US Economic Weekly

In the interest of time

A compounding problem

Crossing the $40tn debt threshold was likely not a catalyst for the recent rise in yields. However, a renewed focus on deficits is warranted given the rise in rates. The fiscal challenge is increasingly about interest expense, which now exceeds spending on both defense and Medicare and is still rising. The biggest long-run risk is a feedback loop in which higher rates raise deficits, larger deficits increase Treasury supply, and higher term premiums push borrowing costs even higher.

The week ahead: All eyes on inflation

All eyes will be on the Aug inflation data next week (PPI on Thur and CPI on Fri, preview below). We also get NY Fed inflation expectations (Tue), existing home sales (Thur), University of Michigan consumer sentiment (Fri) and federal budget balance (Fri). There is no Fedspeak since the Fed is in blackout before the Sep FOMC meeting.

Data preview: Inflation to keep Sept hike on track

Next week's inflation data could be the decisive factor for a September hike. We expect the report to be firm enough for the FOMC to follow through. Specifically, we forecast core CPI to rise a trend-like 0.22% m/m in August and core PCE to increase 0.24% m/m. If correct, core PCE would be running at a 2.9% annualized pace and the year-over-year rate would edge up to 3.4%, both well above levels consistent with the Fed's 2% target. In our view, that should be enough to convince Chair Warsh that underlying inflation trends have not improved sufficiently and that higher rates are warranted.

Data review: Low churn, no cracks

The July JOLTS report showed a slight decline in hiring. This is in line with soft summer payroll trends reflected in our Aug NFP forecast, ADP, and Revelio data. Hiring remains subdued, but job growth is still running above breakeven. Encouragingly, layoffs remain low, consistent with benign jobless claims and fewer Challenger job cut announcements. Meanwhile, the vacancies-to-unemployed ratio, a key measure of labor market slack improved in July and has stayed above 1.0 for four consecutive months. Bottom line: despite the soft summer jobs data, labor market conditions remain broadly stable.

Fedspeak review: Waller raises the bar for a Sep hike

Relative to Warsh, Waller struck a notably more dovish tone, emphasizing a state-contingent reaction function: with the labor market remaining stable, continued progress on inflation would argue for holding rates steady, while a deterioration in inflation would warrant a hike. His characterization of a "reasonable" inflation outcome implied a roughly 0.30% m/m print on August core PCE, suggesting a relatively high bar for tightening. Williams was even more dovish, offering little indication that a September hike is necessary, consistent with his long-standing view that the neutral rate remains relatively low. The key question is whether that assessment is shared by Board members such as Powell, Jefferson, Cook, and Barr.

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Economics
United States

US Economics
BofAS

Aditya Bhave
US Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

Shruti Mishra
US Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

See Team Page for List of Analysts

Glossary

CPI: Consumer Price Index

PMI: Purchasing Managers' Index

PPI: Producer Price Index

NFP: Nonfarm payrolls

LFPR: Labor force participation rate

PCE: Personal Consumption Expenditures

FOMC: Federal Open Markt Committee

GDP: Gross Domestic Product

SF: Seasonal Factor

SA: Seasonally Adjusted

SEP: Summary of Economic Projections

MA: Moving Average

HH: Household

U-rate: Unemployment Rate

JOLTS: Job Openings and Labor Turnover Survey

Gov't: Government

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In the interest of time

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

- Crossing the $40tn debt threshold was likely not a catalyst for the recent rise in yields. However, a renewed focus on deficits is warranted given the rise in rates.
- The fiscal challenge is increasingly about interest expense, which now exceeds spending on both defense and Medicare and is still rising.
- The biggest long-run risk is a feedback loop in which higher rates raise deficits, larger deficits increase Treasury supply, and higher term premiums push borrowing costs even higher.

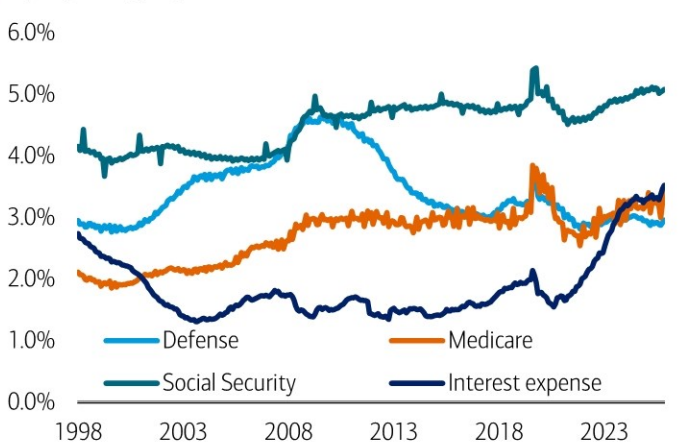
Don't blame $40tn

The recent rise in interest rates, particularly at the long-end, coupled with US total debt crossing the $40tn threshold sparked a wave of commentary on the US fiscal picture. While elevated deficits since the pandemic have certainly contributed to the higher term premium, it's unlikely that crossing the $40tn threshold contributed to the recent increase in long-term yields Markets tend to respond to changes in the expected path of deficits and Treasury issuance rather than the level of debt alone. Importantly, there has been no policy announcement or fiscal development that meaningfully altered those expectations recently.

Instead, it appears that the recent rise in yields has been driven by higher inflation expectations owing to the rise in energy prices and questions over the Fed's commitment to its price stability mandate, which were partially quieted by Warsh at Jackson Hole.

Regardless of what has driven the rise in yields, higher interest rates across the curve do warrant a renewed focus on deficits. The deficit this year is on pace to once again eclipse 6% of GDP and a major reason for that is rising interest expense which have totaled more than $1.1tn (3.5% of GDP) over the last 12 months and now exceed spending on Defense and Medicare (Exhibit 1). The trend in interest costs is also notably

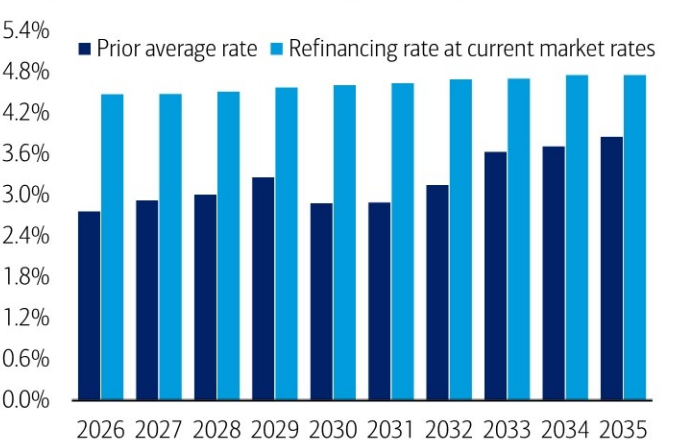
Exhibit 1: Interest expense exceeds defense and medicare spending
Major spending programs (% of GDP)



Source: US Treasury, BofA Global research

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Exhibit 2: Today's rates imply much higher interest costs on coupons when existing debt is rolled over
Average interest rates on coupon-bearing US Treasury marketable debt



Source: US Treasury, BofA Global Research

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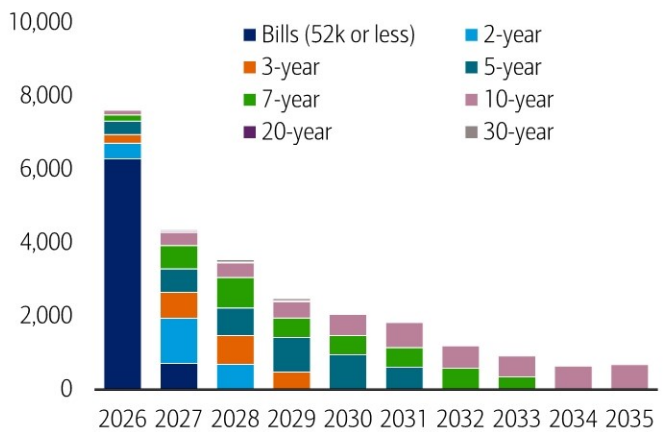
worse than Medicare, Defense Spending and even Social Security, which have been more stable.

Higher rates will exacerbate this trend

The current level of interest rates is likely to exacerbate these trends as Treasury refinances maturing debt at higher borrowing costs. The average interest rate on outstanding marketable Treasury debt remains well below prevailing market yields, at roughly 3.4%. Looking specifically at coupon-bearing securities, current market rates imply that debt rolled over in coming years will be refinanced at interest rates approximately 1.4 percentage points higher, on average, than those on the securities being retired (Exhibit 2).

The Treasury's increased reliance on bills also leaves borrowing costs more sensitive to near-term monetary policy. Nearly $7 trillion of Treasury bills are currently outstanding, the vast majority of which mature within one year (Exhibit 3). Assuming the Fed hikes rates by 75bp this year as we expect, annual interest costs on outstanding T-bills could increase by roughly $50bn or ~15bp of GDP.

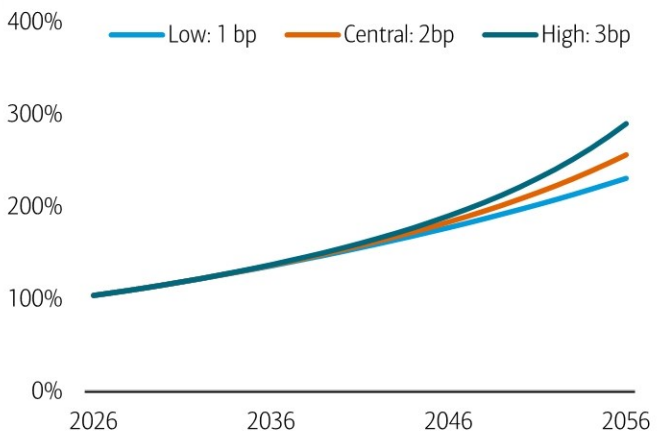
Exhibit 3: Maturing debt will likely face higher refinancing costs
Maturity profile of marketable treasury debt ($bn)



Source: US Treasury, BofA Global Research

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Exhibit 4: There is a feedback loop between interest rates and debt-to-GDP
Debt-to-GDP simulations assuming different interest rate responses to a 1% increase in debt-to-GDP



Source: BofA Global Research
Notes: We assume primary deficits are 3% in each fiscal year an d nominal growth Is 4%. Our scenarios are based on research from CBO, the Federal Reserve Board and the Dallas Fed. Other estimates are higher than our high scenario.

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A compounding problem

In addition to higher refinancing costs on the horizon, a more fundamental concern is the feedback loop between interest rates and debt. Ultimately, debt sustainability depends not only on the level of interest rates, but also on how those rates compare with nominal GDP growth. When nominal growth exceed borrowing costs, debt-to-GDP ratios can stabilize over time. However, as the gap between interest rates and nominal growth narrows, higher debt levels become increasingly difficult to sustain. The risk is that the self-reinforcing dynamic between interest costs and deficits can further narrow that gap over time.

Meanwhile, there is a feedback loop between higher interest costs and deficits that we must account for. Higher interest costs increase deficits and Treasury borrowing needs. Increased Treasury issuance can put upward pressure on term premiums as investors demand greater compensation to absorb a larger supply of duration. Higher term premiums raise borrowing costs, which further increase interest expense and deficits, creating a self-reinforcing dynamic.

The risk from this dynamic is not immediate. Rather, it emerges gradually as a larger share of the debt stock is refinanced at higher rates and interest expense consumes an increasing share of federal spending. To illustrate this, we simulate debt-to-GDP trajectories under three scenarios for how interest rates respond to higher debt (Exhibit 4). In the low, central, and high scenarios, a 1 percentage point increase in the debt-to-GDP ratio raises interest rates by 1bp, 2bp, and 3bp, respectively. The effects are modest initially, but the trajectories diverge meaningfully over longer horizons as higher debt levels lead to higher borrowing costs, which further accelerate debt accumulation.

The composition of deficits matters

The growing share of deficits attributable to interest costs has important implications for both the economy and financial markets. Deficits driven by rising interest expense provide far less support to economic activity than deficits associated with tax relief or government spending. In addition, they may crowd out both public and private investment by placing sustained upward pressure on long-term interest rates. Over time, they may also constrain the government's ability to provide fiscal support during economic downturns, potentially slowing the pace of recovery.

For markets, the changing composition of deficits matters because it can lead to greater Treasury issuance without a corresponding boost to economic growth. As a result, it may place additional upward pressure on Treasury supply, term premiums, and ultimately the long end of the yield curve.

US GDP tracking

3Q GDP tracking at 2.5% q/q saar

3Q GDP tracking is at 2.5% q/q saar, while 2Q GDP tracking remains at 1.5% q/q saar, unchanged from the second estimate.

Retail sales in July came in lower than expected, leading to a a decline in our 3Q PCE estimate.

However, personal income and spending in Aug came in slightly higher than expected along with an upward revison to 2Q consumer spending in the second estimate of 2Q GDP. This led us to make an upward revision in our 3Q PCE tracking.

Next week, Aug PPI, CPI, existing home sales and Jul wholesale inventories will impact our tracking estimate.

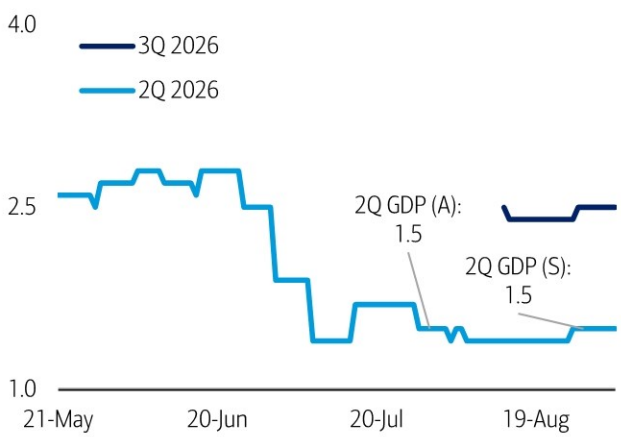
Exhibit 5: Our tracking estimate for 3Q is unchanged at 2.5% q/q saar after the Jul trade balance report
BofA US 3Q 26 GDP tracking estimate (% q/q saar)

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports
8/13/26	BofA official GDP forecast	2.5	2.5	2.5	-0.5	0.0	7.0	7.0	0.4	2.0
8/14/26	Retail Sales and Business inventories, PPI	**2.4**	**2.4**	**2.3**	-0.5	0.0	7.0	7.0	0.4	2.0
8/18/26	Housing Starts, IP, Import Prices	2.4	2.4	2.3	**-1.8**	**0.3**	**8.0**	7.0	0.4	**2.2**
8/25/26	New Home Sales	2.4	2.4	2.3	**-2.6**	0.3	8.0	7.0	0.4	2.2
8/27/26	2Q GDP (S), Durable Goods, Personal Income & Outlays, Advance Goods Trade	**2.5**	**2.5**	**2.5**	-2.6	0.3	**8.6**	7.0	0.4	**4.5**
9/1/26	Construction Spending	2.5	2.5	2.5	**-3.7**	**1.7**	8.6	7.0	0.4	4.5
9/2/26	Factory Orders	2.5	2.5	2.5	-3.7	1.7	**7.0**	7.0	0.4	4.5
9/3/26	Trade Balance	2.5	2.5	2.5	-3.7	1.7	7.0	7.0	0.4	**2.4**
	GDP tracking	2.5	2.5	2.5	-3.7	1.7	7.0	7.0	0.4	2.4
	Contribution to GDP growth (pp)			1.7	-0.1	0.0	0.4	0.4	0.1	
	BofA official GDP forecast	2.4	2.5	2.4	-0.5	-3.0	9.0	7.0	0.4	2.0

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. B have implications for tracking estimates

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Exhibit 6: 3Q GDP tracking is at 2.5% q/q saar while 2Q GDP tracking remains at 1.5%, unchanged from the second estimate
GDP tracking estimate (% q/q saar)



Source: BofA Global Research

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Data in the past week

Exhibit 7:In the past week, the focus was on labor data and ISMs
Data in the past week

Date	Time	Indicator	Period	Actual	Consensus	Previous
9/1/26	10:00	ISM Manufacturing	Aug	54.6	55.2	55.6
9/1/26	10:00	Construction Spending MoM	Jul	-0.50%	0.00%	0.00%
9/1/26	-	Omdia Total Vehicle Sales	Aug	16.76m	16.30m	16.33m
9/2/26	8:15	ADP Employment Change	Aug	38k	47k	46k
9/3/26	8:30	Trade Balance	Jul	-$88.6b	-$90.2b	-$71.2b
9/3/26	8:30	Nonfarm Productivity	2Q F	1.40%	1.40%	1.40%
9/3/26	8:30	Unit Labor Costs	2Q F	1.20%	1.30%	1.30%
9/3/26	8:30	Initial Jobless Claims	8/29/26	206k	205k	204k
9/3/26	10:00	ISM Services Index	Aug	55.4	54.1	54.1
9/4/26	8:30	Change in Nonfarm Payrolls	Aug	NR	55k	-23k
9/4/26	8:30	Change in Private Payrolls	Aug	NR	50k	30k
9/4/26	8:30	Average Hourly Earnings MoM	Aug	NR	0.30%	0.10%
9/4/26	8:30	Average Weekly Hours All Employees	Aug	NR	34.3	34.3
9/4/26	8:30	Unemployment Rate	Aug	NR	4.10%	4.10%
9/4/26	8:30	Labor Force Participation Rate	Aug	NR	61.50%	61.40%

Source: Bloomberg, BofA Global Research
Note: NR = Not Released.

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Data in the week ahead

Exhibit 8: Next week, focus will be on PPI and CPI data ahead of the Sept FOMC meeting
Data in the week ahead

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
9/08/26	6:00	NFIB Small Business Optimism	Aug	--	99.2	99.8
9/08/26	15:00	Consumer Credit	Jul	--	$11.3b	$14.2b
9/09/26	8:15	ADP NER Pulse (4-wk moving. Avg. ch.)	—	--	—	—
9/09/26	8:30	MBA Mortgage Applications	Sep 4	--	—	0.8%
9/10/26	8:30	Producer Price Index (mom)	Aug	0.4%	0.4%	0.0%
9/10/26	8:30	PPI Ex Food & Energy (mom)	Aug	0.4%	0.3%	0.2%
9/10/26	8:30	PPI Ex Food, Energy, Trade (mom)	Aug	0.4%	0.3%	0.4%
9/10/26	8:30	Initial Jobless Claims	Sep 05	210k	205k	206k
9/10/26	10:00	Wholesale Inventories	Jul F	--	—	1.3%
9/10/26	10:00	Existing Home Sales	Aug	3.90M	3.99M	4.06M
9/11/26	8:30	Consumer Price Index (yoy)	Aug	3.4%	3.4%	3.4%
9/11/26	8:30	CPI Ex Food & Energy (yoy)	Aug	2.40%	2.4%	2.5%
9/11/26	8:30	Consumer Price Index (mom)	Aug	0.4%	0.4%	0.1%
9/11/26	8:30	CPI Ex Food & Energy (mom)	Aug	0.2%	0.2%	0.2%
9/11/26	10:00	U. of Michigan Sentiment	Sep P	52.5	51.0	51.7

Source: Bloomberg, BofA Global Research

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Federal Reserve Speakers

Exhibit 9: The Fed is in a media blackout period next week
Upcoming Fed speakers

Date	Time	Speaker
		Fed Blackout period

Source: Bloomberg

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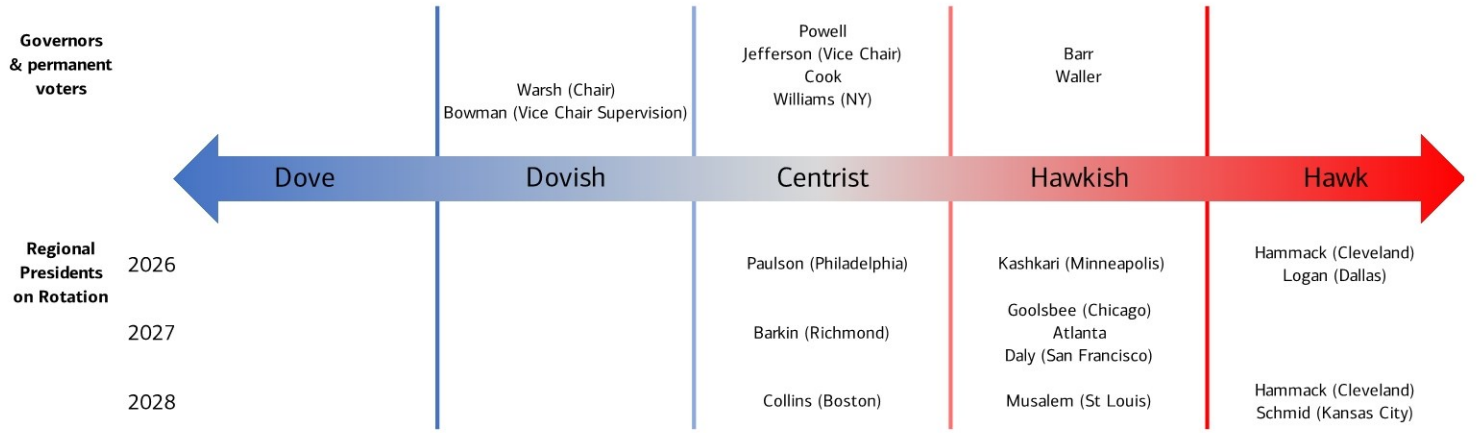
Exhibit 10: Below is a summary of key quotes from Fed speakers in recent weeks
Summary of Fed speak in the previous weeks

Speaker	Date	Quote
Waller (Governor)	3-Sep	"While inflation remains meaningfully above the Federal Open Market Committee's 2% goal, recent data suggest we are finally seeing some signs of disinflation"
Williams (New York)	2-Sep	"The data recently has been encouraging. I am actually seeing the trend in inflation moving slowly down as some of the effects of the tariffs move into the rearview mirror." ; "Coming out of the last FOMC meeting, interest rates are in a good place"
Barr (Governor)	1-Sep	"If trends in the data give me some confidence that inflation is moderating on a path to 2%, then I think we can take a bit more time to assess our policy stance. However, if inflation appears not to be moderating sufficiently, then I think we should act decisively to raise rates."
Warsh (Chair)	28-Sep	""Here is my standard: We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do. That's our job,"; "While this summer's PCE and CPI readings were better than expected, they do not tell me that underlying trends have meaningfully improved,"
Barkin (Richmond)	13-Aug	"Much of today's elevated inflation level has come from shocks, which should pass." But he also said, "Inflation has been too high for too long, risking an upward shift in the price expectations of firms and consumers ... If true, this argument suggests help is needed to bring inflation all the way back down to target."
Hammack (Cleveland)	13-Aug	"I don't have confidence that we're going to see [inflation readings] low enough that it's going to bring us back down to that 2% number" She added, "I think we need to act now" to hike rates.
Collins (Boston)	11-Aug	Policy rates are "mildly restrictive" and "would have me expecting disinflation gradually to be sustained". She also said, "There's much to watch there, but inflation is too high."
Goolsbee (Chicago)	11-Aug	Inflation is "the biggest problem facing our economy right now." "The labor market is stable without being good."
Musalem (St. Louis)	6-Aug	"It is crucial that monetary policy put a meaningful restraint on underlying inflation, rather than tolerating somewhat higher inflation today to pursue productivity growth tomorrow."
Daly (San Francisco)	5-Aug	"I was completely supportive of the decision to hold rates in July." She said the Fed should "be vigilant to watch the information as it comes in, but be very prepared to take the action."
Cook (Governor)	5-Aug	"If I do not see signs of continued disinflation soon, I am prepared to act. With five years of above-target inflation, the risk grows that higher inflation may become entrenched in price- and wage-setting behavior, leading to persistence that would be much harder for us to attack."
Kashkari (Minneapolis)	5-Aug	He said the Fed should start to raise interest rates incrementally right now to curb inflation that remains too high.
Schmid (Kansas City)	4-Aug	"Given the strength of demand and investment, I do not see the current stance of monetary policy as restrictive. As such, I believe that bringing inflation down to the Fed's 2% objective will require tighter policy."
Paulson (Philadelphia)	4-Aug	"I see two plausible scenarios for how current policy is affecting inflation, and the incoming evidence will clarify which path we're on and what adjustments, if any, may be needed. I am keeping an open mind about where policy goes from here."
Williams (New York)	3-Aug	He expects inflation to come down in the second half of the year and lower further next year, saying "some of the big drivers that pushed up inflation... will not be at play as much."
Logan (Dallas)	31-Jul	"Without any policy restraint, inflation will likely continue to trend above target until there's an unanticipated shock. Modest action in the near term would reduce the likelihood of needing to take sharper action later."
FOMC Meeting	29-Jul	The FOMC voted 9-3 to hold the benchmark federal funds rate in a range of 3.5% to 3.75%. Chair Kevin Warsh said "let me reiterate: There is no soft inflation target. There is no soft implicit target, not on this committee's watch."
Schmid (Kansas City)	16-Jul	"My primary concern is inflation, which is too hot and has been above target for too long. As such, my focus remains on inflation in setting the correct course for policy."
Logan (Dallas)	16-Jul	"I currently believe modestly higher interest rates would better balance the outlook and risks" for the Fed's dual mandate of price stability and full employment.
Beige Book release	15-Jul	US economic activity increased at a slight to moderate pace in recent weeks as most regions experienced little to no change in employment levels. Prices increased moderately overall, with some contacts tying cost increases to the conflict in the Middle East and others mentioning tariffs, the report said.
Warsh (Chair)	15-Jul	He pushed back on commentary that surging investment into AI is stoking inflation, saying the boom won't necessarily lead to persistent price pressures.
Williams (New York)	15-Jul	He said interest rates are "well positioned" even as demand driven by AI puts upward pressure on inflation, adding that "I am confident that these investments will support strong productivity growth in coming years. But, right now, we're in a race between available supply and surging demand."
Bowman (Vice Chair for Supervision)	14-Jul	She said lenders are more in tune with the risks tied to innovation and should be allowed to decide when to adopt new technologies like artificial intelligence, adding that the Fed should "set clear expectations, be transparent, and not micromanage individual business decisions" tied to innovation.

Source: Bloomberg, BofA Global Research

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Exhibit 11: The Fed has taken an increasingly hawkish turn this year compared to recent years
BofA US Economics Dove-Hawk chart



Source: BofA Global Research

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Weekly spending update

Exhibit 12: Total card spending per HH accelerated to 6.2% y/y in the week ending August 8
Aggregated daily credit and debit card spending growth per HH by major category, Aug 22 - Aug 28 (y/y % change of the 7-day MA of spending levels)

	8/29	8/28	8/27	8/26	8/25	8/24	8/23	8/22
Total card spending	3.7%	5.0%	4.9%	4.7%	5.1%	5.8%	6.1%	5.6%
Total card ex gas	2.8%	4.1%	3.9%	3.8%	4.2%	5.0%	5.3%	4.7%
Retail ex-autos	2.4%	3.8%	4.2%	4.5%	5.1%	5.8%	5.9%	5.6%
Airlines	12.1%	12.7%	12.8%	11.5%	11.1%	11.4%	11.2%	10.4%
Lodging	2.9%	4.3%	4.2%	4.1%	4.1%	4.3%	4.3%	4.1%
Entertainment	0.9%	2.2%	4.5%	4.1%	6.0%	10.0%	10.8%	7.7%
Restaurants & bars	2.8%	3.2%	3.3%	3.4%	3.6%	3.7%	3.7%	3.7%
Transit	6.7%	9.0%	9.1%	9.2%	8.5%	8.1%	9.4%	7.5%
Gas	18.1%	19.2%	19.6%	20.0%	20.1%	20.0%	19.6%	19.1%
Clothing	0.4%	2.4%	2.9%	3.1%	3.5%	4.4%	4.4%	3.6%
Furniture	-7.4%	-4.6%	-3.4%	-2.8%	-2.1%	-0.5%	-0.2%	-0.9%
Department store	-7.7%	-4.9%	-0.8%	0.4%	1.8%	3.8%	4.5%	3.8%
Home improvement	0.3%	1.6%	1.2%	1.1%	0.7%	0.5%	0.0%	0.0%
Electronics	-36.6%	-34.9%	-35.0%	-34.5%	-32.5%	-31.0%	-31.2%	-32.1%
Grocery	-2.7%	-1.2%	-1.0%	-0.9%	-0.7%	-0.4%	-0.2%	-0.5%
General Merchandise	3.2%	4.1%	4.9%	5.2%	5.8%	6.6%	6.9%	6.2%
Total B&M retail	0.7%	1.8%	2.1%	2.4%	2.6%	2.8%	2.9%	2.7%
Total online retail	6.5%	7.9%	7.8%	7.7%	8.6%	10.2%	9.7%	8.9%

Source: BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Total online retail corresponds to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Gas includes some convenience store purchases at gas stations.

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See the report: BofA on USA: Weekly spending update through Aug 29 for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.

Core views

Growth: Optimistic on near term growth outlook

- Despite some volatility, on net, the US-Iran deal leaves us more optimistic about growth in 2H 2026. We now expect growth to average around 2.5% in 2H vs. 1.8% in 1H 2026. The consumer remains resilient, supported by an uptick in hiring, positive wealth effects and healthy balance sheets. Meanwhile, investment continues to be driven by AI, which we see as insensitive to interest rates. For next year, we've lowered our forecast to 2.1% 4q/4q as higher interest rates should lead to less non-AI investment and spending over time.

Inflation: Stuck above the Fed's target despite near-term relief

- Headline PCE inflation peaked in 2Q. We expect it to fall quickly in coming months, as oil retraces. That said, we think core PCE inflation will remain above 3% y/y this year, before falling to 2.4% by year-end 2027, owing to sticky inflation in core services ex-housing. In our view, underlying inflation is closer to 2.5% than 2% and supply-shocks will remain sources of upside risks to inflation.

Labor market: A picture of stability

- Downside risks to the labor market have dissipated this year as hiring has picked up. The unemployment rate remains stable. The negative impact on jobs from AI remains limited for now, and AI investment is fueling hiring in goods-producing sectors. At the same time, tighter immigration policy continues to constrain labor supply. Our outlook on the labor market is sanguine. We expect the unemployment rate to end the year at 4.2%, and remain there in 2027.

Fed: Data and reaction function point to hikes in 2026

- The Fed has made a hawkish turn in the face of diminishing risks to the labor market and inflation that has moved further away from the 2% target. We expect the Fed to hike rates by 75bp this year (25bp each in Sep, Oct and Dec), reversing last year's insurance cuts. We think the Fed will leave rates unchanged in 2027 and 2028 at 4.25-4.50%. Our rates strategists have marked up their 2y and 10y Treasury yield forecasts in response to this change. Higher rates should help slow activity excluding AI and lower inflation over time.

Economic forecast summary

Exhibit 13: With trend like growth, fading labor market downside risks and inflation likely to remain sticky despite some near term relief, we expect the Fed to deliver three hikes in Sep, Oct and Dec 2026.
BofA US economic outlook

	1Q 25	2Q 25	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2026	2027	2028
Real Economic Activity, % SAAR															
Real GDP	-0.6	3.8	4.4	0.5	2.1	1.5	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.2	1.9
% Change, Year Ago	2.0	2.1	2.3	2.0	2.7	2.1	1.6	2.1	2.1	2.3	2.2	2.1			
Final Sales	-3.2	7.3	4.5	0.3	1.9	2.2	2.4	2.2	2.1	2.1	2.0	1.9	2.4	2.1	1.8
Domestic Demand	1.4	2.4	2.9	0.6	2.2	3.1	2.5	2.4	2.1	2.1	1.9	1.9	2.2	2.2	1.7
Consumer Spending	0.6	2.5	3.5	1.9	0.5	3.2	2.5	2.4	2.1	2.1	2.0	1.9	2.1	2.2	1.9
Residential Investment	-1.0	-5.1	-7.1	-1.7	-7.8	1.5	-0.5	-1.0	-1.0	-1.5	-1.5	-1.5	-3.4	-1.0	-1.2
Nonresidential Investment	9.5	7.3	3.2	2.4	10.6	8.4	5.6	5.1	4.2	4.3	3.4	3.4	6.5	4.7	2.9
Structures	-3.1	-7.5	-5.0	-6.6	-4.7	-5.0	0.0	0.0	1.0	1.0	1.0	1.0	-4.5	0.3	0.7
Equipment	21.3	8.5	5.2	4.3	15.8	15.2	7.0	6.0	5.0	5.0	4.0	4.0	9.9	5.8	3.4
Intellectual Property	6.5	15.0	5.6	5.4	13.8	8.8	7.0	6.5	5.0	5.0	4.0	4.0	8.9	5.6	3.4
Government	-1.0	-0.1	2.2	-5.6	4.4	-0.8	0.4	0.4	0.7	0.7	0.7	0.7	0.2	0.5	0.7
Exports	0.2	-1.8	9.6	-3.2	10.9	4.5	2.0	2.0	2.0	2.0	2.0	1.5	4.3	2.1	1.6
Imports	38.0	-29.3	-4.4	-1.0	11.8	11.5	2.8	2.5	1.5	1.5	1.0	1.0	2.4	2.3	0.8
Net Exports (Bil 12$)	-1381	-1058	-956	-969	-1002	-1075	-1088	-1098	-1098	-1099	-1095	-1094	-1065	-1097	-1084
Contribution to growth (ppts)	-4.7	4.8	1.6	-0.2	-0.4	-1.0	-0.2	-0.1	0.0	0.0	0.1	0.0	0.1	-0.1	0.1
Inventory Accumulation (Bil 12$)	172.0	-18.3	-23.9	-15.6	-16.7	-50.8	-42.8	-34.8	-30.3	-24.8	-19.8	-16.8	-36.3	-22.9	0.7
Contribution to growth (ppts)	2.6	-3.4	-0.1	0.1	0.2	-0.7	0.1	0.1	0.1	0.1	0.1	0.0	-0.3	0.0	0.1
Nominal GDP (Bil $, SAAR)	30042	30486	31098	31423	31866	32475	32931	33375	33835	34310	34773	35239	32662	34540	36427
% SAAR	2.9	6.0	8.3	4.2	5.8	8.0	5.7	5.5	5.6	5.7	5.5	5.5	6.2	5.7	5.5
Key Indicators															
Fed Funds Rate (midpoint, % EOP)	4.375	4.375	4.125	3.625	3.625	3.625	3.875	4.375	4.375	4.375	4.375	4.375	4.375	4.375	4.375
Industrial Production (% SAAR)	4.0	2.0	2.0	-2.0	1.0	4.0	0.5	1.0	1.0	1.5	1.5	1.5	1.2	1.3	1.3
Capacity Utilization (%)	76.0	76.0	76.0	75.5	75.5	76.0	76.0	76.5	76.5	76.5	76.5	77.0	76.0	76.7	77.3
Nonfarm Payrolls (Avg mom ch, 000s)	20	34	23	-39	73	77	60	65	60	60	45	65	69	58	60
Civilian Unemployment Rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Civilian Participation Rate (%)	62.5	62.4	62.3	62.4	62.0	61.7	61.5	61.5	61.5	61.5	61.4	61.4	61.7	61.4	61.4
Housing Starts (Thous. SAAR)	1395	1355	1345	1325	1420	1345	1455	1480	1490	1510	1540	1560	1425	1525	1590
Current Account (% of GDP)													-2.9	-2.9	-2.8
US Budget Balance ($bn, Fiscal Year)													1935	2075	2250
US Budget Balance (% of GDP, Fiscal Year)													6.0	6.2	6.4
Inflation															
GDP Price Index (% SAAR)	3.6	2.1	3.8	3.7	3.6	6.2	3.2	3.1	3.4	3.5	3.3	3.5	3.9	3.5	3.5
% Change, Year Ago	2.6	2.5	3.0	3.3	3.3	4.3	4.2	4.0	4.0	3.3	3.3	3.4			
PCE Chain Prices (% SAAR)	3.4	2.1	2.8	2.9	4.6	5.1	2.0	1.9	2.4	2.0	2.1	2.2	3.5	2.3	2.2
% Change, Year Ago	2.6	2.4	2.7	2.8	3.1	3.8	3.7	3.4	2.8	2.1	2.1	2.2			
Core PCE Chain Prices (% SAAR)	3.3	2.6	2.9	2.7	4.4	3.4	2.7	2.4	2.7	2.4	2.3	2.2	3.2	2.5	2.2
% Change, Year Ago	2.8	2.7	2.9	2.9	3.1	3.3	3.3	3.2	2.8	2.5	2.5	2.4			
CPI, Consumer Prices (% SAAR)	3.7	1.7	3.1	2.5	3.6	6.1	0.6	1.6	2.1	1.8	2.1	2.5	3.2	2.0	2.3
% Change, Year Ago	2.7	2.5	2.9	2.7	2.7	3.8	3.2	2.9	2.1	1.9	1.9	2.2			
CPI ex Food & Energy (% SAAR)	3.4	2.2	3.2	2.0	2.8	2.9	1.9	2.3	2.6	2.6	2.6	2.5	2.5	2.5	2.5
% Change, Year Ago	3.1	2.8	3.1	2.7	2.5	2.7	2.4	2.5	2.4	2.5	2.5	2.6			

Source: BofA Global Research estimates. Note: *Since the BLS did not report a CPI estimate for Oct '25, we estimate the data using a linear interpolation of the Sep and Nov data. Since the BLS did not report Household Survey numbers for Oct '25 in the Jobs print, we use the Haver Analytics' linear interpolated numbers for the month.

BofA GLOBAL RESEARCH

Rates and dollar forecasts

Exhibit 14: We expect the Fed to hike by 25bp each in Sep, Oct and Dec this year
Rates and dollar forecasts

	Spot	26-Sep	26-Dec	27-Mar	27-Jun	27-Sep	27-Dec
Interest rates							
Fed Funds	3.63	3.75-4.00	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50
Fed Effective Rate	3.630	3.875	4.375	4.375	4.375	4.375	4.375
2-Year T-Note	4.14	4.50	4.50	4.40	4.35	4.35	4.25
5-Year T-Note	4.32	4.50	4.50	4.45	4.40	4.40	4.30
10-Year T-Note	4.64	4.50	4.50	4.50	4.50	4.50	4.50
30-Year T-Bond	5.21	4.90	5.00	5.00	5.00	5.00	5.00
Dollar							
EUR-USD	1.15	1.12	1.15	1.16	1.18	1.19	1.20
USD-JPY	159.48	153.00	149.00	149.00	148.00	146.00	145.00
USD-CAD	1.39	1.44	1.43	1.42	1.40	1.38	1.38
AUD-USD	0.71	0.70	0.71	0.72	0.72	0.73	0.73
NZD-USD	0.59	0.58	0.59	0.61	0.61	0.62	0.62
GBP-USD	1.35	1.32	1.37	1.38	1.40	1.43	1.45
USD-CHF	0.81	0.82	0.81	0.81	0.80	0.80	0.79
USD-SEK	9.56	10.00	9.57	9.31	8.98	8.82	8.67
USD-NOK	9.51	10.18	10.00	9.74	9.49	9.24	9.08
USD-CNY	6.74	6.80	6.70	6.70	6.70	6.60	6.60
USD-MXN	17.03	17.25	17.50	17.75	18.00	18.25	18.50

Source: BofA Global Research, Bloomberg

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Rolling calendar of business indicators

Next week the focus will be on CPI and retail sales
Key economic data over the next three weeks

September 7	September 8	September 9	September 10	September 11
Labor Day	6:00 am: NFIB Small Bus. Optimism – Aug 3:00pm: Consumer Credit – Jul	7:00am: MBA Mortgage- week ending 08/28/2026	8:30 am: Producer Price Index – Aug 8:30am : Initial Jobless Claims – week ending 08/29/2026 10:00 am: Wholesale Inventories – Jul (F) 10:00 am: Existing Home Sales – Aug	8:30 am: Consumer Price Index – Aug 10:00 am: U of Mich Sentiment– Sep (P) 2:00 pm: Monthly Budget Statement - Aug
September 14	September 15	September 16	September 17	September 18
	8:30am: Empire Manufacturing--Sep	7:00am: MBA Mortgage- week ending 09/04/2026 8:30 am: Advance Retail Sales – Aug 8:30 am: Import Price Index – Aug 8:30 am: Business Inventories – Jul 10:00 am: Factory Orders – Jul **2:00 pm: FOMC Rates Decision**	8:30 am: Philly Fed – Sep 8:30 am: Housing Starts & Permits – Aug 8:30am : Initial Jobless Claims – week ending 09/05/2026 10:00am: Pending Home Sales-- Aug	9:15 am: Industrial Production – Aug
September 21	September 22	September 23	September 24	September 25
		7:00am: MBA Mortgage- week ending 09/11/2026 9:45 am: S&P Global US Manufacturing and Services PMI – Sep (P)	8:30am : Initial Jobless Claims – week ending 09/12/2026 10:00 am: New Home Sales – Aug	8:30 am: Durable Goods Orders – Aug (P) 10:00 am: U of Mich Sentiment– Sep (F)

*Projections- subject to revision as additional data become available. P - preliminary reading, S - second reading, T - third reading, F - final reading

Source: Bloomberg

RCH



CPI and PCE Forecast tables

Exhibit 15: We expect inflation to remain above the Fed's target throughout our forecast horizon*
CPI monthly forecast table

	Non-seasonally Adjusted						Seasonally Adjusted									
	Headline CPI			Energy			Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y	Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2025: Jul	323.0	0.15	2.70	283.4	-0.32	-1.55	322.2	0.23	2.74			328.7	0.31	3.05		
2025: Aug	324.0	0.29	2.92	283.2	-0.05	0.22	323.3	0.35	2.94			329.7	0.31	3.11		
2025: Sep	324.8	0.25	3.01	283.6	0.12	2.85	324.2	0.30	3.02	3.09	2.90	330.4	0.22	3.02	3.21	3.06
2025: Oct	324.5	-0.10	2.79	281.6	-0.71	3.22	324.7	0.13	2.86			330.7	0.09	2.80		
2025: Nov	324.1	-0.10	2.74	279.6	-0.71	4.24	325.1	0.13	2.70			331.0	0.09	2.60		
2025: Dec	324.1	-0.03	2.68	274.1	-1.95	2.30	326.0	0.30	2.65	2.52	2.74	331.8	0.23	2.65	1.95	2.68
2026: Jan	325.3	0.36	2.39	272.7	-0.53	-0.14	326.6	0.17	2.39			332.8	0.30	2.51		
2026: Feb	326.8	0.48	2.41	277.2	1.65	0.48	327.5	0.27	2.43			333.5	0.22	2.47		
2026: Mar	330.2	1.14	3.26	310.3	11.94	12.53	330.3	0.87	3.29	3.57	2.70	334.2	0.20	2.60	2.80	2.53
2026: Apr	333.0	0.86	3.81	329.9	6.33	17.87	332.4	0.64	3.78			335.4	0.38	2.74		
2026: May	335.1	0.62	4.25	346.0	4.89	23.54	334.0	0.47	4.17			336.1	0.21	2.82		
2026: Jun	334.0	-0.32	3.53	329.0	-4.94	15.70	332.6	-0.42	3.46	6.07	3.80	336.1	-0.02	2.57	2.88	2.71
2026: Jul	333.9	-0.01	3.36	325.2	-1.16	14.73	332.8	0.07	3.30			336.8	0.22	2.47		
2026: Aug	334.4	0.15	3.23	323.5	-0.51	14.21	333.6	0.22	3.18			337.5	0.21	2.37		
2026: Sep	334.7	0.07	3.04	318.3	-1.60	12.25	334.1	0.16	3.03	0.60	3.17	338.1	0.19	2.34	1.93	2.39
2026: Oct	334.3	-0.12	3.02	310.2	-2.57	10.15	334.3	0.08	2.98			338.8	0.19	2.43		
2026: Nov	333.5	-0.22	2.90	301.6	-2.76	7.88	334.6	0.09	2.94			339.4	0.19	2.52		
2026: Dec	333.2	-0.11	2.81	296.2	-1.79	8.06	335.4	0.21	2.86	1.56	2.93	340.0	0.19	2.48	2.29	2.48
2027: Jan	334.6	0.42	2.86	298.0	0.60	9.29	336.0	0.19	2.88			340.8	0.23	2.41		
2027: Feb	335.7	0.35	2.73	297.5	-0.17	7.33	336.4	0.13	2.74			341.59	0.23	2.42		
2027: Mar	337.1	0.43	2.10	301.4	1.32	-2.86	337.2	0.22	2.09	2.13	2.57	342.33	0.22	2.44	2.59	2.42
2027: Apr	338.0	0.24	1.49	302.3	0.29	-8.37	337.4	0.06	1.50			343.06	0.21	2.28		
2027: May	338.9	0.29	1.14	303.3	0.33	-12.35	337.9	0.16	1.18			343.79	0.21	2.28		
2027: Jun	340.1	0.35	1.85	308.8	1.81	-6.13	338.8	0.26	1.87	1.78	1.52	344.52	0.21	2.52	2.62	2.36

Source: BEA, BofA Global Research estimates *Since the BLS did not report a CPI estimate for October 2025, we estimate the data using a linear interpolation of the September and November data.

BofA GLOBAL RESEARCH

Exhibit 16: We expect inflation to stay above the Fed's target throughout our forecast horizon
PCE inflation monthly forecast table (Seasonally adjusted)

	%y/y				% m/m			
	Headline	Core	Core goods	Core services	Headline	Core	Core goods	Core services
2025: Jul	2.6%	2.9%	1.1%	3.5%	0.17%	0.25%	0.00%	0.32%
2025: Aug	2.7%	2.9%	1.1%	3.5%	0.26%	0.22%	-0.11%	0.33%
2025: Sep	2.8%	2.8%	1.2%	3.4%	0.26%	0.19%	0.18%	0.19%
2025: Oct	2.7%	2.8%	1.1%	3.3%	0.19%	0.23%	0.00%	0.30%
2025: Nov	2.8%	2.8%	1.2%	3.3%	0.22%	0.18%	-0.02%	0.24%
2025: Dec	2.9%	3.0%	2.0%	3.3%	0.33%	0.33%	0.43%	0.29%
2026: Jan	2.9%	3.1%	1.9%	3.5%	0.35%	0.44%	0.30%	0.49%
2026: Feb	2.9%	3.0%	2.3%	3.3%	0.40%	0.39%	0.84%	0.25%
2026: Mar	3.5%	3.3%	2.8%	3.4%	0.67%	0.30%	0.21%	0.32%
2026: Apr	3.8%	3.3%	2.8%	3.5%	0.41%	0.25%	0.30%	0.23%
2026: May	4.1%	3.4%	2.4%	3.7%	0.46%	0.33%	-0.10%	0.47%
2026: Jun	3.6%	3.3%	2.1%	3.7%	-0.11%	0.13%	0.09%	0.15%
2026: Jul	3.7%	3.3%	2.3%	3.6%	0.14%	0.22%	0.13%	0.25%
2026: Aug	3.6%	3.3%	2.4%	3.5%	0.23%	0.22%	0.05%	0.28%
2026: Sep	3.6%	3.3%	2.3%	3.6%	0.19%	0.21%	0.05%	0.26%
2026: Oct	3.5%	3.2%	2.4%	3.5%	0.14%	0.19%	0.06%	0.24%
2026: Nov	3.4%	3.3%	2.5%	3.5%	0.14%	0.19%	0.06%	0.24%
2026: Dec	3.3%	3.1%	2.1%	3.5%	0.21%	0.19%	0.06%	0.24%
2027: Jan	3.1%	2.9%	1.9%	3.2%	0.22%	0.23%	0.10%	0.28%
2027: Feb	2.9%	2.7%	1.1%	3.3%	0.18%	0.23%	0.10%	0.28%
2027: Mar	2.5%	2.7%	1.0%	3.2%	0.22%	0.22%	0.05%	0.28%
2027: Apr	2.2%	2.6%	0.6%	3.2%	0.11%	0.19%	0.00%	0.25%
2027: May	1.9%	2.5%	0.7%	3.0%	0.16%	0.19%	0.00%	0.25%
2027: Jun	2.2%	2.5%	0.7%	3.1%	0.22%	0.19%	0.00%	0.25%
2027: Jul	2.2%	2.5%	0.5%	3.1%	0.12%	0.19%	0.00%	0.25%

Source: BEA, BofA Global Research estimates

BofA GLOBAL RESEARCH

Federal Reserve Balance Sheet

Exhibit 17: The Fed has grown its balance sheet in the last four weeks but recently announced plans to end Reserve Management Purchases

The balance sheet of the Federal Reserve ($bn, Wednesday, end of period values)

	02 Sep	7-day chg	4 week chg	Chg since June 1, 2022
Supplying reserve funds (Federal Reserve assets)				
Reserve Bank credit outstanding	6689.9	6.2	-11.5	-2188.7
Securities held outright	6468.3	6.2	5.1	-2012.3
Securities bought outright	4552.3	6.2	22.4	-1218.4
Federal Agency	2.3	0.0	0.0	0.0
Mortgage-backed securities	1913.6	0.0	-17.3	-793.9
Mortgage-backed securities	210.4	-0.4	-1.8	-126.7
Unamortized discounts on securities held outright	210.4	-0.4	-1.8	-126.7
Repurchase agreements	0.0	0.0	0.0	0.0
Foreign official (FIMA repo facility)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Loans	5.4	0.4	0.0	-15.3
of which:				
Discount window (primary and secondary credit)	5.3	0.4	0.0	4.4
Paycheck protection program (PPPLF)	0.0	0.0	0.0	-19.8
Bank Term Funding Program (BTFP)	0.0	0.0	0.0	0.0
Other credit extensions	0.0	0.0	0.0	0.0
Other factors supplying reserve funds	-204.6	0.4	-13.1	92.2
Total factors supplying reserve funds	6788.9	6.3	-11.3	-2175.4
Absorbing reserve funds (Federal Reserve liabilities)				
Currency in circulation	2482.0	4.0	7.2	202.1
Reverse repo agreements	357.7	1.6	38.4	-1872.8
Foreign official accounts	357.2	1.8	39.5	91.7
Others (ON RRP)	0.5	-0.2	-1.1	-1964.5
Treasury cash holdings	0.3	0.0	0.0	0.2
Other deposits with Federal Reserve Banks	1195.4	-13.9	16.7	167.0
of which:				
Treasury General Account	944.4	-15.1	15.0	163.8
Treasury contributions to credit facilities	0.0	0.0	0.0	-17.9
Other Federal Reserve liabilities and capital	-175.9	2.2	0.0	-225.9
Factors absorbing reserves, other than reserves	3859.7	-6.1	62.2	-1747.3
Reserve balances with Federal Reserve banks	2929.3	12.5	-73.4	-428.1

Source: Federal Reserve, Haver Analytics, BofA Global Research. Note: Quantitative tightening began on June 1, 2022.

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Research Analysts

US Economics

Aditya Bhave
US Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

Shruti Mishra
US Economist
BofAS
+1 646 855 1040
smishra44@bofa.com