Monthly — February 18, 2026

U.S. Economic Outlook: February 2026

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March Rate Cut Unlikely Amid Signs of Labor Market Stabilization

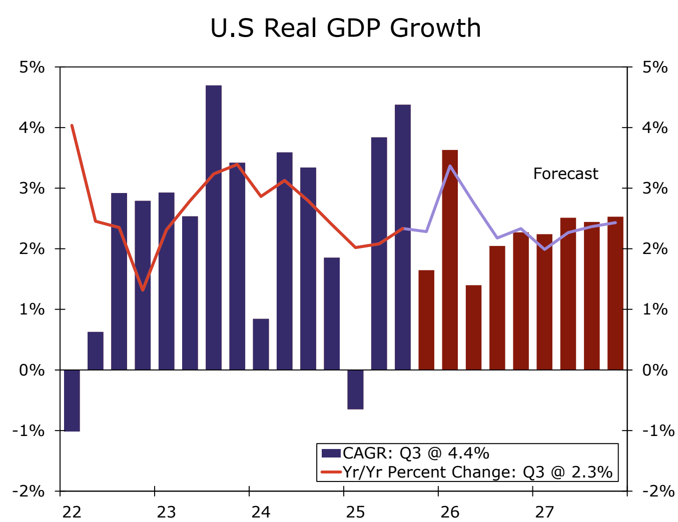
- We have not made any significant changes to our economic growth forecast. Recent data reinforce our view that real GDP growth remains on a solidly positive trajectory, largely reflecting sturdy consumer spending and a strengthening rate of business investment. Looking ahead, we continue to foresee an above-consensus pace of real GDP growth for 2026 with expansionary fiscal policy, less restrictive monetary policy, robust AI investment and reduced economic policy uncertainty.
- Labor market conditions remain far from energetic, yet recent months' data have shown signs of stabilization. Against a backdrop of solid economic growth, we continue to see a modest pick-up in hiring as the year progresses and look for nonfarm payroll growth to average 70K per month in 2026. Firming job growth should help to keep the jobs market roughly in balance and leave the unemployment rate at 4.3% in Q4-2026.
- The inflation data continue to come in somewhat cooler than expected as moderating services prices partially offset a tariff-related lift to goods costs. We suspect the inflationary impulse from tariffs has yet to transmit fully through supply chains and forecast the core PCE deflator to tick up to 2.9% year-over-year in Q1. Further out, we look for a disinflationary trend to resume and anticipate the average year-over-year rate on the core PCE deflator to fall to 2.6% in Q4-2026 and 2.3% in Q4-2027.
- We have made a minor change to our monetary policy outlook. In our view, the recent stabilization in the labor market significantly lowers the likelihood of a March rate cut. However, additional cuts later this year are still on the table given the more benign inflation outlook. We still see two more 25 bps cuts this year, but now look for the reductions to occur at the June and September FOMC meetings. Given our generally constructive forecasts for the labor market and inflation, we acknowledge the balance of risks remain tilted toward fewer rate reductions this year.

March Rate Cut Unlikely Amid Signs of Labor Market Stabilization

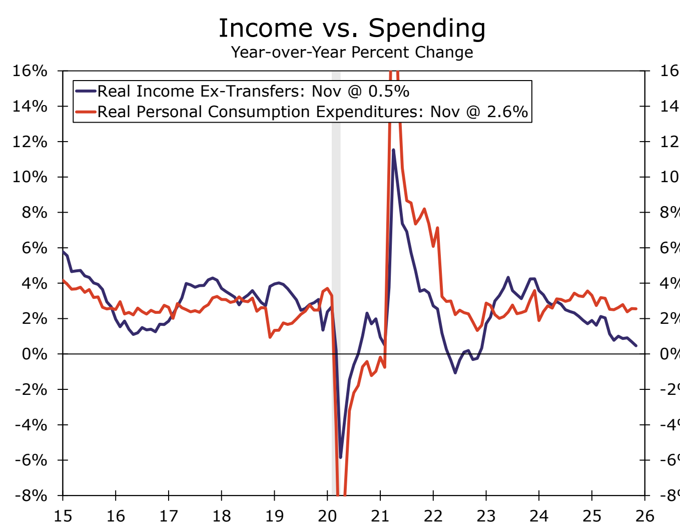
Recent economic data suggest real GDP growth remains on a positive trajectory. We first note that the effects of recent changes to trade policy and last year's federal government shutdown continue to inject a considerable amount of noise into the economic data. For example, government purchases look set to weigh on overall real GDP growth during Q4-2025 and then boost growth in Q1-2026, a fluctuation which largely reflects the 43-day government shutdown last October and November. What's more, surging gold exports and changing trade flows resulting from heightened tariff-policy uncertainty are creating an unusual degree of uncertainty in estimates of net exports and inventories.

Through the volatility, however, the U.S. economy appears to be expanding solidly thanks to a sturdy pace of consumer spending, a trend we expect to continue. The latest retail sales data showed a flat pace of spending in December, with control group sales declining slightly at year-end. The disappointing December data was not entirely unexpected and mostly reflects sales being pulled forward on account of tariffs, early discounts and gift card substitution.

Ultimately, the trend in retail sales has moderated but broader measures of consumer spending that include a more complete view of services spending, and thus better capture the full picture of household spending, are showing more resilience. For instance, real personal spending was up 2.6% year-to-year in November, which suggests households are still spending despite moderating real income growth and softer labor market conditions. Although a moderation in these fundamental spending drivers are concerning, we remain generally optimistic on the consumer segment in the year ahead, with a lift in after-tax income provided by the One Big Beautiful Act serving as a major impetus. Easier monetary policy, both directly from lower consumer interest rates and indirectly from more stable labor market conditions, are additional support factors.



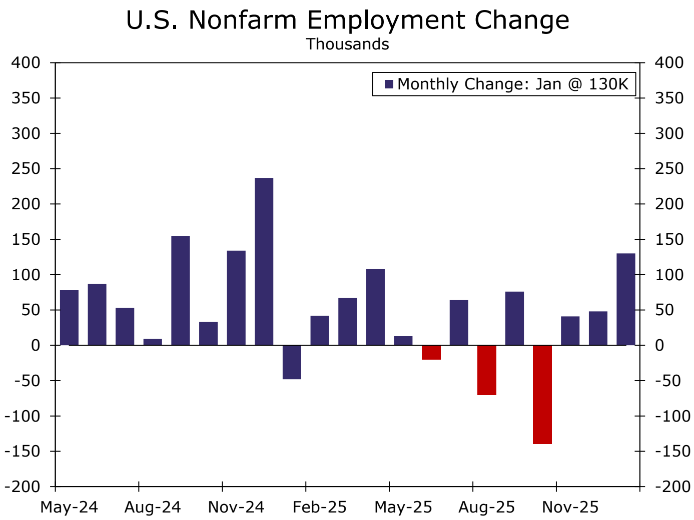
Source: U.S. Department of Commerce and Wells Fargo Economics



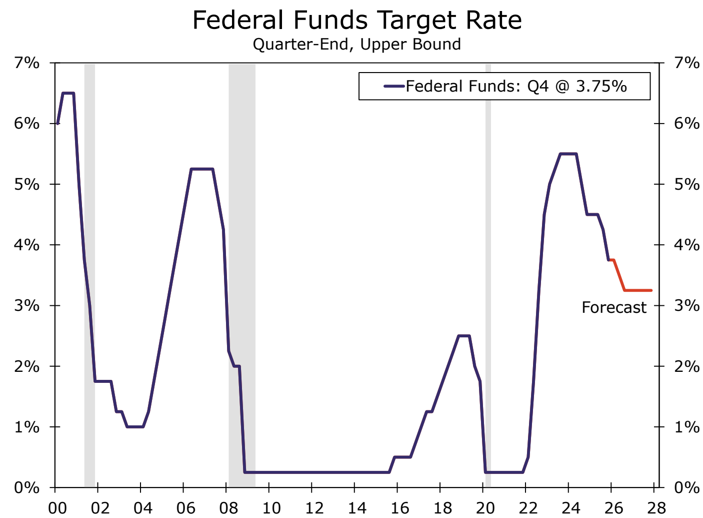
Source: U.S. Department of Commerce and Wells Fargo Economics

Less restrictive monetary policy should also help business investment gain broader traction. Core durable goods orders look to have ended 2025 with momentum in large part due to significant new AI-capital spending. However, a recent pick-up in "old line" categories such as fabricated metals and machinery suggests capital spending is starting to broaden beyond expenditures related to the AI build-out. What's more, January's surprising jump in the ISM manufacturing index, though perhaps overstated by year-end quirks, adds further evidence that a wider array of firms is starting to ratchet up spending plans against a backdrop of increased economic policy visibility, favorable tax changes and lower capital costs. As such, business fixed investment looks poised to expand solidly over the next several quarters.

We also anticipate that a lower fed funds rate will lend needed support to the labor market. At present, labor market conditions remain generally sluggish. In the final months of 2025, employment growth was essentially flat with new jobs highly concentrated in the healthcare industry. Payroll growth improved a bit in January, but another drop in job openings and continued easing in labor cost growth tempers any optimism that a material acceleration is in the offing. Still, the unemployment rate has ticked lower over the past two months, which suggests that conditions are starting to stabilize. We expect these sluggish-yet-stable conditions to persist in the first half of the year but see a modest pick-up in employment growth and gradual tick lower in the unemployment rate as the year progresses alongside supportive monetary and fiscal policy.



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



Source: Federal Reserve Board and Wells Fargo Economics

Meanwhile, the inflation data continue to be generally encouraging. The core CPI eased to 2.5% on a year-ago basis in January, the softest reading since March 2021. Core PCE inflation looks to have been stronger around the turn of the year, but should show clearer improvement over 2026. The disinflationary trend in services seems likely to continue given the sluggish state of the labor market, contained energy prices and ongoing moderation in shelter costs. That said, we suspect the inflationary impulse from tariffs has yet to transmit fully through supply chains. We forecast the core PCE deflator to remain just under a 3% year-over-year rate in Q1. Further out, we look for a disinflationary trend to resume and anticipate the average year-over-year rate on the core PCE deflator to fall to 2.6% in Q4-2026 and 2.3% by Q4-2027.

We have made a minor change to our monetary policy outlook. In our view, the recent stabilization in labor market conditions significantly lowers the likelihood of a March rate cut. Downside risks stemming from the labor market have diminished but not completely disappeared. This leaves additional cuts later this year still on the table, especially given the more benign inflation outlook. We still see two more 25 bps cuts in 2026, but we now look for the reductions to occur at the June and September FOMC meetings. Given our generally constructive forecasts for the labor market and inflation, we acknowledge the balance of risks remain tilted toward fewer rate reductions this year.

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	1.6	3.6	1.4	2.0	2.3	2.2	2.5	2.4	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	2.7	1.8	2.4	2.3	2.2	1.8	2.2	2.3	2.2	2.9	2.7	2.4	2.1
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.6	5.8	5.9	4.9	3.6	5.2	6.1	4.6	5.1	2.9	4.1	4.7	5.0
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.3	3.7	10.2	8.3	5.8	2.9	4.6	6.0	4.9	4.0	3.5	8.3	6.9	4.9
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.6	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	-5.0	-4.3	-2.1	1.7	2.4	3.4	3.6	3.9	4.0	4.2	1.1	-5.1	-1.7	3.4
Residential Investment	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-7.1	-4.6	-4.2	-3.5	1.5	2.9	3.7	3.9	4.2	4.4	3.2	-2.4	-3.5	3.0
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-7.0	12.3	-1.6	0.6	0.8	1.2	1.2	1.3	1.3	3.8	1.0	1.7	0.9
Net Exports	-964.1	-1032.2	-1064.9	-1069.0	-1380.7	-1058.0	-955.5	-912.7	-970.3	-993.7	-1010.2	-1033.3	-1052.1	-1070.3	-1088.5	-1103.4	-1032.6	-1076.7	-1001.9	-1078.6
Pct. Point Contribution to GDP	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	0.7	-1.0	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.5	-0.2	0.3	-0.3
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-23.9	-21.7	19.5	-1.5	-12.7	9.7	20.2	21.0	27.0	35.2	43.5	27.0	3.7	25.9
Pct. Point Contribution to GDP	-0.8	1.2	-0.1	-0.9	2.6	-3.4	-0.1	0.0	0.7	-0.3	-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	8.3	4.5	6.9	3.9	4.3	4.5	4.6	4.8	4.7	4.7	5.3	5.0	5.5	4.6
Real Final Sales	1.7	2.4	3.5	2.8	-3.2	7.5	4.5	1.6	2.9	1.7	2.2	1.9	2.1	2.5	2.3	2.4	2.8	2.3	2.8	2.2
Retail Sales (b)	1.8	2.5	2.3	3.9	4.5	4.3	4.4	3.0	3.2	3.2	2.3	2.5	2.4	2.3	2.2	2.1	2.6	4.0	2.8	2.2
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	2.7	2.8	2.6	2.5	2.3	2.2	2.2	2.2	2.6	2.6	2.7	2.2
"Core" PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.8	2.9	2.8	2.7	2.6	2.3	2.3	2.3	2.3	2.9	2.8	2.7	2.3
Consumer Price Index	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.5	2.8	2.6	2.6	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	2.6	2.5	2.7	2.5	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	3.5	2.5	3.0	2.9	2.6	3.2	2.6	2.4	2.1	2.2	2.2	2.1	2.4	3.0	2.7	2.2
Employment Cost Index	4.2	4.1	3.9	3.8	3.6	3.6	3.5	3.4	3.4	3.3	3.3	3.4	3.4	3.5	3.5	3.6	4.0	3.5	3.4	3.5
Real Disposable Income (a)	4.2	2.4	1.2	2.0	2.3	1.8	0.0	0.0	5.4	1.7	2.1	2.2	1.5	2.0	2.0	2.4	2.9	1.6	2.2	1.9
Nominal Personal Income (a)	7.6	5.4	3.6	4.9	6.4	4.3	3.3	3.2	4.3	4.2	4.4	4.5	4.5	4.3	4.2	4.5	5.6	4.7	3.9	4.4
Industrial Production (a)	-2.6	2.7	-2.3	-1.5	4.2	1.8	2.2	0.7	2.0	2.2	1.9	1.4	1.5	1.0	1.1	0.5	-0.7	1.3	1.8	1.4
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	76.1	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	-679	-144	-425	-584	-710	-154	-452	-649	-1817	-1775	-1850	-1900
Trade Weighted Dollar Index (d)	115.7	117.2	113.1	119.7	117.5	111.1	110.8	111.5	112.2	111.1	112.0	112.8	113.7	114.6	115.3	116.0	116.3	113.9	112.1	114.9
Nonfarm Payroll Change (e)	203	76	72	135	20	34	23	-17	77	52	70	78	78	72	70	66	122	15	69	72
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.4	4.4	4.4	4.3	4.3	4.3	4.2	4.2	4.0	4.3	4.4	4.2
Housing Starts (f)	1.42	1.34	1.34	1.39	1.40	1.35	1.34	1.34	1.33	1.33	1.33	1.34	1.38	1.38	1.38	1.38	1.37	1.36	1.33	1.38
Light Vehicle Sales (g)	15.5	15.7	15.7	16.4	16.4	16.2	16.6	15.7	15.0	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	65.1	65.0	64.0	65.0	66.0	65.7	65.0	65.0	79.3	67.6	64.8	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	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	5.27	4.33	3.44	3.25
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.45	4.24	3.87	3.65	3.40	3.15	3.15	3.15	3.15	3.15	3.15	5.15	4.24	3.34	3.15
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.50	7.25	6.75	6.75	6.50	6.25	6.25	6.25	6.25	6.25	6.25	8.27	7.33	6.44	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	6.20	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	3.60	3.35	3.15	3.15	3.15	3.15	3.15	3.15	5.18	4.21	3.31	3.15
6 Month Bill	5.38	5.33	4.38	4.24	4.23	4.29	3.83	3.59	3.50	3.30	3.20	3.20	3.20	3.20	3.20	3.25	5.00	4.09	3.30	3.21
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.40	3.35	3.30	3.30	3.30	3.30	3.35	3.40	4.69	3.91	3.34	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	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	4.25	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	5.00	4.41	4.78	4.83	4.99

Forecast as of: February 18, 2026

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 Economies 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

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				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	0.03	-0.44	0.28	-0.14	-0.03	-0.03	-0.01	0.00	-0.01	0.04	0.00	-0.02	-0.04	-0.02
Personal Consumption	0.00	0.00	0.00	0.00	0.00	0.00	-0.08	0.49	-0.14	0.02	0.00	0.00	0.00	0.00	-0.01	0.07	0.00	0.02	0.05	0.00
Business Fixed Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.32	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.10	0.00
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	-0.15	0.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.15	0.00
Intellectual Property Products	0.00	0.00	0.00	0.00	0.00	0.00	0.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.00
Structures	0.00	0.00	0.00	0.00	0.00	0.00	1.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.16	0.18	0.00
Residential Investment	0.00	0.00	0.00	0.00	0.00	0.00	-1.98	-0.40	-2.20	-5.40	-1.10	-0.20	0.00	0.00	0.00	0.00	0.00	-0.28	-2.03	-0.53
Government Purchases	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	1.01	-0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07	0.07	0.00
Net Exports	0.00	0.00	0.00	0.00	0.00	0.00	1.71	-52.80	-19.49	-19.78	-20.04	-20.34	-20.57	-20.77	-20.96	-21.14	0.00	-12.77	-19.91	-20.86
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.03	-0.92	0.55	0.00	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	-0.05	-0.03	0.00
Inventory Change	0.00	0.00	0.00	0.00	0.00	0.00	5.69	1.17	-1.05	0.08	0.69	-0.53	-1.09	-1.13	-1.46	-1.90	0.00	1.71	-0.20	-1.40
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.10	-0.08	-0.04	0.02	0.01	-0.02	-0.01	0.00	-0.01	-0.01	0.00	0.01	-0.01	0.00
Nominal GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.04	-0.32	0.36	-0.32	-0.06	0.02	0.11	0.08	0.08	0.07	0.00	-0.02	-0.03	0.03
Real Final Sales	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	-0.37	0.32	-0.16	-0.04	-0.01	0.00	0.00	-0.01	0.04	0.00	-0.03	-0.03	-0.02
Retail Sales (b)	0.00	0.00	0.00	-0.01	0.00	0.00	-0.01	-0.25	-0.39	-0.39	-0.38	-0.13	0.00	0.00	0.00	0.00	0.00	-0.07	-0.32	0.00
Inflation Indicators (b)																				
PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.05	0.01	0.00	-0.02	-0.01	0.05	0.09	0.08	0.00	0.01	0.01	0.05
"Core" PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.06	0.01	0.00	-0.02	-0.01	0.07	0.08	0.09	0.00	0.01	0.01	0.06
Consumer Price Index	0.00	0.00	0.00	0.00	-0.02	0.00	0.00	-0.03	0.05	0.04	0.03	0.03	-0.03	-0.01	0.02	0.01	0.00	-0.01	0.04	0.00
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	-0.02	0.05	-0.01	0.00	0.00	-0.06	-0.02	0.02	0.01	0.00	-0.01	0.01	-0.01
Producer Price Index (Final Demand)	0.00	0.00	0.00	0.00	0.00	0.01	0.10	0.39	0.62	0.61	0.52	0.23	0.04	0.13	0.22	0.29	0.00	0.12	0.50	0.17
Employment Cost Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.17	-0.12	-0.14	-0.17	-0.11	-0.11	-0.09	-0.07	-0.05	0.00	-0.04	-0.14	-0.08
Real Disposable Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	-1.02	0.46	0.17	0.04	-0.04	-0.12	-0.07	-0.09	-0.03	0.00	-0.07	-0.06	-0.05
Nominal Personal Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	-0.62	0.21	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.00	-0.04	-0.07	0.01
Industrial Production (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.63	1.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.47	0.00
Capacity Utilization	0.00	0.00	0.00	0.00	0.00	0.00	0.03	-0.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.04	0.00	0.00
Federal Budget Balance (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	20.08	46.44	33.47	43.99	43.00	65.60	47.41	9.20	0.00	0.00	100.00	200.00
Trade Weighted Dollar Index (d)	-0.13	-0.17	-0.16	-0.17	-0.23	-0.24	-0.30	-0.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.15	-0.25	0.00	0.00
Nonfarm Payroll Change (e)	7.33	-56.33	-60.67	-74.67	-90.67	-21.00	-28.00	5.33	33.33	-3.33	-5.00	-6.67	-5.00	-7.67	-5.00	-3.33	-46.08	-33.58	4.58	-5.25
Unemployment Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.13	-0.10	-0.09	-0.09	-0.09	-0.08	-0.07	-0.06	0.00	0.00	-0.10	-0.07
Housing Starts (f)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	0.00	0.00	-0.05	-0.05
Light Vehicle Sales (g)	-0.01	0.02	0.02	-0.06	0.00	0.00	0.11	-0.01	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.02	0.01	0.00
Crude Oil - Brent - Front Contract (h)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.42	2.00	0.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.52	0.00
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	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Prime Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.00
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.00
1 Year Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00
2 Year Note	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
5 Year Note	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
10 Year Note	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
30 Year Bond	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

Forecast as of: February 18, 2026

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 Economies 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

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

Personal Consumption Expenditures (PCE)

- The latest data suggest Q4 real PCE will come in at a 2.7% annualized clip, even if spending lost momentum in December, which we suspect it did. The growing disconnect between income and outlays would be a bigger concern for near-term household spending were it not for forthcoming tax relief.

The government shutdown resulted in a twofer" personal income and spending report with both October and November numbers dropping in late January. Real PCE rose 0.3% in both October and November, a stronger outcome than we anticipated. Spending expanded with broad-based strength across goods and services, signaling that consumption patterns are normalizing after a pull-forward in goods demand at the beginning of the year.

We are not counting on much of an increase in December, which puts our forecast for Q4 real PCE growth at a 2.7% annualized clip. Tax relief underpins prospects for increased spending in 2026. The One Big Beautiful Bill Act should boost tax refunds this season and reduce household tax liabilities more broadly. At the same time, easing inflation and modest improvement in job growth this year should provide more fundamental support to income growth.

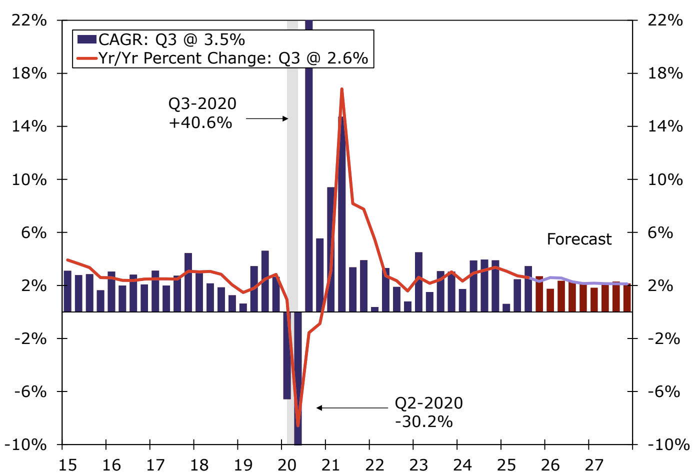
Investment: Equipment, Intellectual Property Products and Inventories

- Our outlook for business fixed investment on equipment and intellectual property products remains more or less intact from our prior forecast.

Underlying orders activity continues to show signs of a modest rebound and gradual broadening. Durable goods orders outside transportation rose 0.9% in December, extending a trend driven largely by tech-related categories such as electrical equipment and computers & electronic components.

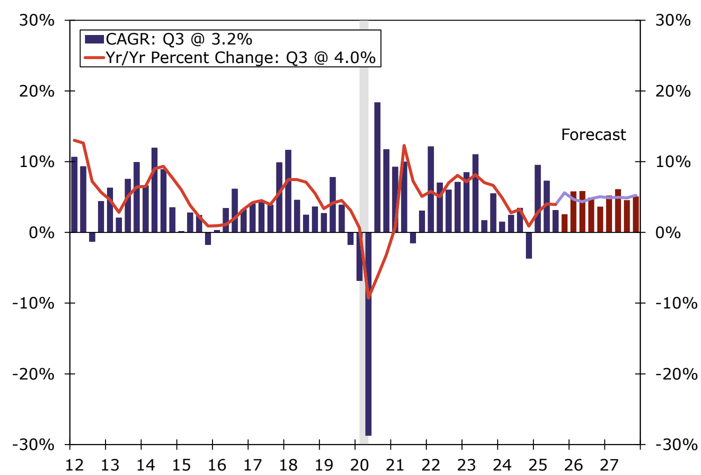
Encouragingly, more traditional categories also saw some traction, with gains in fabricated metals (+0.9%) and machinery (+0.3%). This is consistent with our narrative that high-tech investment remains the primary driver of spending this year, while favorable tax changes provide modest support to traditional equipment investment around the edges. After what we expect to be the third-consecutive quarter of drawdown in Q4, we see a modest inventory build in the first quarter, though we acknowledge there is risk around the size and, therefore, magnitude of the boost to Q1 GDP growth.

Real Personal Consumption Expenditures



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

Real Business Fixed Investment



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

Investment: Residential

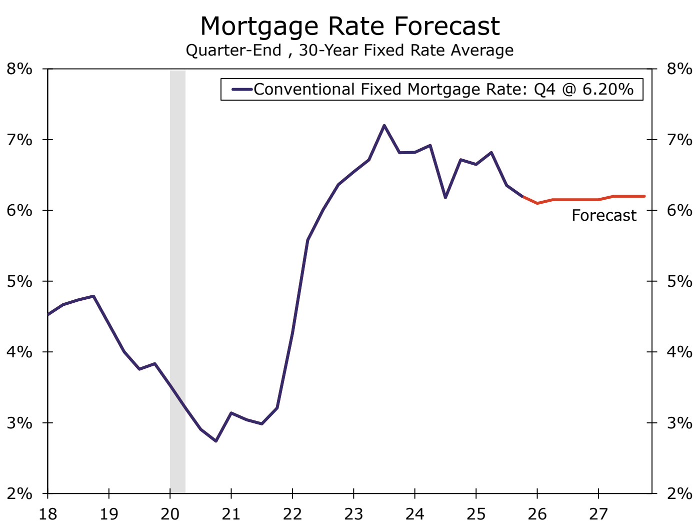
- We have made modest downward revisions to our residential investment forecast. Although mortgage rates have not rebounded since dropping to roughly 6.1%, we do not expect them to fall any further, which will likely discourage residential investment over the next few quarters.

Housing market activity remains subdued. New home sales improved somewhat last fall against a backdrop of sliding mortgage rates. That said, single-family builders remain broadly pessimistic amid elevated inventory levels and challenging demand conditions. Declining building permits are a main signal, foretelling a slower pace of single-family construction over the next year. Healthier economic growth should be a support factor in 2027. However, prospects for a full demand recovery appear unlikely given our expectation for mortgage rates to remain between 6.1% and 6.2% over the next couple of years. Meanwhile, multifamily permits have essentially moved sideways, suggesting that high materials costs and elevated vacancy rates remain notable constraints on apartment development.

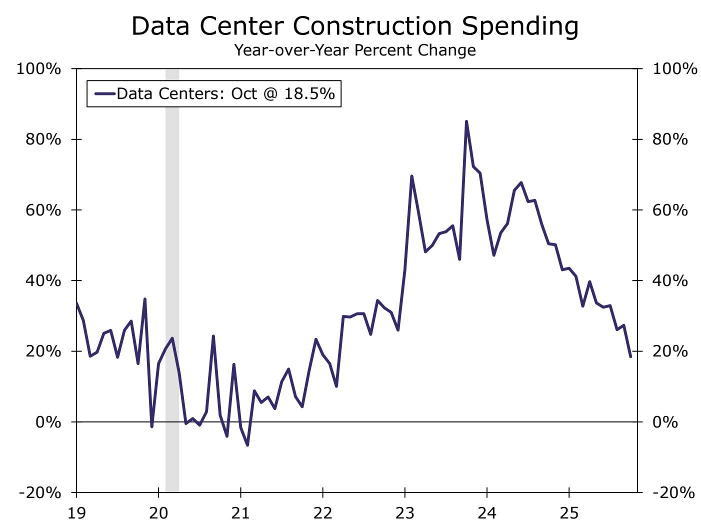
Investment: Nonresidential Structures

- We have not meaningfully revised our outlook for nonresidential structures. While data center construction continues to stand out, growth is slowing, and elevated interest rates are still weighing heavily on most other areas of private nonresidential spending.

Elevated financing costs remain a significant headwind for structures investment. Monthly figures suggest that construction remains weak across most nonresidential segments. Construction outlays on manufacturing, warehouse and other commercial projects continue to ease, while growth in data center investment is slowing from recent highs. Forward-looking indicators such as the Architecture Billings Index also signal weakness, showing a muted pace of new inquiries and uptick in delayed or canceled projects. The lagged effects of easier monetary policy should support a rebound in structures spending next year, although those effects will only materialize gradually.



Source: Freddie Mac and Wells Fargo Economics



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

Labor Market

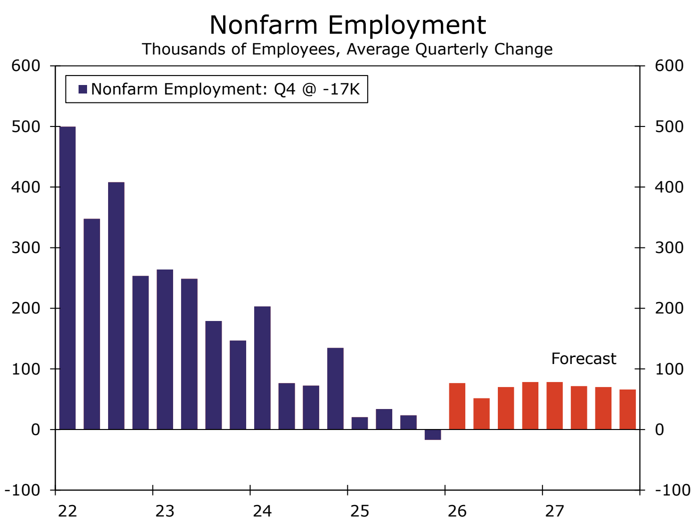
- We have not meaningfully altered the contours of our labor market forecast this month. We expect nonfarm payroll growth to average around 70K per month in 2026, up from a 15K pace in 2025.

The labor market remains sluggish, but recent data offer some tentative signs of stabilization. The three-month pace of job growth rose to 73K in January, its strongest pace since February 2025. The pickup suggests labor demand is improving, which has been reflected in the unemployment rate edging down over the past two months. That said, job creation remains concentrated in just a few industries. We expect nonfarm payroll growth to run closer to a 50K pace in the next six months and for the unemployment rate to tick back up to 4.4%. As the benefits of less policy uncertainty and more supportive monetary and fiscal policy work their way through the economy, we look for job growth to firm to around a 75K monthly clip in the second half of 2026. That gradual strengthening should help pull the unemployment rate back down to 4.3% by the end of the year, putting it back at the upper end of the range most Fed officials view as consistent with full employment.

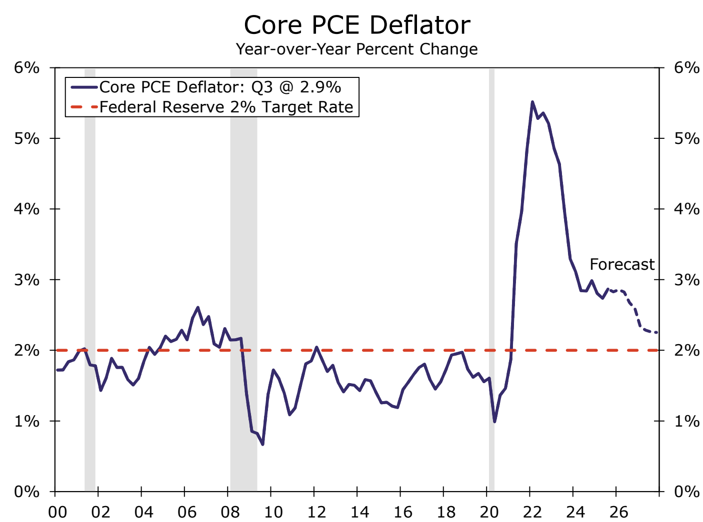
Inflation

- Inflation continues to gradually moderate. We have maintained our estimate for core PCE inflation to slow 2.6% year-over-year in the fourth quarter of 2026.

The cooler inflation trend illustrated by the January CPI shows that price growth, while still elevated, remains contained. Delayed pass-through of tariff costs should keep core goods inflation elevated through the first half of the year as suppliers renegotiate contracts and firms rebuild inventories. At the same time, fiscal and monetary policy tailwinds are set to bolster household demand. Yet the disinflationary impulse from the normalization of services inflation, including housing, as well as the sluggish labor market should keep core PCE on track to subside from ~3% at present to 2.6% year-over-year in Q4-26. Solid productivity growth and waning tariff effects should allow inflation continue to edge down through 2027, though we expect progress toward 2% to remain gradual.



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



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

Fiscal Policy

- The federal government is funded through September 30 except for the Department of Homeland Security. Macroeconomic disruptions from the current partial government shutdown should be minimal, and the BLS and BEA have been funded, so we expect no additional economic data delays for the foreseeable future.
- We have nudged down our budget deficit forecasts to $1.85 trillion for FY 2026 (5.8% of GDP) and $1.90 trillion for FY 2027 (5.7%).

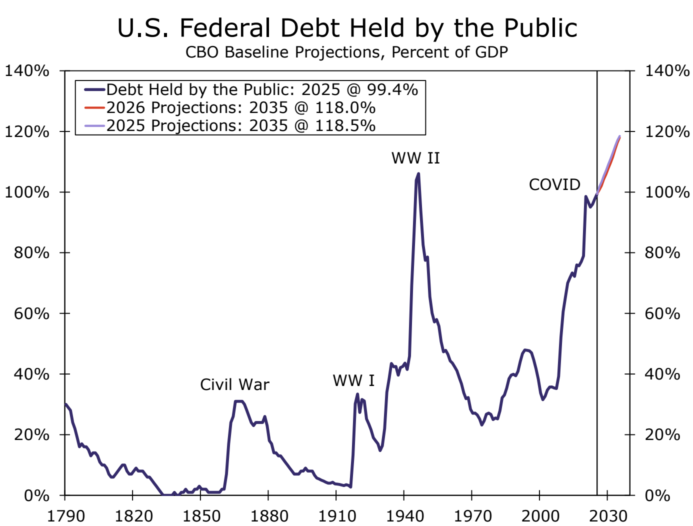
Congress has passed and the president has signed 11 of the 12 annual appropriation bills for FY 2026. This ensures that, for most government agencies including the BLS and BEA, the risk of another shutdown has been removed through September 30. The exception is the Department of Homeland Security. From a macroeconomic impact standpoint, the Homeland Security bill accounts for just 5% of the annual appropriations process, so the hit to economic activity from the partial shutdown should be quite small.

Over the medium term, our projections for the fiscal outlook have not changed much. The Congressional Budget Office recently published its latest 10-year budget and economic outlook, and CBO's 2035 debt-to-GDP ratio projection was very similar to the projection it made in January 2025 despite all the policy upheaval of the past 12 months. There were new policies that caused deficit widening over the long run (the One Big Beautiful Bill Act, tighter immigration enforcement) and offsetting policies that are driving deficit narrowing (stronger economic growth, much higher tariff revenues). On balance, we do not feel materially different about the long run U.S. fiscal outlook than we did one year ago: no longer getting worse, but still unsustainable.

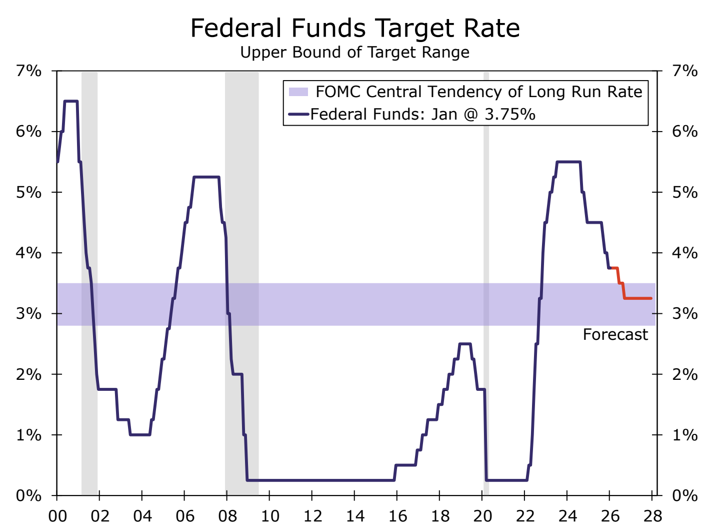
Monetary Policy & Interest Rates

- Our base case forecast remains for two 25 bps rate cuts this year from the FOMC. We have pushed back the timing of these cuts, however, from the March and June FOMC meetings to June and September. If realized, this would put the terminal fed funds rate at 3.00%-3.25%.
- Our 2026 year-end forecast for the 10-year Treasury yield remains unchanged at 4.25%.

Our expectation that the FOMC will cut the fed funds rate by 50 bps this year remains unchanged from our previous forecast. We expect future Chair Warsh and the Committee to agree to move monetary policy a bit closer to their estimate of neutral in response to still tepid job growth and gradually slowing inflation. That said, we continue to think the window is closing for additional rate cuts. If the labor market stabilizes in the coming months from easier fiscal/monetary/trade policy, the pressure on the Committee for additional rate cuts may recede, and the FOMC may be more willing to stand pat and upwardly adjust their estimates of the longer run neutral rate.



Source: Congressional Budget Office and Wells Fargo Economics



Source: Federal Reserve Board and Wells Fargo Economics

Net Exports

- Net exports should remain a fairly volatile force on headline GDP growth over the next couple of quarters, but the story under the surface continues to be one of a gradual widening in the international trade deficit.

We have not materially adjusted our forecast for net exports in this update. The monthly trade data are tracking for net exports to boost Q4 GDP growth, although the 0.7 percentage point boost we have penciled in is lower than our last update. More broadly, we still expect the international trade deficit to widen gradually over the next couple of months as imports pick up amid leaner inventories and continued domestic demand.

This Month's Economic Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
February 9	**10**	**11**	**12**	**13**
Waller*, Miran*, and Bostic Speak	**Import Prices (MoM) (December)** December 0.1% **Retail Sales (MoM)** December 0.0% _Hammack* and Logan* Speak_	**Employment (January)** January 130K _Schmid, Bowman*, Hammack*, and Miran* Speak_	**Existing Home Sales** January 3.91M _Logan and Miran Speak_	**CPI (MoM)** January 0.2% _Goolsbee Speaks_
16	**17**	**18**	**19**	**20**
Washington's Birthday [U.S. Markets Closed]	_Goolsbee, Barr*, and Daly Speak_	**Durable Goods (MoM)** November 5.3% **Housing Starts (SAAR)** October 1,246K **Industrial Production (MoM)** December 0.4% _FOMC Minutes, Bowman* Speaks_	**Trade Balance (December)** November -$56.8B **LEI (MoM)** November -0.3% _Bostic, Kashkari*, Bowman*, and Goolsbee speak_	**Personal Income & Spending (MoM)** November 0.3%; 0.5% **PCE Price Index (MoM)** November 0.2% **U.S. GDP (QoQ Annualized)** Q3 4.4% **New Home Sales (SAAR)** October 737K _Bostic and Logan* Speak_
23	**24**	**25**	**26**	**27**
Waller* Speaks	**Consumer Confidence** January 84.5 _Goolsbee, Collins, Bostic, Waller*, Cook*, and Barkin speak_	_Musalem Speaks_		**PPI (MoM)** December 0.5% **Construction Spending (MoM) (Nov. and Dec.)** October 0.5%
March 2	**3**	**4**	**5**	**6**
ISM Manufacturing January 52.6 **Construction Spending (MoM) (January)** October 0.5%		**ISM Services** January 53.8 _Beige Book_	**Trade Balance (January)** November -$56.8B **Import Prices (MoM) (January)** December 0.1%	**Employment (February)** January 130K

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

Source: Bloomberg Finance L.P., 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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Required Disclosures