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IDEA

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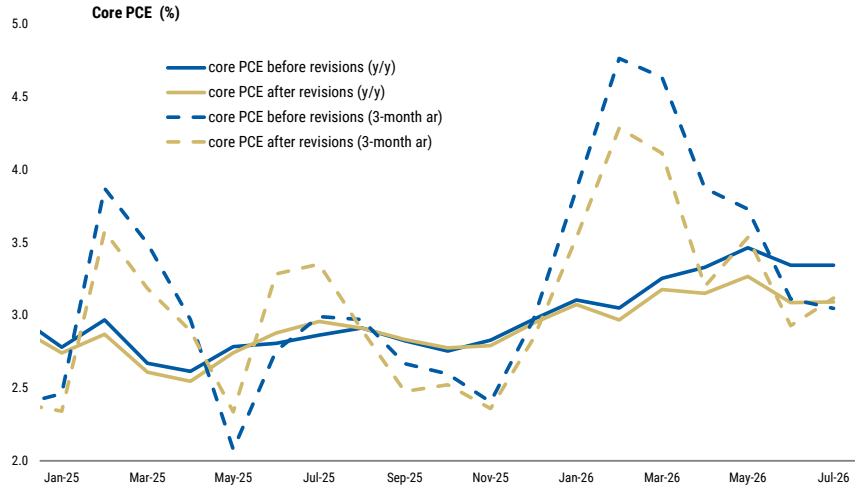
All we are saying, is give disinflation a chance

Warsh delivered a hawkish Jackson Hole speech, but we think inflation data will determine the Fed's next move. We expect further disinflation in August will support a hold, while expected downward revisions to PCE inflation could provide an additional argument for patience.

Key Takeaways

- Warsh was hawkish, but likely to preserve optionality rather than signal an imminent hiking cycle.
- His inflation assessment leaned heavily on 12- and 6-month breadth measures, which largely reflect the earlier acceleration in core inflation this year.
- But the pessimistic inflation picture painted by Warsh does not appear to be universally shared within the FOMC.
- We expect core CPI at 0.23% m/m and core PCE around 0.20% m/m, while annual PCE revisions could lower the 12-month core PCE rate from 3.3% to roughly 3.1%.
- We expect software PCE updates to be the primary source of downward revisions to inflation in early 2026.

Exhibit 1: Core PCE y/y will likely be revised down by about 20bp



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For important disclosures, refer to the Disclosure Section, located at the end of this report.

Warsh was hawkish, but inflation will decide the next move

Chairman Warsh was hawkish at Jackson Hole, but we are not convinced it means the Fed is ready to start a hiking cycle

We would not take the chairman's comments at face value as forward guidance for the next few meetings. After all, Chairman Warsh has made clear that he dislikes forward guidance. Instead, we think the speech was intentionally hawkish, potentially aimed at buying the FOMC optionality at the next meeting by moving market pricing closer to a 50/50 decision.

The choice of inflation indicators in the speech is revealing. Warsh omitted several measures of underlying inflation that he appears to follow and that have recently shown signs of improvement. There was no discussion of trimmed mean PCE or the New York Fed's Multivariate Core Trend. We think that was a deliberate choice that made the inflation picture look less encouraging.

Instead, Warsh focused on measures of inflation breadth, particularly the share of goods and services categories running above 3%, arguing that there has been little progress on that front.

We make two observations on inflation breadth. First, it is not necessarily a measure of the underlying inflation trend. In fact, the elevated share of categories running above 3% y/y largely reflects the recent increase in headline inflation associated with tariff pass-through and the oil price shock. In other words, once you know actual inflation, you know breadth; the latter is not providing much new information.

Second, there has been some recent progress. On a 6-month annualized basis, the share of categories running above 3%, 4% and 5% has declined in recent months, pointing to further improvement ahead. In fact, as Exhibit 3 shows, historical data imply that the probability of core PCE inflation being at 2% or below reaches roughly 65% once the share of categories with inflation above 3% falls to 50%, compared with 54% currently. The recent decline in the 6-month annualized measure suggests that the breadth indicator is moving in that direction.

Waller: Give disinflation a chance

The pessimistic inflation picture painted by Warsh does not appear to be universally shared within the FOMC. Governor Barr, Chicago Fed President Goolsbee, and New York Fed President Williams have all suggested that, if inflation continues to moderate, the Fed can take more time before deciding on its next policy move.

But the speech that mattered most for markets this week came from Governor Waller. His speech provided a clear example of a data-dependent reaction function. Waller's message was that underlying inflation may be better than advertised, with market-based prices falling faster than nonmarket prices, wage pressures remaining muted, and the recent price shocks from energy and trade unlikely to persist. He therefore expects further disinflation. **The policy implication is straightforward: if inflation continues to improve,**

the Fed can remain on hold and give disinflation more time. Or as Waller borrowed from John Lennon: give disinflation a chance. But the bar for hikes is fairly low. A hot inflation print—or evidence that recent progress is reversing—would quickly bring tighter policy back into consideration.

In that context, absent a major hawkish surprise in Friday's employment report, next week's CPI will be critical. We think August will continue to show signs of disinflation, keeping the Fed on hold.

We expect core CPI at 0.23% m/m (2.4% y/y), close to July's 0.22% increase. We expect core goods inflation to moderate following the one-off increase in electronics prices associated with Apple. Overall, we think we are close to the finish line for tariff-driven inflation and therefore expect further normalization on the goods side of the basket. On the services side, we forecast a mild acceleration despite softer airfares, largely reflecting rebounds in categories that were particularly weak in July. In particular, we expect acceleration in hotels and household operations, two especially volatile components.

Our core CPI forecast would be consistent with core PCE inflation of around 0.20% m/m, leaving the 12-month rate at 3.3%. However, the upcoming annual national accounts revisions could lower that 12-month rate to around 3.1%, mainly through downward revisions to software and portfolio management and investment advice PCE. We discuss our best estimate of those revisions in the next section.

There is one important point: the revisions are uncertain, and the Fed will not know their outcome at the September FOMC meeting. That uncertainty could itself become another argument for the more dovish members of the Committee to favor a hold.

Exhibit 2: We see incipient decline in measures of breadth on a 6-month annualized basis.

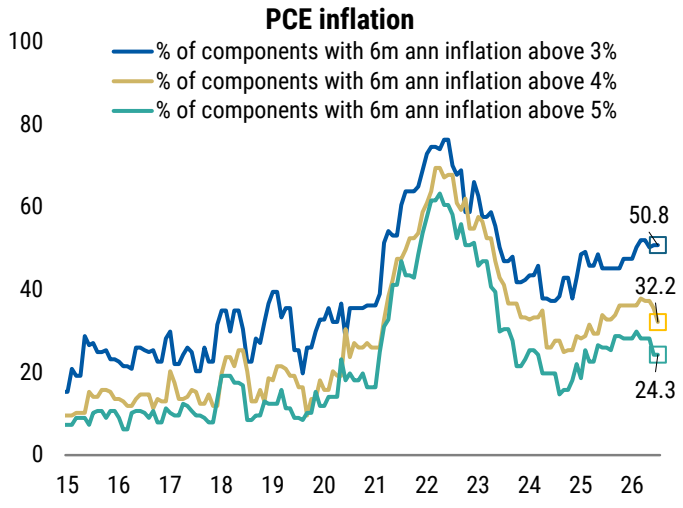
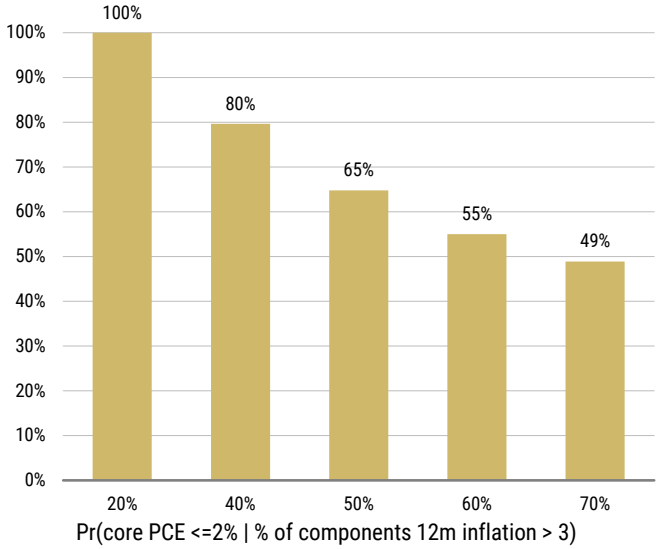


Exhibit 3: A decrease in the share of categories above 3%y/y to 50% would raise the probability of reaching 2% to 65%.



Our best guess of the upcoming PCE revisions

As we explained in a prior note, the annual national accounts revisions will introduce several targeted methodological changes to the measurement of PCE prices, applied retroactively beginning in 1Q21. Three categories will be affected, ranked here by their likely importance for core PCE inflation: software and accessories, portfolio management and investment advice, and legal services.

Many implementation details remain unknown. Still, our best guess is that the revisions will lower core PCE inflation through July, with most of the downward adjustment concentrated in the first few months of 2026, particularly January through April.

We estimate that the 12-month and six-month annualized rates of core PCE inflation through July could be revised down to roughly 3.1% and 3.2%, respectively, from 3.3% and 3.5% currently. We do not expect meaningful revisions to the May-July monthly prints. The three-month annualized pace through July should therefore remain broadly unchanged at around 3.0-3.1% (see Exhibit 4).

As Exhibit 5 shows, **we expect software to be the main driver of the revision**, with particularly large downward revisions to the February and April prints. Portfolio management and investment advice should provide a second, smaller source of downward revisions during the first few months of the year. We expect the impact from legal services to be more limited.

Exhibit 4: Core PCE y/y will likely be revised down by about 20bp...

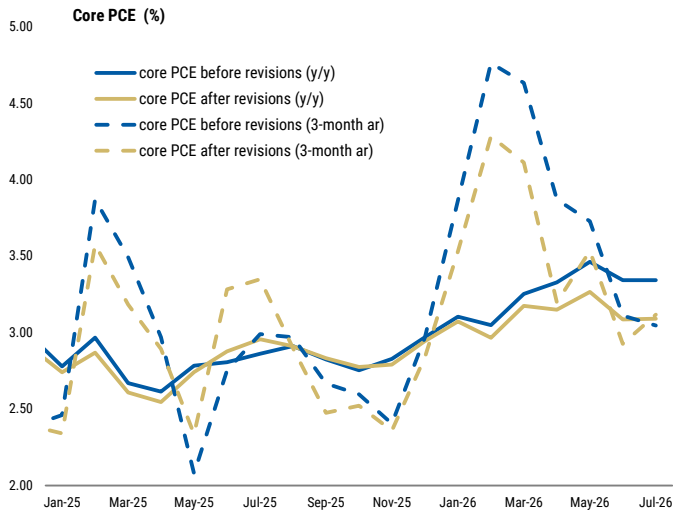
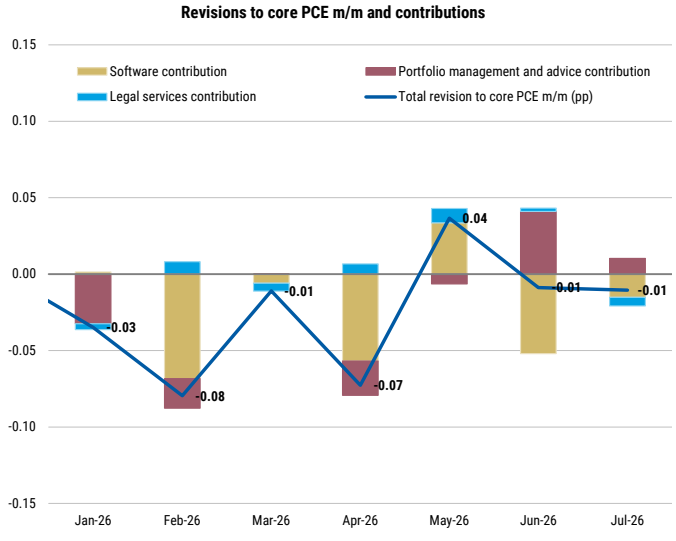


Exhibit 5: ...mostly explained by software revisions.



There are, however, many unknowns. Our estimates rely on several assumptions that we think are reasonable but could ultimately prove wrong. We detail those assumptions

below.

Software and accessories PCE

The most consequential methodological change relates to computer software and accessories. The BEA will replace the current deflator, which is based exclusively on the CPI for software, with a composite index incorporating both CPI and PPI measures, including PPIs for game software publishing and for hosting and IT infrastructure services. These changes may partially address the measurement issues highlighted by Federal Reserve Board staff in Barbarino et al. (2026).

As Exhibit 6 shows, both PPI software measures have run considerably below the CPI index so far this year, making the direction of the revision relatively clear: it should be downward. The main unknown is the weighting of the new PCE index.

As highlighted by Barbarino et al. (2026), personal consumption of software and accessories is split between software publishers, which account for 84%, and data processing, hosting, and related services, which account for 16%. We therefore assign a 16% weight to PPI hosting and IT infrastructure services. We split the remaining 84% between PPI game software at 56% and CPI software and accessories at 28%. We assume the BEA will assign a relatively lower weight to the CPI because that index is affected by price changes in flash drives and blank media, components that are excluded from the BEA's nominal consumption measure for software.

Portfolio management and investment advice

The BEA plans to move away from directly using a portfolio management and advice PPI-based deflator and instead infer prices by dividing nominal spending by a quantity measure derived from employment and hours worked in the industry. In practical terms, prices will no longer be directly observed. They will instead be backed out of nominal consumption and a measure of "quantities" consumed.

It is not fully clear how the BEA will construct the quantity measure or whether it will incorporate a productivity adjustment. Assuming the quantity index is approximated by the product of total employment and average hours worked in the sector without productivity increases, we estimate that the 12-month inflation rate for this category will be revised lower (see Exhibit 7).

Legal services

The legal-services revision appears to be the most straightforward, but also the least consequential for core PCE inflation. After replacing CPI legal services with its PPI counterpart on an ad hoc basis in January and March of this year, the BEA has decided to use a PPI measure on a permanent basis.

It is not fully clear which legal-services PPI indexes the BEA will ultimately use. However, judging from the numbers published in January and March, we think the aggregate PPI for legal services provides a reasonable approximation.

Exhibit 6: A simple comparison between CPI and PPI software indexes imply a substantial downward revision.

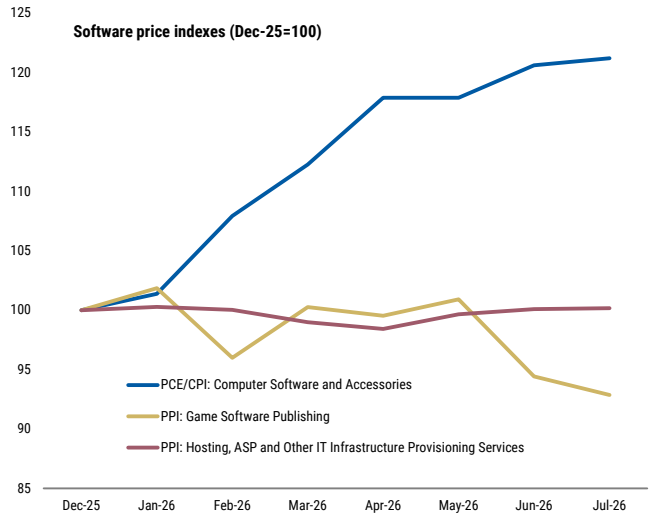
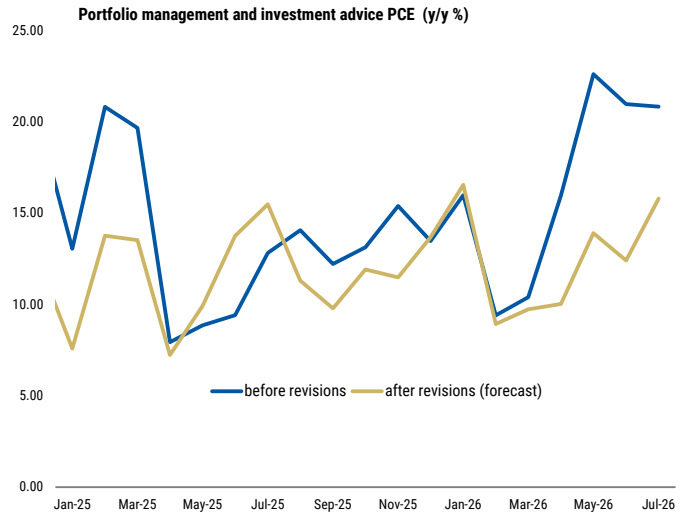


Exhibit 7: A downward revision to portfolio management and advice on a y/y basis is likely





Oil Tracker: Elevated Prices, Falling Inventories

We continue to track the evolution of petroleum-product inventories, production, trade, and prices. The latest data suggest that crude oil inventories in the Strategic Petroleum Reserve (SPR) fell further, and the total US crude oil and petroleum-product inventories edged lower. US domestic crude oil production edged up slightly, while net imports of crude oil and petroleum products have moved sideways. Meanwhile, oil prices moved higher.

As of August 28, US stocks of crude oil and petroleum products, which represent the EIA's estimate of how many barrels of crude oil and petroleum products are physically sitting in US storage at period-end, remained broadly unchanged from a week earlier. The stocks of crude oil in the Strategic Petroleum Reserve (SPR) continued to fall to around 286 million barrels, the lowest level since April 1984. The Energy Department said the SPR's minimum inventory is determined by "cavern mechanics," which, when applied across the full system, translates to a conservative operational minimum of about 70 million barrels. If the SPR continues to decline at roughly its recent pace of 30 million barrels every four weeks, inventories would approach the operational minimum by the end of February 2027.

Following the recent re-escalation between the US and Iran, both spot and futures prices have risen, renewing concerns about inflation. The latest spot prices, as of September 1, were $91.48 per barrel for WTI in Cushing, Oklahoma, and $96.02 per barrel for Brent in Europe.

US domestic crude production has been trending up slowly since early May. Net imports of oil and petroleum products (imports minus exports) have been trending up from their low in April as crude oil exports have gradually trended down since then.

Exhibit 8: US ending stocks of crude oil and petroleum products edged up recently.

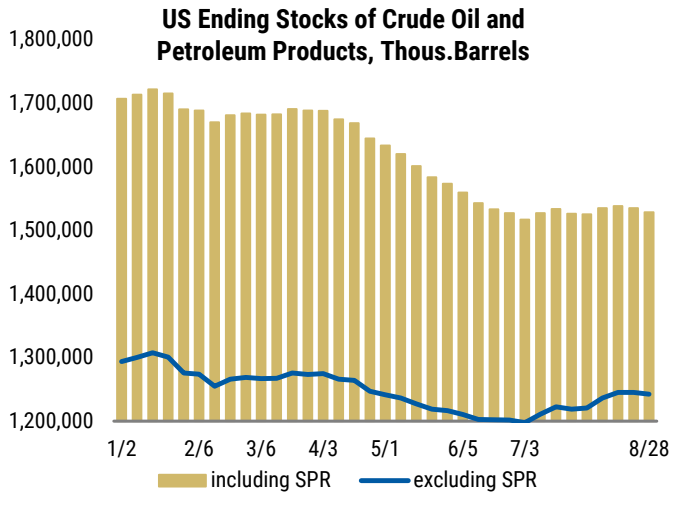


Exhibit 9: Following the recent re-escalation, the spot price of oil for immediate physical delivery has risen meaningfully.

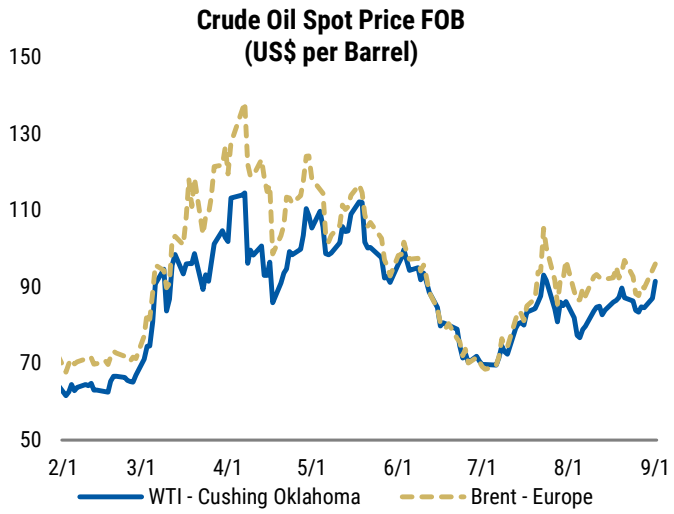


Exhibit 10: Including the SPR, US oil stocks are now falling only 1mn barrels per day.

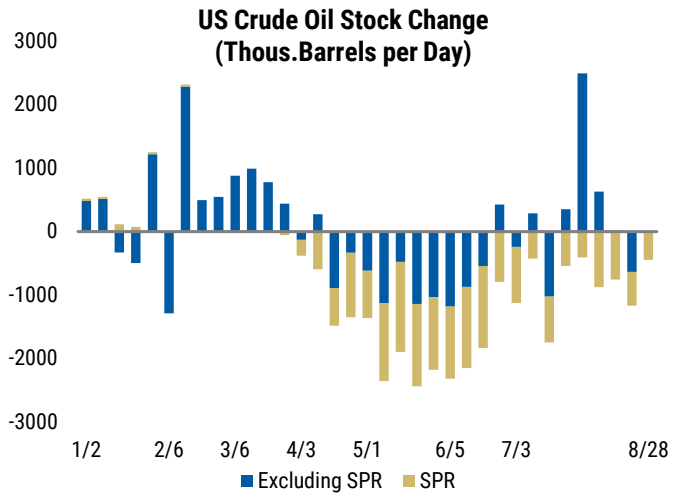


Exhibit 11: US domestic oil production has been rising gradually.

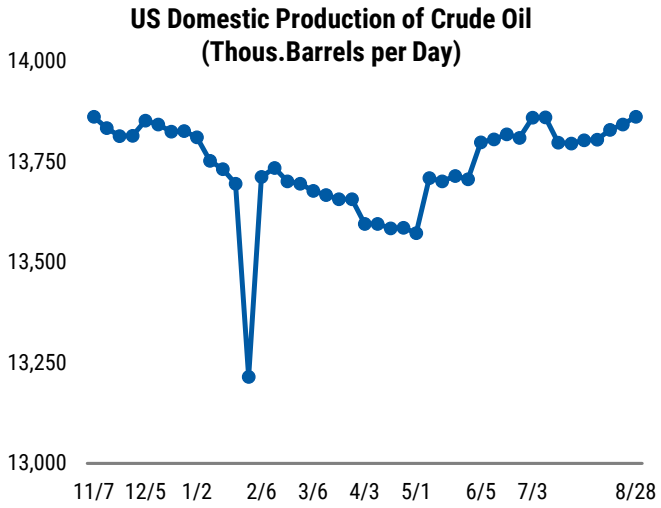


Exhibit 12: US exports of crude oil trended down over the past two months, pushing up net imports of crude oil and petroleum products.

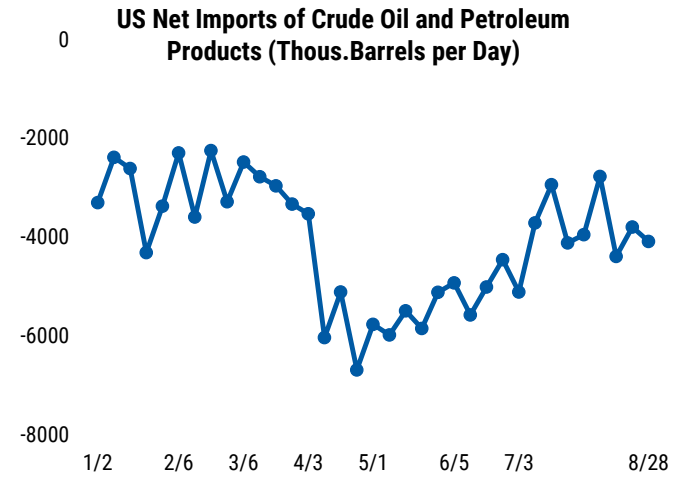
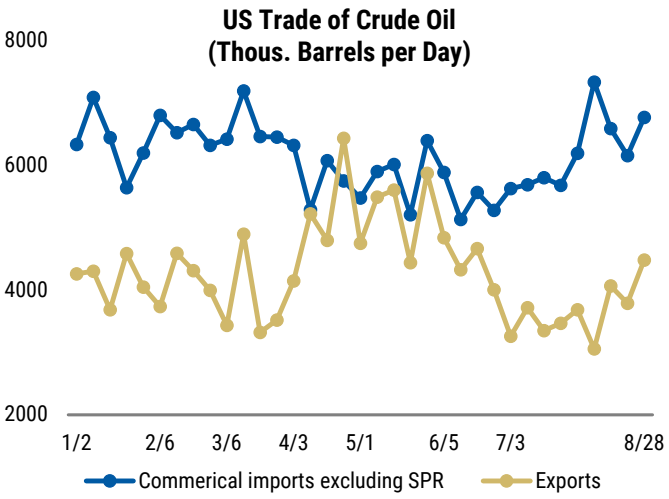


Exhibit 13: US exports of oil decelerated following the signing of the MOU.



Financial Conditions: Easing Since the July FOMC

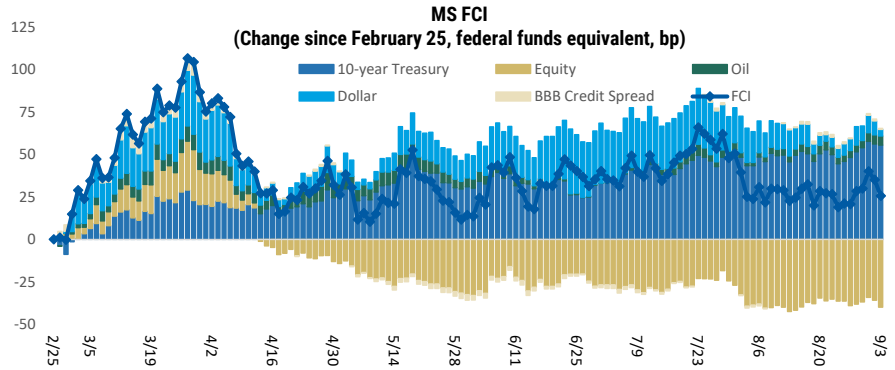
Following the conflict in the Middle East and the uncertainty it brings to the next steps for monetary policy, we continue to track our FRB/US-based measure of financial conditions. **As of the September 3 market close, financial conditions remained tighter than before the recent escalation in the Middle East, yet meaningfully easier than at the time before the July FOMC meeting. Since the July FOMC meeting, financial conditions have eased by 28bp, primarily driven by positive equity returns and U.S. dollar depreciation.**

The index aims to capture how changes in asset prices weigh on future economic activity. It includes five daily variables: the 10-year Treasury yield, S&P 500 returns, the corporate BBB credit spread, the valuation of the U.S. dollar, and the price of oil. These are aggregated based on their estimated growth elasticities relative to the federal funds rate using the Federal Reserve's FRB/US model. As a result, the index can be interpreted as the equivalent change in the federal funds rate, expressed in basis points, required to generate a similar effect on economic activity.

Since hostilities in the Middle East began on February 28, the tightening in financial conditions is equivalent to about a 26bp rise in the federal funds rate. This has reversed the easing seen earlier in the year, most of which was driven by a weaker U.S. dollar. The net tightening since February 28 has been driven mainly by the reversal of dollar weakness and higher 10-year U.S. Treasury yields.

The contribution from oil prices disappeared for a couple of weeks following the MOU between Iran and the U.S. but has now reappeared following the recent re-escalation. Meanwhile, 10-year Treasury yields have continued to move higher, contributing to tighter financial conditions, while buoyant equity markets and the recent USD depreciation have offset some of the overall tightening.

Exhibit 14: Financial conditions have tightened following the conflict in the Middle East.

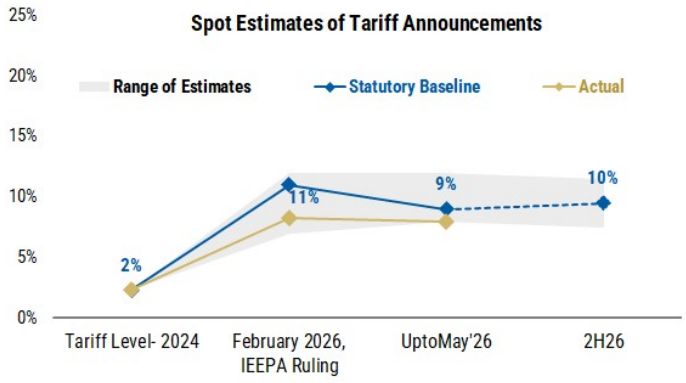


The effective tariff rate, tariff receipts, and refunds

Tariffs averaged 6.7% over May-July, and we expect that it will rise to near 10%

USTR's final forced-labor Section 301 action was broadly in line with our expectations. Effective July 24, the agency imposed additional tariffs on imports from 60 economies, setting a 10% duty on economies that have adopted, partially adopted, or committed to adopt a forced-labor import prohibition and a 12.5% duty on most others. The final action also preserves several key carve-outs, including goods already subject to Section 232 tariffs, USMCA-compliant imports, and a range of general and country-specific product exemptions. Overall, both the tariff structure and the principal exemptions closely resemble the proposal, reinforcing our expectation that Section 301 would serve as the broad country-level tariff floor. We continue to expect that the statutory effective tariff rate will converge toward ~10% by year-end. In the July 2026 data, the effective tariff rate is estimated at ~6.5%. Over the past three months of detailed trade data (May, June and July), the tariff rate has averaged 6.7%. There has been a recent escalation of trade disputes with Canada, and section 338 tariffs have been applied on approximately $20bn of Canadian imports. However, for now, we do not expect this to meaningfully affect our year-end tariff estimates.

Exhibit 15: US effective tariff rate



tariff rate on all imports over Jan - May 2026.

Exhibit 16: US Treasury: Customs and excise deposits from tariffs

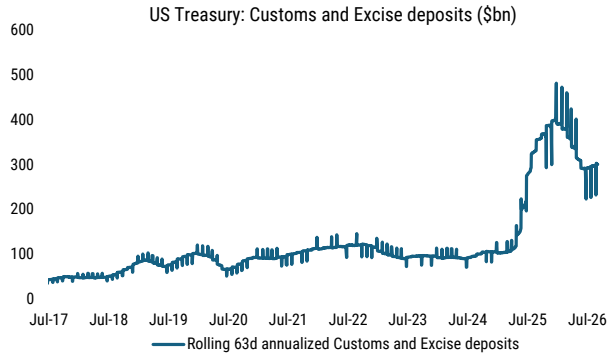
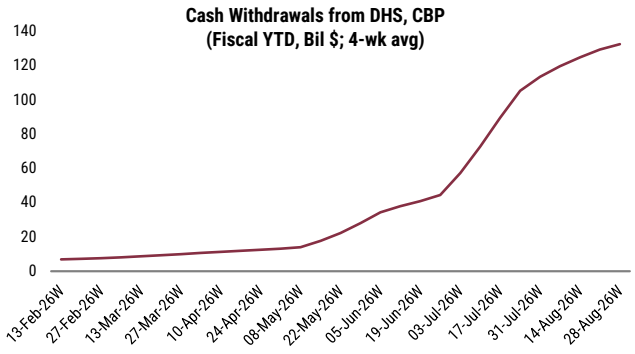


Exhibit 17: Cash withdrawals from the DHS - CBP, as a proxy for tariff refunds



Tariff refunds represent cash returned to importers when customs duties were previously overpaid or later determined to be refundable, for different reasons, including a tariff exclusion or court-ordered refund or a drawback claim tied to goods that are exported or destroyed. The process generally runs through CBP, where importers or brokers submit the relevant claim and supporting documentation; CBP then reviews eligibility, confirms the entry and status, and certifies approved refunds for payment. In Treasury cash-flow data, we monitor these payments at high frequency through CBP-related withdrawals in the Daily Treasury Statement. We interpret this as a tariff-refund proxy.

3Q GDP tracking at 2.1%

Our 3Q GDP tracking inched up to 2.1% from 1.8% Consumer spending is stronger, reflecting the upward revisions to 2Q and a strong July. Trade is a larger drag, somewhat offset by faster equipment investment and more inventory accumulation than we had estimated.

The Atlanta Fed's GDP tracking is much stronger than ours, at 4.7%. Their goods consumption estimate, at 2.3%, is 2¼ points above ours; their services estimate, at 4.5%, is 1½ point above ours. They also allow for much faster inventory investment than we do.

Exhibit 18: The effect of incoming data on our US GDP tracking estimate

Details of Q3 2026 US GDP tracking (% q/q saar unless indicated)													
Date	Data release	GDP	Final sales	PCE	Res	Equip	Struct	IPP	Gov	X	M	NX (level)	CIPI (level)
Aug 7	Baseline	2.7	2.6	2.4	1.0	8.0	-3.0	8.0	1.4	1.0	2.0	-1086	-47
Aug 14	Retail sales and CPI	2.2	2.1	1.8	1.0	8.0	-3.0	8.0	1.4	1.0	2.0	-1086	-47
Aug 18	Housing starts and permits	2.2	2.1	1.9	-1.5	8.0	-3.0	8.0	1.4	1.0	2.0	-1086	-47
Aug 25	New home sales	2.2	2.1	1.9	-2.0	8.0	-3.0	8.0	1.4	1.0	2.0	-1086	-47
Aug 26-27	Trade and durables	1.8	1.6	1.9	-2.0	8.0	-3.0	8.0	1.5	-3.3	2.4	-1130	-38
Aug 28	2Q consumption	2.0	1.7	2.1	-2.0	8.0	-3.0	8.0	1.5	-3.3	2.4	-1130	-37
Sep 3	Trade detail	2.1	1.6	2.1	-2.0	15.0	-3.0	8.0	1.5	-6.0	4.0	-1165	-26
	GDP tracking	**2.1**	**1.6**	**2.1**	**-2.0**	**15.0**	**-3.0**	**8.0**	**1.5**	**-6.0**	**4.0**	**-1165**	**-26**
	Contribution to GDP growth (pp)		*1.6*	*1.5*	*-0.1*	*0.9*	*-0.1*	*0.5*	*0.2*	*-0.7*	*-0.6*	*-1.3*	*0.4*
		2.7	**2.6**	**2.4**	**1.0**	**8.0**	**-3.0**	**8.0**	**1.4**	**1.0**	**2.0**	**-1086**	**-47**

Note: Our GDP tracking estimate is distinct from our official published GDP forecast. It reflects the mechanical aggregation of monthly activity data that feed directly into the BEA's calculation. Where data releases have implications for the tracking components, cells have been bolded.

Exhibit 19: GDP nowcasts

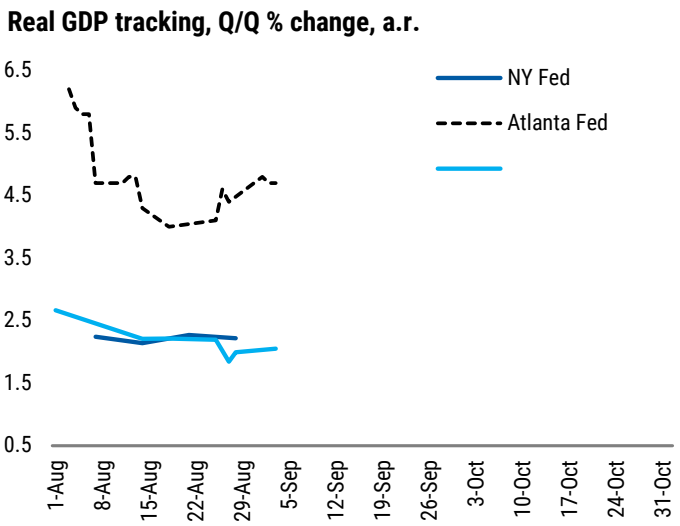


Exhibit 20: Our tracking vs. the Atlanta Fed tracking

			Atlanta Fed		Difference
	q/q%, ar	contrib	q/q%, ar	contrib	contrib, pts
GDP	2.1		4.7		-2.6
Final sales	1.6	1.6	2.7	2.7	-1.1
Final sales to dom. purchasers	2.8	2.9	4.0	4.1	-1.3
Private	3.0	2.6	4.6	4.0	-1.3
Consumption	2.1	1.5	3.8	2.6	-1.1
Goods	0.0	0.0	2.3	0.5	-0.5
Services	3.1	1.5	4.5	2.1	-0.6
Residential investment	-2.0	-0.1	-2.3	-0.1	0.0
Equipment investment	15.0	0.9	18.3	1.0	-0.1
Nonres structures	-3.0	-0.1	2.7	0.1	-0.2
Intel. Property	8.0	0.5	6.8	0.4	0.1
Government	1.5	0.2	0.9	0.2	0.1
Exports	-6.0	-0.7	-2.1	-0.3	-0.4
Imports	4.0	-0.6	8.6	-1.2	0.6
Net exports		-1.3		-1.5	0.2
Inventories		0.4		2.1	-1.6

Data review & preview

Review of past week's data

Exhibit 21:

Monday 31 Aug	Data	Period	Forecast	Consensus	Prev	Actual
10:30 AM	Dallas Fed Manf. Activity	Aug		1.6	1.3	11.6
Tuesday 01 Sept	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
	Total Vehicle Sales	Aug	16.4	16.3	16.3	16.8
9:45 AM	S&P US Manufacturing PMI	Aug F			53.2	53.9
10:00 AM	ISM Manufacturing	Aug	54.8	55.2	55.6	54.6
10:00 AM	JOLTS Job Openings	Jul		7340	7359	7271
10:00 AM	Construction Spending m/m	Jul	0.0	0.2	-0.1	-0.5
10:30 AM	Dallas Fed Services Activity	Aug			6.6	4.2
Wednesday 02 Sept	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
7:00 AM	MBA Mortgage Applications	28-Aug			0.0	0.8
8:15 AM	ADP Employment Change	Aug		48	44.0	38.0
10:00 AM	Factory Orders	Jul	0.9	0.6	-0.3	0.9
2:00 PM	Beige Book				0.0	
Thursday 03 Sept	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
5:30 AM	Challenger Job Cuts y/y	Aug			-46.1	-38.5
5:30 AM	Challenger Job Cuts Total	Aug			33429	52881
8:30 AM	Fed's Waller in Moderated Conversation					
8:30 AM	Trade Balance	Jul	-90.5	-74.3	-73.3	-88.6
8:30 AM	Nonfarm Productivity	2Q F	1.5	1.4	1.4	1.4
8:30 AM	Unit Labor Costs	2Q F	1.3	1.3	1.3	1.2
8:30 AM	Initial Jobless Claims	29-Aug	205	205	203	206
8:30 AM	Continuing Claims	22-Aug	1800	1795	1778	1779
9:45 AM	S&P US Services PMI	Aug F			56.8	56.5
10:00 AM	ISM Services Index	Aug		54.3	54.1	55.4
4:30 PM	Fed balance sheet (H.4.1)					
Friday 04 Sept	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
8:30 AM	Change in Nonfarm Payrolls	Aug	65	60	-23	
8:30 AM	Two-Month Payroll Net Revision	Aug			-103	
8:30 AM	Change in Private Payrolls	Aug	40	50	30	
8:30 AM	Average Hourly Earnings MoM	Aug	0.3	0.2	0.1	
8:30 AM	Average Hourly Earnings YoY	Aug	3.2	3.0	3.2	
8:30 AM	Average Weekly Hours	Aug	34.3	34.3	34.3	
8:30 AM	Unemployment Rate	Aug	4.1	4.1	4.1	
8:30 AM	Labor Force Participation Rate	Aug	61.6	61.4	61.4	
4:15 PM	Commercial bank balance sheets (H.8)					

Preview of upcoming data

Exhibit 22: Monday

Monday 07 Sept	Data	Period	Forecast	Consensus	Prev
	Labor Day: No scheduled data or Fedspeak				

Exhibit 23: Tuesday

Tuesday 08 Sept	Data	Period	Forecast	Consensus	Prev
6:00 AM	NFIB Small Business Optimism	Aug			99.8
11:00 AM	NY Fed 1-Yr Inflation Expectations	Aug			3.6
3:00 PM	Consumer Credit	Jul		13.0	14.2

NY Fed inflation expectations. 1-year expectations have been hovering around their July

level (3.6%) since April, well up from 3.2% in 1Q or 3.3% on average last year.

NFIB small business optimism. Small-business optimism fell at the start of the conflict in the Middle East but rebounded in June and July to a level slightly above last year's average. Already reported for August, the NFIB labor market survey suggested some slight softening: slightly less pervasive hiring plans, and somwhat fewer indicating that labor quality was their most important problem.

Consumer Credit. Growth in consumer credit has accelerated slightly over the past year and a half, at 2.4% y/y in June versus just below 2% at the start of 2025. The acceleration has been across both revolving and nonrevolving credit. Slower car sales and slower spending growth in July might lead to a deceleration this month.

Exhibit 24: Wednesday

Wednesday 09 Sept	Data	Period	Forecast	Consensus	Prev
7:00 AM	MBA Mortgage Applications	4-Sep			
8:15 AM	ADP Weekly Employment Change	22-Aug			11.8
10:00 AM	Quarter Services Survey	2Q F			

Quarterly Services Survey. After the preliminary release of the QSS, 2Q real services consumption was revised up from 2.2% (q/q saar) to 3.1%, largely due to upward revisions to health care spending. The final release will contain data across a broader range of categories, but likely with less effect.

Exhibit 25: Thursday

Thursday 10 Sept	Data	Period	Forecast	Consensus	Prev
8:30 AM	Initial Jobless Claims	5-Sep	200		206
8:30 AM	Continuing Claims	29-Aug	1780		1779
8:30 AM	PPI Final Demand m/m	Aug		0.4	0.0
8:30 AM	PPI Ex Food, Energy, Trade m/m	Aug		0.3	0.4
8:30 AM	PPI Final Demand y/y	Aug		5.2	4.7
8:30 AM	PPI Ex Food, Energy, Trade y/y	Aug			4.7
10:00 AM	Existing Home Sales	Aug	3.97	3.99	4.06
10:00 AM	Existing Home Sales m/m	Aug	-2.2	-1.7	-1.7
10:00 AM	Wholesale Inventories m/m	Jul F			1.3
4:30 PM	Fed balance sheet (H.4.1)				

Jobless claims We project a slight decline in new claims to 200k and little change in continuing claims. Both are below year-earlier levels.

PPI . Coming ahead of CPI this month, the report will provide inputs for roughly 20% of our core PCE forecast. We currently expect core PCE to rise 0.20% m/m, with the three-month annualized pace slowing to 2.4% from 3.0% in July and 3.9% in April.

From the PPI, we expect portfolio management and investment advice inflation to soften following their strong July reading (0.2% after our seasonal adjustment), while hospital prices, the main driver of health services inflation, should come in slightly below their recent trend at 0.15% m/m. We also expect domestic airfares inflation to be firmer than in July, rising 1.0% m/m.

Existing home sales. We expect a 2.2% m/m decline to a 3.97mn unit annual rate in

August after two months of declines in pending home sales. Year-to-date, existing home sales are running close to last year's average. Inventories of existing homes started to decline in 2Q, probably contributing to a renewed pickup in home prices.

Exhibit 26: Friday

Friday 11 Sept	Data	Period	Forecast	Consensus	Prev
8:30 AM	CPI m/m	Aug	0.41	0.4	0.1
8:30 AM	Core CPI m/m	Aug	0.23	0.2	0.2
8:30 AM	CPI y/y	Aug	3.37	3.4	3.4
8:30 AM	Core CPI y/y	Aug	2.38	2.4	2.5
8:30 AM	CPI Index NSA	Aug	335.077	334.957	333.918
10:00 AM	U. of Mich. Sentiment	Sep P		51.0	51.7
10:00 AM	U. of Mich. 5-10 Yr Inflation	Sep P			3.3
12:00 PM	Household Change in Net Worth	2Q			113.1
2:00 PM	Federal Budget Balance	Aug			-344.8
4:15 PM	Commercial bank balance sheets (H.8)				

CPI. We expect core CPI to rise 0.23% m/m (2.4% y/y), broadly in line with July's 0.22% increase, as core goods inflation moderates following the one-off price increases in Apple electronics. Overall, we believe tariff-related inflation is nearing its end, and therefore expect further normalization in goods prices. On the services side, we forecast a modest pickup despite softer airfares, largely reflecting a rebound in categories that were unusually weak in July. In particular, we expect stronger readings in hotel prices and household operations, two components that tend to be especially volatile. We expect headline CPI at 0.41%m/m (3.4%y/y), pushed by gasoline prices.

(We currently expect core PCE to rise 0.20% m/m, with the three-month annualized pace slowing to 2.4% from 3.0% in July and 3.9% in April.)

U. of Michigan consumer sentiment survey. Long-run inflation expectations remain well-below the peaks of 2025 and early 2026 but are still elevated relative to pre-Covid and the immediate post-Covid period. Consumer sentiment remains depressed, with both current conditions and expectations near historic lows.

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Data calendar

Exhibit 27: September 7 - September 11

Monday	*TUESDAY*	*WEDNESDAY*	*THURSDAY*	*FRIDAY*
7	8	9	10	11
Labor day	NFIB Small Business Optimism (Aug, 6 AM) NY Fed 1-Yr Inflation Expectations (Aug, 11 AM) 3-Year Notes Auction (1 PM) Consumer Credit (Jul, 3 PM) Manheim Used Vehicle (Sep, 9 AM)	MBA Mortgage Applications (Wk of 9/4, 7 AM) ADP Weekly Employment Change (Wk of 8/22, 8:15 AM) 10-Year Notes Auction (1 PM) Treasury Buyback (Nom Cpn 1M-2Y, max $12.5 bil, 1:40 PM)	Jobless Claims (Wk of 9/5, 8:30 AM) PPI (Aug, 8:30 AM) Existing Home Sales (Aug, 10 AM) Wholesale Trade and Inventories (Jul, 10 AM) 30-Year Bond Auction (1 PM) Treasury Buyback (Nom Cpn 10Y-20Y, max $2 bil, 1:40 PM)	CPI (Aug, 8:30 AM) U. of Mich. Consumer Sentiment (Sep P, 10 AM) Household Change in Net Worth (2Q, 12 PM) Federal Budget Balance (Aug, 2 PM)
14	15	16	17	18
	ADP Weekly Employment Change (Wk of 8/29, 8:15 AM) Empire Manufacturing (Sep, 8:30 AM) 20-Year Bond Auction (1 PM) Treasury Buyback (TIPS 10Y-30Y, max $500 mil, 1:40 PM)	MBA Mortgage Applications (Wk of 9/11, 7 AM) NY Fed Services Business Activity (Sep, 8:30 AM) Import & Export Prices (Aug, 8:30 AM) Retail Sales (Aug, 8:30 AM) NAHB Housing Market Index (Sep, 10 AM) Business Inventories (Jul, 10 AM) FOMC Rate Decision (2 PM)	Philadelphia Fed Manufacturing (Sep, 8:30 AM) Jobless Claims (Wk of 9/12, 8:30 AM) Housing Starts & Building Permits (Aug, 8:30 AM) Pending Home Sales (Aug, 10 AM) 10-Year TIPS Auction (1 PM) Treasury Buyback (Nom Cpn 7Y-10Y, max $4 bil, 1:40 PM)	Industrial Production (Aug, 9:15 AM) Leading Index (Aug, 10 AM)

Note: For updates post-publication of the Treasury Auction Schedule, see here

US economic outlook

Exhibit 28:

	4Q/4Q % change			Quarterly % change, annual rate (unless otherwise noted)									
	2025A	2026E	2027E	3Q25A	4Q25A	1Q26A	2Q26A	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
Real GDP	**2.0**	**2.2**	**2.6**	**4.4**	**0.5**	**2.1**	**1.5**	**2.7**	**2.5**	**2.4**	**2.6**	**2.6**	**2.6**
Final Sales [1]	2.2	2.3	2.3	4.5	0.3	1.9	2.2	2.6	2.4	2.1	2.3	2.3	2.3
Final Domestic Demand [2]	**1.8**	**2.6**	**2.8**	**2.8**	**0.6**	**2.2**	**3.3**	**2.7**	**2.3**	**2.6**	**2.8**	**2.8**	**2.8**
Final Private Domestic Demand [3]	2.4	2.8	3.1	2.9	1.8	1.7	4.2	2.9	2.5	2.8	3.1	3.2	3.2
Personal Consumption Expenditures	2.1	2.1	2.1	3.5	1.9	0.5	3.4	2.4	1.9	1.8	2.2	2.2	2.2
– Goods	1.4	2.2	1.6	3.0	0.3	0.5	4.3	3.2	1.0	1.2	1.7	1.7	1.7
– Services	2.4	2.0	2.3	3.6	2.7	0.5	3.1	2.1	2.3	2.1	2.4	2.4	2.4
Nonresidential Fixed Investment	5.6	7.7	8.0	3.2	2.4	10.6	8.5	5.9	5.9	7.9	7.9	8.0	8.0
– Structures	-5.5	-3.1	2.0	-5.0	-6.5	-4.7	-1.8	-3.0	-3.0	2.0	2.0	2.0	2.0
– Equipment	9.6	11.3	10.5	5.2	4.3	15.8	13.6	8.0	8.0	10.5	10.5	10.5	10.5
– IPP	8.0	9.6	8.0	5.6	5.4	13.8	8.8	8.0	8.0	8.0	8.0	8.0	8.0
Residential Investment	-3.8	-1.2	1.5	-7.1	-1.7	-7.8	1.3	1.0	1.0	1.5	1.5	1.5	1.5
Exports	1.1	4.7	1.8	9.6	-3.2	10.9	4.5	1.0	2.5	1.8	1.8	1.8	1.8
Imports	-1.9	7.1	5.0	-4.4	-1.0	11.8	12.5	2.0	2.0	5.0	5.0	5.0	5.0
Government	-1.2	1.6	1.3	2.2	-5.6	4.4	-1.0	1.4	1.4	1.3	1.3	1.3	1.3
Inventory contribution (pct pts, a.r.)	-0.2	-0.1	0.3	-0.1	0.1	0.2	-0.7	0.0	0.0	0.2	0.2	0.2	0.2
Trade contribution (pct pts, a.r.)	0.4	-0.4	-0.4	1.6	-0.2	-0.4	-1.1	-0.2	0.0	-0.5	-0.5	-0.6	0.0
Nominal GDP (Current $)	5.4	5.8	4.8	8.3	4.2	5.8	8.0	4.9	4.7	4.9	4.5	4.6	4.9
Nominal Consumption	5.0	5.7	4.2	6.3	4.9	5.2	8.9	4.7	4.0	4.5	3.9	4.0	4.5
Employment & Personal Income													
Civilian Unemployment Rate (%)	**4.5**	**4.3**	**4.1**	**4.3**	**4.5**	**4.3**	**4.3**	**4.1**	**4.3**	**4.3**	**4.2**	**4.2**	**4.1**
Civilian Labor Force Participation Rate (%)	62.5	61.4	61.2	62.3	62.5	62.0	61.7	61.4	61.4	61.3	61.3	61.3	61.2
Employment to Population Ratio (%)	59.7	58.8	58.7	59.6	59.7	59.3	59.1	58.9	58.8	58.7	58.7	58.7	58.7
Average Monthly Change in Nonfarm Payrolls (Thous.)	10	57	59	23	-39	73	77	32	45	57	60	60	60
Real DPI	1.0	1.0	1.6	1.0	-0.9	0.9	-1.5	2.0	2.8	1.1	1.0	1.8	2.4
Saving rate (%)	3.8	2.9	2.5	4.4	3.8	3.9	2.8	2.7	2.9	2.8	2.5	2.4	2.5
Business Indicators													
Industrial Production	1.5	2.0	2.5	2.1	-2.0	1.3	4.1	1.3	1.1	2.4	2.5	2.5	2.5
Productivity	2.5	1.4	2.1	5.2	1.6	0.8	0.6	2.2	2.0	1.9	2.2	2.2	2.2
Inflation (quarterly % change, a.r.)													
Consumer Price Index				3.1	2.5	3.6	6.1	1.5	2.4	2.4	1.5	1.7	2.5
CPI ex Food & Energy				3.2	2.0	2.8	2.9	2.0	2.5	3.1	1.9	2.2	2.8
PCE Price Index				2.8	2.9	4.6	5.3	2.2	2.1	2.6	1.7	1.8	2.3
PCE ex Food & Energy				2.9	2.7	4.4	3.6	2.6	2.1	3.0	1.9	2.1	2.4
Inflation (4-quarter % change)													
Consumer Price Index	2.7	3.4	2.1	2.9	2.7	2.7	3.8	3.4	3.4	3.1	2.0	2.0	2.1
CPI ex Food & Energy	2.7	2.5	2.5	3.1	2.7	2.5	2.7	2.4	2.5	2.6	2.3	2.4	2.5
PCE Price Index	2.8	3.5	2.1	2.7	2.8	3.1	3.9	3.7	3.5	3.0	2.2	2.1	2.1
PCE ex Food & Energy	**2.9**	**3.2**	**2.4**	**2.9**	**2.9**	**3.1**	**3.4**	**3.3**	**3.2**	**2.8**	**2.4**	**2.3**	**2.4**
Monetary Policy													
Fed Funds Target (%, midpoint of target range)	**3.625**	**3.625**	**3.125**	**4.125**	**3.625**	**3.625**	**3.625**	**3.625**	**3.625**	**3.375**	**3.125**	**3.125**	**3.125**
Fiscal Policy													
Federal Budget balance (% of GDP)	-5.4	-6.1	-5.7										

1) GDP less contribution from inventory investment
2) GDP less contributions from inventory investment and trade
3) GDP less contributions from inventory investment, trade, and the government sector. (Private final consumption plus investment.)

Exhibit 29: Monthly inflation forecasts

	% Change - Year-over-Year					% Change - Month-over-Month				Headline CPI
	Headline PCE	Core PCE	Headline CPI	Core CPI		Headline PCE	Core PCE	Headline CPI	Core CPI	NSA Index
Jan-25	2.6	2.8	3.0	3.3	Jan-25	0.37	0.31	0.43	0.43	317.671
Feb-25	2.7	3.0	2.8	3.1	Feb-25	0.40	0.45	0.23	0.25	319.082
Mar-25	2.4	2.7	2.4	2.8	Mar-25	0.02	0.10	0.03	0.07	319.799
Apr-25	2.3	2.6	2.3	2.8	Apr-25	0.17	0.19	0.16	0.24	320.795
May-25	2.5	2.8	2.4	2.8	May-25	0.18	0.23	0.10	0.13	321.465
Jun-25	2.6	2.8	2.7	2.9	Jun-25	0.29	0.26	0.25	0.23	322.561
Jul-25	2.6	2.9	2.7	3.1	Jul-25	0.17	0.25	0.23	0.31	323.048
Aug-25	2.7	2.9	2.9	3.1	Aug-25	0.26	0.22	0.35	0.31	323.976
Sep-25	2.8	2.8	3.0	3.0	Sep-25	0.26	0.19	0.30	0.22	324.800
Oct-25	2.7	2.8	2.9	2.8	Oct-25	0.19	0.23	0.13	0.09	#N/A
Nov-25	2.8	2.8	2.7	2.6	Nov-25	0.22	0.18	0.13	0.09	324.122
Dec-25	2.9	3.0	2.7	2.6	Dec-25	0.33	0.33	0.30	0.23	324.054
Jan-26	2.9	3.1	2.4	2.5	Jan-26	0.35	0.44	0.17	0.30	325.252
Feb-26	2.9	3.0	2.4	2.5	Feb-26	0.40	0.39	0.27	0.22	326.785
Mar-26	3.5	3.3	3.3	2.6	Mar-26	0.67	0.30	0.87	0.20	330.213
Apr-26	3.8	3.3	3.8	2.7	Apr-26	0.42	0.26	0.64	0.38	333.020
May-26	4.1	3.5	4.2	2.8	May-26	0.48	0.36	0.47	0.21	335.123
Jun-26	3.7	3.3	3.5	2.6	Jun-26	-0.09	0.15	-0.42	-0.02	333.952
Jul-26	3.7	3.3	3.3	2.5	Jul-26	0.16	0.25	0.07	0.22	333.918
Aug-26	**3.7**	**3.3**	**3.4**	**2.4**	**Aug-26**	**0.30**	**0.20**	**0.41**	**0.23**	**335.077**
Sep-26	**3.9**	**3.3**	**3.7**	**2.4**	**Sep-26**	**0.38**	**0.17**	**0.58**	**0.20**	**336.869**
Oct-26	**3.7**	**3.3**	**3.5**	**2.5**	**Oct-26**	**0.08**	**0.18**	**0.02**	**0.21**	**336.382**
Nov-26	**3.7**	**3.3**	**3.5**	**2.6**	**Nov-26**	**0.13**	**0.17**	**0.13**	**0.20**	**335.798**
Dec-26	**3.5**	**3.1**	**3.5**	**2.6**	**Dec-26**	**0.19**	**0.17**	**0.23**	**0.20**	**335.512**
Jan-27	**3.5**	**3.0**	**3.5**	**2.6**	**Jan-27**	**0.30**	**0.37**	**0.23**	**0.35**	**336.952**
Feb-27	**3.2**	**2.8**	**3.4**	**2.6**	**Feb-27**	**0.16**	**0.21**	**0.14**	**0.23**	**338.104**
Mar-27	**2.7**	**2.7**	**2.8**	**2.6**	**Mar-27**	**0.20**	**0.16**	**0.23**	**0.15**	**339.514**
Apr-27	**2.4**	**2.6**	**2.2**	**2.4**	**Apr-27**	**0.11**	**0.16**	**0.07**	**0.15**	**340.474**
May-27	**2.0**	**2.4**	**1.8**	**2.3**	**May-27**	**0.12**	**0.15**	**0.08**	**0.14**	**341.294**
Jun-27	**2.3**	**2.4**	**2.3**	**2.4**	**Jun-27**	**0.12**	**0.15**	**0.10**	**0.13**	**341.869**
Jul-27	**2.2**	**2.3**	**2.3**	**2.4**	**Jul-27**	**0.12**	**0.18**	**0.08**	**0.20**	**341.853**
Aug-27	**2.1**	**2.3**	**2.1**	**2.4**	**Aug-27**	**0.19**	**0.20**	**0.21**	**0.23**	**342.378**
Sep-27	**2.0**	**2.3**	**1.8**	**2.4**	**Sep-27**	**0.22**	**0.20**	**0.27**	**0.23**	**343.172**
Oct-27	**2.0**	**2.3**	**1.9**	**2.5**	**Oct-27**	**0.13**	**0.20**	**0.10**	**0.23**	**342.974**
Nov-27	**2.1**	**2.4**	**2.0**	**2.5**	**Nov-27**	**0.19**	**0.20**	**0.22**	**0.23**	**342.695**
Dec-27	**2.1**	**2.4**	**2.1**	**2.5**	**Dec-27**	**0.25**	**0.20**	**0.32**	**0.23**	**342.697**

US Outlook Scenarios

Exhibit 30:

	Aggregate Demand Shock: Animal Spirits (20%)	AI Productivity Boost with Labor Displacement (10%)	De-escalation: Mild Energy Headwind (45%)	Permanent Oil Premium Regime (15%)	Global Oil-Led Recession (10%)
			Key Forecasts		
GDP growth	The oil shock abates. Elevated wealth supports consumption and "animal spirits" keep business spending elevated. GDP grows 2.9% in 2026 and 3.1% in 2027, 0.5-1.0pp faster than the baseline.	GDP growth is steady, rising 2.2% 4Q/4Q in 2026 and 2.1% in 2027. Strong business spending is offset somewhat by weaker labor markets and low consumer confidence. Despite softer inflation in 2027, consumer spending stays sluggish as labor displacement mounts.	High oil prices act as a tax on consumption, neutralizing stimulus from higher tax refunds in the OBBBA. AI capex spending remains robust. Real growth held back to 2.3% (4Q/4Q) in 2026 before rebounding to 2.6% in 2027.	Oil prices average $120/bbl in 2026 and $100/bbl in 2027. Strategic stockpiling occurs amid a repricing of geopolitical risk in oil logistics. Mild demand destruction occurs. Real GDP grows in 3Q and 4Q 2026. Real GDP rises 2.0% in 2026 (4Q/4Q) before a 2.4% rebound in 2027.	Oil prices average $140-160/bbl through 3Q and end the year at $100/bbl. Supply shortages ensue, and demand destruction occurs. The result: mild recession with two quarters of negative GDP growth in in 3Q and 4Q 2026. Real GDP rises only 0.1% in 2026 (4Q/4Q) before a 2.5% rebound in 2027.
Labor markets	Stronger demand results in tighter labor markets. The unemployment rate falls to 3.9% in 2026 and 3.5% in 2027.	The economy experiences a prolonged period of net zero job creation. The separation rate edges higher, but widespread layoffs are avoided. The unemployment rate creeps higher, rising to 4.8% in 2027, 0.8pp above our baseline outlook.	The "curious balance" continues. Average monthly payroll gains slow to 43k this year and firm modestly to 60k next year. Labor demand remains soft on geopolitical uncertainty. Less immigration means a lower breakeven rate of hiring. The unemployment rate finishes 2026 at 4.3% and 2027 at 4.1%.	The "curious balance" continues. Average monthly payroll gains slow to 30k this year and firm modestly to 50k next year. Labor demand remains soft on geopolitical uncertainty. Less immigration means a lower breakeven rate of hiring. The unemployment rate finishes 2026 at 4.3% and 2027 at 4.2%.	Payrolls fall an average of 30k per month in 2026 with declines near 200k in Q4. In 2027, payrolls rebound, but bring the unemployment rate down slowly. The unemployment rate rises to 5.5% this year and 5.3% next year.
Inflation	Even with the oil shock dissipating, inflation pressures step-up. Headline inflation is 3.7% in 2026 and 2.7% in 2027. Core PCE inflation firms through Q1 27, prompting Fed hikes, which subsequently slow inflation.	Inflation rises on account of higher energy prices, but weak labor markets and slow wage growth provide offset. Headline inflation peaks at 3.8% y/y in 2Q 2026 -- similar to the baseline -- and finishes the year at 3.3%. Inflation falls back to the 2.0% target in 2027.	High inflation in 2026 dissipates in 2027. Energy prices push headline PCE inflation to 3.2% 4Q/4Q in 2026. Headline and core PCE decelerate to 2.0% and 2.3% 4Q/4Q in 2027 as the oil shock fades. Energy is a headline story with no second-round effects on core.	Two more years of above-target inflation. Energy prices push headline PCE inflation to 3.8% 4Q/4Q in 2026, while core moves sideways at 3.1% on tariff push and second round effects from the oil shock. Headline and core PCE decelerate to 2.2% and 2.8% 4Q/4Q in 2027 as the oil shock fades.	Headline inflation surges to 5.1% y/y in 3Q 2026 and 4.5% at year-end on elevated oil prices. On weaker demand, inflation decelerates to 1.1% in 2027.
Federal reserve policy	Hikes to counter inflation. The Fed raises rates by 100bp beginning in 4Q 2026 to 4.50-4.75%, more than reversing the 75bp in pre-emptive cuts to support the labor market in 2025.	Labor displacement leads to cuts. Above-target inflation keeps the Fed on the sidelines in 2026, but a rising unemployment rate leads the Fed to cut by 75bp in 2027 to a target range of 2.75-3.0%.	Normalization continues in 2027. Above-target inflation keeps the Fed on the sidelines in 2026, but falling y/y rates of inflation toward 2.0% leads the Fed to cut by 50bp in 2027 to a target range of 3.0-3.25%.	A prolonged pause. Inflation persistence means a high bar for cuts. Tariff effects must prove transitory, and energy-driven inflation must show a clear reversal before cuts are considered. The Fed maintains the target range of 3.50-3.75% through the end of 2027.	The Fed shifts to cuts as downside risks to growth mount. 200bp in 2026 and a terminal of 1.50-1.75%. 100bp of hikes in 2027 for a target range of 2.50-2.75% in 4Q 2027. No QE.
			Key Forecasts		
Consumer spending	Better than expected equity market returns and a rebound in labor markets boost consumption to around 3.0% in 2026 and back to near 2.0% in 2027. Upper-income consumers drive much of the spending, but nominal wage growth supports low- and middle-income spending.	Consumption rises 1.6% in 2026 and 1.5% in 2026. High gas prices weaken goods consumption in 2026. Soft labor market conditions and fears of AI displacement make consumers turn cautious in 2027 despite improving real spending power from decelerating inflation.	Consumption slows to 1.8% in 2026 as high gasoline prices weigh on goods spending. A resilient economy supports wealth effects from upper income consumers. In 2027, consumption rebounds to 2.1% 4Q/4Q as inflation decelerates.	Consumption slows to 1.4% in 2026 as high gasoline prices weigh on goods spending. In 2027, consumption rebounds to 2.2% 4Q/4Q as inflation decelerates and a recession is avoided.	Consumption falls from 3Q 2026 to 4Q 2026 before a gradual reacceleration. Households cut back on durable goods spending. Negative wealth effects lead upper-income consumers to pull back, with spillover into broader spending.
Nonresidential fixed investment	Business spending broadens out beyond AI, due to animal spirits and fiscal support.	Similar to the baseline. AI-related spending remains robust, leading nonresidential fixed investment to rise 7.0% in 2026 and 8.0% in 2027. AI adoption rates rise and firms realize productivity gains	AI-related spending remains robust, leading nonresidential fixed investment to rise 7.0% in 2026 and 8.0% in 2027. Sentiment around AI capex is not dented by geopolitical concerns.	AI-related spending remains strong, leading nonresidential fixed investment to rise 6.0% in 2026 and 7.0% in 2027. Sentiment is somewhat dented by geopolitical concerns and elevated energy costs.	A retrenching business sector cuts employment and capex. Investment declines throughout 2H and into Q1 2027, followed by recovery.
Residential investment	Stronger growth is balanced by higher rates in 2026, resulting in still limited housing activity over the forecast horizon.	Housing activity remains sluggish in both 2026 and 2027, despite lower interest rates. Improved affordability is offset by softening labor market conditions.	Housing remains "stuck" due to low affordability and limited inventory. Residential investment falls 1.3% in 2026 and rises 1.5% in 2027.	Housing remains "stuck" due to low affordability and limited inventory. High inflation and no Fed cuts mean higher mortgage rates. Residential investment falls 1.8% in 2026 and is flat in 2027.	Housing activity is weak in 2026 on the back of slower growth and weak labor markets. Activity picks up in 2027 as growth recovers and low rates spur demand.
Net trade	Imports are strong with strong demand, resulting in a larger drag on GDP and a wider trade deficit.	Relative to the baseline, imports are softer. AI-related imports are robust, but imports of consumer goods are more muted on the back of softer household spending. Net trade subtracts 0.2pp from growth in 2026 and 2027.	Imports are strong with strong demand, thus a larger drag on GDP. Imports rise 6.3% in 2026 and 5.0% in 2027. Exports rise 4.1% and 1.8%. After adding 0.4pp to growth in 2025, net trade subtracts 0.4pp from growth in 2026 and 2027.	Imports rise 5.3% in 2026 and 4.0% in 2027. Exports rise 3.0% and 1.0%. Net trade subtracts 0.4pp from growth in 2026 and 2027.	Imports and exports both fall over the next few quarters as demand falls and slow global growth limits export demand. Net trade contributes positively to growth in 2026.
Fiscal policy	Fiscal multipliers are higher than in the baseline, resulting in higher contribution to growth. With stronger growth, fiscal deficits decline. The deficit as a percent of GDP is 5.7% in 2026 and 5.6% in 2027.	Similar to the baseline. A softer labor market means slightly less revenue growth and more automatic stabilizers. The deficit is 6.3% of GDP in 2026 and 2027.	The fiscal impulse in the OBBBA is neutralized by higher gasoline prices. The midterm elections bring divided government, leading to budget gridlock and large deficits at about 6.0% of GDP	Higher gas prices more than offset the growth effects of the OBBBA. The midterm elections bring divided government, leading to budget gridlock and large deficits at about 6.3% of GDP	Deficits rise further as tax receipts decelerate and automatic stabilizers boost transfer payments. Defense spending picks up. The deficit as a percent of GDP is 6.9% in 2026 and 6.7% in 2027
Credit conditions	Credit conditions loosen somewhat on the heels of stronger growth and animal spirits. Bank lending accelerates.	Credit conditions bifurcate, with willingness to lend to consumers worsening amid solid growth in C&I lending.	The pace of tightening in lending standards has slowed. Geopolitical uncertainty keeps conditions tighter over the course of the year, though we see modest easing over the forecast horizon.	Geopolitical uncertainty keeps conditions modestly tighter over the forecast horizon.	Credit conditions tighten further as the economy contracts. By late this year, the Fed has eased policy enough to encourage some new credit supply but demand remains weak.
Productivity growth	Similar productivity growth as the baseline, even with stronger employment growth.	Similar productivity growth as the baseline, only with greater labor displacement.	Productivity rises 2.1% in 2027. AI capex keeps output per hour elevated in high-tech industries. Productivity gains are from higher output, not less employment.	Productivity rises 1.7% in 2027. Less robust AI-related spending limits productivity growth in the short-run.	With rapid declines in output, productivity falls over the next few quarters. Productivity then begins to recover in 2027.
Consumer and business confidence	Confidence rebounds across the course of the year, and further in 2027.	Labor displacement pushes consumer confidence down further, testing new lows. Business optimism remains elevated.	Confidence of households and business remains near 2022-2023 lows on account of low labor demand, high inflation, and elevated uncertainty.	Confidence of households and business remains near 2022-2023 lows on account of low labor demand, high inflation, and elevated uncertainty.	Recession pushes confidence down further, testing new lows.

Important note regarding economic sanctions. This report references jurisdictions which may be the subject of economic sanctions. Readers are solely responsible for ensuring that their investment activities are carried out in compliance with applicable laws.