November GDP print delivered an upside surprise, though we still expect the Bank of England to remain on a gradual easing path. Meanwhile, India's December inflation data showed a modest acceleration, unlikely to derail our expectations for one additional rate cut this year.
- Next week: China GDP (Mon.), Australia Employment (Thu.), Bank of Japan Policy Rate (Fri.)

Topic of the Week: **More Pressure on the Federal Reserve Emerges**

- News broke earlier this week that the Federal Reserve received grand jury subpoenas from the Department of Justice, escalating the Trump administration's pressure on the nation's central bank. While we do not believe this will alter the near-term course of monetary policy, it will make the next Fed Chair's job that much more difficult to build a consensus among the 19 members of the Federal Open Market Committee.

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual	Forecast		
	2025				2026							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2024	2025	2026	2027
Real Gross Domestic Product (a)	-0.6	3.8	4.3	2.1	3.3	1.5	2.1	2.3	2.8	2.2	2.7	2.3
Personal Consumption	0.6	2.5	3.5	2.2	1.9	2.3	2.3	2.2	2.9	2.7	2.3	2.1
Consumer Price Index (b)	2.7	2.5	2.9	2.7	2.4	2.7	2.5	2.5	3.0	2.7	2.6	2.3
"Core" Consumer Price Index	3.1	2.8	3.1	2.7	2.5	2.7	2.5	2.6	3.4	2.9	2.6	2.3
Quarter-End Interest Rates (c)												
Federal Funds Target Rate (d)	4.50	4.50	4.25	3.75	3.50	3.25	3.25	3.25	5.27	4.33	3.31	3.25
Conventional Mortgage Rate	6.65	6.82	6.35	6.20	6.10	6.15	6.15	6.15	6.72	6.60	6.14	6.19
10 Year Note	4.23	4.24	4.16	4.18	4.10	4.15	4.20	4.25	4.21	4.29	4.18	4.29

Forecast as of: January 14, 2026
Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Data - Period End; Annual Data - Annual Averages
(d) Upper Bound of the Federal Funds Target Range

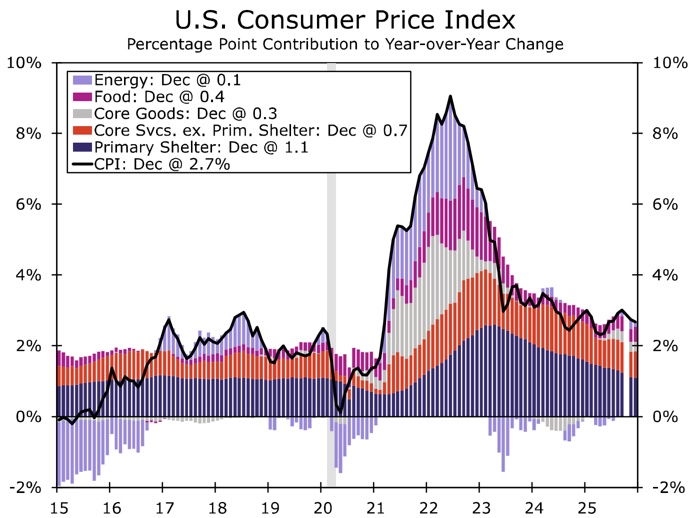
Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

U.S. Review

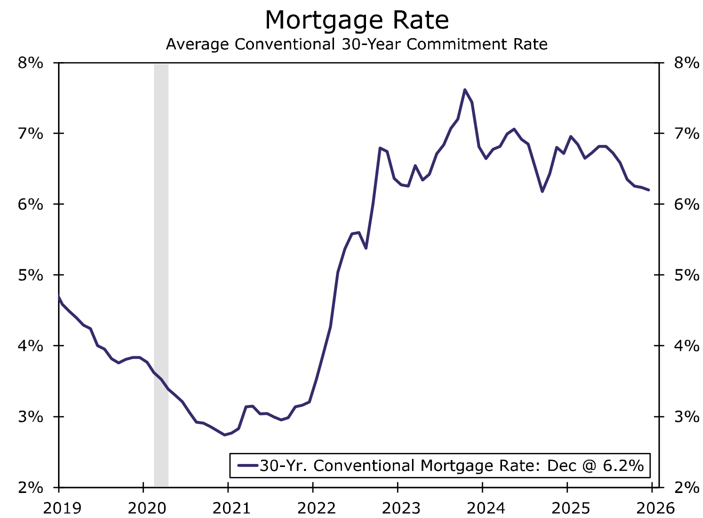
A Moderating but Resilient U.S. Economy

This week held a plethora of data, and though complications from the federal government's shutdown remain, a clearer picture of the economy over the past few months is finally emerging. The headliner was the CPI report. Both headline and core CPI held at 2.7% and 2.6%, respectively, year-over-year in December—an improvement from 2.9% and 3.2% rates registered for the same period a year earlier. A shutdown-related quirk in the BLS shelter calculation is likely suppressing inflation by about a tenth, and early-year price resets may temporarily lift readings in Q1. Even so, December's report shows inflation continues to move toward 2%. Core goods prices were flat in December and have risen just 0.03% on average over the past two months, weighed down by a sharp drop in used car prices and flat new car prices. Some categories, such as apparel, rebounded modestly after November's unusually soft print, though less than expected. Core services posted a jump in airfares, but this was offset by weaker prints in areas like motor vehicle maintenance, leaving services inflation on a gradual cooling trend. Overall, the data strengthen confidence that inflation will continue easing toward 2% this year.

Household spending data came in stronger than expected, with November retail sales rising 0.6% over the month following a negative reading in October. A rebound in auto sales helped, but not as much as expected, with ex-auto sales rising 0.5% over the month and the control group—our preferred gauge of core goods demand—up 0.4%. The November data point to firm underlying consumer momentum in Q4, with broad-based strength spanning across categories including autos, online retail and bars & restaurants. High-frequency indicators suggest spending cooled in December, likely reflecting a softer labor market and ongoing price pressures. That said, we expect favorable household tax policy to offer some relief and support consumer spending in 2026.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: Freddie Mac and Wells Fargo Economics

The housing market showed further signs of stabilization as mortgage rates slightly eased. Existing home sales rose 5.1% in December, marking a fourth consecutive monthly gain and the fastest resale pace since early 2023, with single-family transactions leading the improvement. Softer price growth has also supported demand, with single-family homes up 0.2% year-over-year in December, the weakest print since valuations declined in early 2023. The recent increase in sales volume has put a dent in resale inventory, which remains historically tight.

New home sales have also benefited from modest rate relief and a step-up in builder incentives. Though sales were essentially unchanged in October at a 737K annual pace, strong gains in August and September lifted the pace of transactions near its highest level since May 2023. Despite an uptick in demand, months' supply remains elevated at 7.9 months, well above the 5.5-month average from 2015-2019, prompting builders to rely more heavily on discounts and concessions. Forty percent of builders reported cutting prices in December, the second-highest share since 2020, while 67% used sales incentives of any kind. These efforts, combined with softer demand, have weighed on new home prices, which fell 8% year-over-year in October to their lowest level since mid-2021. Overall, while slightly lower mortgage rates should help steady buyer activity, the market still faces meaningful headwinds, and we do not expect home sales to show significant momentum this year.

Taken together, this week's data depict an economy cooling in an orderly fashion: Inflation is easing gradually, consumer spending retains underlying resilience, and housing is finding a foothold as financing costs modestly retreat. We expect the FOMC to keep the federal funds rate on hold at its upcoming January meeting, followed by 25 bps rate cuts at its March and June meetings. However, we believe the balance of risks to our forecast for the fed funds rate is increasingly skewed toward later and/or fewer rate cuts. If inflation runs hotter in the coming months, the Committee may choose to keep the fed funds rate unchanged. Our belief that economic growth will be firming throughout the spring/summer months only would add to the case to remain on hold. For now, we are sticking with our call, but we will be closely watching the data unfold in the coming weeks.

(Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
21-Jan	Construction Spending (MoM)	Sep	-	0.3%	0.2%
21-Jan	Construction Spending (MoM)	Oct	0.1%	0.0%	0.2%
22-Jan	GDP Annualized (QoQ)	Q3	4.3%	4.3%	4.3%
22-Jan	Personal Consumption Annualized (QoQ)	Q3	-	3.5%	3.5%
22-Jan	Personal Income (MoM)	Oct	-	0.3%	0.4%
22-Jan	Personal Income (MoM)	Nov	0.4%	0.3%	0.4%
22-Jan	Personal Spending (MoM)	Oct	-	0.4%	0.4%
22-Jan	Personal Spending (MoM)	Nov	0.5%	0.5%	0.4%
22-Jan	PCE Deflator (MoM)	Oct	-	0.2%	0.3%
22-Jan	PCE Deflator (YoY)	Oct	-	2.8%	2.8%
22-Jan	Core PCE Deflator (MoM)	Oct	-	0.2%	0.2%
22-Jan	Core PCE Deflator (YoY)	Oct	-	2.8%	2.8%
22-Jan	PCE Deflator (MoM)	Nov	0.2%	0.2%	0.3%
22-Jan	PCE Deflator (YoY)	Nov	2.7%	2.8%	2.8%
22-Jan	Core PCE Deflator (MoM)	Nov	0.2%	0.2%	0.2%
22-Jan	Core PCE Deflator (YoY)	Nov	2.8%	2.8%	2.8%

Forecast as of January 16, 2026

Source: Bloomberg LP and Wells Fargo Economics

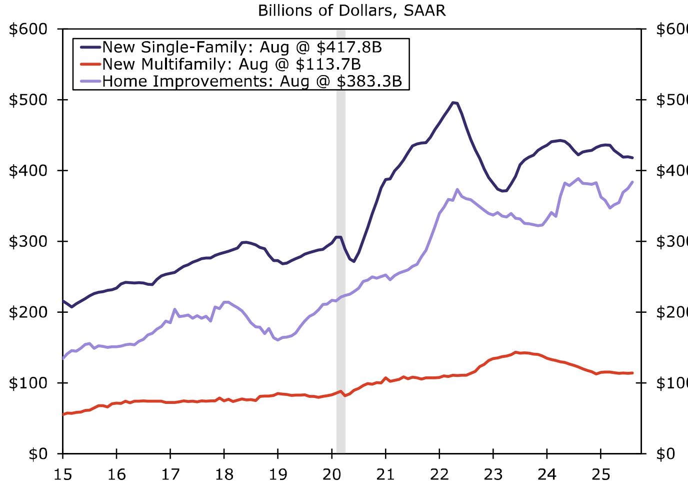
Construction Spending • Wednesday

Construction outlays have trended higher as of late, increasing for three consecutive months as of August, following a year-long deterioration that began in mid-2024. Although interest rate cuts are supportive of construction, current data cut off before the Fed resumed monetary easing in September. Instead, a groundswell of home improvement spending has been the primary new development, stemming from homeowners more apt to invest in their current properties than trade up to a higher mortgage rate.

Most other construction categories remain weak. Single-family construction has steadily declined amid elevated new home inventory and a dropoff in new project starts. Multifamily trends are somewhat less clear, but overall construction appears to be pressured by high apartment vacancy rates. Meanwhile, nonresidential construction is essentially flat. This trend says less about stable demand for nonresidential real estate and more about robust growth in public infrastructure outlays offsetting softness in manufacturing and commercial building. We estimate that overall construction spending was essentially flat in October (+0.0%), following a 0.3% increase in September.

Private Residential Construction

Billions of Dollars, SAAR



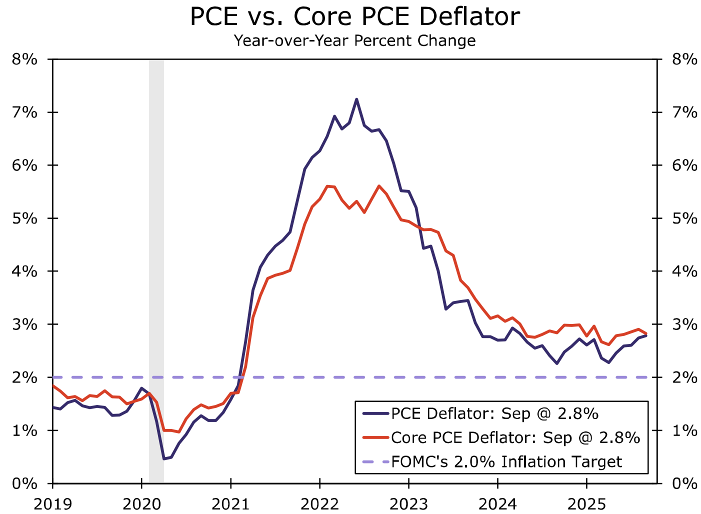
Source: U.S. Department of Commerce and Wells Fargo Economics

Personal Income & Spending • Thursday

Consumers are facing a mix of setbacks and support factors. On one hand, prices are high, job prospects are dim, and wage growth has softened starkly for lower-earning households. On the other hand, higher-earning households maintain considerable resilience and some broader relief is coming down the pike in the form of OBBBA tax cuts. This dichotomy helps to explain the strong momentum behind retail sales, which rose 0.6% in November. The "control group" of retail sales, which feeds into BEA personal spending, rose 0.4%, signaling strong consumer demand for goods. Based on this development, we look for a 0.5% increase in overall personal outlays in November, propelled by a 0.3% gain in personal income. Delayed figures for October are likely to show similar growth.

The slow descent in inflation looks to be intact, with some stubbornness likely to remain in the first half of 2026. CPI has meaningfully retracted in recent months, but that was partly driven by distortions related to the government shutdown. Different weighting and source data suggest somewhat less improvement in PCE inflation. We estimate headline readings of 2.8% in October and November, with equal readings for core (both at 2.8%). If realized, these would continue the sideways move in inflation. We have confidence that more sustainable disinflation will resume in the second half of 2026 once the effects of tariffs are fully priced in.

(Return to Summary)

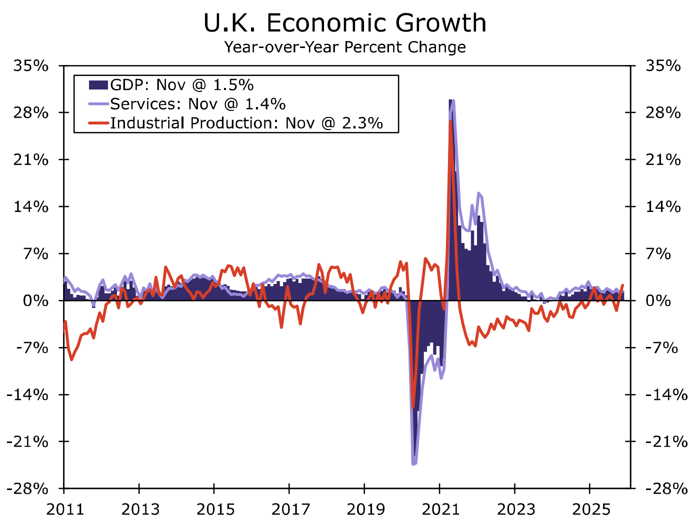


Source: U.S. Department of Commerce, Federal Reserve Board and Wells Fargo Economics

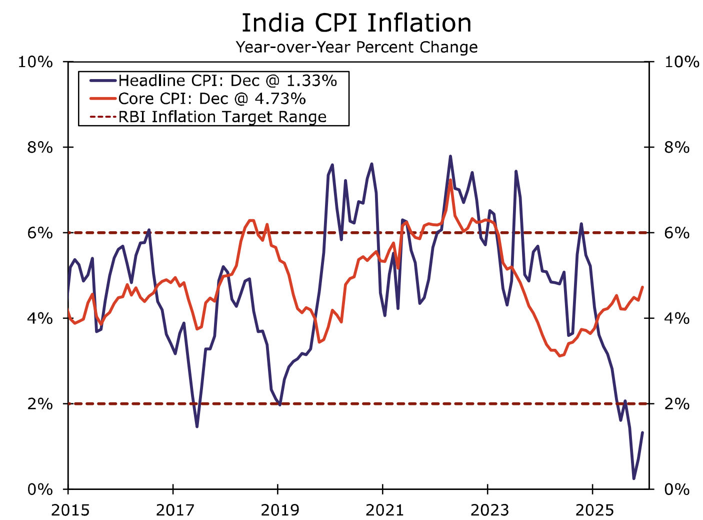
International Review

Gentle Data Shifts, Anchored Policy Paths

This week's data out of the United Kingdom delivered some welcome news on the growth front. November monthly GDP rose by a stronger-than-expected 0.3%, reversing October's 0.1% contraction. The improvement was broad-based. Services output increased 0.3% month-over-month, beating consensus expectations and offsetting the prior month's 0.3% decline, while industrial production jumped 1.1%. Notably, the previous month's industrial production figure was also revised up by 1.3%, with the sector continuing to be supported by a rebound in auto manufacturing. For the Bank of England (BoE), the firmer-than-forecast growth numbers are a constructive development. However, activity levels remain subdued by historical standards, and the broader macro backdrop still signals softness. Labor market indicators point to easing conditions, with the unemployment rate drifting higher, while inflation continues to move gradually lower toward target. Together, these dynamics reinforce the case for further monetary easing, though delivered at a measured pace. We remain comfortable with our baseline view and continue to expect two 25 bps rate cuts from the BoE this year. Under our current forecast, the policy rate reaches the terminal point of the easing cycle at 3.25% by Q2-2026, with policymakers opting to cut at an every other meeting cadence.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

This week's inflation data from India should, in our view, keep the Reserve Bank of India (RBI) on track for an initial 25 bps rate cut at its February 2026 meeting, the first policy meeting of the year, after which we expect the central bank to move into an extended pause and hold rates steady. In December, both headline and core CPI edged higher to 1.33% and 4.73% year-over-year, respectively. While headline inflation came in below consensus expectations, the direction of travel was still upward for the month. At the December monetary policy meeting, RBI policymakers highlighted the continued softness in inflationary pressures and noted that inflation expectations have also been easing. This view was reflected in the downward revisions to the central bank's own CPI projections. With headline inflation still sitting below the lower bound of the RBI's 2%-6% target range, we continue to expect the policy rate to ultimately settle at a terminal level of 5.00%. That said, risks to our RBI outlook remain, particularly from the currency side. The INR has come under persistent depreciation pressure, and further weakness could prompt the central bank to prioritize financial stability and capital flow considerations over easing. In such a scenario, the RBI may opt to keep rates on hold longer than we currently anticipate in an effort to curb additional outflows and support the currency.

(Return to Summary)

International Outlook

Date	Indicator	Period	Consensus	Wells Fargo	Prior
Weekly International Indicator Forecasts					
19-Jan	China GDP (YoY)	Q4	4.5%	—	4.8%
19-Jan	China Retail Sales (YoY)	Dec	1.0%	—	1.3%
19-Jan	China Industrial Production (YoY)	Dec	5.0%	—	4.8%
22-Jan	Australia Employment Change	Dec	26.3K	—	-21.3K
23-Jan	Bank of Japan Policy Rate	23-Jan	0.75%	0.75%	0.75%

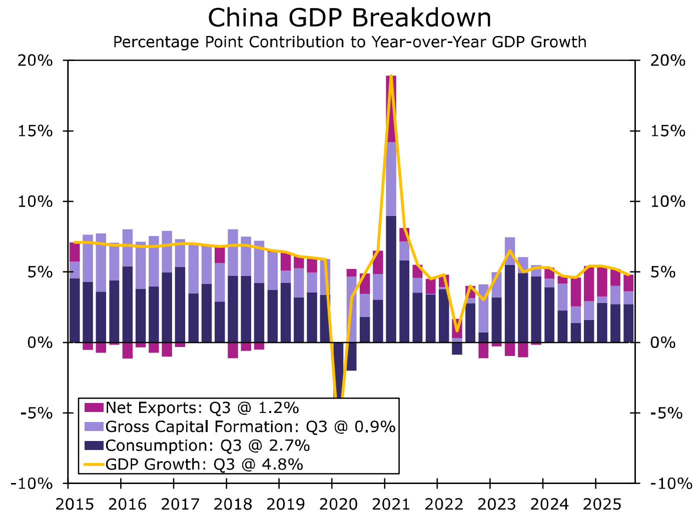
Forecast as of January 16, 2026

Source: Bloomberg Finance L.P. and Wells Fargo Economics

China GDP • Monday

Next week, China will release a suite of economic activity indicators for the final quarter of 2025. The GDP, retail sales and industrial production prints will offer market participants an updated read on the country's growth momentum.

Consensus expectations are for Q4-2025 GDP rising 1.1% quarter-over-quarter on a seasonally adjusted basis, same as the prior quarter, or 4.5% year-over-year. For the December activity data, economists anticipate a mixed picture: Industrial production is expected to firm to 5.0% year-over-year from November's pace, while retail sales growth is projected to decelerate further to 1.0%. Even if the GDP forecast materializes in line with consensus expectations, marking the slowest quarterly growth since 2022, the economy would still achieve the government's 5.0% growth target for 2025. However, in our view, the absence of broad-based fiscal stimulus aimed at boosting domestic demand, which Chinese authorities have shown unwillingness to deploy, means the economy's structural imbalances will continue to weigh on its longer-term trajectory. As a result, we expect growth to slow to 4.5% in 2026.

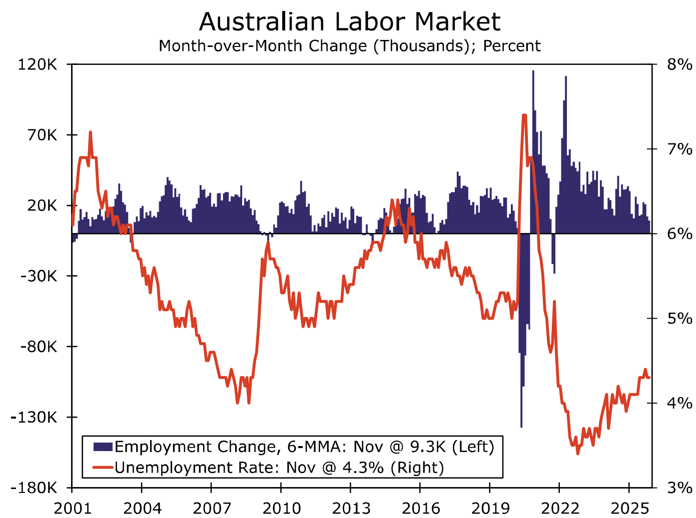


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Australia Employment • Thursday

In assessing whether the Reserve Bank of Australia (RBA) might opt to raise its Official Cash Rate this year, which we view as unlikely at this stage, key inputs will include data on inflation, economic activity and labor market conditions. Next week, Australia's December employment report will be released, with consensus expectations pointing to a gain of 26.3K jobs, a reversal from November's 21.3K fall that was driven by full-time job losses outweighing part-time gains. The unemployment rate is expected to rise to 4.4%. With inflation still elevated, despite some easing in November's CPI print to 3.4% year-over-year, and the RBA's recent shift toward more hawkish rhetoric, the upcoming labor market data will draw increased scrutiny. However, December employment figures tend to be volatile due to seasonal effects associated with the summer holiday period, warranting caution in interpreting any strength or potential upside surprise.

Our baseline view remains that the RBA will keep the cash rate unchanged at 3.60% through 2026. While we have removed the previously expected rate cut, we do not anticipate rate hikes either. That said, if labor market conditions were to strengthen materially—beyond what may be reflected in December alone—and if Q4 or December core inflation were to substantially surprise to the upside, we see some risk of the RBA considering an initial rate hike.



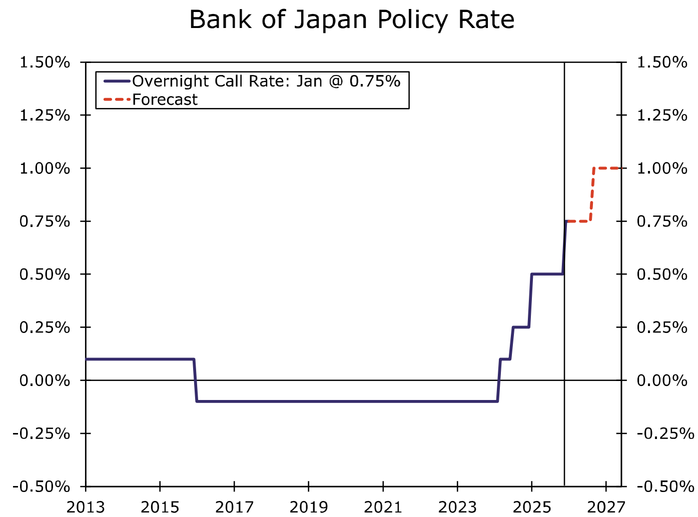
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of Japan Policy Rate • Friday

The Bank of Japan (BoJ) will announce its latest monetary policy decision next week, and we, along with consensus, expect the central bank to keep rates on hold at 0.75%. The BoJ raised interest rates twice last year, in January and December, bringing policy to its highest level since 1995. When delivering the 25 bps hike in December, policymakers signaled that additional rate increases were likely, assuming the economic outlook unfolded in line with the bank's forecasts. Since then, the data flow has been mixed. Inflation remains above the BoJ's target, but November wage growth surprised to the downside, potentially complicating the path toward further normalization, particularly if this softer trend persists beyond a single month's print. Meanwhile, the yen has faced renewed depreciation pressures, weakening this week amid speculation that Prime Minister Sanae Takaichi may call a snap election next month. Such a move could pave the way for aggressive fiscal stimulus and increased public spending. A weaker yen could feed through to higher imported inflation, weighing on consumption.

For now, we expect the BoJ to remain on hold at next week's meeting. Our baseline forecast remains for one additional 25 bps rate hike in Q3-2026. However, we see the balance of risks tilted toward an even earlier move, plus the possibility of another 25 bps hike thereafter, potentially leaving the policy rate at 1.25% by year-end.

(Return to Summary)



Source: Bloomberg Finance L.P. and Wells Fargo Economics

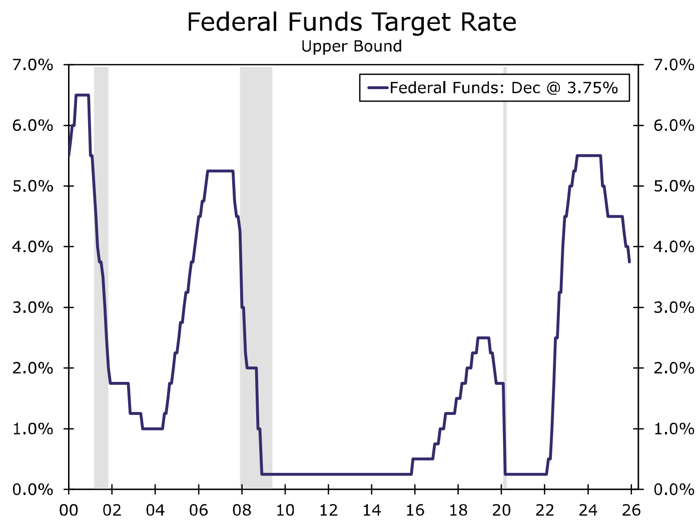
Topic of the Week

More Pressure on the Federal Reserve Emerges

News broke earlier this week that the Federal Reserve received grand jury subpoenas from the Department of Justice, escalating the Trump administration's pressure on the nation's central bank. While we do not believe this will alter the near-term course of monetary policy, it will make the next Fed Chair's job that much more difficult to build a consensus among the 19 members of the Federal Open Market Committee. The subpoenas are the latest in a string of efforts to pressure the Fed in lowering the federal funds rate in a year in which the administration has signaled ongoing dissatisfaction of the Fed's monetary policy stance. That said, President Trump has claimed he was unaware of the DOJ's action; so, it is plausible that administration officials acted without an explicit green-light from the president.

The timing of the investigation strikes us as notable. Jerome Powell's term as Fed Chair expires in May, leaving only three more FOMC meetings under his leadership. Powell's term on the Board of Governors continues through January 2028, and there has been speculation that he may remain on the Board until then to help maintain the Fed's independence. We suspect the investigation may be an effort to pressure Powell to exit the Board entirely once his chairmanship ends. That said, while an open investigation may increase the prospect of him staying, the more likely scenario remains that he steps down after his 14 years of service, in our view.

The investigation also introduces complications for the confirmation of the next Fed Chair. Senator Thom Tillis (R-NC) announced that he would not support any nominee until the legal matter is resolved. As a key member of the Senate Banking Committee who is retiring at year-end, Tillis holds considerable leverage over the situation, increasing the likelihood of confirmation delays.



Source: Federal Reserve Board and Wells Fargo Economics

This development is not expected to materially change short-term monetary policy. Powell has repeatedly emphasized that the most effective response to political pressure is to adhere to economic data, and we expect him to continue doing so. Moreover, monetary policy changes are a Committee decision, with 11 other FOMC voters and 18 other participants involved in the process. Their individual policy leanings, rather than political noise, will continue to guide policy in the months ahead.

Looking ahead, however, the DOJ investigation reinforces the narrative that the Trump administration will wield more influence over the next Fed Chair, contributing to already heightened uncertainty around the Fed's medium-term policy direction. This is likely to put the next Fed Chair in an even more difficult position of unifying an already divided Committee on questions of monetary policy. While we expect the FOMC to continue to make policy decisions on the basis of the economic environment, this episode risks damaging the credibility of Fed independence and U.S. good governance practices. (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 1/16/2026	1 Week Ago	1 Year Ago
SOFR	3.66	3.64	4.28
Effective Fed Funds Rate	3.64	3.64	4.33
3-Month T-Bill	3.64	3.59	4.30
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.60	3.53	4.23
5-Year Treasury	3.82	3.75	4.40
10-Year Treasury	4.21	4.17	4.61
30-Year Treasury	4.82	4.81	4.85
Bond Buyer Index	4.76	4.76	4.28

Foreign Exchange Rates

	Friday 1/16/2026	1 Week Ago	1 Year Ago
Euro ($/€)	1.159	1.164	1.030
British Pound ($/£)	1.338	1.340	1.224
British Pound (£/€)	0.867	0.868	0.842
Japanese Yen (¥/$)	158.140	157.890	155.160
Canadian Dollar (C$/$)	1.391	1.391	1.440
Swiss Franc (CHF/$)	0.803	0.801	0.911
Australian Dollar (US$/A$)	0.668	0.669	0.621
Mexican Peso (MXN/$)	17.706	17.977	20.844
Chinese Yuan (CNY/$)	6.971	6.978	7.332
Indian Rupee (INR/$)	90.868	90.165	86.550
Brazilian Real (BRL/$)	5.384	5.366	6.055
U.S. Dollar Index	99.442	99.133	108.957

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates

	Friday 1/16/2026	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.95	1.97	2.57
3-Month U.K. Govt Bill Yield	3.79	3.83	4.65
3-Month Canadian Govt Bill Yield	2.19	2.21	3.06
3-Month Japanese Govt Bill Yield	0.71	0.68	0.30
2-Year German Note Yield	2.12	2.11	2.23
2-Year U.K. Note Yield	3.68	3.64	4.38
2-Year Canadian Note Yield	2.54	2.55	2.96
2-Year Japanese Note Yield	1.21	1.15	0.69
10-Year German Bond Yield	2.84	2.86	2.55
10-Year U.K. Bond Yield	4.41	4.37	4.68
10-Year Canadian Bond Yield	3.36	3.38	3.34
10-Year Japanese Bond Yield	2.19	2.10	1.21

Commodity Prices

	Friday 1/16/2026	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	59.89	59.12	78.68
Brent Crude ($/Barrel)	64.51	63.34	81.29
Gold ($/Ounce)	4568.95	4509.50	2714.31
Hot-Rolled Steel ($/S.Ton)	939.00	938.00	699.00
Copper (¢/Pound)	578.40	590.25	444.10
Soybeans ($/Bushel)	10.54	10.62	10.40
Natural Gas ($/MMBTU)	3.07	3.17	4.26
Nickel ($/Metric Ton)	18,381	16,961	15,629
CRB Spot Inds.	610.79	594.61	548.80

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Economics Group

Tom Porcelli	Chief Economist	212-214-6422	Tom.Porcelli@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com

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