Monthly — September 17, 2026

U.S. Economic Outlook: September 2026

Economic Resilience Raises the Rate Floor

Key Themes

- **Growth still appears to be solid.** We expect real GDP to expand at a 3.0% annualized rate in Q3, largely reflecting robust consumer and business spending. Though a modest downgrade compared to our previous forecast, our pared-back expectation is mostly a net exports story.
- **AI investment continues to propel strong rates of business investment, even after accounting for imports.** We recognize that AI-spend must eventually slow. As investment matures, sustaining spending at elevated levels will provide a smaller incremental boost to growth than it has in recent quarters. That said, we do not anticipate outright declines, especially as capex broadens.
- **Inflation *is* moving in the right direction, but not as quickly as the Fed would like.** We expect a Q4-over-Q4 inflation rate of 3.2% with new methodological changes incorporated. But putting aside energy prices and a few idiosyncratic quirks, the trend in inflation is largely favorable. Tariff effects are fading, shelter inflation is cooling and budding price pressures are contained to a few categories related to the AI buildout.
- **The labor market is neither hot nor cold.** August's solid employment report served to further reduce labor market downside risk. We always caution against placing too much emphasis on just one print. However, the unemployment rate remains low, turnover is muted and the current pace of wage growth is not inflationary, suggesting the labor market remains in balance
- **We expect the Fed to hike one more time.** We have changed our fed funds forecast to 4.00-4.25% by year-end 2026, with no changes in 2027. It is hard to justify hiking beyond that when excess inflation is largely supply-driven and the labor market is not overheating.
- **Long-term yields are not likely to fall substantially.** The floor under longer-term interest rates has moved higher, reflecting solid growth expectations, robust corporate and treasury bond issuance and monetary policy uncertainty. As yields normalize to more typical historical norms, sensitive sectors like housing may bear the brunt.
- **Global policy risks are skewed toward tighter for longer.** The risk of persistent inflation continues to constrain major central banks, with several advanced economies facing a combination of renewed tightening risks and prolonged policy restraint, while emerging market policymakers are taking a more cautious and differentiated approach.

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U.S. Forecast Table

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)	0.8	3.6	3.3	1.8	-0.6	3.8	4.4	0.5	2.1	1.5	3.0	2.3	2.1	2.5	2.4	2.4	2.8	2.1	2.2	2.3
Personal Consumption	1.7	3.9	4.0	3.9	0.6	2.5	3.5	1.9	0.5	3.4	3.2	2.6	1.8	2.2	2.3	2.0	2.9	2.6	2.3	2.4
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.4	10.6	8.5	8.1	5.9	5.2	6.2	4.7	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	13.6	6.9	4.8	4.5	6.0	5.0	4.0	3.5	8.3	9.6	5.7
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.6	5.4	13.8	8.8	9.3	7.9	6.4	7.1	4.5	6.5	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	-1.8	2.4	3.0	3.4	4.4	4.8	5.0	1.1	-5.3	-3.4	3.3
Residential Investment	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-7.1	-1.7	-7.8	1.3	-4.1	-1.5	2.5	3.4	4.0	4.5	3.2	-2.2	-3.9	1.3
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-5.6	4.4	-1.0	3.2	1.1	1.1	0.8	0.8	0.8	3.8	1.1	0.5	1.1
Net Exports	-964.1	-1032.2	-1064.9	-1069.0	-1380.7	-1058.0	-955.5	-968.7	-1001.8	-1083.7	-1199.1	-1220.5	-1241.4	-1261.7	-1281.9	-1298.7	-1032.6	-1090.7	-1126.3	-1270.9
Pct. Point Contribution to GDP	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	-0.2	-0.4	-1.1	-1.9	-0.3	-0.3	-0.3	-0.3	-0.3	-0.5	-0.2	-0.1	-0.6
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-23.9	-15.6	-16.7	-53.1	21.4	8.4	17.5	18.2	23.4	30.5	43.5	28.5	-10.0	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	8.0	5.4	5.0	4.5	4.3	4.3	4.6	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	1.8	2.5	2.0	2.4	2.3	2.3	2.8	2.2	2.4	2.3
Retail Sales (b)	1.8	2.5	2.3	3.9	4.5	4.0	4.3	3.0	3.9	6.4	5.6	6.1	5.2	2.6	2.2	1.7	2.6	4.0	5.5	2.9
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	3.1	3.9	3.8	3.7	3.1	2.3	2.2	2.1	2.6	2.6	3.6	2.4
"Core" PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.9	3.1	3.4	3.4	3.2	2.8	2.5	2.4	2.4	2.9	2.8	3.3	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	3.4	3.6	3.2	2.0	2.0	1.7	3.0	2.7	3.4	2.2
"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	2.6	2.4	2.3	2.3	2.3	3.4	2.9	2.6	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	5.1	5.1	4.2	2.7	2.7	2.4	2.4	3.0	4.9	3.0
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	2.4	1.9	4.3	2.3	2.1	2.3	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	3.9	4.6	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	1.3	4.2	2.6	2.3	1.1	1.0	1.1	0.5	-0.7	1.1	1.6	1.7
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	75.6	75.6	76.1	76.7	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	81	89	61	69	60	58	54	122	10	76	60
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.3	4.3	4.1	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	16.4	15.9	16.4	16.6	16.7	16.9	15.9	16.2	16.0	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	90.7	92.0	84.0	79.0	77.7	76.3	79.3	67.6	88.0	79.3
Housing Starts (e)	1.41	1.34	1.34	1.39	1.40	1.36	1.35	1.32	1.42	1.35	1.28	1.24	1.26	1.30	1.34	1.39	1.37	1.36	1.32	1.32
New Home Sales, Single-Family (f)	672.3	686.3	711.3	667.7	654.0	662.7	686.7	710.7	621.7	649.7	641.9	635.5	643.1	651.4	658.6	666.5	684.4	678.5	637.2	654.9
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	4.0	4.0	4.0	4.1	4.1	4.2	4.1	4.1	4.0	4.1
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	1.2	1.4	0.8	0.6	1.5	2.5	3.4	5.1	2.2	1.1	2.0
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	4.00	4.25	4.25	4.25	4.25	4.25	5.27	4.33	3.94	4.25
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.45	4.24	3.87	3.68	3.68	3.90	4.15	4.15	4.15	4.15	4.15	5.15	4.24	3.85	4.15
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.50	7.25	6.75	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25	8.27	7.33	6.94	7.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.35	6.20	6.18	6.49	6.95	6.90	6.85	6.85	6.80	6.75	6.72	6.60	6.63	6.81
3 Month Bill	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.70	3.87	3.95	4.15	4.15	4.15	4.15	4.15	5.18	4.21	3.92	4.15
6 Month Bill	5.38	5.33	4.38	4.24	4.23	4.29	3.83	3.59	3.72	4.01	4.10	4.20	4.20	4.20	4.20	4.20	5.00	4.09	4.01	4.20
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.68	3.98	4.30	4.25	4.25	4.25	4.25	4.20	4.69	3.91	4.05	4.24
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.79	4.14	4.55	4.45	4.35	4.30	4.25	4.20	4.37	3.81	4.23	4.28
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.79	3.74	3.73	3.92	4.19	4.75	4.65	4.60	4.55	4.50	4.45	4.13	3.92	4.38	4.53
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.30	4.44	4.95	4.90	4.85	4.85	4.80	4.75	4.21	4.29	4.65	4.81
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.84	4.88	4.91	5.35	5.35	5.30	5.30	5.25	5.25	4.41	4.78	5.12	5.28

Forecast as of: September 17, 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	-0.02	-1.04	0.33	-0.08	-0.09	-0.08	-0.08	0.00	0.00	-0.11	-0.12
Personal Consumption	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.29	0.58	0.54	0.00	0.00	0.01	0.00	0.00	0.00	0.16	0.19
Business Fixed Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.08	0.05	-0.02	0.00	-0.01	-0.02	0.00	0.00	0.03	0.02
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.29	-0.09
Intellectual Property Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.18	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.03	0.03
Structures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.23	0.60	0.30	-0.10	0.00	-0.10	-0.14	0.00	0.00	0.69	0.30
Residential Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.23	-0.90	-0.30	-0.30	-0.30	-0.30	-0.30	0.00	0.00	-0.17	-0.38
Government Purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	-0.01
Net Exports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-9.06	-95.73	-98.58	-102.90	-108.56	-113.90	-118.87	0.00	0.00	-50.84	-111.06
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.13	-1.42	-0.05	-0.07	-0.09	-0.09	-0.08	0.00	0.00	-0.21	-0.25
Inventory Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.56	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	-0.05	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nominal GDP (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.14	-0.56	0.62	0.01	-0.18	-0.14	-0.13	0.00	0.00	0.00	0.00
Real Final Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	-1.08	0.33	-0.08	-0.09	-0.08	-0.08	0.00	0.00	-0.11	-0.12
Retail Sales (b)	0.00	0.00	0.00	0.00	0.00	-0.03	-0.07	0.00	0.00	0.00	-0.15	0.16	0.16	0.18	0.37	0.00	0.00	-0.03	0.00	0.18
Inflation Indicators (b)																				
PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.16	0.23	0.25	0.19	0.06	-0.03	0.00	0.00	0.10	0.12
"Core" PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.11	0.10	0.11	0.08	0.02	0.05	0.00	0.00	0.06	0.06
Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.32	0.35	0.22	0.03	-0.19	0.00	0.00	0.12	0.10
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.10	0.13	0.10	0.04	0.03	0.00	0.00	0.04	0.07
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	0.36	0.65	0.48	0.39	0.06	-0.23	0.00	0.00	0.26	0.17
Employment Cost Index	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
Real Disposable Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.18	-0.46	-0.10	0.08	0.05	0.04	0.00	0.00	-0.01	-0.06
Nominal Personal Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.06
Industrial Production (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.11	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.05
Capacity Utilization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.05	-0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	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	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nonfarm Payroll Change (d)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.67	48.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.92	0.00
Unemployment Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00
Light Vehicle Sales (g)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	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	9.68	13.33	6.33	2.67	3.00	3.33	0.00	0.00	5.75	3.83
Housing Starts (e)	0.00	0.00	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	0.00	0.00	-0.01	-0.01
New Home Sales, Single-Family (f)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19.00	8.05	-5.34	-5.40	-5.47	-5.53	-5.60	0.00	0.00	5.43	-5.50
Total Existing Home Sales (e)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.04	-0.16	-0.16	-0.17	-0.17	-0.17	0.00	0.00	-0.05	-0.17
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	0.01	-0.02	-0.22	-0.39	-0.61	-0.51	0.10	0.51	0.00	0.00	-0.40	-0.30
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	0.25	0.50	0.50	0.50	0.50	0.50	0.00	0.00	0.19	0.50
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.00	0.00	0.19	0.50
Prime Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.00	0.00	0.19	0.50
Conventional Mortgage Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.40	0.50	0.50	0.55	0.50	0.45	0.00	0.00	0.23	0.50
3 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.00	0.00	0.19	0.50
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.00	0.00	0.19	0.50
1 Year Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.40	0.50	0.50	0.50	0.50	0.45	0.00	0.00	0.23	0.49
2 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.55	0.50	0.45	0.40	0.35	0.00	0.00	0.26	0.42
5 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.55	0.60	0.60	0.55	0.50	0.45	0.00	0.00	0.29	0.52
10 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.40	0.45	0.45	0.45	0.40	0.35	0.00	0.00	0.21	0.41
30 Year Bond	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.30	0.30	0.25	0.20	0.15	0.00	0.00	0.14	0.23

Forecast as of: September 17, 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)

- Consumer spending is holding up, and we expect real PCE to rise at around a 3.0% annualized rate in Q3.

Consumer spending has been mixed, yet resilient in recent months. After a soft July, driven largely by weaker durable goods purchases, retail sales rebounded strongly in August, rising at a 1.2% monthly clip amid broadly distributed gains across retailers. The latest data have led us to lift our near-term growth forecast, and we now look for real PCE to rise at a 3.2% annualized clip in Q3. Previous data will also likely be revised higher on firmer control group sales data and strong services revenue in Q2, suggesting recent consumer momentum remains intact. All told, the consumer is still in decent shape and has capacity to keep spending. Real income growth remains modest but is beginning to improve as inflation eases and the labor market remains broadly supportive suggesting continued consumption even if that pace of spending may moderate into year-end.

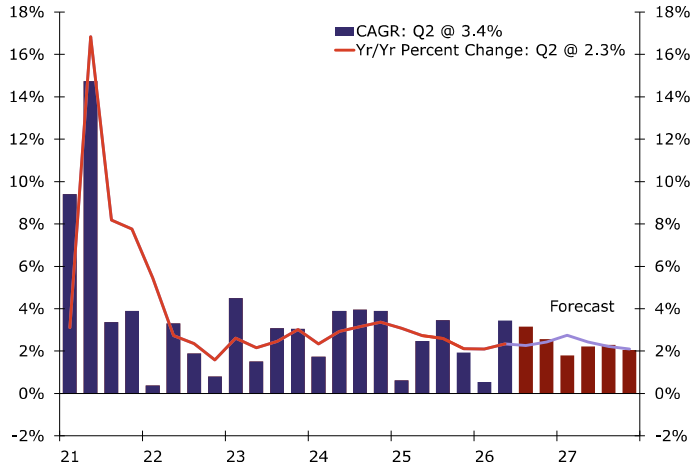
Investment: Equipment, Intellectual Property Products and Inventories

- The AI build-out is still king in terms of the contribution to business investment, but the broadening in capex spending beyond the tech sector is taking root.

AI-related investment continues to dominate capital allocation. There are no signs of firms scaling back their outlays now, though at some point as AI investment matures, merely sustaining spending at elevated levels will provide a smaller incremental boost to growth than it has in recent quarters. Beyond AI, the tentative signs we've identified that signal a broadening in the investment backdrop are getting a bit louder. The ISM manufacturing index has been in expansion territory for eight-

straight months, and 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 may be lending some support as well.

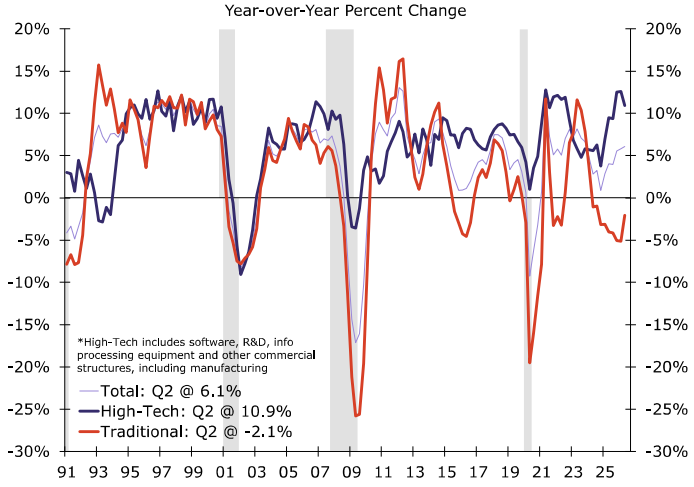
Real Personal Consumption Expenditures



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

Business Investment: Tech v. Non-Tech

Year-over-Year Percent Change



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

Investment: Residential

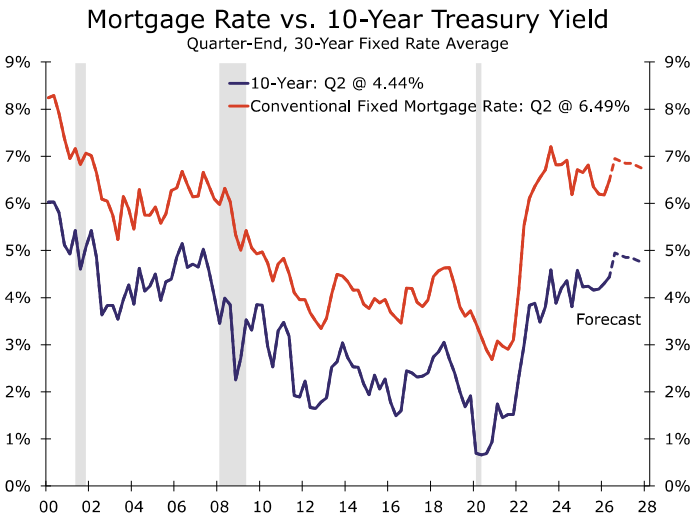
- Residential construction looks likely to taper through the rest of the year while mortgage rates and new home inventories remain elevated.

Headwinds have intensified against residential construction. The trend in single-family construction is downshifting, emblematic of the affordability challenges depressing buyer demand. As of this writing, mortgage rates have risen to over 7.0% and builder confidence has declined alongside. Sales stuck in a low gear mean that new home listings are inching higher, further discouraging new development. Multifamily construction appears to be holding up but faces limited potential upside with vacancy rates elevated across much of the South. We still see a potential for marginal improvement in 2027, but higher mortgage rates dampen our outlook.

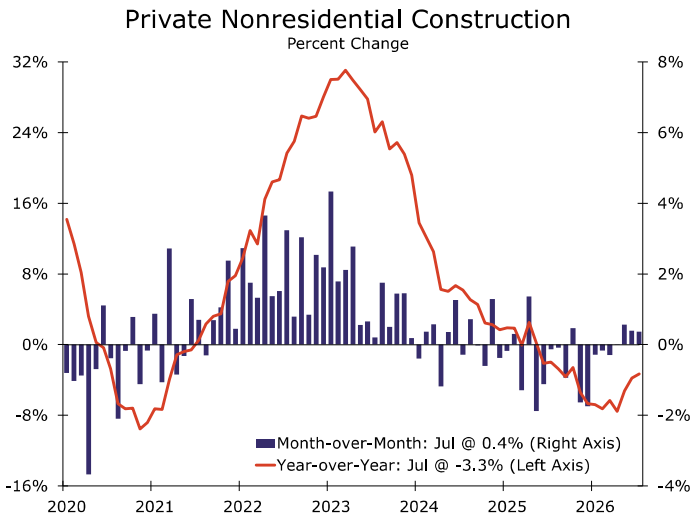
Investment: Nonresidential Structures

- Construction appears to be gaining steam, led by data centers and power. However, sluggish commercial starts elsewhere and high interest rates are likely to keep growth relatively modest.

The AI infrastructure build out is supporting modest growth in nonresidential construction. After moderating for a full year, private nonresidential outlays rose from April to July. Data centers and power are propelling current momentum. Though construction has also strengthened across sports facilities and communication infrastructure, commercial projects remain stuck in low gear. Categories like warehousing and retail remain soft, and overall architectural billings have improved only modestly. Looking ahead, a recent breakout in megaprojects is likely to support additional data center and manufacturing development, while higher interest rates limit overall growth.



Source: Freddie Mac, Bloomberg Finance L.P. and Wells Fargo Economics



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

Net Exports & Trade

- Net exports are tracking to slice nearly two-percentage points off headline GDP growth amid strong imports.

Imports are shaping up for another strong quarter after a surge in July and a rebound in August retail spending suggesting continued domestic demand for product. The July import gain was again almost entirely driven by high-tech related goods like computers & accessories, semiconductors and telecommunications equipment. We still anticipate a bit more of a broadening out in imports to come, perhaps as early as August as businesses replenish inventory amid continued consumer demand. Export growth is a bit more constrained, suggesting an expansion in the trade deficit and that net exports will slice nearly two-percentage points off headline GDP growth in Q3.

Labor Market

- We modestly raised our 2026 payroll forecast and made no material changes to our 2027 forecast. We continue to expect the unemployment rate to end this year at 4.2%.

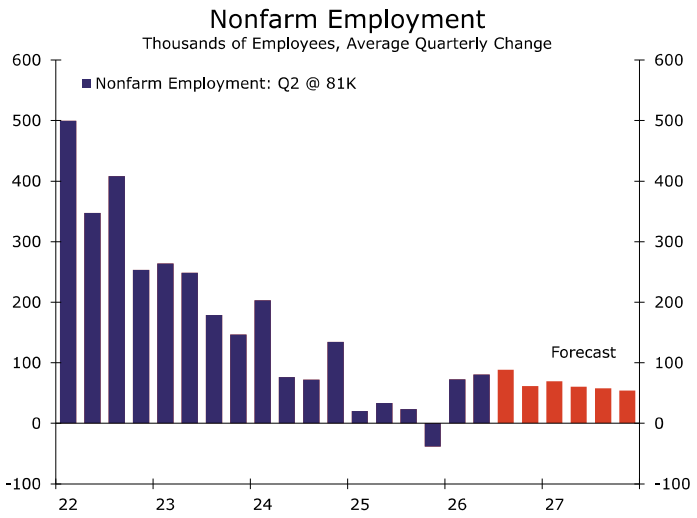
August's employment report reinforced that the labor market remains stable. Payroll growth has averaged 106K over the past six months, though we expect some moderation in the months ahead. Hiring measures from regional Fed surveys and hiring plans from small businesses have cooled from their early summer jumps and job openings have leveled off. At the same time, initial jobless claims remain near multi-decade lows and continue to indicate that layoffs remain contained. We expect payroll growth to moderate to roughly 65K per month over the remainder of the year, a pace broadly consistent with our estimate of breakeven. As hiring cools slightly and the participation rate rebounds somewhat further, we see some scope for the unemployment rate to edge up to 4.2% by year-end. Even with the slight increase though, labor market conditions would remain consistent with full employment.

Inflation

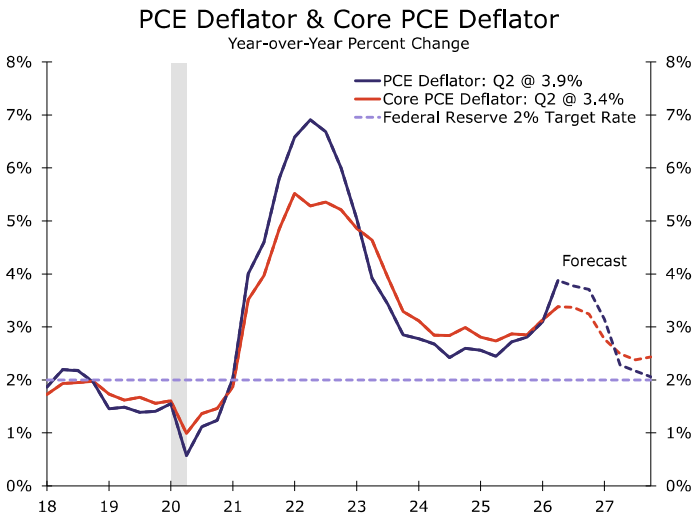
- Incorporating our expectations for the upcoming BEA methodology changes and recent inflation data, we look for the core PCE deflator to end the year at 3.2% on a Q4-over-Q4 basis, up from 3.1% in our previous forecast.

Headline inflation remains tied to the conflict in the Middle East, although underlying price pressures continue to move in a more favorable direction. Higher oil prices are keeping some upward pressure on energy-sensitive categories in the near term, but tariff-related goods inflation is fading and price pressures outside a handful of technology-related categories remain limited. Meanwhile, core services inflation remains on a moderating trend as shelter inflation continues to gradually cool and labor cost pressures slowly ease. Taken together, inflation pressures appear less widespread than earlier this year,

but recurring supply shocks are likely to keep the path back to 2% bumpy. We expect the core PCE deflator to slow to 3.2% on a Q4-over-Q4 basis this year.



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



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

Fiscal Policy

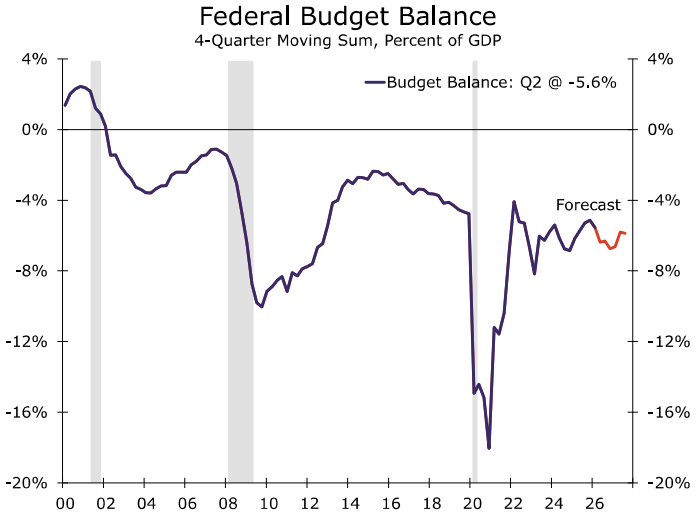
- We forecast this year's federal budget deficit will total $2.1 trillion (~6.5% of GDP), and next year's will be about the same in dollar terms and a bit smaller as a share of GDP (~6%).

The federal budget deficit continues to hover in the 6.0-6.5% of GDP range, similar to where it was at the end of the Biden administration. The outlook for the next couple of years is one of status quo. We doubt there will be any new, big fiscal legislation with divided government likely after the midterm elections, but rising interest costs and steady growth in mandatory spending programs such as Social Security and Medicare will keep deficits from shrinking much. It's not just U.S. fiscal problems putting upward pressure on long-term rates. Other factors such as robust corporate debt issuance, policy uncertainty and foreign factors are also playing a role. Our base case for 6.0%-6.5% of GDP budget deficits will not help when it comes to bringing down long-term interest rates.

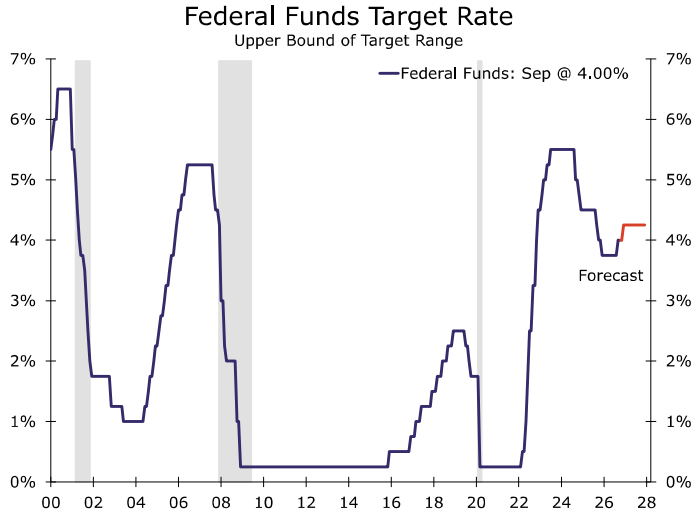
Monetary Policy & Interest Rates

- We have changed our fed funds forecast to 4.00-4.25% by year-end 2026, with no changes in 2027. Our year-end forecasts for the 10-year Treasury yield are also higher at 4.90% and 4.75%, respectively, for this year and next.

The FOMC made clear at its September 16 meeting that stubbornly high PCE inflation this year was the key factor behind the Committee's decision to raise rates. Given this, we think only a string of good inflation data can bail the Fed out, and accordingly we think one more rate hike is coming this year, with softer inflation data in 2027 giving way to a more patient FOMC. We could easily envision one more hike beyond that or a "one and done" hike where the FOMC does not go again. Outcomes outside that range, however, strike us as unlikely. A rising neutral rate makes meaningful rate cuts hard to justify in the absence of an economic slowdown, while the case for a more aggressive tightening cycle seems weak given that the labor market is not overheating and much of the excess inflation is supply side driven. We think a very short gradual tightening cycle and an eventual reduction in energy prices/slowdown in inflation will allow Treasury yields to drift modestly lower in 2027. But, the factors mentioned above (e.g., large budget deficits, rising neutral rate) should prevent yields from falling in a bigger way.



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



Source: Federal Reserve Board and Wells Fargo Economics

International Developments

- Global growth has proved more resilient than expected, prompting us to upgrade our 2026 global GDP growth forecast to 2.9%. We have also modestly revised our global inflation outlook higher, lifting our 2026 CPI forecast to 4.4% and our 2027 forecast accordingly.
- We now expect more tightening across advanced economies than in our previous monthly forecast update, while emerging market policy paths remain mixed.

Global economic activity proved more resilient than expected in H1-2026, with early indicators suggesting that momentum carried into Q3. While precautionary stockpiling supported some of the earlier strength, activity has remained resilient on firmer services, continued AI-related investment and exports (U.S., South Korea, Japan and Australia) and increased defense spending (Eurozone and Japan).

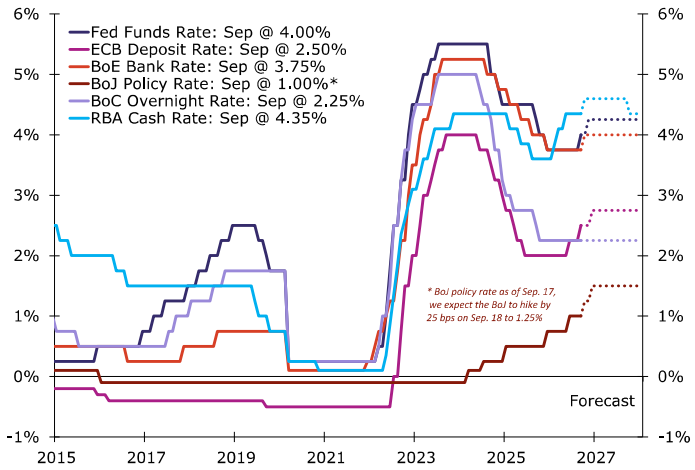
We expect inflation to remain higher for longer before easing next year and averaging 4% in 2027 as tighter financial conditions weigh on demand and supply pressures fade. Risks remain skewed to the upside. Oil and product inventories remain below pre-conflict levels, while limited refining capacity and ongoing disruptions leave energy prices vulnerable to renewed pressure. El Niño and higher fertilizer costs threaten food prices, while AI-related demand is raising semiconductor costs. Second-round effects remain limited, but successive supply shocks increase the risk of persistent inflation into next year.

The conflict has disrupted earlier progress on disinflation, leaving central banks with less room to look through renewed price pressures. Higher energy prices are lifting headline inflation, inflation expectations have risen and higher government bond yields are already tightening financial conditions. While some pressures on yields should fade as inflation eventually recedes, persistent fiscal concerns and heavy government borrowing are likely to keep yields elevated.

Against this backdrop, we now expect more tightening across several advanced economies. In the Eurozone, low gas storage levels and continued competition with Asia for LNG supplies leave inflation vulnerable to another energy shock, leading us to add another 25 bps **European Central Bank** hike in Q4. We continue to expect a **Reserve Bank of Australia** hike and see the **Bank of Japan** raising rates further. A short **Bank of England** hiking cycle also remains possible as delayed energy pass-through, growing upside risks to food prices and resilient growth increase the risk of persistent inflation. While we expect the **Bank of Canada** (BoC) to remain on hold, risks are skewed toward a hike by year-end if commodity-driven price pressures feed more meaningfully into underlying inflation amid a more hawkish tone from the BoC following its last meeting.

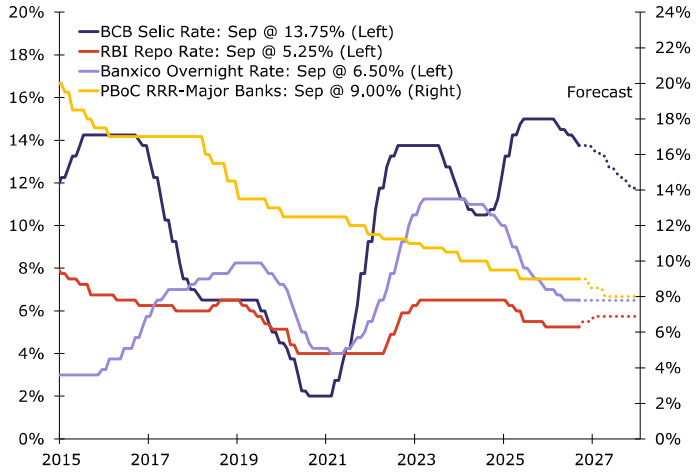
Emerging market central banks face the same shocks but are moving along increasingly different paths. We expect further **People's Bank of China** easing as weak domestic demand, subdued sentiment and property-sector stress outweigh fiscal support and strong AI-related exports. We also expect **Brazil's central bank** to continue cutting rates, though pre-election fiscal spending should slow the pace of easing and could make the path more gradual in 2027. In India, growth has moderated but remains strong, while rising price pressures, a weaker rupee and a wider trade deficit keep **Reserve Bank of India** hikes in play. We expect **Banxico** to remain on hold, with risks tilted toward easing if growth disappoints 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%	2.9%	2.9%	5.8%	4.1%	4.4%	4.0%
Advanced Economies[1]	1.9%	1.9%	1.8%	1.9%	2.6%	2.5%	3.3%	2.5%
United States	2.8%	2.1%	2.2%	2.3%	3.0%	2.7%	3.4%	2.2%
Eurozone	1.0%	1.2%	1.0%	1.3%	2.4%	2.1%	3.4%	2.6%
United Kingdom	1.0%	1.3%	1.2%	1.1%	2.5%	3.4%	3.5%	2.9%
Japan	0.1%	1.2%	0.9%	0.8%	2.7%	3.2%	2.4%	2.3%
Canada	2.0%	1.9%	1.1%	1.8%	2.4%	2.1%	2.8%	2.2%
Australia	1.0%	2.0%	2.0%	1.6%	3.2%	2.8%	4.1%	3.0%
Developing Economies[1]	4.5%	4.5%	3.6%	3.5%	8.0%	5.2%	5.1%	4.9%
China	5.0%	5.0%	4.5%	4.3%	0.2%	0.1%	1.1%	1.1%
India	7.4%	7.3%	7.3%	6.9%	4.6%	2.2%	4.8%	4.7%
Mexico	1.5%	0.5%	1.5%	1.9%	4.7%	3.8%	4.1%	4.0%
Brazil	3.4%	2.3%	2.0%	1.9%	4.4%	5.0%	4.9%	4.3%

Forecast as of: September 17, 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	4.00%	4.00%	4.25%	4.25%	4.25%	4.25%	4.25%
Eurozone[1]	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%
United Kingdom	3.75%	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%
Japan	1.00%	1.25%	1.50%	1.50%	1.50%	1.50%	1.50%
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%	4.60%	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	13.75%	13.75%	13.75%	13.25%	12.75%	12.25%	11.75%

	2-Year Note						
	2026			2027			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.67%	4.55%	4.45%	4.35%	4.30%	4.25%	4.20%
Eurozone[2]	3.22%	3.20%	3.15%	3.15%	3.10%	3.10%	3.05%
United Kingdom	4.71%	4.55%	4.50%	4.40%	4.30%	4.15%	4.05%
Japan	1.87%	1.85%	1.90%	1.90%	1.90%	1.90%	1.85%
Canada	3.27%	3.25%	3.10%	3.00%	2.90%	2.85%	2.80%

	10-Year Note						
	2026			2027			
	Current	Q3	Q4	Q1	Q2	Q3	Q4
United States	4.95%	4.95%	4.90%	4.85%	4.85%	4.80%	4.75%
Eurozone[2]	3.48%	3.65%	3.60%	3.65%	3.60%	3.65%	3.60%
United Kingdom	5.22%	5.30%	5.30%	5.25%	5.15%	5.05%	5.00%
Japan	3.00%	3.05%	3.10%	3.15%	3.15%	3.20%	3.20%
Canada	3.84%	4.00%	3.90%	3.85%	3.75%	3.75%	3.70%

Forecast as of: September 17, 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

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