

Monthly — January 14, 2026

U.S. Economic Outlook: January 2026

Table of Contents

1. [The U.S. Economic Outlook](#)
2. [U.S. Forecast Table](#)
3. [Changes to U.S. Forecast](#)
4. [Sector Analysis](#)
5. [Calendar](#)

Powell's Final Act

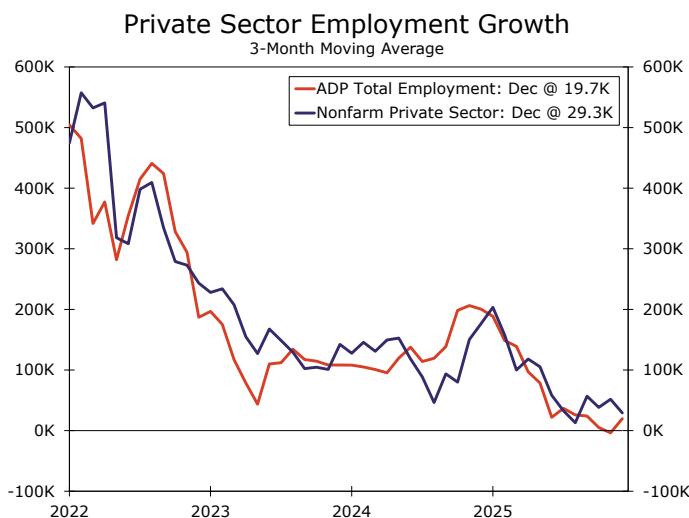
- Jerome Powell's eight-year tenure as Chair of the Federal Reserve is coming to a close during a period of intense pressure on the U.S. central bank and divided views among policymakers about the appropriate stance of monetary policy. What can we expect from Powell's final act as Chair against this backdrop?
- The labor market remains modestly on the wrong side of full employment. Private sector job growth has been near zero in recent months, and while the unemployment rate ticked down in December, it remains above most estimates of the longer run, natural rate.
- Meanwhile, the recent inflation data have been encouraging. The December reading for core CPI was 2.6% year-over-year, down from 3.1% in August. Shutdown-related quirks may be depressing core CPI inflation by a tenth or so, and the Fed's preferred inflation measure, the PCE deflator, likely has not shown quite as much improvement. But the direction of travel for core inflation entering 2026 is clear, in our view.
- Thus, we see scope for the FOMC to continue to nudge the federal funds rate toward neutral in the coming months. We are sticking with our previous forecast of two 25 bps rate cuts in March and June, followed by a long pause at 3.00%-3.25% for the federal funds rate.
- But the window for additional cuts is starting to close, in our view. Fiscal stimulus from the One Big Beautiful Bill Act should start to be felt in the spring/summer, and the risks to U.S. tariff rates appear skewed to the downside, another potential catalyst for faster economic growth later this year. The lagged impact from the 75 bps of Fed easing over the past three months also should help at the margin.
- If the labor market and inflation data are on the hotter side over the next couple of months, Chair Powell and company may elect to stand pat and hand the reins to the next Chair with policy unchanged. That individual may face some skepticism from a committee that has endured increasing pressure from the Trump administration. 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 think the risks to our forecast for the federal funds rate are skewed toward later and/or less policy easing than our base case projection.

Powell's Final Act

It is the start of a new year, but for Jerome Powell, it is nearly the end of his eight-year run as Chair of the Federal Reserve. The broader FOMC has been divided in recent months about the appropriate stance of monetary policy, while the recent [Department of Justice subpoenas](#) to the central bank further increase the scrutiny and pressure on U.S. monetary policymakers. As we look to Powell's three remaining meetings as Chair, what do we expect from his final act? In short, we think one more 25 bps rate cut is coming before the end of Powell's term, with another 25 bps rate cut from the next Fed Chair this summer. But the window for additional cuts is starting to close, in our view, and we think the risks to our baseline forecast are increasingly skewed toward later and/or fewer cuts this year.

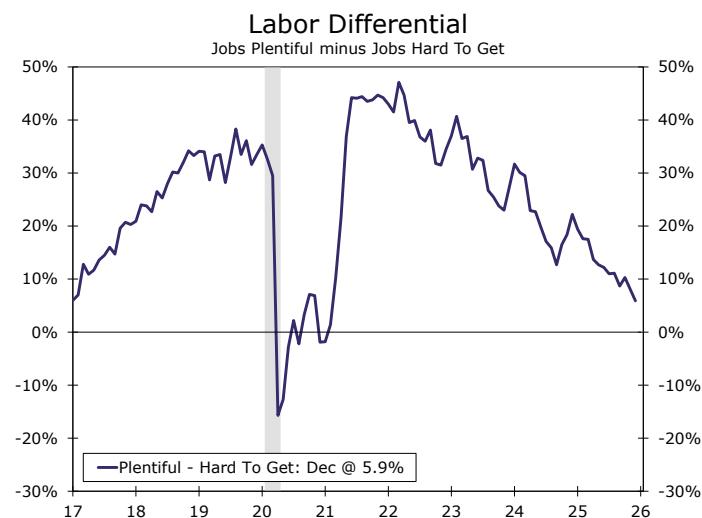
The most recent labor market data continue to point to a jobs market that is modestly on the wrong side of full employment. Private sector job growth has been subdued in recent months, averaging around 20K-30K per month ([Figure 1](#)). Excluding health care and social assistance employment, which tends to be more structural than cyclical, the average monthly pace of private sector job growth over the past three months has been -19K. The unemployment rate ticked down to 4.4% in its most recent reading in December, but it remains 20 bps above the median "longer run" full employment estimate from the FOMC. Soft data, such as the Conference Board's labor market differential, continue to show a rising share of respondents reporting that jobs are hard to get and a declining share saying jobs are plentiful ([Figure 2](#)). Fortunately, the pace of cooling in the labor market in 2025 was again gradual and orderly rather than sharp and chaotic. But when looking at the labor market in isolation, restrictive monetary policy does not appear warranted.

Figure 1



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

Figure 2



Source: The Conference Board and Wells Fargo Economics

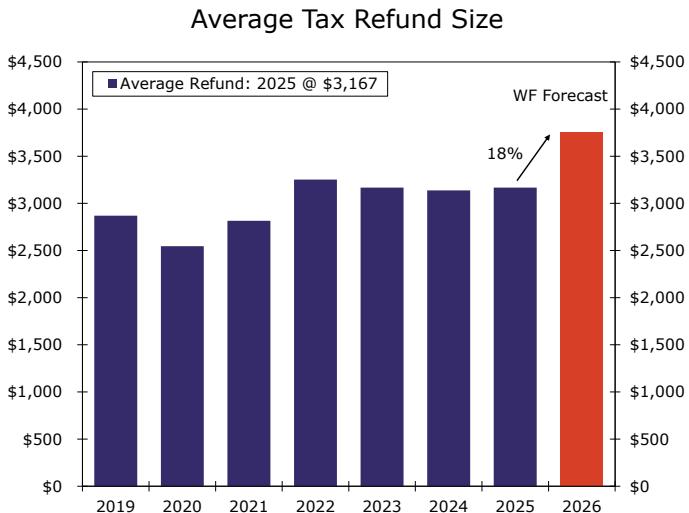
Of course, the FOMC also must weight the price stability side of its mandate. The impact of the government shutdown last fall is still reverberating through the inflation data. Look no further than the CPI and PCE inflation data. For the former, we have data through December, while for the latter, the most recent data is as of September.

Despite the headaches created by the shutdown, we think the latest inflation data have been encouraging and point to continued progress on returning inflation to 2%. The core CPI was 2.6% year-over-year in December, a notable slowdown from the 3.2% pace seen in December 2024. Shutdown-related quirks tied to housing inflation may be suppressing the year-ago pace of core CPI inflation by a tenth or so, and the slowdown is not nearly as pronounced in the Fed's preferred inflation measure, the PCE deflator, due to different weightings and source data. That said, we think it is telling of the underlying disinflation trend that core inflation appears to have been flat to modestly down in 2025 despite the massive tariff shock that occurred in the spring of last year. Looking ahead to this year, we expect core inflation to continue its gradual downward descent, although we do not expect it to be a straight line down. Bumps in the road are inevitable, especially around the turn of the year when

companies tend to make their largest price adjustments and statisticians' seasonal adjustments can sometimes struggle to keep up.

In our view, if the U.S. economy can remain resilient in the coming months and avoid careening off the road, there are reasons for optimism about the outlook for economic growth as warmer weather comes. The One Big Beautiful Bill Act (OBBBA) [should provide](#) a sizable boost to after-tax income this year via larger tax refunds, lower annual payments and adjusted withholding tables for those affected by the law's new deductions ([Figure 3](#)). This should provide a tailwind to consumer spending growth this year despite our expectation that nonfarm payroll growth will again average less than 100K/month. Although the outlook for tariff rates is highly uncertain, the risks seem skewed toward lower rather than higher tariffs on U.S. imports, whether that comes from new trade deals, a renewed focus on affordability by the Trump administration or action by the Supreme Court. The lagged impact from the 75 bps of Fed easing over the past three months also should help at the margin. Meanwhile, lurking under the surface is slowly accumulating evidence that labor productivity has accelerated from its sluggish pace in the 2010s ([Figure 4](#)).

Figure 3



Source: IRS and Wells Fargo Economics

Thus, we remain of the view that real GDP growth in 2026 will be an above-consensus 2.3% on a Q4/Q4 basis (2.7% on an annual average basis). We look for the unemployment rate to remain roughly flat at 4.5% this year and core PCE inflation to grind lower to 2.6% on a Q4/Q4 basis. We are sticking with our projection of two 25 bps rate cuts this year at the March and June FOMC meetings followed by an extended hold for the target fed funds rate at 3.00%-3.25%.

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 the labor market and inflation data are on the hotter side over the next couple of months, Chair Powell and company may elect to stand pat and hand the reins to the next Chair with policy unchanged. That individual may face some skepticism from a Committee that has endured increasing pressure from the Trump administration. 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 if forecast changes are coming, we think they will be to push out this year's 50 bps of easing or perhaps even remove it altogether.

Figure 4



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

U.S. Forecast Table

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2024				2025				2026				2027				2024		2025	
	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	4.3	2.1	3.3	1.5	2.1	2.3	2.3	2.5	2.5	2.5	2.8	2.2	2.7	2.3
Personal Consumption	1.7	3.9	4.0	3.9	0.6	2.5	3.5	2.2	1.9	2.3	2.3	2.2	1.8	2.2	2.3	2.1	2.9	2.7	2.3	2.1
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	2.8	2.3	5.8	5.9	4.9	3.6	5.2	6.1	4.6	5.1	2.9	4.0	4.6	5.0
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.4	2.9	10.2	8.3	5.8	2.9	4.6	6.0	4.9	4.0	3.5	8.2	6.7	4.9
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.4	4.4	5.2	5.3	5.1	4.4	6.4	7.1	4.5	6.4	3.5	5.6	5.6	5.7
Structures	-5.0	-3.9	-2.2	-8.1	-3.1	-7.5	-6.3	-4.3	-2.1	1.7	2.4	3.4	3.6	3.9	4.0	4.2	1.1	-5.3	-1.8	3.4
Residential Investment	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-5.2	-4.2	-2.0	1.9	2.6	3.1	3.7	3.9	4.2	4.4	3.2	-2.1	-1.4	3.5
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-8.0	12.9	-1.6	0.6	0.8	1.2	1.2	1.3	1.3	3.8	1.0	1.6	0.9
Net Exports	-964.1	-1032.2	-1064.9	-1069.0	-1380.7	-1058.0	-957.2	-859.9	-950.8	-973.9	-990.2	-1013.0	-1031.6	-1049.5	-1067.5	-1082.2	-1032.6	-1064.0	-982.0	-1057.7
Pct. Point Contribution to GDP	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	1.6	-1.5	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.5	-0.1	0.3	-0.3
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-29.6	-22.9	20.5	-1.6	-13.4	10.3	21.3	22.1	28.4	37.1	43.5	25.3	3.9	27.3
Pct. Point Contribution to GDP	-0.8	1.2	-0.1	-0.9	2.6	-3.4	-0.2	0.1	0.7	-0.4	-0.2	0.4	0.2	0.0	0.1	0.1	0.0	-0.1	-0.1	0.1
Nominal GDP (a)	4.0	6.3	5.1	4.3	2.9	6.0	8.2	4.8	6.5	4.2	4.4	4.5	4.5	4.7	4.6	4.6	5.3	5.0	5.5	4.5
Real Final Sales	1.7	2.4	3.5	2.8	-3.2	7.5	4.6	2.0	2.6	1.9	2.3	1.9	2.1	2.5	2.4	2.4	2.8	2.4	2.9	2.2
Retail Sales (b)	1.8	2.5	2.3	3.9	4.5	4.3	4.4	3.2	3.6	3.6	2.7	2.6	2.4	2.3	2.2	2.1	2.6	4.1	3.1	2.2
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.7	2.6	2.8	2.6	2.5	2.3	2.2	2.1	2.1	2.6	2.6	2.6	2.2
"Core" PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.8	2.8	2.8	2.7	2.6	2.3	2.2	2.2	2.2	2.9	2.8	2.7	2.2
Consumer Price Index	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.4	2.7	2.5	2.5	2.5	2.3	2.3	2.3	3.0	2.7	2.6	2.3
"Core" Consumer Price Index	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.7	2.5	2.7	2.5	2.6	2.5	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	3.5	2.5	2.9	2.5	2.0	2.6	2.1	2.1	2.0	1.9	1.9	2.4	2.8	2.2	2.0	
Employment Cost Index	4.2	4.1	3.9	3.8	3.6	3.5	3.5	3.5	3.5	3.4	3.5	3.5	3.5	3.6	3.6	4.0	3.6	3.5	3.6	
Real Disposable Income (a)	4.2	2.4	1.2	2.0	2.3	1.8	0.0	1.0	4.9	1.5	2.1	2.3	1.6	2.1	2.1	2.4	2.9	1.7	2.2	2.0
Nominal Personal Income (a)	7.6	5.4	3.6	4.9	6.4	4.3	3.3	3.8	4.1	4.2	4.4	4.5	4.5	4.3	4.2	4.5	5.6	4.7	4.0	4.4
Industrial Production (a)	-2.6	2.7	-2.3	-1.5	4.2	1.8	2.1	0.1	0.6	2.2	1.9	1.4	1.5	1.0	1.1	0.5	-0.7	1.2	1.3	1.4
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	76.2	77.0	77.5	78.0	78.4	78.8	79.1	79.4	79.7	76.1	76.1	77.7	79.2
Federal Budget Balance (c)	-555	-209	-544	-711	-596	-30	-438	-602	-699	-190	-459	-628	-753	-219	-500	-659	-1817	-1775	-1950	-2100
Trade Weighted Dollar Index (d)	115.8	117.3	113.3	119.9	117.7	111.4	111.1	111.8	112.2	111.1	112.0	112.8	113.7	114.6	115.3	116.0	116.4	114.1	112.1	114.9
Nonfarm Payroll Change (e)	196	133	133	209	111	55	51	-22	43	55	75	85	83	79	75	69	168	49	65	77
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.5	4.5	4.5	4.4	4.4	4.3	4.3	4.3	4.0	4.3	4.5	4.3
Housing Starts (f)	1.42	1.34	1.34	1.39	1.40	1.35	1.34	1.34	1.38	1.38	1.38	1.39	1.43	1.43	1.43	1.43	1.37	1.36	1.38	1.43
Light Vehicle Sales (g)	15.5	15.7	15.7	16.5	16.4	16.2	16.4	15.7	14.9	15.1	15.2	15.5	16.4	16.6	16.7	16.9	15.9	16.2	15.2	16.7
Crude Oil - Brent - Front Contract (h)	81.2	84.4	78.0	73.6	74.3	65.9	67.5	62.7	61.7	63.0	63.3	65.0	66.0	65.7	65.0	65.0	79.3	67.6	63.3	65.4
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	3.50	3.25	3.25	3.25	3.25	3.25	3.25	5.27	4.33	3.31	3.25	
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.45	4.24	3.87	3.40	3.15	3.15	3.15	3.15	3.15	3.15	5.15	4.24	3.21	3.15	
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.25	6.75	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	8.27	7.33	6.31	6.25	
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.35	6.20	6.10	6.15	6.15	6.15	6.15	6.20	6.20	6.72	6.60	6.14	6.19	
3 Month Bill	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.35	3.15	3.15	3.15	3.15	3.15	3.15	5.18	4.21	3.20	3.15	
6 Month Bill	5.38	5.33	4.38	4.24	4.29	3.83	3.59	3.30	3.20	3.20	3.20	3.20	3.20	3.20	3.25	5.00	4.09	3.23	3.21	
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.35	3.30	3.30	3.30	3.30	3.30	3.35	3.40	4.69	3.91	3.31	3.34
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	4.37	3.81	3.41	3.48
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.79	3.74	3.73	3.65	3.65	3.65	3.70	3.70	3.75	3.80	4.13	3.92	3.66	3.76	
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.10	4.15	4.20	4.25	4.30	4.30	4.30	4.21	4.29	4.18	4.29	
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.84	4.75	4.80	4.85	4.90	4.95	5.00	5.00	4.41	4.78	4.83	4.99	

Forecast as of: January 14, 2025

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter

(b) Year-over-Year Percentage Change

(c) Quarterly Sum - Billions USD; Annual Data Represents FisBZI Year

(d) Federal Reserve Advanced Foreign Economics Index, 2006=100 - Quarter End

(e) Average Monthly Change

(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started

(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold

(h) Quarterly Average of Daily Close

(i) Quarterly Data - Period End; Annual Data - Annual Averages

(j) Upper Bound of the Federal Funds Target Range

Forecast Delta Table

	Changes to the Wells Fargo U.S. Economic 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)	0.00	0.00	0.00	0.00	0.00	0.00	0.66	2.23	-0.03	-0.62	-0.41	0.34	0.07	0.09	0.33	0.25	0.00	0.22	0.35	0.07	
Personal Consumption	0.00	0.00	0.00	0.00	0.00	0.00	0.50	1.16	0.09	-0.01	0.14	-0.06	-0.19	0.07	0.24	-0.07	0.00	0.14	0.31	0.00	
Business Fixed Investment	0.00	0.00	0.00	0.00	0.00	0.00	-1.25	3.50	0.34	0.35	-0.02	1.67	-0.03	-0.03	0.00	-0.03	0.00	0.07	0.78	0.32	
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	-0.87	8.86	0.85	0.87	-0.01	4.40	-0.01	0.00	0.02	0.00	0.00	0.50	2.33	0.90	
Intellectual Property Products	0.00	0.00	0.00	0.00	0.00	0.00	-1.05	0.03	-0.03	-0.01	-0.07	-0.14	-0.03	-0.07	-0.03	-0.03	0.00	-0.13	-0.15	-0.06	
Structures	0.00	0.00	0.00	0.00	0.00	0.00	-0.51	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	-0.07	0.00	
Residential Investment	0.00	0.00	0.00	0.00	0.00	0.00	-0.85	-0.70	0.30	0.10	0.20	0.20	-0.10	0.00	-0.10	-0.10	0.00	-0.15	-0.12	0.03	
Government Purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.93	-0.02	0.03	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.12	0.00	
Net Exports	0.00	0.00	0.00	0.00	0.00	0.00	77.67	137.77	54.73	41.65	36.71	26.14	34.74	37.49	47.86	66.90	0.00	53.86	39.81	46.75	
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	1.20	1.01	-1.37	-0.21	-0.08	-0.17	0.14	0.05	0.17	0.31	0.00	0.23	-0.06	0.03	
Inventory Change	0.00	0.00	0.00	0.00	0.00	0.00	-39.74	-44.68	30.65	3.86	-21.98	-3.73	0.33	0.35	0.44	0.58	0.00	-21.10	2.20	0.43	
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	-0.70	-0.08	1.25	-0.44	-0.42	0.30	0.07	0.00	0.00	0.00	0.00	-0.09	0.10	-0.01	
Nominal GDP	0.00	0.00	0.00	0.00	0.00	0.00	1.55	2.04	0.12	-0.66	-0.54	0.26	0.03	0.06	0.29	0.21	0.00	0.32	0.42	0.01	
Real Final Sales	0.00	0.00	0.00	0.00	0.00	0.00	1.37	2.31	-1.28	-0.18	0.01	0.05	0.01	0.09	0.33	0.25	0.00	0.29	0.27	0.08	
Retail Sales (b)	0.00	0.00	-0.01	0.02	0.00	0.00	-0.01	0.12	0.35	0.35	0.36	0.20	0.00	0.00	0.00	0.00	0.00	0.03	0.31	0.00	
Inflation Indicators (b)																					
PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	-0.10	-0.07	-0.07	-0.08	-0.02	-0.07	-0.07	-0.06	-0.04	0.00	-0.03	-0.06	-0.06	
"Core" PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	-0.18	-0.11	-0.12	-0.13	0.00	-0.08	-0.08	-0.06	-0.04	0.00	-0.05	-0.09	-0.06	
Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.13	-0.20	-0.20	-0.23	-0.12	-0.07	-0.09	-0.08	-0.08	0.00	-0.03	-0.19	-0.08	
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.29	-0.37	-0.36	-0.40	-0.14	-0.09	-0.12	-0.10	-0.09	0.00	-0.07	-0.32	-0.10	
Producer Price Index (Final Demand)	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.16	0.17	0.17	0.07	0.01	0.00	0.00	0.00	0.00	0.00	0.07	0.10	0.00	
Employment Cost Index	0.00	0.00	0.00	0.00	0.00	0.00	-0.08	0.00	0.03	0.03	0.08	0.03	0.00	0.00	0.00	0.00	0.00	-0.02	0.04	0.00	
Real Disposable Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	-1.29	0.11	1.02	0.58	0.04	0.12	0.06	-0.65	0.04	0.05	0.04	0.00	-0.16	0.30	-0.12
Nominal Personal Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	-1.28	0.23	0.49	0.02	0.02	0.00	-0.04	0.00	0.01	0.00	-0.01	0.00	-0.18	0.05	0.00
Industrial Production (a)	-0.82	0.29	-1.75	-0.30	0.16	0.27	1.88	2.45	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.34	0.22	0.85	0.00	
Capacity Utilization	-1.41	-1.33	-1.64	-1.65	-1.61	-1.55	-1.20	-0.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.51	-1.24	0.00	0.00	
Federal Budget Balance (c)	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-4.57	16.61	20.81	17.15	-0.29	-0.53	0.82	-0.01	11.38	0.00	-0.01	50.00	0.00	
Trade Weighted Dollar Index (d)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	1.25	0.74	0.38	-0.08	-0.46	0.17	0.36	0.86	0.00	1.09	0.58	0.23	
Nonfarm Payroll Change (e)	0.00	0.00	0.00	0.00	0.00	0.00	2.67	-30.67	-13.33	-15.00	-15.00	-10.00	-10.00	-5.67	-1.67	-2.33	0.00	-7.00	-13.33	-4.92	
Unemployment Rate	0.00	-0.03	0.00	0.00	0.03	0.03	0.05	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	0.02	-0.01	-0.01	
Housing Starts (f)	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.14	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.00	0.04	0.02	0.02	
Light Vehicle Sales (g)	0.00	0.00	0.00	0.00	0.00	0.07	0.03	0.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.19	0.00	0.00	
Crude Oil - Brent - Front Contract (h)	0.00	0.00	0.00	0.00	0.00	0.00	0.66	0.50	-0.50	-2.17	-0.50	0.50	-0.50	-0.50	-0.50	-0.50	0.00	-0.67	-0.25		
Quarter-End Interest Rates (i)																					
Federal Funds Target 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	0.08	0.00	0.00	0.00	
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	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	0.08	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	-0.05	-0.05	0.00	-0.05	-0.05	-0.05	-0.05	-0.05	0.00	0.08	-0.04	-0.06	
3 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.00	0.00	
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00	0.00	
1 Year Bill	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	0.00	0.00	0.13	0.00	0.00	
2 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.00	0.15	0.05	0.05	
5 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.00	0.16	0.13	0.09	
10 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.18	0.15	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.00	0.14	0.12	0.09	
30 Year Bond	0.00	0.00	0.00	0.00	0.00	0.00	0.14	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.03	0.00	

Forecast as of: January 14, 2026

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter

(e) Average Monthly Change

(i) Quarterly Data - Period End; Annual Data - Annual Averages

(b) Year-over-Year Percentage Change

(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started

(j) Upper Bound of the Federal Funds Target Range

(c) Quarterly Sum - Billions USD; Annual Data Represents FisBZI Year

(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold

(d) Federal Reserve Advanced Foreign Economics Index, 2006=100 - Quarter End

(h) Quarterly Average of Daily Close

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

Personal Consumption Expenditures

- Our real personal consumption expenditure (PCE) forecast is marginally higher in this update reflecting near-term momentum and tax relief.

We've lifted our consumer spending forecast since our last update for two main reasons. First, the third-quarter GDP report revealed stronger consumer spending on services and suggests more near-term momentum. The second reason concerns the lower tax liability to be realized in the household sector this year. The One Big Beautiful Bill Act is set to boost after-tax income this year by a bit more than we previously anticipated, leading to a marginal increase in our consumer spending forecast. Overall, we suspect a majority of households feel the pressure of the moderating jobs market and compounding nature of price gains, but underlying resilience met with some tax relief should support spending.

Investment: Equipment, Intellectual Property Products and Inventories

- We've not materially adjusted our capex forecast, as we continue to look for high-tech related investment to dominate the spending landscape this year.

We've lifted our Q4 real equipment investment spending estimate in this update mostly reflecting some stronger incoming data around tech-related imports (Figure 6) and a somewhat broadening trend in underlying orders activity. Beyond those minor adjustments, our narrative continues to center around high-tech investment dominating spending this year, though favorable tax changes should provide some support to other areas of traditional equipment investment as well around the margins. We've tweaked our expectations around inventories, although it is a notoriously challenging item to forecast. Our latest expectation is that after three-consecutive quarters of drawdown, we see a modest build in Q1, though we acknowledge there is risk around the size and therefore magnitude of the boost to Q1 GDP growth.

Figure 5

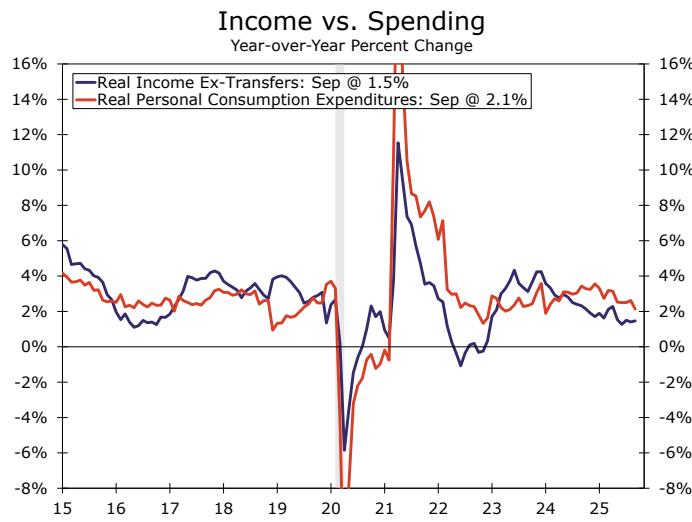
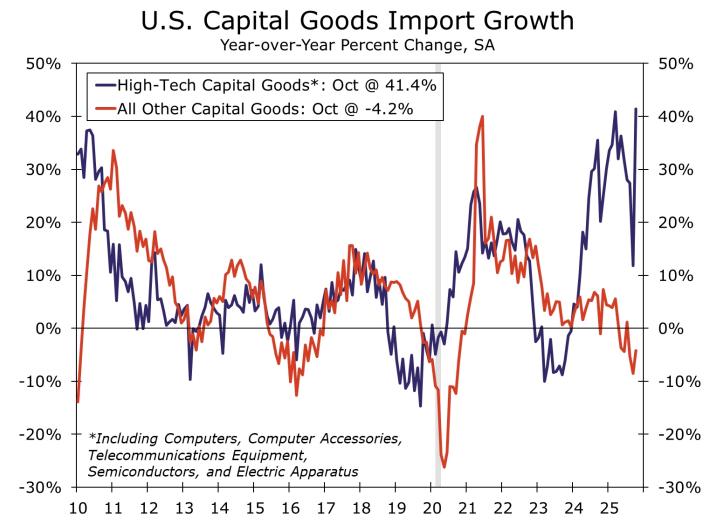


Figure 6



Investment: Residential

- We expect residential investment to remain a modest drag on GDP growth over the next few quarters alongside weaker single-family construction activity and sluggish pace of home buying. Stronger economic growth and slightly lower mortgages should foster a gradual improvement later in 2026, though adverse housing affordability and elevated new home inventory are set to remain a constraint.

Monthly indicators suggest that residential investment will remain a drag on the economy in the near term. Housing starts fell 4.6% in October to a 1,246K annual pace, the lowest since May 2020. Although a drop-off in multifamily groundbreakings was the primary driver, single-family starts also remain in a weak position after pulling back for much of 2025. Yet, both single-family and multifamily permits are no longer declining, which implies residential investment will begin to stabilize later this year alongside sturdy economic growth and slightly lower mortgage rates. The Trump administration recently announced a slate of new housing policy proposals. Details remain scarce, but the new policies intended to improve housing affordability present modest upside risk to growth in residential investment in the years ahead.

Investment: Nonresidential Structures

- We have not made any material changes to our nonresidential structures forecast. New data center development remains a bright spot; however, high interest rates continue to depress most other segments of private nonresidential construction.

Elevated borrowing costs have created a drag on nonresidential building activity. Spending on structures has been trending downward for an extended period, with recent data pointing to continued softness for most categories. Given this downward momentum, it seems this gradual weakening will persist over the near term. Measures of future construction, such as the AIA Architecture Billings Index, continue to point to a subdued pace of activity. Data center construction is still expanding at a strong rate, though some moderation appears on the horizon as developers begin to bump up against energy, labor and other supply constraints. Looking further ahead, less restrictive monetary policy should lead to stronger growth in segments affected by higher interest rates, though those positive effects will likely take time to filter through.

Figure 7

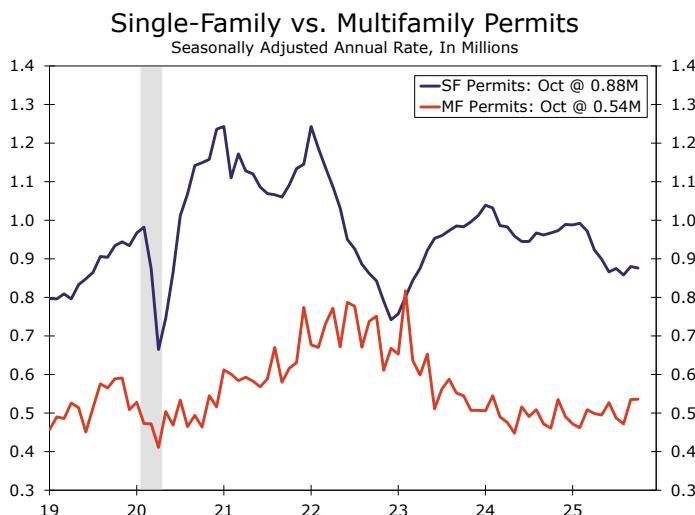
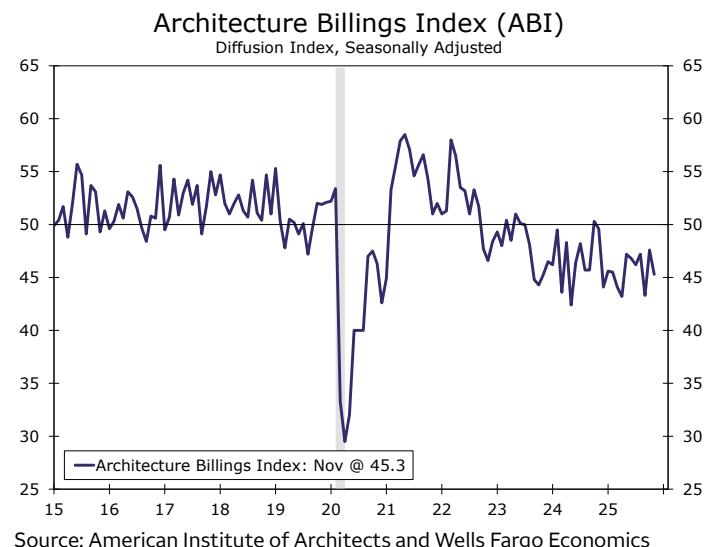


Figure 8



Labor Market

- We expect modest job growth in 2026 and look for the unemployment rate to hold near 4.5% over the year. Demand for workers is poised to remain generally soft, but some improvement in hiring is likely thanks to policy support and a reduction in policy uncertainty.

The labor market continues to weaken on trend. Ending 2025 at 4.4%, the unemployment rate drifted higher over the course of the year, while payroll growth downshifted materially. The slowdown in hiring reflects tepid demand for workers—not just weaker supply dynamics. Businesses remain reluctant to expand headcount and are leaning on natural attrition to control labor costs. We expect job growth to remain modest in 2026. Benchmark revisions will show the average monthly pace of payroll growth in 2025 was overstated and that there is less momentum behind labor demand. Yet, with fiscal and monetary policy becoming more supportive, a slight rebound in job growth is in store this year. We forecast payroll growth to average a 65K monthly pace through 2026, up from the 49K pace currently reported for 2025, as private sector hiring broadens out a bit and the drag from federal government job cuts fades. The slightly stronger pace of job creation should stabilize the unemployment rate at 4.5% through most of 2026.

Inflation

- Recent price data point to inflation gradually subsiding. We have shaved a tenth off our estimates for headline and core CPI for the year and look for the core PCE index to slow to 2.6% on a Q4/Q4 basis.

Inflation data for the past few months have been messy due to the federal government's shutdown. Yet through the recent noise, we see signs of inflation resuming its descent. Food-related commodities and oil prices are hovering near multiyear lows, which bode well for the near-term trend in food and gasoline prices. Excluding food and energy, the Consumer Price Index rose 2.6% in the 12 months through December. While the year-over-year rate remains depressed by a tenth or so from BLS's treatment of shelter price changes in October 2025, that still leaves the one-year change in prices noticeably lower than the 3.2% rise registered for the same period in 2024. Looking ahead, we expect inflation readings in 2026 to show more signs of price pressures abating. Market-based rents point to shelter inflation having scope to inch lower, while we believe the bulk of the tariff pass-through to goods prices will be behind us by Q2, leading to a noticeable slowdown in goods inflation this year. More broadly, the cooler jobs market should keep a lid on labor cost growth at the same time stronger productivity growth helps firms find cost-saving efficiencies.

Figure 9

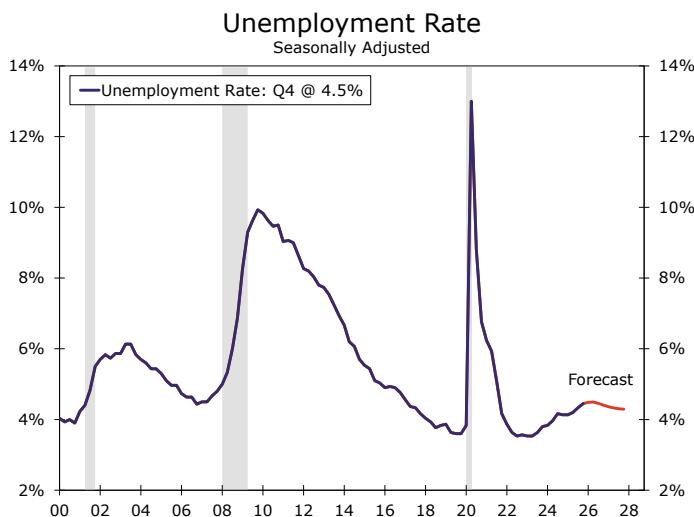
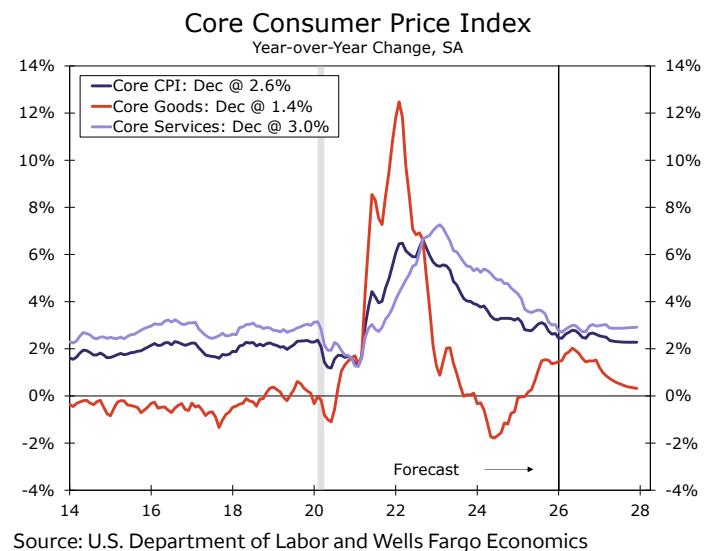


Figure 10



Fiscal Policy

- Another government shutdown starting on Jan. 31 strikes us as unlikely. Preliminary signs from leaders in both parties are encouraging that another shutdown will be avoided.
- Our federal budget deficit forecast of \$1.95 trillion for FY 2026 has elevated uncertainty behind it, largely due to the uncertain outlook for tariff revenues this year.

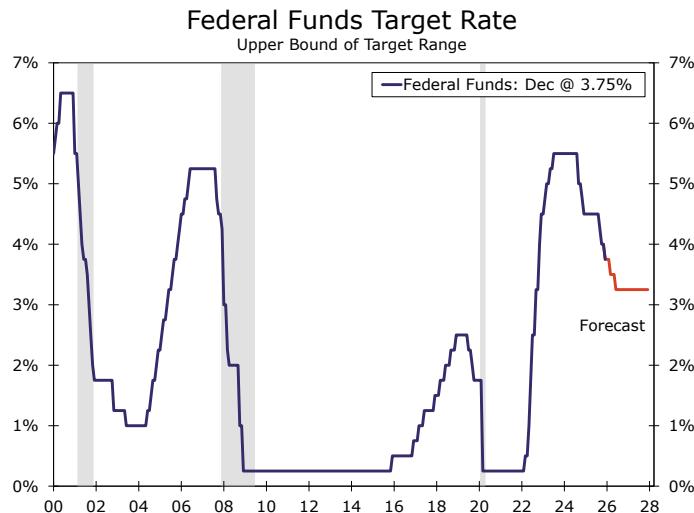
When Congress and the president ended the government shutdown on Nov. 12, policymakers reopened the government by passing three of the smaller appropriations bills for full fiscal year 2026 and using a continuing resolution (CR) to extend funding for the rest of the government through Jan. 30. Since then, the signs have been encouraging that another shutdown will be avoided. Three more of the remaining nine annual appropriations bills recently passed the House of Representatives with large bipartisan majorities, a positive sign that the annual budgeting process has gotten back on track. Several thorny budget issues remain, including major appropriations bills related to defense and homeland security, but early signs are that Democrats in Congress [will not push for another shutdown](#). Our base case is that Congress will act in time to keep the government operating as usual, and the eventual FY 2026 budget will yield roughly flat discretionary spending for the year.

Monetary Policy & Interest Rates

- We continue to expect the FOMC to cut the target range for the fed funds rate by another 50 bps through the first half of this year, resulting in a terminal fed funds rate of 3.00%-3.25%.

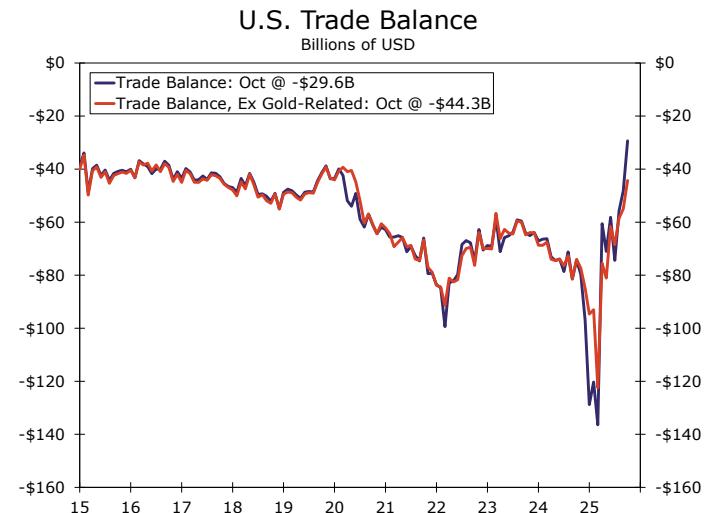
A clear cooling in the jobs market drove the FOMC to cut its policy rate by 75 bps in 2025 despite sticky inflation. For 2026, we expect a still-tepid labor market and receding of inflationary pressures to induce the FOMC to cut the federal funds rate further to return policy to a roughly neutral stance. We look for 25 bps at both the FOMC's March and June meetings, bringing the terminal target range to 3.00%-3.25% by the end of the second quarter. While the realization of easier monetary policy should help pull down front-end yields a bit further, firmer growth and expanding fiscal deficits are likely to keep long-end rates from meaningfully declining. We look for the 10-year Treasury yield to rise to 4.18% by the end of 2026. With the 10-year yield remaining elevated, we expect the conventional 30-year fixed mortgage rate to end 2026 around 6.14%.

Figure 11



Source: Federal Reserve Board and Wells Fargo Economics

Figure 12



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

Net Exports

- We now expect trade to provide more of a boost to Q4 GDP growth (~1.6pp) than we previously penciled in amid a larger-than-anticipated pullback in October imports.

The trade deficit narrowed sharply to -\$29.4 billion in October, or the lowest trade gap in 16 years. This shift was due mostly, although not entirely, to a transfer in gold. Non-monetary gold exports jumped \$6.8 billion in October after a more than \$6 billion gain the month prior. The BEA replaces this category of trade (as well as some other categories that also tend to reflect investment more than industrial use of the product) when calculating GDP. Net exports are tracking to boost Q4 growth, but not to the degree of October's headline data. In discounting the gold-effect on October, exports were flat, but imports slipped 3%, leading us to look for net exports to boost headline GDP growth by just over one and a half percentage points. We caution reading too much into the recent narrowing as it somewhat reflects payback after the sharp widening in the adjusted trade balance earlier in the year ([Figure 12](#)), and we've yet to see trade flows settle in the wake of tariffs.

This Month's Economic Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
January 5 ISM Manufacturing Dec 47.9	6	7 ISM Services Dec 54.4	8 Nonfarm Productivity Q3 4.9%	9 Nonfarm Payrolls Dec 50K Housing Starts Oct 1246K
12	13 CPI (MoM) Dec 0.3%	14 Retail Sales (MoM) Oct 0.0% NFIB Small Business Optimism Dec 99.5	15 Import Price Index (MoM) Sep 0.0%	16 Industrial Production (MoM) Nov 0.2%
Williams*, Bostic, Barkin Speak	Musalem, Barkin Speak	Miran*, Paulson*, Kashkari*, Bostic Speak	Barr*, Bostic, Barkin, Schmid Speak	Bowman*, Jefferson* Speak
19	20	21 LEI (MoM) Nov -0.3% Construction Spending (MoM) Aug 0.2%	22 Personal Income & Spending (MoM) Sep 0.4%, 0.4% PCE Price Index (MoM) Sep 0.3%	23
26 Durable Goods MoM Oct -2.2%	27 Consumer Confidence Dec 89.1	28 FOMC Rate Decision Prior 3.75%	29 Trade Balance Oct -\$29.4b	30 PPI Final Demand (MoM) Sep 0.3%
February 2 ISM Manufacturing Dec 47.9	3	4 ISM Services Dec 54.4 ADP Employment Dec 41K	5	6 Nonfarm Payrolls Dec 50K U. of Mich Sentiment Jan 54.0

Bostic Speaks

Note: * = voting FOMC member in 2026, Purple = Market Moving Releases

Source: Bloomberg LP, Federal Reserve System, U.S. Department of Labor, U.S. Department of Commerce, Institute for Supply Management, Conference Board and Wells Fargo Economics

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