Monthly — October 15, 2026

Economic Outlook: October 2026

Investment-Led Growth in a Higher-Rate World

Key Themes

- **The growth picture reflected in this forecast update is a bit brighter than our September outlook.** Our Q3 GDP forecast is now 3.2% thanks in part to resilient consumer spending and firm capex investment. We forecast full-year GDP growth of 2.4% for 2026 relative to just 2.2% in our September update.
- **The AI build-out continues to drive business fixed investment.** A trend strengthening in imports of computer and electronics products points to stronger equipment spending in Q3, even as it implies a slightly larger drag from trade during the period. Further out in the forecast, we look for both equipment and intellectual property spending to continue to expand, albeit not at the double-digit pace seen this year.
- **A hot September CPI report was another stumbling block on the path back to 2% inflation.** Chair Warsh's hawkish comments about getting inflation down would seem to suggest another hike in October is on the table. Yet, a wave of dovish Fed speak in recent weeks seemed designed to drive home that October would be a hold. Our sense is that the hot September CPI print is not quite enough to compel the FOMC to move at the October 28 meeting, but clearly the meeting could be live, and the recent data increases our conviction in a December rate hike.
- **The longer-term question is how high fed funds ultimately will go.** That depends on whims of a Committee that seems to have one foot in and one foot out on this tightening cycle. The pass-through of higher energy prices and the AI investment boom into the broader economy is important, but even more so is the outlook for demand factors. And right now, we see no compelling signs of an overheating jobs market turning into broad-based, demand-driven inflation. Wage growth looks benign, job growth is near its breakeven pace, cyclical hiring is still underwhelming, and the unemployment rate is consistent with full employment.
- **Long-term yields continue their trend ascent to normalization, and the higher cost of capital brings headaches for anyone relying on lower long-term borrowing costs, particularly the housing market.** October has already seen 10- and 30-year Treasury yields touch levels last seen in the early 2000s. To find a path down the mountain for longer-term rates, there would need to be progress on bringing down inflation, a slowing of the increased debt issuance from governments and/or from corporates, and a weaker growth outlook. In the absence of such developments, we may have to get used to a higher floor on longer-term rates.
- **Global growth is holding up, but so is inflation.** Further pass-through of higher input costs poses upside inflation risks, while rising bond yields tighten financial conditions. Advanced economy central banks continue to lean toward further tightening, while emerging market policymakers remain cautious, with some slowing the pace of easing and others restarting rate hikes.

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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)	1.4	3.6	3.2	2.4	0.1	4.0	3.9	0.2	2.5	2.2	3.2	2.9	2.0	2.3	2.2	2.3	3.0	2.3	2.4	2.4
Personal Consumption	1.8	3.9	3.7	4.3	0.6	2.1	3.7	1.9	0.7	3.8	3.4	2.3	1.8	2.1	2.1	2.1	2.9	2.6	2.4	2.3
Business Fixed Investment	2.9	2.6	6.0	-0.7	10.7	7.6	3.8	2.1	9.9	9.0	11.5	6.0	4.8	5.8	4.5	4.9	3.9	5.4	7.3	6.2
Equipment	-1.1	6.4	10.2	-3.0	20.4	7.2	8.9	6.9	15.5	13.4	16.1	4.9	3.5	5.0	4.2	3.3	3.3	8.8	11.5	6.2
Intellectual Property Products	8.3	2.1	3.6	1.4	8.0	16.3	5.7	4.4	15.6	9.2	7.0	7.9	6.4	7.1	4.5	6.4	4.6	6.8	9.4	6.8
Structures	0.5	-2.4	3.4	-0.3	0.9	-5.3	-7.7	-9.8	-9.4	0.1	5.3	3.8	3.4	4.4	4.8	5.0	3.8	-2.2	-4.8	4.0
Residential Investment	9.9	-2.8	-4.5	2.7	-2.7	-4.3	-6.3	-1.8	-7.6	2.8	-2.7	-1.5	1.9	3.4	4.0	4.5	3.2	-2.7	-3.3	1.4
Government Purchases	3.5	3.6	5.2	3.6	-0.6	2.3	1.6	-5.7	4.7	-0.1	2.3	1.2	1.0	0.7	0.7	0.7	4.5	1.6	0.7	1.0
Net Exports	-936.1	-1012.2	-1068.7	-1080.2	-1352.7	-1051.7	-991.5	-1006.3	-1019.5	-1099.3	-1285.8	-1235.9	-1274.6	-1294.5	-1314.8	-1331.8	-1024.3	-1100.6	-1160.1	-1303.9
Pct. Point Contribution to GDP	-0.1	-1.1	-0.8	-0.2	-4.0	4.5	1.0	-0.3	0.0	-1.1	-3.0	0.8	-0.6	-0.3	-0.3	-0.3	-0.5	-0.3	-0.2	-0.6
Inventory Change	-3.7	60.8	54.8	1.0	154.0	-35.3	-45.9	-45.9	-34.7	-63.4	47.3	5.9	26.6	27.6	35.5	39.4	28.2	6.7	-11.2	32.3
Pct. Point Contribution to GDP	-1.0	1.2	-0.1	-0.9	2.5	-3.2	-0.1	0.0	0.2	-0.5	1.8	-0.7	0.3	0.0	0.1	0.1	0.0	-0.1	-0.1	0.2
Nominal GDP (a)	4.7	6.3	4.7	5.0	3.3	6.2	7.4	3.7	5.8	8.5	5.3	6.8	4.6	4.4	4.4	4.6	5.6	5.0	6.1	5.3
Real Final Sales	2.5	2.3	3.2	3.3	-2.4	7.4	4.0	0.2	2.3	2.8	1.4	3.6	1.6	2.3	2.1	2.2	3.0	2.4	2.6	2.3
Retail Sales (b)	-0.2	0.6	0.9	2.9	3.8	3.7	3.9	2.6	3.1	5.6	5.5	6.2	5.8	3.4	2.6	1.7	1.1	3.5	5.1	3.4
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.5	2.5	2.5	2.7	2.7	3.0	3.6	3.5	3.8	3.4	2.6	2.6	2.2	2.6	2.6	3.5	2.7
"Core" PCE Deflator	3.2	2.9	2.9	2.9	2.7	2.8	2.8	2.8	3.0	3.1	3.0	3.2	2.9	2.8	2.8	2.6	2.9	2.8	3.1	2.7
Consumer Price Index	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.7	3.8	3.5	3.9	3.5	2.3	2.3	1.8	3.0	2.7	3.5	2.5
"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	2.7	2.6	2.4	2.4	2.3	3.4	2.9	2.6	2.5
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	3.3	3.3	3.4	4.0	3.5	3.4	3.3
Real Disposable Income (a)	3.9	2.9	1.2	1.7	1.1	2.7	1.2	0.5	2.4	-0.2	2.4	0.8	5.0	2.1	1.9	2.3	3.2	1.6	1.3	2.4
Nominal Personal Income (a)	7.0	5.7	3.9	5.1	6.1	5.6	4.2	3.5	5.1	4.7	3.9	4.6	4.9	4.2	4.0	4.5	5.9	5.1	4.5	4.5
Industrial Production (a)	-2.6	2.7	-2.3	-1.5	4.2	1.8	2.1	-1.9	1.2	4.5	1.7	1.9	1.1	1.0	1.1	0.5	-0.7	1.1	1.5	1.5
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	75.6	75.6	76.2	76.4	76.8	77.1	77.4	77.7	77.9	76.1	75.9	76.2	77.5
Federal Budget Balance (c)	-555	-209	-544	-711	-596	-30	-438	-602	-566	-198	-627	-607	-732	-186	-476	-648	-1817	-1775	-2000	-2000
Nonfarm Payroll Change (d)	203	76	72	135	20	34	23	-39	73	81	51	63	65	60	59	55	122	10	67	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)	15.6	15.7	15.6	16.5	16.5	16.2	16.4	15.8	15.5	16.5	16.2	15.9	16.4	16.6	16.6	16.7	15.9	16.3	16.0	16.6
Crude Oil - WTI (h)	76.9	80.6	75.2	70.3	71.4	63.6	64.9	59.1	72.4	92.7	85.7	89.7	82.5	80.4	78.4	76.3	75.8	64.8	85.1	79.4
Housing Starts (e)	1.41	1.34	1.34	1.39	1.40	1.36	1.35	1.32	1.42	1.35	1.29	1.25	1.27	1.30	1.35	1.40	1.37	1.36	1.33	1.33
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	4.1	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	0.9	1.3	1.5	0.8	0.7	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	6.86	7.10	7.05	7.00	6.95	6.90	6.72	6.60	6.66	6.98
3 Month Bill	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.70	3.87	4.20	4.15	4.15	4.15	4.15	4.15	5.18	4.21	3.98	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	4.33	4.30	4.25	4.20	4.20	4.20	5.00	4.09	4.09	4.21
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.68	3.98	4.54	4.40	4.30	4.30	4.25	4.25	4.69	3.91	4.15	4.28
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.79	4.14	4.88	4.70	4.55	4.45	4.40	4.35	4.37	3.81	4.38	4.44
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.79	3.74	3.73	3.92	4.19	5.09	4.90	4.80	4.75	4.70	4.65	4.13	3.92	4.53	4.73
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.30	4.44	5.29	5.10	5.05	5.00	4.95	4.90	4.21	4.29	4.78	4.98
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.84	4.88	4.91	5.64	5.45	5.40	5.40	5.35	5.30	4.41	4.78	5.22	5.36

Forecast as of: October 15, 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				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)	0.60	-0.01	-0.19	0.55	0.79	0.18	-0.50	-0.27	0.40	0.74	0.20	0.62	-0.15	-0.11	-0.13	-0.09	0.16	0.24	0.20	0.10
Personal Consumption	0.02	0.03	-0.25	0.36	0.03	-0.36	0.21	-0.02	0.17	0.32	0.21	-0.23	0.05	-0.09	-0.17	0.06	-0.05	0.00	0.12	-0.02
Business Fixed Investment	1.38	0.08	2.49	3.04	1.20	0.30	0.66	-0.26	-0.69	0.49	3.39	0.14	-0.44	-0.43	-0.29	-0.33	0.98	1.33	0.41	0.20
Equipment	-1.60	-2.48	2.06	1.23	-0.99	-1.35	3.69	2.63	-0.27	-0.12	9.17	0.11	-1.02	-1.00	-0.71	-0.75	-0.22	0.53	1.98	0.49
Intellectual Property Products	1.64	1.41	0.96	1.99	1.54	1.26	0.15	-0.99	1.76	0.42	-2.32	-0.02	-0.02	-0.04	-0.02	-0.02	1.07	1.16	0.10	-0.27
Structures	5.52	1.49	5.66	7.73	3.99	2.19	-2.73	-3.24	-4.76	1.91	2.90	0.80	0.00	0.00	0.00	0.00	2.68	3.08	-1.35	0.63
Residential Investment	1.73	-0.85	0.33	-1.58	-1.75	0.76	0.81	-0.08	0.25	1.53	1.40	0.00	-0.60	0.00	0.00	0.00	0.00	-0.48	0.65	0.13
Government Purchases	1.20	0.30	-0.24	0.24	0.35	2.40	-0.63	-0.02	0.30	0.88	-0.91	0.09	-0.09	-0.09	-0.09	-0.19	0.65	0.50	0.20	-0.10
Net Exports	28.09	20.06	-3.85	-11.17	28.03	6.32	-35.98	-37.68	-17.65	-15.58	-86.69	-15.48	-33.22	-32.82	-32.93	-33.07	8.28	-9.83	-33.85	-33.01
Pct. Point Contribution to GDP	0.32	-0.09	-0.37	-0.09	0.64	-0.34	-0.62	-0.03	0.33	0.04	-1.13	1.16	-0.28	0.01	0.00	0.00	-0.03	-0.08	-0.10	0.01
Inventory Change	-16.15	-14.27	-14.62	-16.07	-17.97	-17.01	-21.98	-30.27	-17.98	-10.38	25.87	-2.53	9.08	9.41	12.10	8.90	-15.28	-21.81	-1.25	9.87
Pct. Point Contribution to GDP	-0.21	0.04	0.05	0.00	-0.04	0.27	-0.02	-0.18	-0.05	0.19	0.59	-0.46	0.19	0.01	0.04	-0.05	-0.03	-0.03	0.09	0.04
Nominal GDP (a)	0.65	-0.01	-0.43	0.66	0.34	0.18	-0.90	-0.57	0.00	0.47	-0.09	1.85	0.09	0.14	0.06	-0.03	0.24	0.04	-0.01	0.41
Real Final Sales	0.81	-0.06	-0.24	0.55	0.82	-0.10	-0.48	-0.09	0.46	0.54	-0.39	1.08	-0.34	-0.12	-0.17	-0.03	0.19	0.20	0.17	0.07
Retail Sales (b)	-2.03	-1.89	-1.35	-0.97	-0.70	-0.32	-0.42	-0.37	-0.80	-0.81	-0.19	0.10	0.65	0.75	0.42	0.00	-1.56	-0.45	-0.42	0.45
Inflation Indicators (b)																				
PCE Deflator	0.06	0.02	0.01	-0.08	-0.07	0.03	-0.02	-0.09	-0.13	-0.26	-0.29	0.05	0.22	0.34	0.46	0.18	0.00	-0.04	-0.16	0.30
"Core" PCE Deflator	0.07	0.03	0.01	-0.09	-0.07	0.03	-0.03	-0.09	-0.14	-0.28	-0.33	-0.04	0.15	0.25	0.37	0.15	0.00	-0.04	-0.20	0.23
Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.28	0.26	0.30	0.31	0.09	0.00	0.00	0.08	0.24
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.17	0.17	0.18	0.14	0.03	0.00	0.00	0.06	0.13
Employment Cost Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.01	-0.04	-0.09	-0.10	-0.08	0.00	0.00	0.01	-0.08
Real Disposable Income (a)	-0.25	0.47	0.01	-0.26	-1.12	0.89	0.17	1.39	1.51	1.31	-0.05	-1.09	0.62	-0.23	-0.17	-0.04	0.31	-0.02	0.89	-0.04
Nominal Personal Income (a)	-0.57	0.36	0.33	0.25	-0.30	1.33	-0.21	1.13	1.64	0.83	-0.70	-0.15	0.00	0.01	0.01	0.01	0.33	0.33	0.73	-0.06
Industrial Production (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.03	0.36	-0.88	-0.38	0.00	0.00	0.00	0.00	0.00	0.00	-0.07	-0.16
Capacity Utilization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.06	-0.39	-0.61	-0.61	-0.62	-0.62	-0.62	0.00	0.00	-0.24	-0.62
Federal Budget Balance (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	106.39	0.00	0.00	0.00	0.00	0.77	0.00	0.00	100.00	0.00
Nonfarm Payroll Change (d)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-38.00	2.00	-4.33	-0.67	0.67	1.00	0.00	0.00	-9.00	-0.83
Unemployment Rate	0.00	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	-0.01	0.00
Light Vehicle Sales (g)	0.06	0.00	-0.12	0.07	0.09	0.04	-0.11	0.10	0.05	0.02	-0.12	0.00	0.00	-0.07	-0.13	-0.23	0.00	0.03	-0.01	-0.11
Crude Oil - WTI (h)	-4.27	-3.75	-2.75	-3.31	-2.93	-2.26	-2.51	-3.53	-3.88	-0.37										
Housing Starts (e)	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	0.00	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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	-0.03	-0.02	-0.02	-0.02	-0.02	-0.02	0.00	0.00	-0.01	-0.02
S&P Case-Shiller National Home Price Index (b)	0.00	0.00	0.00	-0.01	0.00	-0.01	0.00	0.01	0.03	0.06	0.13	0.00	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Quarter-End Interest Rates (i)																				
Federal Funds Target Rate (j)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prime Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Conventional Mortgage Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.09	0.20	0.20	0.15	0.15	0.15	0.00	0.00	0.03	0.16
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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.00
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23	0.10	0.05	0.00	0.00	0.00	0.00	0.00	0.08	0.01
1 Year Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.24	0.15	0.05	0.05	0.00	0.05	0.00	0.00	0.10	0.04
2 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.33	0.25	0.20	0.15	0.15	0.15	0.00	0.00	0.15	0.16
5 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.34	0.25	0.20	0.20	0.20	0.20	0.00	0.00	0.15	0.20
10 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.34	0.20	0.20	0.15	0.15	0.15	0.00	0.00	0.14	0.16
30 Year Bond	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.29	0.10	0.10	0.10	0.10	0.05	0.00	0.00	0.10	0.09

Forecast as of: October 15, 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)

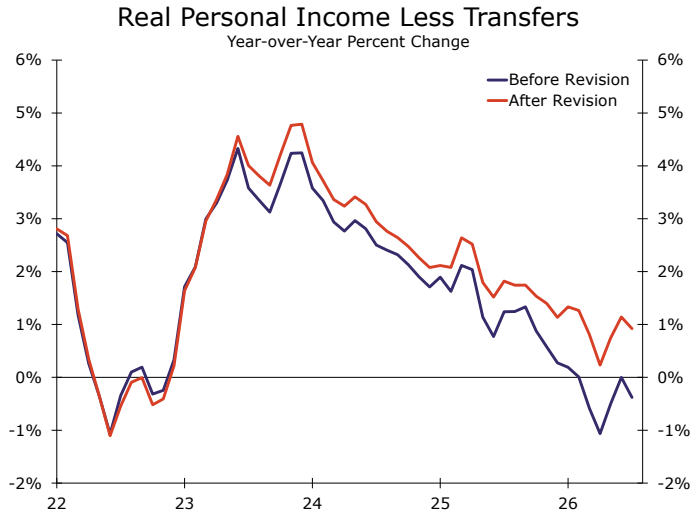
- We've lifted our Q3 expectation for real PCE on incoming data and a slightly firmer consumer backdrop in the wake of recent revisions.

Consumer spending looks firmer in the third quarter, and we now expect real PCE to rise at a 3.4% annualized clip. This upward revision reflects recent data, with August consumption coming in firm with real spending rising by the fastest monthly clip in nearly two years, but also reflects a slightly firmer consumer backdrop in the wake of the BEA's annual revisions released late September. Although revisions did not materially alter spending, they lifted the level of household income in recent years, which also boosted the personal saving rate. The trajectory of real income growth remains weak, but the consumer still looks to be in a slightly stronger financial position than previously believed, which helps explain recent resilience in spending and suggests consumers may have a bit more runway ahead.

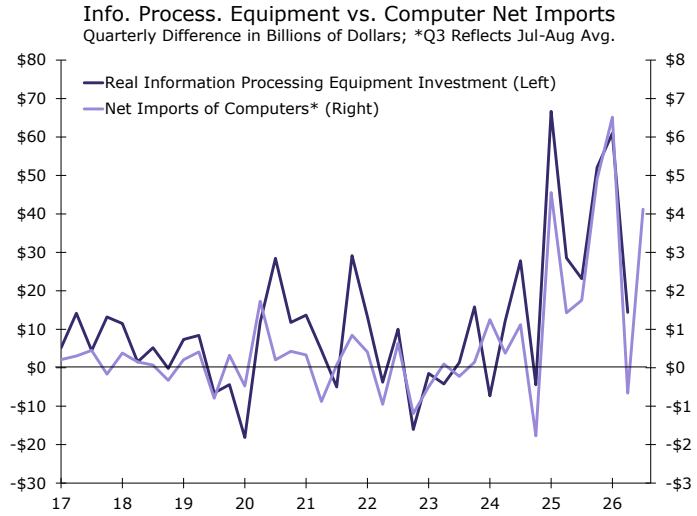
Investment: Equipment, Intellectual Property Products and Inventories

- The AI build out will lead to another surge in business fixed investment spending in Q3, though the effect on headline growth will be partly offset by stronger imports.

Business fixed investment spending continues to be supported primarily by the high-tech buildout. We forecast real equipment investment to rise at around a 16% annualized clip in Q3, but part of this boost to headline GDP growth will be offset by stronger import growth that is facilitating the build out. Net imports of computers are tracking to surge in the third quarter, which will provide a sizable lift to information processing equipment investment, or around half of overall equipment. And while non-defense capital goods shipments (including aircraft) slipped in August, the near-term growth trajectory remains supportive of a pickup in equipment. The rebuild in inventories we have been anticipating is also tracking to be a bit stronger as businesses replenish drawn down product.



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



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

Investment: Residential

- The abrupt rise in mortgage rates is likely to dampen residential investment over the next few quarters. Residential spending should find support next year as longer-term interest rates moderate somewhat.

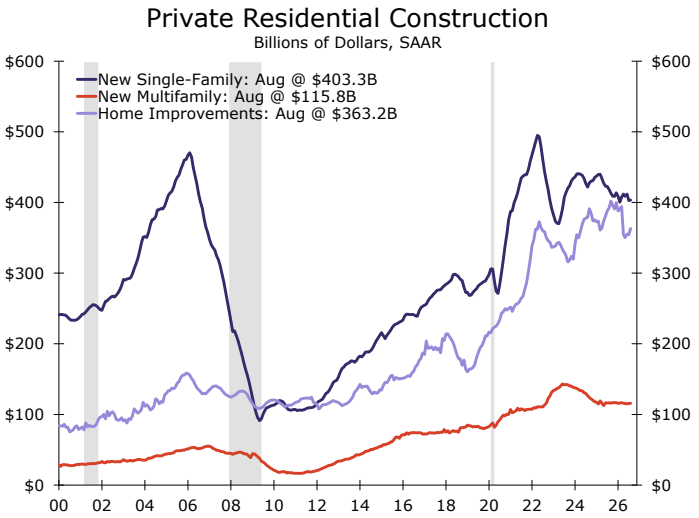
We are unlikely to see another positive residential investment reading in Q3. Rising mortgage rates have sent a chill over builder outlooks, pushing sales expectations to their weakest level in more than three years. While builders have responded with deeper price cuts, affordability pressures continue to weigh on single-family sales and construction outlays. Apartment construction is simultaneously soft amid rising financing costs and modest rent growth, and home improvement spending remains constrained by high materials costs and interest rates. While residential investment is likely to remain

a drag this year, we expect a slight moderation in longer-term interest rates in 2027, which would provide a more supportive backdrop.

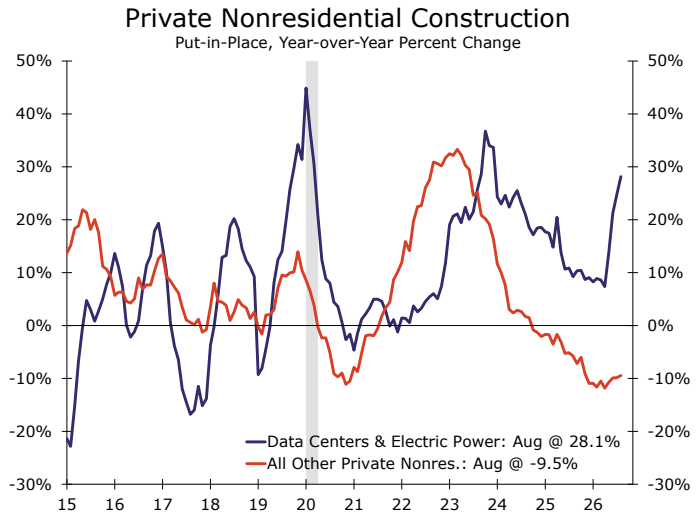
Investment: Nonresidential Structures

- We have not made material changes to our nonresidential structures forecast. Despite elevated interest rates, data center and related spending should continue to support structures investment through our forecast horizon.

Nonresidential structures spending has accelerated sharply, overwhelmingly driven by data centers and electric power facilities. As data center construction expands geographically and demand rises for semiconductors, high-tech capex has also started to generate positive spillovers for warehousing and manufacturing construction. This buildout, which appears relatively insensitive to interest rates, should be enough to sustain solid growth in structures investment even as spending across most other categories remains essentially flat. Domestic energy is another green shoot, with elevated prices supporting ongoing growth in active rotary rigs.



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



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

Net Exports & Trade

- An expected drag from trade in Q3 got larger in light of a near-record trade deficit in August, net exports is now expected to lop off three full percentage points from third quarter growth.

Exports increased in August for the first time in four months, but the increase was more than offset by an even larger increase in imports. The upshot was a widening in the trade deficit to a near-record gap of more than $105 billion. Going into the report, we had a 1.9 percentage point drag from net exports penciled in for Q3 GDP; we revised that to a full 3.0 percentage points drag in light of the record gap. Even a modest narrowing in the final months of the year would likely mean a lift to headline GDP in Q4, but the real story here is that trade will remain a headwind throughout the forecast period owing largely to surging imports of tech-related products amid the AI boom.

Labor Market

- The jobs market remains stable. We continue to expect the unemployment rate to end the year at 4.2% and hold near that level in 2027.

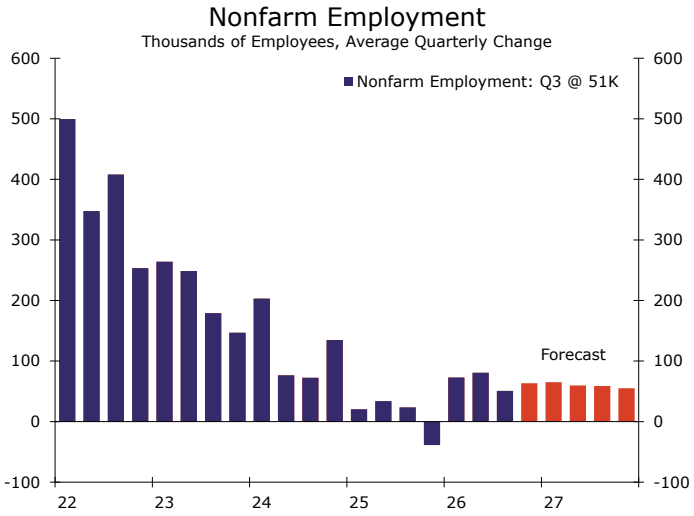
We modestly revised down our near-term payroll growth forecast following the September jobs report, but otherwise we have left our labor market outlook unchanged. Measures of labor demand growth continue to point to a stable labor market. Job openings have inched higher on a year-ago basis but remain broadly steady while initial jobless claims, WARN notices and Challenger job cut announcements continue to signal low layoffs. Labor force participation appears to be improving after its sharp pullback in the first half of the year. Looking ahead, we expect payroll growth to average around 60K per month in 2027, roughly in line with our estimate of breakeven job growth. That should

keep the unemployment rate near 4.2% in 2027 and leave labor market conditions broadly consistent with "full employment." Notably, our expectation for labor cost growth of ~3.4% is the reason we continue to reiterate that labor cost growth is not a contributor to the excess inflation seen in the data.

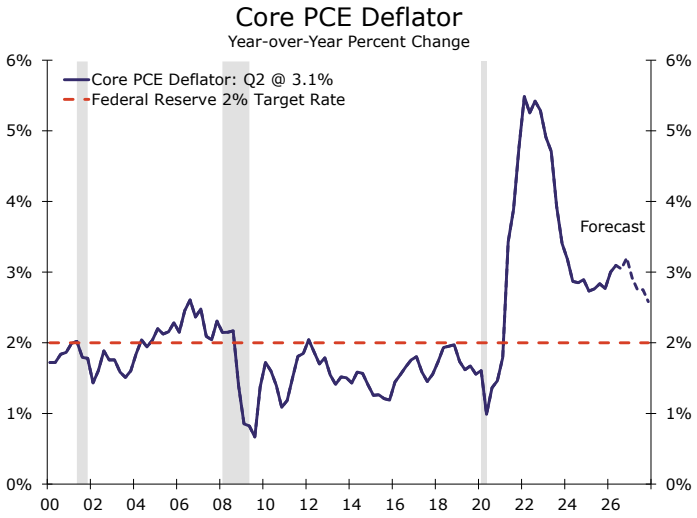
Inflation

- We expect the core PCE deflator to rise 3.2% and 2.6% Q4/Q4 in 2026 and 2027, respectively.

Headline inflation remains heavily influenced by developments in the Middle East, with higher oil prices lifting gasoline and diesel prices. Food inflation has been tame this year but looks poised to strengthen as higher transportation and commodity prices work their way through supply chains. Beyond food and energy, price pressures remain concentrated in a handful of categories, most notably airfares and AI-related tech goods. Core goods inflation is showing signs of stabilizing, as waning tariff-related price pressures have been offset by resilient demand tied to the AI buildout. We expect some improvement here in 2027. Still-low shelter inflation and cooler price growth for airfares and health care should help bring about some moderation in core services inflation next year. We expect the core PCE deflator to rise 3.2% on a Q4-over-Q4 basis in 2026 before slowing to 2.6% in 2027.



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



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

Fiscal Policy

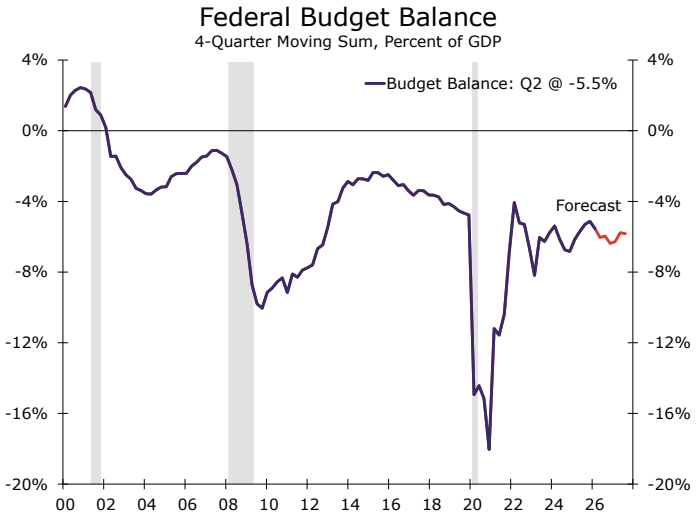
- Fiscal year (FY) 2026 ended on September 30, and the federal government tallied a $2.0 trillion budget deficit (6.5% of GDP). We project the deficit to be unchanged in dollar terms in FY 2027 and a bit smaller as a share of GDP (~6%).
- Another continuing resolution to extend government funding past the December 11 deadline seems like the most likely outcome at this time for the FY 2027 budget. It is possible Republicans use the lame duck session of Congress to increase defense spending and raise the debt ceiling.

Looking ahead to the lame duck session of Congress that will follow the midterm elections, Congress needs to pass a bill that extends government funding past December 11 to avert a government shutdown. Another continuing resolution that punts the issue into Q1 seems like the most likely outcome. Perhaps more interesting will be whether Republicans attempt to use budget reconciliation to pass one more partisan piece of legislation. If they do, we suspect the two things at the top the agenda will be more funding for national defense and immigration enforcement priorities as well as a debt ceiling increase. For the latter, raising it in the lame duck would remove some leverage Democrats could have in 2027 if they recapture one or both chambers. It is still very early, but we estimate the debt ceiling "X date" by which Congress must act or face default is sometime in late Q3/early Q4 of next year.

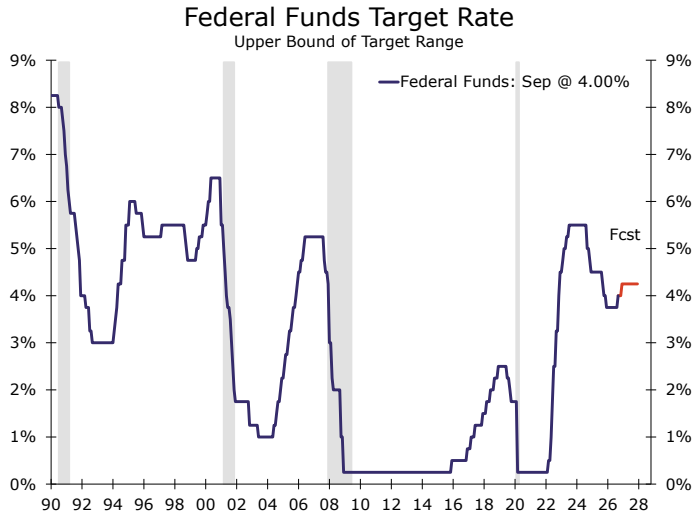
Monetary Policy & Interest Rates

- Our base case forecast is for the FOMC to hike the fed funds rate by 25 bps in December and then keep the policy rate unchanged in 2027 at 4.00%-4.25%, with risks skewed toward additional tightening.

As we go to print, the FOMC seems more likely than not to keep the fed funds rate unchanged in October. But given the rationale under which the Fed started this tightening cycle and the forcefulness with which Warsh has driven home his displeasure with elevated inflation, it seems entirely plausible to us that October will be a live meeting. At a minimum, the recent inflation data seem to make a hike in December a lock. Past December, the outlook will be highly dependent on future inflation data. Our expectation is that core inflation will cool gradually in 2027, and we still do not see signs of demand-side inflation in the data. But hiking cycles have an inertial component to them, and the recent inflation data reset the clock to zero on the Fed seeing several good inflation prints in a row. This creates upside risk to our base case for the fed funds rate.



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



Source: Federal Reserve Board and Wells Fargo Economics

International Developments

- Global growth remains resilient, leaving our 2026 and 2027 forecasts unchanged. Our inflation forecasts are also unchanged, although risks of delayed price pass-through could prolong inflation pressures into 2027.
- Monetary policy continues to lean toward tightening across advanced economies, while emerging market central banks are increasingly cautious, either holding rates or easing more gradually as inflation pressures rebuild.

The balance of risks to global inflation remains tilted to the upside, complicating the monetary policy outlook even as growth has proven more resilient than expected. Elevated energy prices, particularly for refined petroleum products, persistent geopolitical uncertainty and El Niño-related food price risks could prolong inflationary pressures into 2027. While second-round effects still remain relatively contained, repeated supply shocks are testing central banks' willingness to look through the temporary price increases, particularly where inflation expectations remain elevated, even as higher government bond yields are already contributing to tighter financial conditions.

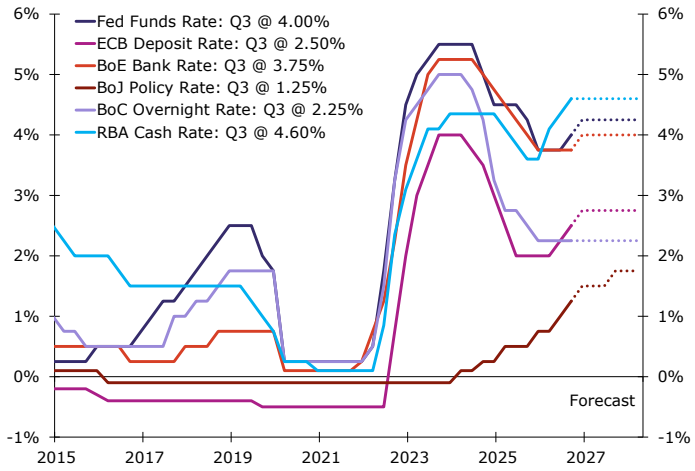
Across advanced economies, central banks face increasingly difficult trade-offs as persistent inflation pressures limit the scope for policy accommodation. The Eurozone remains particularly vulnerable to energy supply disruptions, with elevated natural gas prices and low storage levels adding to inflation risks. We continue to expect a 25 bps **European Central Bank** hike in December, followed by a prolonged hold through 2027. Fiscal concerns are also adding to pressure, particularly in France, where the selloff in government debt has pushed yields higher. In the U.K., resilient activity and renewed

inflation pressures similarly underpin our expectation for a **Bank of England** hike in November, followed by a hold through 2027.

Elsewhere, policy paths are becoming more differentiated. After four hikes this year brought the Cash Rate to 4.60%, we expect the **Reserve Bank of Australia** to remain on hold, although renewed inflation pressures or stronger-than-expected activity could prompt further tightening. We also still expect the **Bank of Canada** to hold at 2.25%, with subdued growth weighing against energy-driven inflation risks, although incoming inflation data over the coming weeks will be critical in determining whether persistent price pressures warrant tightening monetary policy perhaps as early as the December meeting. Japan remains an exception to the broader hold outlook: while the yen's recovery provides some relief from imported inflation, elevated energy prices and import dependence continue to pose upside risks. We expect the **Bank of Japan** to hike again by year-end and now expect an additional 25 bps hike in Q3-2027, bringing the terminal rate to 1.75%.

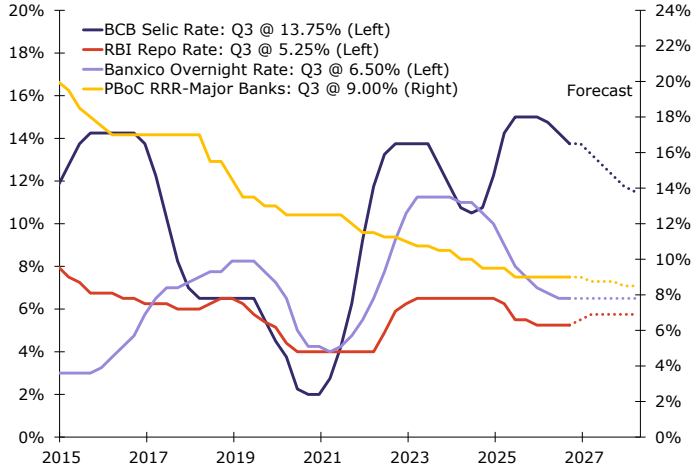
The emerging market story has increasingly shifted from easing toward patience or selective tightening. In Asia, China's weak domestic demand and persistent property-sector strains continue to warrant policy support, with AI-related exports providing some offset. We expect a more gradual pace of Reserve Requirement Ratio cuts alongside targeted monetary and fiscal measures. India faces the opposite challenge, with elevated food and energy prices and rupee depreciation strengthening the case for further **Reserve Bank of India** tightening. In Latin America, peso depreciation and elevated energy costs pose upside inflation risks for Mexico, although limited exchange-rate pass-through should allow **Banxico** to remain on hold while policymakers monitor underlying inflation and inflation expectations. In Brazil, election-related uncertainty and renewed inflation pressures are likely to delay further easing, with cuts expected to resume in Q1-2027 once policymakers see more convincing evidence of disinflation.

Advanced Economies Central Bank 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]	2.0%	2.0%	1.9%	2.0%	2.6%	2.5%	3.3%	2.6%
United States	3.0%	2.3%	2.4%	2.4%	3.0%	2.7%	3.5%	2.5%
Eurozone	1.2%	1.2%	1.0%	1.3%	2.4%	2.1%	3.3%	2.6%
United Kingdom	1.1%	1.2%	1.3%	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%	2.4%
Australia	1.0%	2.0%	2.0%	1.6%	3.2%	2.8%	4.1%	3.1%
Developing Economies[1]	4.5%	4.5%	3.6%	3.5%	8.0%	5.2%	5.0%	5.0%
China	5.0%	5.0%	4.5%	4.3%	0.2%	0.1%	1.0%	1.1%
India	7.4%	7.3%	7.3%	6.9%	4.6%	2.2%	5.0%	4.7%
Mexico	1.5%	0.5%	1.5%	1.9%	4.7%	3.8%	4.2%	4.1%
Brazil	3.4%	2.3%	2.0%	1.9%	4.4%	5.0%	4.7%	4.3%

Forecast as of: October 15, 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	Q4	Q1	Q2	Q3	Q4
United States	4.00%	4.25%	4.25%	4.25%	4.25%	4.25%
Eurozone[1]	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%
United Kingdom	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%
Japan	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%
Canada	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Australia	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%
China[3]	9.00%	9.00%	8.75%	8.75%	8.75%	8.50%
India	5.50%	5.50%	5.75%	5.75%	5.75%	5.75%
Mexico	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Brazil	13.75%	13.75%	13.25%	12.75%	12.25%	11.75%

2-Year Note

	2026		2027			
	Current	Q4	Q1	Q2	Q3	Q4
United States	4.76%	4.70%	4.55%	4.45%	4.40%	4.35%
Eurozone[2]	3.10%	3.15%	3.15%	3.10%	3.10%	3.05%
United Kingdom	4.87%	4.95%	4.90%	4.85%	4.75%	4.65%
Japan	1.91%	2.00%	2.05%	2.10%	2.10%	2.05%
Canada	3.20%	3.15%	3.10%	3.05%	3.00%	2.95%

10-Year Note

	2026		2027			
	Current	Q4	Q1	Q2	Q3	Q4
United States	5.09%	4.90%	4.85%	4.85%	4.80%	4.75%
Eurozone[2]	3.40%	3.65%	3.70%	3.65%	3.70%	3.65%
United Kingdom	5.36%	5.50%	5.45%	5.40%	5.30%	5.25%
Japan	2.90%	3.15%	3.20%	3.25%	3.30%	3.30%
Canada	3.82%	3.95%	3.95%	3.90%	3.90%	3.85%

Forecast as of: October 15, 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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