Monthly — August 13, 2026

U.S. Economic Outlook: August 2026

Uneven Growth and a Fed on Hold

Key Themes

- **The economy is expanding, but the mix is uneven.** Real GDP growth rose at a 1.5% annualized pace in Q2, with solid consumer spending and AI-related capex offsetting drags from net exports and inventories. Growth remains resilient, but concentrated.
- **AI investment remains a key shock absorber.** High-tech related investment continues to support growth, though the boost is being partly diluted by stronger tech-related imports. There are also tentative signs investment is broadening as delayed capex plans move forward and inventory rebuilding gains traction.
- **Consumer spending is holding up, but upside looks limited.** Q2 spending remained solid, but support from tax refunds has faded, real income growth is soft and the saving rate is already low. That leaves consumption exposed to a cooler jobs market.
- **The labor market does not look *as* stable.** Recent hiring and wage data suggest labor demand is still soft, shifting the risks away from overheating and toward a more meaningful cooling in employment growth. Supply and demand in the jobs market remains balanced, but the margin for error has narrowed.
- **Inflation remains elevated, but the trend is improving.** Recent inflation data suggest some of the recent upward pressure from tariffs and energy is fading. Core services inflation is cooling, and broader price pressures show signs of easing. While inflation remains above target, the recent upturn appears narrow rather than broad-based.
- **The Fed remains stuck on hold.** Inflation is still above target, but the softer labor backdrop makes a hawkish pivot harder to justify. Patience remains the path of least resistance. As long as inflation remains concentrated in areas monetary policy cannot easily influence, such as energy and AI-related demand, the Fed is likely to stay put. A broader pickup in price pressures, however, would warrant a firmer policy response.

Economist(s)

Tom Porcelli
Chief Economist | Wells Fargo Economics
Tom.Porcelli@wellsfargo.com | 212-214-6422

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

Sarah House
Senior Economist | Wells Fargo Economics
Sarah.House@wellsfargo.com | 704-410-3282

Charlie Dougherty
Senior Economist | Wells Fargo Economics
Charles.Dougherty@wellsfargo.com | 212-214-8984

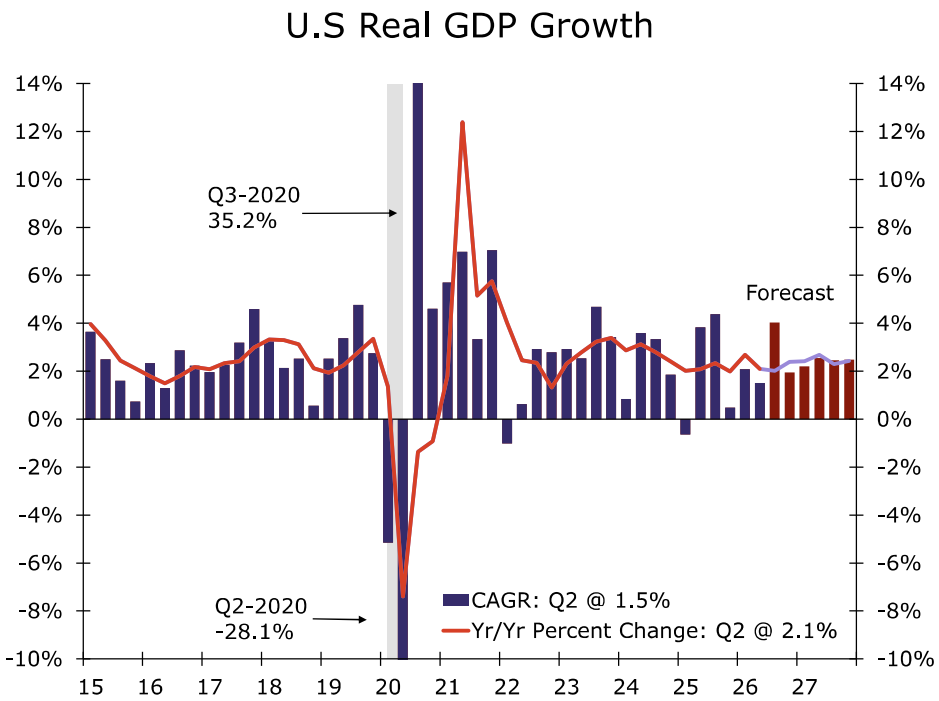
Michael Pugliese
Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Jackie Benson
Economist | Wells Fargo Economics
Jackie.Benson@wellsfargo.com | 704-410-4468

Shannon Grein
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

Nicole Cervi
Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

Azhin Abdulkarim
Economic Analyst | Wells Fargo Economics
Azhin.Abdulkarim@wellsfargo.com | 212-214-5154



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

U.S. Forecast Table

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2024				2025				2026				2027				2024	2025	2026	2027
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product (a)	0.8	3.6	3.3	1.8	-0.6	3.8	4.4	0.5	2.1	1.5	4.0	2.0	2.2	2.5	2.5	2.5	2.8	2.1	2.3	2.5
Personal Consumption	1.7	3.9	4.0	3.9	0.6	2.5	3.5	1.9	0.5	3.2	2.6	2.0	1.8	2.2	2.3	2.0	2.9	2.6	2.1	2.2
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.4	10.6	8.4	8.0	5.8	5.2	6.2	4.8	5.3	2.9	4.1	6.9	6.0
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.3	4.3	15.8	15.2	6.9	4.8	4.5	6.0	5.0	4.0	3.5	8.3	9.9	5.8
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.6	5.4	13.8	8.8	9.2	7.9	6.4	7.1	4.5	6.4	3.5	5.6	9.3	7.1
Structures	-5.0	-3.9	-2.2	-8.1	-3.1	-7.5	-5.0	-6.5	-4.7	-5.0	1.8	2.7	3.5	4.4	4.9	5.1	1.1	-5.3	-4.1	3.0
Residential Investment	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-7.1	-1.7	-7.8	1.5	-3.2	-1.2	2.8	3.7	4.3	4.8	3.2	-2.2	-3.7	1.7
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-5.6	4.4	-0.8	3.2	1.1	1.1	0.8	0.8	0.8	3.8	1.1	0.6	1.1
Net Exports	-964.1	-1032.2	-1064.9	-1069.0	-1380.7	-1058.0	-955.5	-968.7	-1001.8	-1074.7	-1103.4	-1121.9	-1138.5	-1153.1	-1168.0	-1179.8	-1032.6	-1090.7	-1075.4	-1159.9
Pct. Point Contribution to GDP	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	-0.2	-0.4	-1.0	-0.5	-0.3	-0.3	-0.2	-0.2	-0.2	-0.5	-0.2	0.1	-0.3
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-23.9	-15.6	-16.7	-50.8	21.4	8.4	17.5	18.2	23.4	30.5	43.5	28.5	-9.4	22.4
Pct. Point Contribution to GDP	-0.8	1.2	-0.1	-0.9	2.6	-3.4	-0.1	0.1	0.2	-0.7	1.2	-0.2	0.1	0.0	0.1	0.1	0.0	-0.1	-0.2	0.1
Nominal GDP (a)	4.0	6.3	5.1	4.3	2.9	6.0	8.3	4.2	5.8	7.9	6.0	4.3	4.5	4.5	4.5	4.8	5.3	5.0	6.1	4.9
Real Final Sales	1.7	2.4	3.5	2.8	-3.2	7.5	4.5	0.3	1.9	2.2	2.8	2.2	2.1	2.5	2.4	2.4	2.8	2.2	2.5	2.4
Retail Sales (b)	1.8	2.5	2.3	3.9	4.5	4.1	4.4	3.0	3.9	6.4	5.8	6.0	5.0	2.5	1.9	1.7	2.6	4.0	5.5	2.7
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	3.1	3.8	3.6	3.5	2.9	2.1	2.1	2.1	2.6	2.6	3.5	2.3
"Core" PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.9	3.1	3.3	3.3	3.1	2.7	2.4	2.4	2.4	2.9	2.8	3.2	2.5
Consumer Price Index	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.7	3.8	3.3	3.3	2.9	1.8	2.0	1.9	3.0	2.7	3.3	2.1
"Core" Consumer Price Index	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.6	2.5	2.7	2.4	2.5	2.3	2.2	2.3	2.3	3.4	2.9	2.5	2.3
Producer Price Index (Final Demand)	1.5	2.6	2.2	3.1	3.4	2.5	3.0	3.0	3.6	5.7	4.8	4.4	3.7	2.3	2.7	2.6	2.4	3.0	4.6	2.8
Employment Cost Index	4.2	4.1	3.9	3.8	3.6	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	4.0	3.5	3.4	3.4
Real Disposable Income (a)	4.2	2.4	1.2	2.0	2.3	1.8	1.0	-0.9	0.9	-1.5	2.2	2.3	4.4	2.2	2.0	2.2	2.9	1.7	0.4	2.5
Nominal Personal Income (a)	7.6	5.4	3.6	4.9	6.4	4.3	4.4	2.4	3.4	3.8	4.2	4.7	4.9	4.1	4.0	4.5	5.6	4.8	3.7	4.5
Industrial Production (a)	-2.6	2.7	-2.3	-1.5	4.2	1.8	2.1	-1.9	1.1	4.0	2.3	2.3	1.1	1.0	1.1	0.5	-0.7	1.1	1.5	1.6
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	75.6	75.5	76.1	76.9	77.4	77.7	78.0	78.3	78.6	76.1	75.9	76.5	78.2
Federal Budget Balance (c)	-555	-209	-544	-711	-596	-30	-438	-602	-566	-198	-733	-607	-732	-186	-476	-649	-1817	-1775	-2100	-2000
Nonfarm Payroll Change (d)	203	76	72	135	20	34	23	-39	73	77	41	61	69	60	58	54	122	10	63	60
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.3	4.3	4.2	4.2	4.2	4.2	4.1	4.1	4.0	4.3	4.2	4.1
Light Vehicle Sales (g)	15.5	15.7	15.7	16.4	16.4	16.2	16.6	15.7	15.5	16.4	16.1	15.9	16.4	16.6	16.7	16.9	15.9	16.2	15.9	16.7
Crude Oil - Brent - Front Contract (h)	81.2	84.4	78.0	73.6	74.3	65.9	67.5	62.7	76.3	93.1	81.0	78.7	77.7	76.3	74.7	73.0	79.3	67.6	82.3	75.4
Housing Starts (e)	1.4	1.3	1.3	1.4	1.4	1.4	1.3	1.3	1.4	1.3	1.3	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.3
New Home Sales, Single-Family (f)	672.3	686.3	711.3	667.7	654.0	662.7	686.7	710.7	621.7	630.7	633.8	640.8	648.5	656.9	664.1	672.1	684.4	678.5	631.7	660.4
Total Existing Home Sales (e)	4.1	4.0	4.0	4.1	4.1	4.0	4.0	4.2	4.1	4.1	4.1	4.1	4.2	4.2	4.3	4.3	4.1	4.1	4.1	4.3
S&P Case-Shiller National Home Price Index (b)	6.4	6.0	4.4	3.8	3.9	2.4	1.5	1.3	0.8	1.3	1.6	1.2	1.2	2.0	2.4	2.9	5.1	2.2	1.5	2.3
Quarter-End Interest Rates (i)																				
Federal Funds Target Rate (j)	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	5.27	4.33	3.75	3.75
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.45	4.24	3.87	3.68	3.68	3.65	3.65	3.65	3.65	3.65	3.65	5.15	4.24	3.67	3.65
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.50	7.25	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	8.27	7.33	6.75	6.75
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.35	6.20	6.18	6.49	6.55	6.40	6.35	6.30	6.30	6.30	6.72	6.60	6.40	6.31
3 Month Bill	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.70	3.87	3.70	3.65	3.65	3.65	3.65	3.65	5.18	4.21	3.73	3.65
6 Month Bill	5.38	5.33	4.38	4.24	4.23	4.29	3.83	3.59	3.72	4.01	3.85	3.70	3.70	3.70	3.70	3.70	5.00	4.09	3.82	3.70
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.68	3.98	3.90	3.75	3.75	3.75	3.75	3.75	4.69	3.91	3.83	3.75
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.79	4.14	4.05	3.90	3.85	3.85	3.85	3.85	4.37	3.81	3.97	3.85
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.79	3.74	3.73	3.92	4.19	4.20	4.05	4.00	4.00	4.00	4.00	4.13	3.92	4.09	4.00
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.30	4.44	4.55	4.45	4.40	4.40	4.40	4.40	4.21	4.29	4.44	4.40
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.84	4.88	4.91	5.10	5.05	5.00	5.05	5.05	5.10	4.41	4.78	4.99	5.05

Forecast as of: August 13, 2026

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year
(d) Average Monthly Change, Thousands
(e) Quarterly Data - Average Monthly SAAR, Millions; Annual Data - Actual Annual Total, Millions
(f) Quarterly Data - Average Monthly SAAR, Thousands; Annual Data - Actual Annual Total, Thousands
(g) Quarterly Data - Average Monthly SAAR, Millions; Annual Data - Actual Total Vehicles Sold, Millions
(h) Quarterly Average of Daily Close, USD
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

Forecast Delta Table

Changes to the Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2024				2025				2026				2027							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2024	2025	2026	2027
Real Gross Domestic Product (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.32	1.43	0.39	0.03	0.05	0.05	0.04	0.00	0.00	0.14	0.26
Personal Consumption	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.92	0.15	-0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.03
Business Fixed Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.75	3.64	1.51	0.04	0.02	0.07	0.07	0.00	0.00	0.42	0.71
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.36	1.03	-0.11	0.02	0.00	-0.04	0.00	0.00	0.00	0.19	0.12
Intellectual Property Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.94	4.03	3.35	-0.02	-0.04	-0.02	-0.02	0.00	0.00	0.92	1.16
Structures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.72	2.90	0.50	0.20	0.20	0.60	0.44	0.00	0.00	0.05	0.54
Residential Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.71	-1.40	-3.90	-0.80	-0.30	-0.10	-0.10	0.00	0.00	0.45	-0.89
Government Purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.90	2.35	0.28	-0.09	-0.19	-0.28	-0.28	0.00	0.00	-0.24	0.05
Net Exports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3.06	17.33	19.07	22.78	27.97	32.90	37.36	0.00	0.00	8.33	30.25
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.33	0.03	0.06	0.08	0.08	0.07	0.00	0.00	0.03	0.09
Inventory Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-36.53	-22.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-14.81	0.00
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.71	0.23	0.37	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	0.06
Nominal GDP (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.74	1.58	0.40	-0.06	-0.01	0.01	-0.07	0.00	0.00	0.36	0.29
Real Final Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.41	1.20	0.02	0.03	0.05	0.05	0.04	0.00	0.00	0.17	0.23
Retail Sales (b)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inflation Indicators (b)																				
PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.01	0.01	-0.01	-0.01	-0.05	-0.07	0.00	0.00	0.00	-0.04
"Core" PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.07	-0.10	-0.11	-0.10	-0.04	-0.02	0.00	0.00	-0.05	-0.07
Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.19	0.16	0.14	-0.02	-0.09	0.00	0.00	0.09	0.05
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02	0.01	-0.01	-0.01	0.00	0.00	0.01	0.00
Producer Price Index (Final Demand)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	-0.30	-0.25	-0.21	-0.18	0.09	0.03	0.00	0.00	-0.15	-0.06
Employment Cost Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Real Disposable Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23	-0.77	-0.06	-0.01	0.06	0.04	0.11	0.00	0.00	-0.05	-0.07
Nominal Personal Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	-0.64	-0.06	-0.05	0.00	0.00	0.00	0.00	0.00	-0.06	-0.10
Industrial Production (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.16	-0.51	-0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.21	-0.10
Capacity Utilization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	-0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	0.00
Federal Budget Balance (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-125.00	0.26	0.46	-0.72	0.00	0.00	0.00	0.00	-125.00	0.00
Nonfarm Payroll Change (d)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-34.33	-33.33	-26.33	-7.67	-4.00	-4.33	-4.33	0.00	0.00	-23.50	-5.08
Unemployment Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	0.01	0.02	0.02	0.02	0.02	0.00	0.00	-0.01	0.02
Light Vehicle Sales (g)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.00
Crude Oil - Brent - Front Contract (h)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Housing Starts (e)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.01	-0.02	-0.02	-0.02	0.00	0.01	0.00	0.00	0.01	0.00
New Home Sales, Single-Family (f)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.67	23.67	15.16	11.61	12.38	11.27	8.17	3.67	0.00	0.00	12.19	8.87
Total Existing Home Sales (e)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	-0.10	-0.07	-0.08	-0.08	-0.08	-0.08	0.00	0.00	-0.04	-0.08
S&P Case-Shiller National Home Price Index (b)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	1.05	1.20	0.65	0.60	1.31	1.72	2.03	0.00	0.00	0.00	0.00
Quarter-End Interest Rates (i)																				
Federal Funds Target Rate (j)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prime Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Conventional Mortgage Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.10	0.05	0.10	0.10	0.10	0.00	0.00	0.06	0.09
3 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
1 Year Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.01	0.01
2 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	-0.05	0.00	0.00	0.05	0.00	0.00	0.01	0.00
5 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.05	0.00	0.05	0.05	0.05	0.00	0.00	0.04	0.04
10 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.10	0.05	0.10	0.10	0.10	0.00	0.00	0.06	0.09
30 Year Bond	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.20	0.10	0.15	0.10	0.15	0.00	0.00	0.10	0.13

Forecast as of: August 13, 2026

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year
(d) Average Monthly Change, Thousands
(e) Quarterly Data - Average Monthly SAAR, Millions; Annual Data - Actual Total Houses Started, Millions
(f) Quarterly Data - Average Monthly SAAR, Thousands; Annual Data - Actual Total Houses Started, Thousands
(g) Quarterly Data - Average Monthly SAAR, Millions; Annual Data - Actual Total Vehicles Sold, Millions
(h) Quarterly Average of Daily Close, USD
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

Sector Analysis

Personal Consumption Expenditures (PCE)

- Consumers keep spending, but growth should moderate ahead—we look for real PCE growth to run around a 2-2.5% annualized clip in the second half of the year.

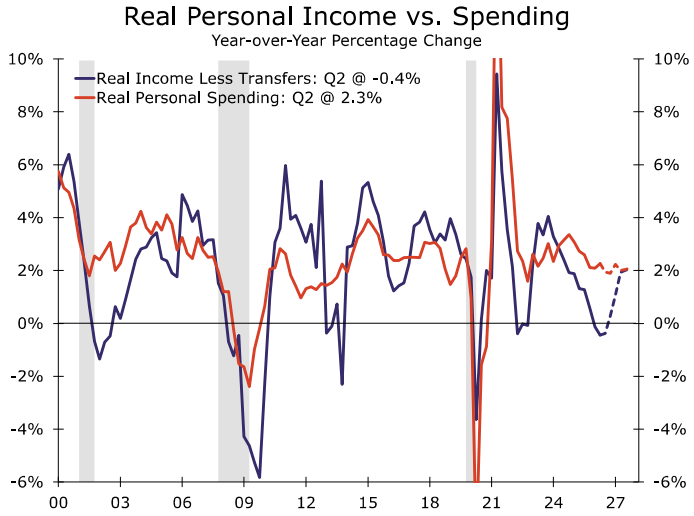
Real PCE accelerated in Q2, rising at a 3.2% annualized pace, as larger-than-usual tax refunds helped offset the impact of higher gasoline prices due to the conflict in Iran. Spending was strong across the board in June and suggests consumption entered the third quarter with solid momentum. That said, we expect a more moderate pace of spending ahead as temporary support from tax refunds fades, real income growth remains soft, although it's improving and the saving rate hovers near historic lows. While consumption is unlikely to maintain its Q2 pace, it should remain supported by sturdy household balance sheets, particularly among higher-income households. In addition, an aging population means a larger share of consumer spending is less sensitive to the business cycle, driven by non-discretionary categories such as healthcare and financed by wealth and transfer-income rather than labor earnings alone.

Investment: Equipment, Intellectual Property Products and Inventories

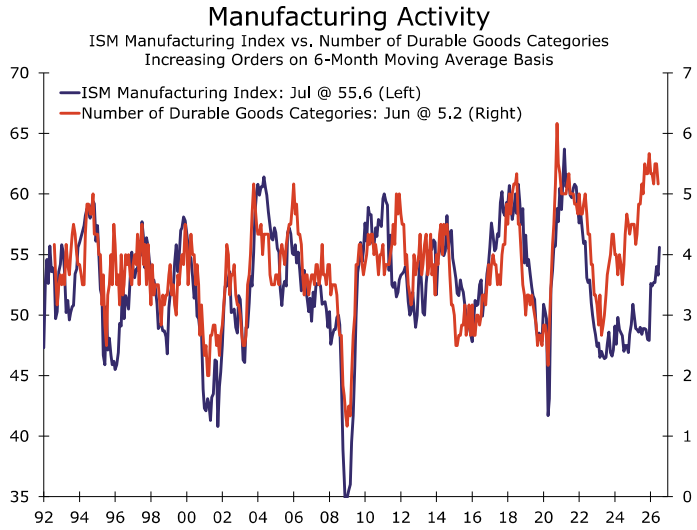
- AI continues to drive capex growth, while improving manufacturing activity hints a more broad-based capex recovery ahead.

AI-related investment continues to dominate capital allocation, with spending on software, tech-related equipment and data center construction adding 0.7 percentage points to Q2 GDP growth (before accounting for net exports). We see little evidence this spending wave is nearing an end. That said, as AI investment matures, even sustained spending at elevated levels will provide a smaller incremental boost to growth than it has in recent quarters. Beyond AI, there are tentative signs the

investment backdrop is broadening. The ISM manufacturing index is hovering near a four-year high, while durable goods orders have firmed across a wider range of industries. Part of this improvement likely reflects delayed capital spending plans finally moving forward, but inventory rebuilding after five consecutive quarters of drawdown is also likely providing support.



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



Source: Institute for Supply Management, U.S. Department of Commerce and Wells Fargo Economics

Investment: Residential

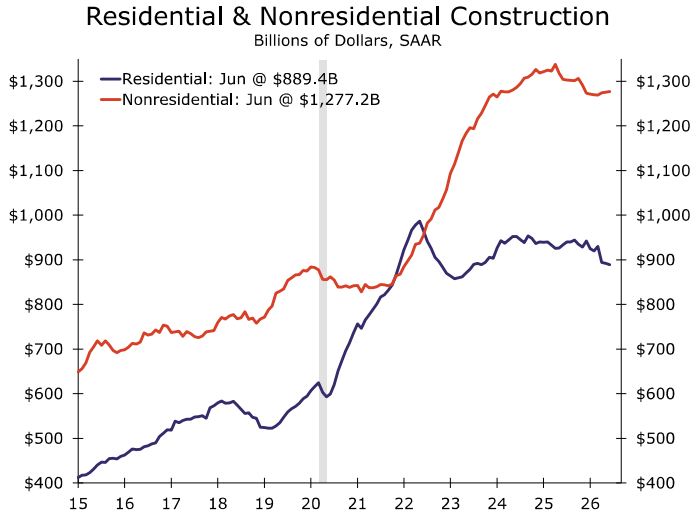
- We have not made major changes to our residential forecast. Adverse affordability conditions are likely to keep residential investment running at a sluggish pace this year.

A slight uptick in single-family construction earlier in the year helped lift private residential investment in Q2. However, both permits and starts have moderated in recent months as affordability challenges have put downward pressure on buyer demand. On that front, high mortgage rates and rising prices remain challenges to potential homebuyers, and elevated inventory remains a pressure point for builders. Home improvement spending also appears to be stuck in low gear amid softening income growth. Sturdy apartment demand gives multifamily construction some scope for improvement. However, with new starts muted, multifamily construction is unlikely to provide a major offset. Looking ahead, we see residential investment growing modestly in 2027 as mortgage rates edge lower and the multifamily market finds better balance.

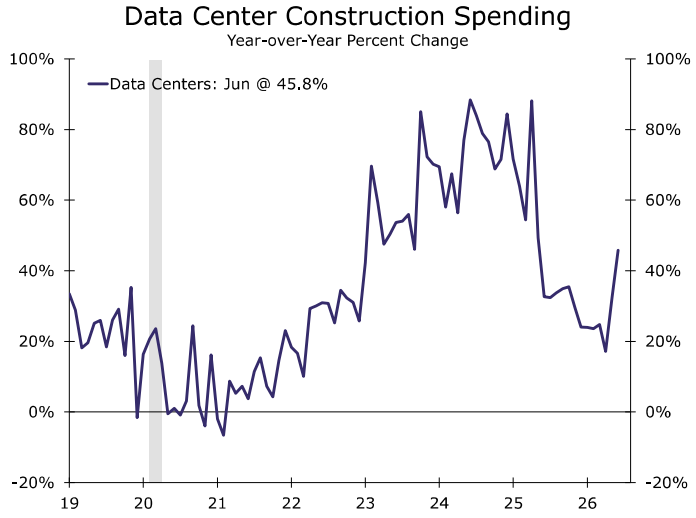
Investment: Nonresidential Structures

- We have modestly taken up our forecast for nonresidential structures. Although commercial construction is likely to remain pressured by high interest rates, the AI buildout should continue to lift overall growth in the year ahead.

Structures investment appears to be stabilizing. Private nonresidential construction spending was essentially flat in Q2 after declining for most of the prior year. There are plenty of crosscurrents, with put-in-place spending on traditional office and warehouse construction remaining subdued and lodging and retail outlays leveling out. On the other hand, data center and power construction remains robust as the AI buildout continues to show few signs of slowing. Meantime, manufacturing activity appears to be starting to improve, reflecting semiconductor shortages and a strengthening pipeline of electronics manufacturing projects. What's more, energy investment is becoming more supportive as the number of active rotary rigs inches higher.



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



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

Net Exports & Trade

- Trade will remain a drag on growth as AI-related imports surge and evolving inventory management signals a broader recovery in imports, keeping the trade deficit on a widening path.

Trade flows continue to be dominated by AI-related investment and tariff-driven inventory management. The former has fueled a surge in imports over the past year, and total imports sliced roughly a full percentage point off of Q2 real GDP growth. We expect AI-related imports to remain strong, while inventory management shifts from tariff front-running to inventory rebuilding as businesses replenish stocks drawn down in recent quarters and begin to adapt to a more persistent tariff regime. Exports remain supported by industrial supplies and capital equipment. While tariff headlines remain plentiful, recent developments have largely reflected changes to legal authority rather than meaningful shifts in the effective tariff rate.

Labor Market

- We have modestly lowered our payroll growth forecast following July's employment report but continue to expect the unemployment rate to end the year at 4.2%.

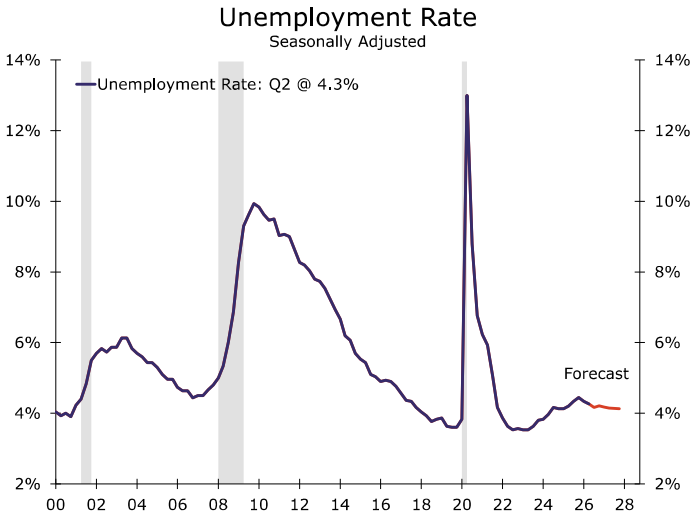
The July employment report revealed a labor market with less momentum than previously thought, although the slowdown appears more pronounced than in alternative measures of hiring. Demand for new workers appears little changed based on recent job openings/postings and mixed PMI employment readings, but layoff data broadly point to an easing pace of job cuts. We expect payroll growth to average roughly 65K per month over the remainder of the year, nearly in line with its 60K year-to-date average and sufficient to keep labor demand and supply broadly in balance. As hiring stabilizes, we expect labor force participation to recover modestly, which would push the unemployment rate up to 4.2% by year-end. Even with the uptick, the unemployment rate would remain within its recent range and consistent with a labor market operating near maximum employment.

Inflation

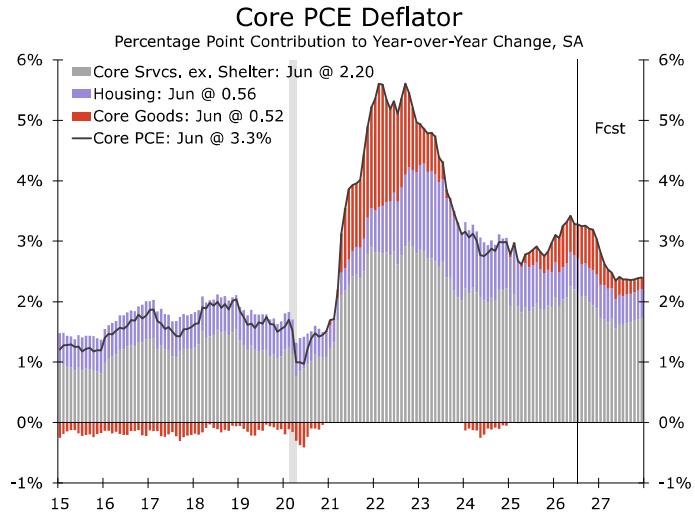
- We expect core PCE inflation to end 2026 at 3.1% on a Q4/Q4 basis.

Recent inflation data suggest the peak in inflation associated with higher tariffs and the conflict in the Middle East is mostly behind us. The path of headline inflation remains tied to the ebbs and flows of the conflict, although the pass-through of higher energy costs into food and core components has been limited. Core goods inflation is showing signs of cooling as the initial tariff shock fades and recent tariff adjustments leave the effective tariff rate little changed. While AI-related investment continues to put upward pressure on a handful of tech-related categories prominent in the PCE deflator, those price pressures remain narrowly concentrated. Meanwhile, core services inflation continues to moderate as shelter inflation cools and slower labor cost growth tempers price pressures

in other services. Taken together, inflation pressures appear less widespread than earlier this year, but continued strength in a handful of categories is likely to keep progress toward 2% gradual.



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



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

Fiscal Policy

- It appears more likely than not that Congress and the White House will avoid a government shutdown starting on October 1. But, the next Republican-led budget reconciliation bill looks increasingly likely to be a post-midterms event, if it happens at all.

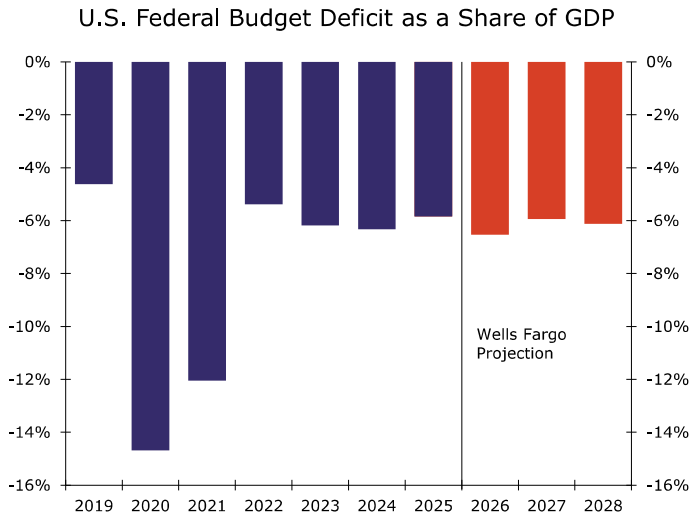
Both chambers of Congress are on recess for approximately the next month. When they return after Labor Day, they will face a tight schedule: another recess is scheduled for early October through the midterm elections on November 3. Before leaving town, the Senate passed a continuing resolution that would extend government funding through December 11. Assuming the House passes this bill in September, this would stave off the threat of another government shutdown through at least early December.

However, the Senate did not pass a budget resolution before starting its August recess. This means that the next Republican-led budget reconciliation bill is stalled until further notice. The House-passed budget resolution contained reconciliation instructions that would permit up to $95 billion of new spending, mostly on national defense related initiatives. Given the tight calendar between now and Election Day as well as intraparty disagreements on what to include in the reconciliation bill, we suspect the Senate may remain on hold on this topic for the next few months, see how the election plays out, and then take one more pass at a budget reconciliation bill in the lame duck session.

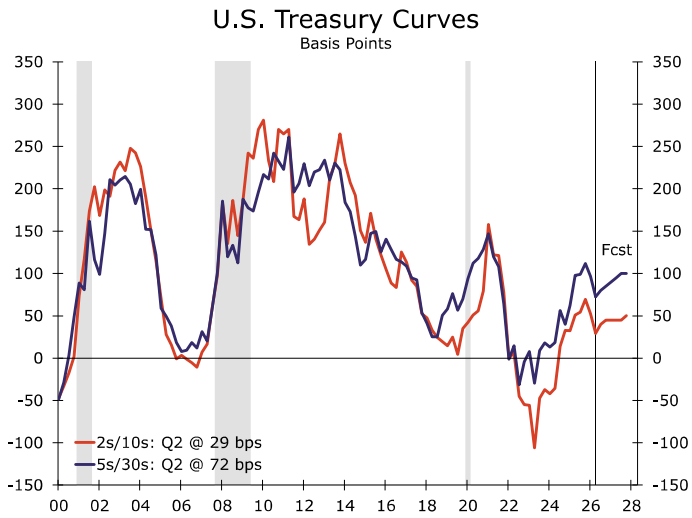
Monetary Policy & Interest Rates

- We still project no change in the fed funds rate through year-end 2027. Our 2026 and 2027 year-end forecasts for the 10-year Treasury yield have risen modestly, to 4.45% and 4.40%, respectively.

Given our forecast for the Fed to remain on hold in the coming months, our base case is for the Treasury yield curve to modestly bull steepen as rate hikes are slowly priced out of the market. That said, the risks are skewed toward a small mid-cycle adjustment of 50-75 bps of rate hikes from the FOMC. Furthermore, a variety of structural factors are putting upward pressure on long-term yields, specifically real yields. These include large federal budget deficits, elevated monetary policy uncertainty, surging corporate bond issuance, and macro forces from abroad (e.g., Japan), among others. We covered this topic in more detail in a recent Daily, which can be found here. Accordingly, we have added a bit more term premium into our forecasts for longer-term yields to better reflect these dynamics.



Source: Congressional Budget Office and Wells Fargo Economics



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

International Developments

- We have raised our global GDP growth forecast to 2.8% and kept our global CPI inflation forecast unchanged at 4.3% for 2026.

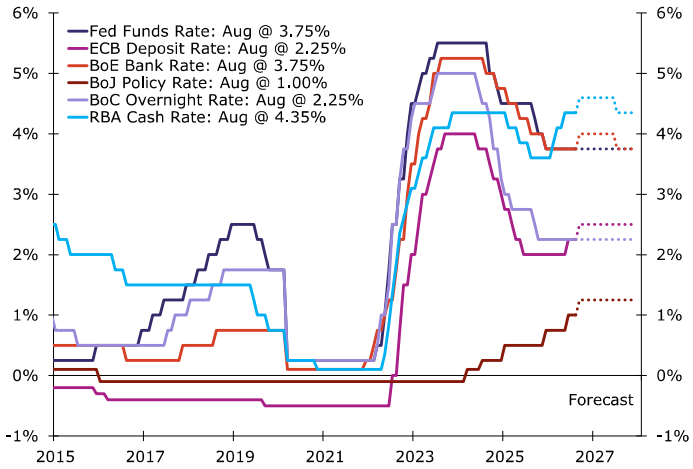
The conflict in the Middle East remains a large driver of global growth trends, though stronger-than-expected economic resilience in H1-2026, supported by precautionary stockpiling, resilient AI-driven activity (U.S., Japan and Australia) and higher defense spending (Eurozone and Japan), have partially offset the drag. We still expect inflation to recede in the coming months and average 3.8% in 2027, though energy prices remain volatile and well above pre-war levels. Risks are tilted to the upside as El Niño and higher fertilizer costs add pressure to food prices, while AI-related demand raises semiconductor and microchip costs.

Global central banks remain in a precarious position as they balance weaker growth against persistent inflation. Policymakers have stressed that monetary policy has limited scope to address supply shocks, but a succession of negative supply shocks presents a more complex challenge than a one-off event. Even so, most central banks continue to favor a wait-and-see approach as they assess the evolution of oil prices and the risk of second-round effects. Tighter financial conditions (U.S., U.K. and Australia) are also doing some of the work of monetary policy and giving policymakers more time to evaluate how the shock evolves.

Even so, maintaining broadly steady real rates may require some central banks to raise nominal rates. We continue to expect final hikes for these tightening cycles from the European Central Bank, Reserve Bank of Australia and Bank of Japan before year-end. We also continue to see the potential for a short Bank of England (BoE) hiking cycle, despite policymakers' baseline expectation that the Bank Rate will remain unchanged this year. The Ofgem price cap has delayed some of the pass-through from higher energy prices, while growing upside risks to food prices increase the likelihood of second-round effects. More resilient growth could also give the BoE confidence that the economy can withstand some additional tightening. In contrast, we expect the Bank of Canada to remain on hold as core inflation has remained contained with little signs of a renewed broadening in price pressures.

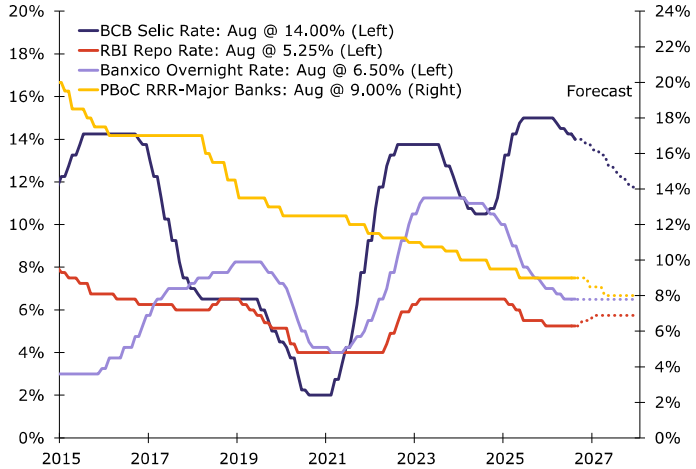
Emerging market central banks face the same global shocks but are charting increasingly different policy paths. We continue to expect further easing from the People's Bank of China as soft domestic demand and persistent property-sector weakness outweigh strong fiscal support and an AI-related surge in exports. We also expect Brazil's central bank to continue cutting rates, though increased fiscal spending ahead of the elections should slow the pace of easing and could lead to an even more gradual path in 2027. In India, a weaker rupee and wider trade deficit keep the possibility of Reserve Bank of India rate hikes in play. We continue to expect Banxico to remain on hold, though risks are tilted toward easing if growth fails to rebound as expected and inflation slows further.

Advanced Economies Policy Rates



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

EM Central Bank Policy Rates



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

Wells Fargo International Economic Forecast

	GDP				CPI			
	2024	2025	2026	2027	2024	2025	2026	2027
Global (PPP Weights)	3.5%	3.5%	2.8%	2.9%	5.8%	4.1%	4.3%	3.9%
Advanced Economies[1]	1.9%	1.9%	1.7%	2.0%	2.6%	2.5%	3.2%	2.3%
United States	2.8%	2.1%	2.3%	2.5%	3.0%	2.7%	3.3%	2.1%
Eurozone	1.0%	1.2%	0.9%	1.3%	2.4%	2.1%	3.3%	2.4%
United Kingdom	1.0%	1.3%	1.1%	1.1%	2.5%	3.4%	3.5%	2.8%
Japan	-0.2%	1.1%	0.6%	0.7%	2.7%	3.2%	2.1%	2.2%
Canada	2.0%	1.9%	0.8%	1.9%	2.4%	2.1%	2.6%	2.1%
Australia	1.0%	2.0%	1.9%	1.6%	3.2%	2.8%	4.1%	3.0%
Developing Economies[1]	4.5%	4.5%	3.5%	3.5%	8.0%	5.2%	5.1%	4.9%
China	5.0%	5.0%	4.5%	4.3%	0.2%	0.0%	1.1%	1.1%
India	6.7%	7.5%	7.1%	6.9%	4.6%	2.1%	4.7%	4.6%
Mexico	1.5%	0.5%	1.2%	1.9%	4.7%	3.8%	4.1%	4.0%
Brazil	3.4%	2.3%	2.0%	1.9%	4.4%	5.0%	5.0%	4.0%

Forecast as of: August 13, 2026

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	Central Bank Key Policy Rate						
	2026			2027			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Eurozone[1]	2.25%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
United Kingdom	3.75%	3.75%	4.00%	4.00%	4.00%	3.75%	3.75%
Japan	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%
Canada	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Australia	4.35%	4.60%	4.60%	4.60%	4.60%	4.35%	4.35%
China[3]	9.00%	9.00%	8.50%	8.50%	8.00%	8.00%	8.00%
India	5.25%	5.25%	5.50%	5.75%	5.75%	5.75%	5.75%
Mexico	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Brazil	14.00%	14.00%	13.75%	13.25%	12.75%	12.25%	11.75%
	2-Year Note						
	2026			2027			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.19%	4.05%	3.90%	3.85%	3.85%	3.85%	3.85%
Eurozone[2]	2.77%	2.70%	2.65%	2.60%	2.55%	2.50%	2.45%
United Kingdom	4.30%	4.20%	4.10%	4.00%	3.95%	3.85%	3.80%
Japan	1.65%	1.50%	1.55%	1.55%	1.55%	1.55%	1.60%
Canada	3.00%	2.75%	2.65%	2.60%	2.55%	2.50%	2.45%
	10-Year Note						
	2026			2027			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.66%	4.55%	4.45%	4.40%	4.40%	4.40%	4.40%
Eurozone[2]	3.14%	3.15%	3.10%	3.10%	3.05%	3.05%	3.00%
United Kingdom	4.95%	4.95%	4.90%	4.85%	4.80%	4.75%	4.70%
Japan	2.86%	2.75%	2.80%	2.85%	2.85%	2.90%	2.90%
Canada	3.68%	3.50%	3.45%	3.45%	3.40%	3.40%	3.35%

Forecast as of: August 13, 2026

[1] ECB Deposit Rate [2] German Government Bond Yield [3] Reserve Requirement Ratio Major Banks

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

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
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
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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