Economics

April 8, 2026

U.S. Economic Outlook: April 2026

Monthly

Economist(s)

ⁿ Tom Porcelli

Tim Quinlan

Sarah House

Charlie Dougherty

Michael Pugliese

Jackie Benson

Shannon Grein

Nicole Cervi

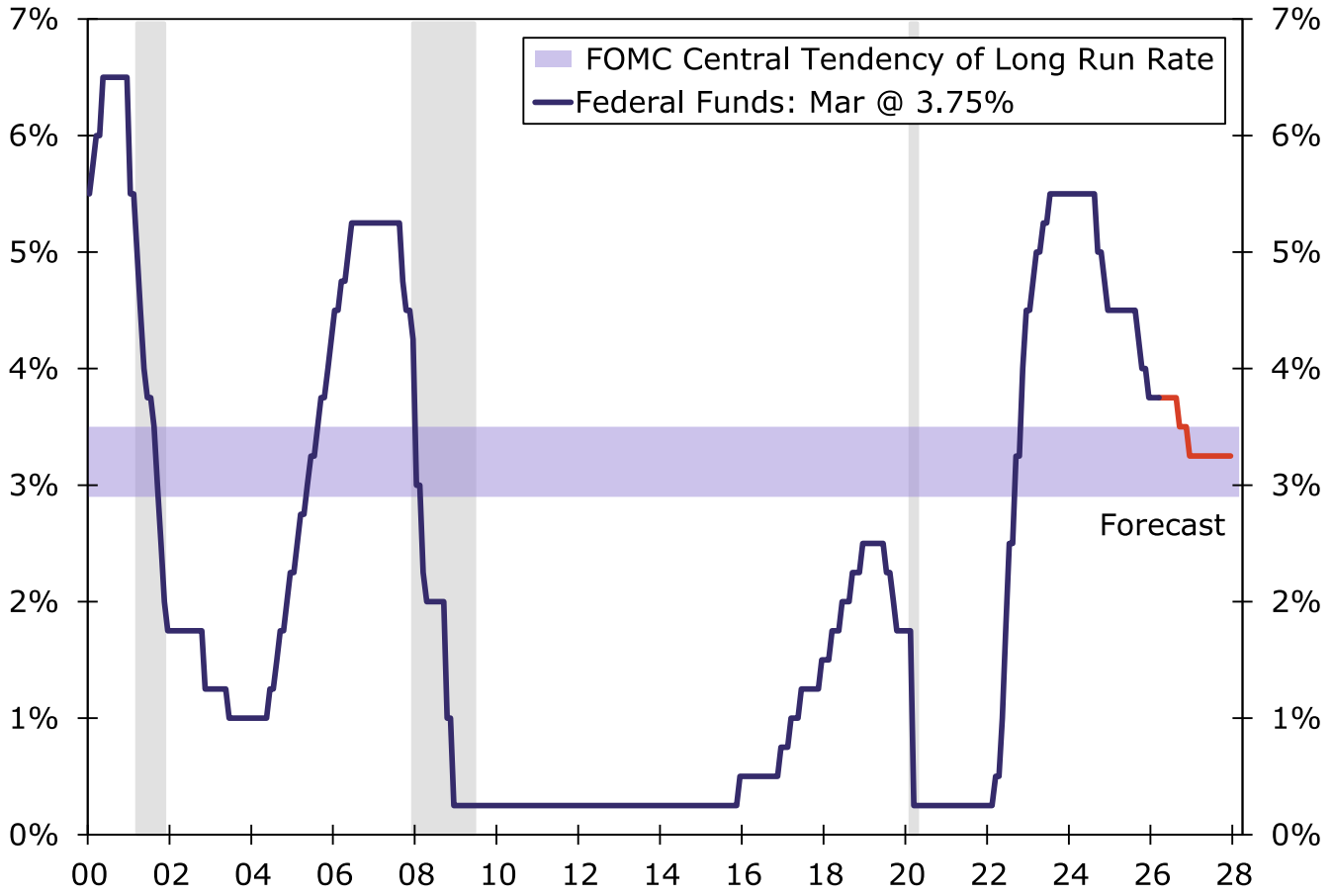
Introducing the Monthly Macro Bullet Points:

Oil Shock Revives Consumer Inflation, Delays Fed Easing

- **Geopolitical disruption has turned into a near-term inflation shock.** The ongoing Iran conflict has pushed oil prices higher, lifting headline inflation, eroding real income and spending, and delaying the timing of Fed easing in our forecast.
- **March consumer inflation will break disinflation.** Higher energy prices have fed quickly into prices at the pump, ending the two-year disinflation trend. With oil elevated and no clear resolution in the Middle East, we expect firmer inflation ahead, and forecast headline PCE peaking at a year-ago pace of 3.7% in Q2 and core PCE remaining sticky in a 2.7–3.1% range through year-end.
- **Consumer spending is resilient but looks shaky.** While spending has so far absorbed higher gas prices, we expect a more visible hit over the next month as energy costs spill into other categories. Households will increasingly prioritize expenditures on gas and food, crowding out discretionary demand and slowing overall consumption. We now see real personal consumption expenditures rising 2.0% on average this year, softer than previously expected.
- **Income growth was already cooling before the energy shock.** Real income excluding transfers has slowed over the past year as job growth moderates. Looking through labor strikes and volatile weather, private hiring found some sense of stabilization in the first quarter. But we still expect further softening ahead amid geopolitical uncertainty and AI-driven efficiency gains, keeping downward pressure on wage growth ahead.
- **Policy trade-offs point to prolonged Fed patience.** With inflation re-accelerating and labor markets still gradually cooling, the Fed's dual mandate is pulling in opposite directions. The Fed will exercise an abundance of patience as a result, and we have pushed out the start of easing but still expect 50 bps of total cuts this year, now penciled in as 25 bps moves at the September and December FOMC meetings.

Federal Funds Target Rate

Upper Bound of Target Range



Source: Federal Reserve Board and Wells Fargo Economics

U.S. Forecast Table

Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2024				2025				2026				2027				2024	2025	2026	2027
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product (a)	0.8	3.6	3.3	1.8	-0.6	3.8	4.4	0.7	2.7	1.4	1.9	2.3	2.1	2.5	2.4	2.4	2.8	2.1	2.2	2.2
Personal Consumption	1.7	3.9	4.0	3.9	0.6	2.5	3.5	2.0	1.4	1.4	2.0	2.3	1.8	2.2	2.3	2.1	2.9	2.6	2.0	2.1
Business Fixed Investment	1.5	2.5	3.5	-3.7	9.5	7.3	3.2	2.2	7.8	5.2	5.0	3.6	5.1	6.2	4.7	5.2	2.9	4.1	5.0	5.0
Equipment	0.5	8.9	8.2	-4.3	21.4	8.5	5.3	3.9	16.7	8.4	5.8	2.9	4.5	6.0	4.9	4.0	3.5	8.3	8.5	4.9
Intellectual Property Products	6.7	0.7	2.6	-0.6	6.5	15.0	5.6	5.7	5.2	5.3	5.1	4.4	6.4	7.1	4.5	6.4	3.5	5.7	5.8	5.7
Structures	-5.0	-3.9	-2.2	-8.1	-3.1	-7.5	-5.0	-7.1	-4.5	-2.1	2.8	3.2	3.1	4.2	4.5	4.8	1.1	-5.3	-3.5	3.2
Residential Investment	8.2	-2.0	-4.8	4.3	-1.0	-5.1	-7.1	-0.5	-5.5	-4.3	-1.8	2.7	3.5	4.1	4.5	4.8	3.2	-2.1	-3.6	2.5
Government Purchases	2.3	3.3	5.4	3.3	-1.0	-0.1	2.2	-5.8	9.4	0.0	0.6	0.8	1.2	1.0	1.1	1.1	3.8	1.1	1.5	0.9
Net Exports	-964.1	-1032.2	-1064.9	-1069.0	-1380.7	-1058.0	-955.5	-968.2	-1031.6	-1035.5	-1046.8	-1066.8	-1086.3	-1105.2	-1124.1	-1139.6	-1032.6	-1090.6	-1045.2	-1113.8
Pct. Point Contribution to GDP	-0.4	-1.0	-0.4	-0.1	-4.7	4.8	1.6	-0.2	-1.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.5	-0.2	0.2	-0.3
Inventory Change	12.4	75.1	69.4	17.1	172.0	-18.3	-23.9	-7.5	12.3	-0.9	-8.0	6.2	12.8	13.3	17.0	22.2	43.5	30.6	2.4	16.3
Pct. Point Contribution to GDP	-0.8	1.2	-0.1	-0.9	2.6	-3.4	-0.1	0.3	0.3	-0.2	-0.1	0.2	0.1	0.0	0.1	0.1	0.0	-0.1	-0.1	0.1
Nominal GDP (a)	4.0	6.3	5.1	4.3	2.9	6.0	8.3	4.5	7.1	6.2	4.1	4.2	4.2	4.8	4.5	4.5	5.3	5.0	6.0	4.5
Real Final Sales	1.7	2.4	3.5	2.8	-3.2	7.5	4.5	0.4	2.4	1.6	2.0	2.0	2.0	2.5	2.3	2.3	2.8	2.2	2.5	2.1
Retail Sales (b)	1.8	2.5	2.3	3.9	4.5	4.3	4.4	3.0	3.0	2.8	1.8	2.0	1.9	1.9	1.9	1.7	2.6	4.0	2.4	1.8
Inflation Indicators (b)																				
PCE Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	3.0	3.7	3.5	3.3	2.7	2.1	2.1	2.1	2.6	2.6	3.4	2.2
"Core" PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.9	3.0	3.0	2.9	2.8	2.4	2.4	2.3	2.3	2.9	2.8	2.9	2.4
Consumer Price Index	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.7	2.7	4.2	3.9	3.7	3.2	1.8	1.8	1.9	3.0	2.7	3.7	2.2
"Core" Consumer Price Index	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.6	2.6	3.2	3.0	3.0	2.7	2.1	2.1	2.2	3.4	2.9	2.9	2.3
Producer Price Index (Final Demand)	1.5	2.6	2.2	3.1	3.4	2.5	3.0	2.9	3.6	5.4	4.8	4.6	3.9	2.7	2.8	2.7	2.4	3.0	4.6	3.0
Employment Cost Index	4.2	4.1	3.9	3.8	3.6	3.6	3.5	3.4	3.4	3.3	3.3	3.4	3.4	3.5	3.5	3.6	4.0	3.5	3.4	3.5
Real Disposable Income (a)	4.2	2.4	1.2	2.0	2.3	1.8	1.0	0.2	3.5	0.2	2.1	2.7	2.5	2.0	1.9	2.3	2.9	1.7	1.6	2.2
Nominal Personal Income (a)	7.6	5.4	3.6	4.9	6.4	4.3	4.4	3.6	4.3	4.3	4.3	4.7	5.1	4.3	4.0	4.4	5.6	4.9	4.2	4.5
Industrial Production (a)	-2.6	2.7	-2.3	-1.5	4.2	1.8	2.1	-1.2	4.5	2.3	1.9	1.4	1.5	1.0	1.1	0.5	-0.7	1.2	2.0	1.4
Capacity Utilization	76.3	76.6	76.0	75.5	76.0	76.1	76.2	75.7	76.3	76.9	77.3	77.7	78.1	78.4	78.7	78.9	76.1	76.0	77.0	78.5
Federal Budget Balance (c)	-555	-209	-544	-711	-596	-30	-438	-602	-662	-233	-502	-596	-721	-169	-464	-649	-1817	-1775	-2000	-1950
Trade Weighted Dollar Index (d)	115.7	117.2	113.1	119.7	117.5	111.1	110.8	111.5	112.0	110.9	109.2	108.7	112.0	108.9	109.1	109.1	116.3	113.9	110.2	109.8
Nonfarm Payroll Change (e)	203	76	72	135	20	34	23	-39	68	37	50	63	64	62	60	55	122	10	55	60
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.3	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.0	4.3	4.3	4.3
Housing Starts (f)	1.42	1.34	1.34	1.39	1.40	1.35	1.35	1.33	1.37	1.30	1.30	1.30	1.37	1.37	1.37	1.37	1.37	1.36	1.32	1.37
Light Vehicle Sales (g)	15.5	15.7	15.7	16.4	16.4	16.2	16.6	15.7	15.6	15.1	15.2	15.5	16.4	16.6	16.7	16.9	15.9	16.2	15.3	16.7
Crude Oil - Brent - Front Contract (h)	81.2	84.4	78.0	73.6	74.3	65.9	67.5	62.7	76.3	111.0	94.0	84.3	80.8	78.7	77.7	77.0	79.3	67.6	91.4	78.5
Quarter-End Interest Rates (i)																				
Federal Funds Target Rate (j)	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	5.27	4.33	3.56	3.25
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.45	4.24	3.87	3.68	3.65	3.40	3.15	3.15	3.15	3.15	3.15	5.15	4.24	3.47	3.15
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.50	7.25	6.75	6.75	6.75	6.50	6.25	6.25	6.25	6.25	6.25	8.27	7.33	6.56	6.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.35	6.20	6.18	6.25	6.20	6.20	6.20	6.20	6.20	6.20	6.72	6.60	6.21	6.20
3 Month Bill	5.46	5.48	4.73	4.37	4.32	4.41	4.02	3.67	3.70	3.60	3.30	3.15	3.15	3.15	3.15	3.15	5.18	4.21	3.44	3.15
6 Month Bill	5.38	5.33	4.38	4.24	4.23	4.29	3.83	3.59	3.72	3.50	3.30	3.20	3.20	3.20	3.20	3.25	5.00	4.09	3.43	3.21
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.96	3.68	3.48	3.68	3.45	3.35	3.30	3.30	3.30	3.35	3.40	4.69	3.91	3.45	3.34
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.72	3.60	3.47	3.79	3.50	3.40	3.40	3.40	3.45	3.50	3.55	4.37	3.81	3.52	3.48
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.79	3.74	3.73	3.92	3.70	3.65	3.70	3.70	3.75	3.80	3.80	4.13	3.92	3.74	3.76
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.16	4.18	4.30	4.20	4.20	4.25	4.25	4.30	4.30	4.30	4.21	4.29	4.24	4.29
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.78	4.73	4.84	4.88	4.80	4.85	4.90	4.95	5.00	5.00	5.00	4.41	4.78	4.86	4.99

Forecast as of: April 8, 2026

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents FisBZI Year
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

Forecast Delta Table

Changes to the Wells Fargo U.S. Economic Forecast

	Actual								Forecast								Actual		Forecast	
	2024				2025				2026				2027				2024	2025	2026	2027
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product (a)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.77	-0.72	0.11	-0.03	-0.02	-0.07	0.00	0.00	-0.05	0.00	-0.05	-0.31	-0.02
Personal Consumption	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.38	-0.54	-0.30	0.11	0.10	-0.04	0.00	0.00	-0.07	0.00	-0.02	-0.24	0.00
Business Fixed Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.46	1.80	-0.81	-0.25	0.01	0.04	0.05	0.09	0.09	0.00	-0.09	-0.02	-0.04
Equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.67	6.20	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	1.60	0.00
Intellectual Property Products	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1.78	0.00	0.00	-0.01	-0.02	-0.01	-0.01	-0.01	-0.01	0.00	-0.11	-0.33	-0.01
Structures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-4.65	-2.80	-4.80	-1.50	0.10	0.20	0.30	0.50	0.60	0.00	-0.28	-2.66	-0.27
Residential Investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.99	-1.30	-0.80	-3.30	-0.20	-0.20	0.20	0.30	0.40	0.00	0.06	-0.71	-0.47
Government Purchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.70	-1.98	1.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	-0.29	0.10
Net Exports	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-18.64	-23.79	-16.81	-17.03	-17.44	-17.93	-18.52	-19.14	-19.63	0.00	-4.66	-18.77	-18.80
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.30	-0.09	0.11	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	0.00	-0.02	-0.06	0.00
Inventory Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.16	-4.00	0.31	2.61	-2.00	-4.15	-4.31	-5.54	-7.23	0.00	1.54	-0.77	-5.31
Pct. Point Contribution to GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07	-0.17	0.07	0.04	-0.07	-0.03	0.00	-0.02	-0.03	0.00	0.01	-0.01	-0.02
Nominal GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.63	-0.12	1.38	-0.02	-0.07	-0.19	0.11	-0.02	-0.11	0.00	-0.04	0.11	0.03
Real Final Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.84	-0.55	0.04	-0.07	0.06	-0.03	0.01	0.01	-0.03	0.00	-0.05	-0.30	0.00
Retail Sales (b)	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.21	-0.05	-0.21	-0.43	-0.67	-0.38	-0.13	0.12	0.00	0.00	-0.12	-0.26
Inflation Indicators (b)																				
PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.47	0.47	0.45	0.27	-0.01	-0.02	-0.02	0.00	0.00	0.38	0.05
"Core" PCE Deflator	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.19	0.23	0.22	0.09	0.04	0.01	0.03	0.00	0.00	0.19	0.04
Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.83	0.78	0.72	0.55	-0.16	-0.15	-0.14	0.00	0.00	0.61	0.02
"Core" Consumer Price Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.50	0.51	0.44	0.33	-0.14	-0.16	-0.10	0.00	0.00	0.38	-0.02
Producer Price Index (Final Demand)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.36	1.02	1.04	1.14	1.17	0.63	0.62	0.55	0.00	0.00	0.89	0.74
Employment Cost Index	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Real Disposable Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	1.02	0.11	-1.85	-0.64	-0.02	0.05	0.12	-0.10	0.02	0.06	0.00	0.14	-0.42	-0.01
Nominal Personal Income (a)	0.00	0.00	0.00	0.00	0.00	0.00	1.14	0.10	-0.63	-0.08	-0.01	0.00	0.01	0.01	0.00	0.01	0.00	0.15	-0.01	0.00
Industrial Production (a)	0.00	0.00	0.00	0.00	0.00	0.00	-0.05	0.03	0.39	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.00
Capacity Utilization	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Federal Budget Balance (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.48	-0.24	-0.24	-0.02	0.05	-0.02	-0.02	-0.02	0.00	0.00	0.00	0.00
Trade Weighted Dollar Index (d)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.89	0.70	-0.84	-2.81	-0.60	-4.58	-6.16	-6.84	0.00	0.00	-0.52	-4.55
Nonfarm Payroll Change (e)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	46.27	6.30	2.00	0.67	1.67	1.33	2.00	2.67	0.00	0.00	13.81	1.92
Unemployment Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.06	-0.12	-0.09	-0.06	-0.06	-0.06	-0.06	-0.07	0.00	0.00	-0.08	-0.06
Housing Starts (f)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	-0.03	-0.03	-0.03	-0.01	-0.01	-0.01	-0.01	0.00	0.00	-0.01	-0.01
Light Vehicle Sales (g)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.00
Crude Oil - Brent - Front Contract (h)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.98	18.67	9.67	8.00	7.33	6.83	6.67	7.00	0.00	0.00	9.33	6.96
Quarter-End Interest Rates (i)																				
Federal Funds Target Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Secured Overnight Financing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Prime Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
Conventional Mortgage Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.10	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.07	0.01
3 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.25	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00
6 Month Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.17	0.20	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.00
1 Year Bill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23	0.10	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.00
2 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.29	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.00
5 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.27	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	0.00
10 Year Note	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.00
30 Year Bond	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00

Forecast as of: April 8, 2026

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents FisBZI Year
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

Sector Analysis

Personal Consumption Expenditures (PCE)

- Consumer spending has held up reasonably well in the wake of the conflict in Iran, but we expect a slowing in spending as a result of higher oil prices to dent second quarter consumption.

We have downwardly revised our expectations for consumer spending this year after factoring in higher oil prices into our inflation outlook. Higher energy prices will erode real income and lower purchasing power will likely force households to prioritize larger outlays on gasoline and food and thus pull back on discretionary goods and services. We now look for real PCE to rise at an annual average pace of 2.0% this year.

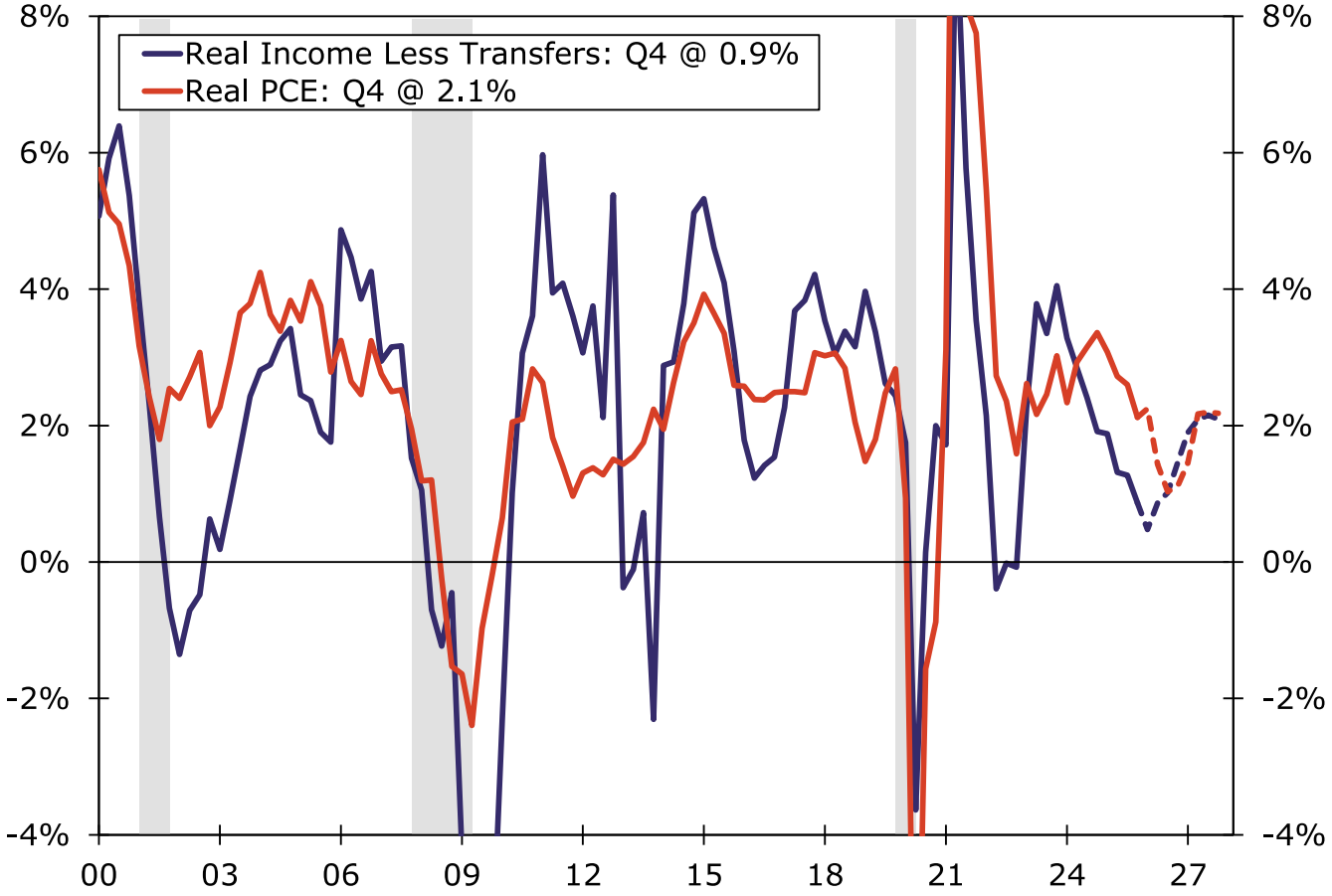
Investment: Equipment, Intellectual Property Products and Inventories

- Incoming data suggest some broadening out in manufacturing activity, but a continued prioritization of high-tech-related investment spending remains the leading factor behind robust investment growth.

Incoming data suggest a stronger pace of real equipment investment in Q1. Nondefense capital goods shipments are running at a strong clip and most durable goods categories continue to see orders increase month to month. The ISM manufacturing index has also now been consistent with expansion for the past three months—a feat last achieved four years ago in 2022. High-tech related investment continues to be robust with a surge in high-tech imports, which accounted for just over half of the jump in goods imports in February. We've lifted our Q1 estimate as a result and look for real equipment investment to rise at over a 16% annualized clip.

Real Income Less Transfers vs. Real PCE

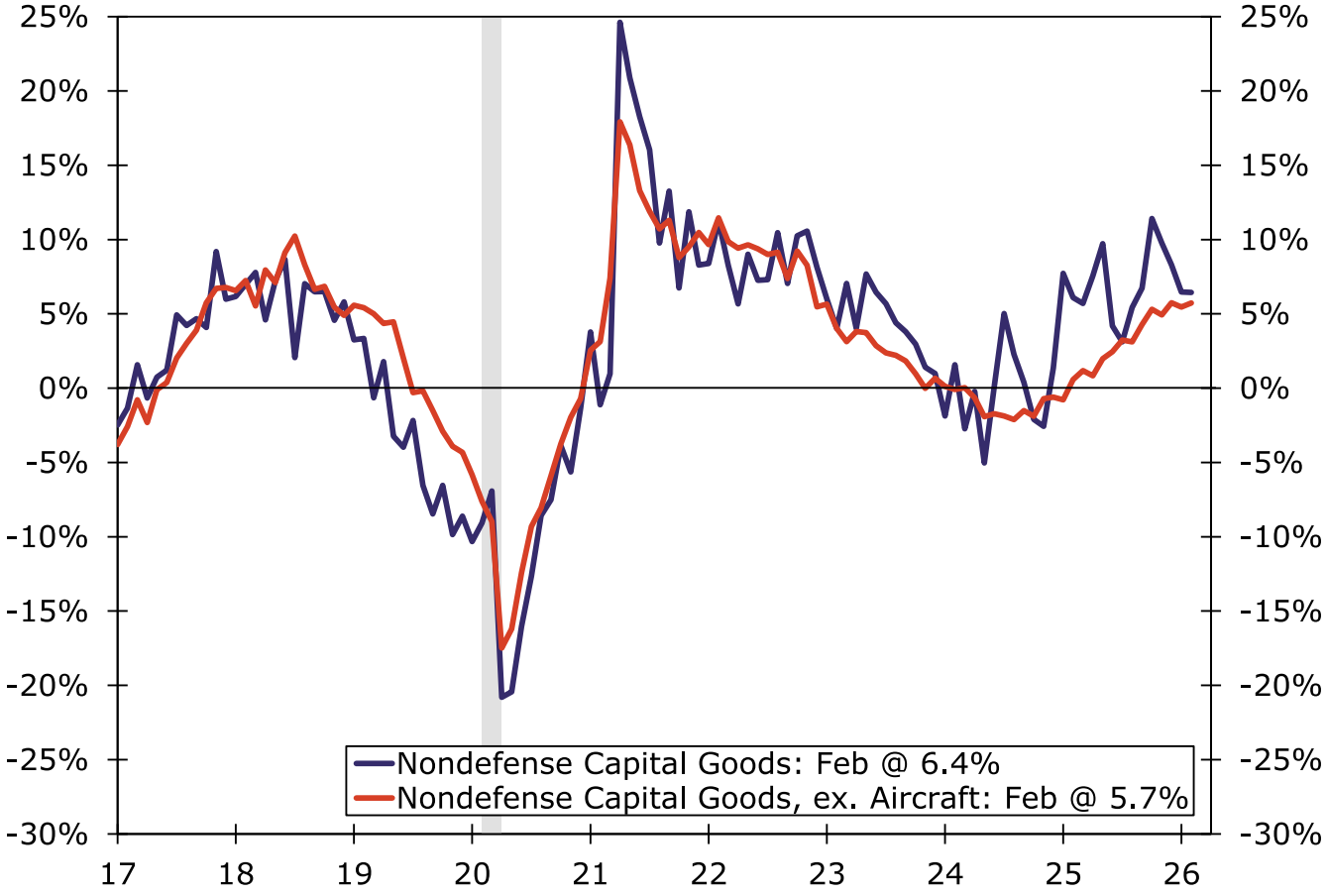
Year-Over-Year Percentage Change



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

Nondefense Capital Goods Shipments

Year-over-Year Percent Change



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

- Higher mortgage rates and a weaker-than-anticipated pace of home sales and residential construction have encouraged us to lower our near-term outlook for residential investment.

The Iran conflict has led to higher mortgage rates, renewing affordability pressures for home buyers during the critical spring selling season. The leg up in financing costs will not completely derail activity, but even before geopolitical developments intensified, both new and existing home sales were running at a generally sluggish pace on account of ongoing affordability challenges and cooling labor market conditions. Meanwhile, the uptick in mortgage rates will likely serve to reinforce the recent downtrend in home building brought on by an elevated inventory-to-sales ratio.

Investment: Nonresidential Structures

- We have modestly downgraded our structures forecast for 2026. Though higher oil prices will generate more drilling activity, elevated uncertainty and increased building costs via energy commodity prices represent a headwind for new projects.

The spike in energy prices and increased geopolitical uncertainty represent new headwinds for near-term nonresidential construction activity. Higher oil and gas prices are likely to flow through to transportation and material prices, adding to tariff-related pressure on development costs. Energy-related investment should receive a boost from an increase in drilling activity via higher oil prices. Another support should be the AI infrastructure build-out, which continues to drive robust growth in data center, power and other mega-projects. Looking further ahead, less-restrictive monetary policy should eventually become a stronger tailwind and lead to an improved pace of structures investment.

Source: Freddie Mac and Wells Fargo Economics

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

Net Exports & Trade

- Incoming trade data suggest only marginal adjustments to growth from net exports. U.S. Customs and Border Protection has reported making progress on the IEEPA refund system, and we continue to expect funds will start being disbursed sometime in late Q2.

Imports and exports were both stronger than anticipated in February, shaking out to somewhat weaker Q1 net exports—we now look for trade to slice just over a full percentage point off of Q1 GDP growth. Trade flows remain incredibly volatile in the wake of continued tariff uncertainty and a high-tech investment prioritization. We still anticipate a bulk of tariff refunds will start being paid in late-Q2 and Q3, which will likely act as profit-margin protection for firms rather than have a stimulative effect on growth. We also continue to assume tariffs remain in effect around current levels.

Labor Market

- We made no material changes to our labor market outlook. We expect nonfarm payroll growth to average 55K per month in 2026, and we look for the unemployment rate to end the year at 4.4%.

The first quarter was distorted by strikes and volatile weather, creating some noise in the month-to-month payroll numbers. Smoothing with a three-month average, private sector payrolls rose 79K in March, essentially the same pace as January. We expect hiring to slow further in the months ahead. Renewed geopolitical uncertainty and optimism around the productivity-enhancing potential of AI should keep labor demand restrained. That caution is evident in job postings continuing to drift lower and small business hiring plans recently pulling back. As payroll growth moderates, we expect the unemployment rate to rise to 4.4% in Q2 and hold there through year-end. The muted labor market backdrop should continue to ease wage pressures, with the Employment Cost Index likely to subside to a cycle low of 3.3% year-over-year in Q2.

Inflation

- Energy-driven inflation is likely to linger and pressure other components. We now look for core PCE inflation to end the year at 2.8% on a Q4-over-Q4 basis.

We raised our inflation outlook as the conflict in the Middle East continues. We now expect the PCE deflator to peak at 3.7% year-over-year in Q2. The energy shock should remain concentrated in oil and fuels, at least in the U.S., as domestic natural gas prices generally have remained in check. Still, higher fuel costs are likely to work their way into other categories as production and transportation expenses rise, with airfares and food most notably exposed. Moderating shelter inflation and the unwinding of tariff-related pressures should partially offset the energy shock spillover, but not fully. We now expect core PCE inflation to remain stuck between a range of 2.7-3.1% through the remainder of the year, marking an end to the gradual disinflationary trend that has underpinned the past two years.

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

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

- Our federal budget deficit forecast remains unchanged. The government component of GDP will rebound in Q1 from its shutdown-induced nosedive in Q4 and contribute roughly 1.5 percentage points to headline GDP growth.

When Congress returns from its recess the week of April 14, focus will be on a new budget reconciliation bill. If Republicans pass a reconciliation bill that is solely focused on providing supplemental funding for immigration enforcement and the military, we doubt the legislation will be a major factor for financial markets. A few hundred billion dollars of new spending spread out over several years would not materially change our economic outlook. However, if the bill begins to grow in scope, such as including a slew of new tax cuts like the One Big Beautiful Bill, this could have more material implications. The latter is not our base case, but it is something we will be monitoring closely.

Monetary Policy & Interest Rates

- We forecast two 25 bps rate cuts this year (Sep. and Dec.), followed by an extended hold at 3.00%-3.25%. Our 2026 year-end 10-year Treasury yield forecast remains unchanged at 4.25%.

While we still expect 50 bps of total cuts this year, we now expect easing will come later with 25 bps cuts at the September and December FOMC meetings. The labor market remains modestly on the wrong side of full employment and the energy price shock adds a new source of downside risk. Furthermore, monetary policy is already in restrictive territory when comparing the spot federal funds rate (~3.625%) to the SEP's median longer-run estimate (3.125%). Higher energy prices may bleed into core inflation, but this should be mitigated by slower inflation in tariff-sensitive goods. Taken together, we think the next move from the FOMC is still more likely to be a cut than a hike, even if the risks are skewed toward later and/or less easing.

Economics Group

Tom Porcelli	Chief Economist	212-214-6422	Tom.Porcelli@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Aroop Chatterjee	Senior Economist	212-214-8819	Aroop.Chatterjee@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com

All estimates/forecasts are as of 4/8/2026 unless otherwise stated. 4/8/2026 9:44:56 EDT.

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Securities, LLC (“Wells Fargo Securities”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. Wells Fargo Securities distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank, N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our internal client website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities to be reliable, but has not been independently verified by Wells Fargo Securities, may not be current, and Wells Fargo Securities has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of Wells Fargo Securities and may differ from the views and opinions of other departments or divisions of Wells Fargo Securities and its affiliates. Wells Fargo Securities is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report. Neither Wells Fargo Securities nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. Wells Fargo Securities is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of Wells Fargo Securities, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. “AI Technologies” means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by Wells Fargo Securities, its affiliates or one or more third parties (collectively, “Protected Content”). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other

than fair use requires permission from Wells Fargo Securities or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by Wells Fargo Securities or the third-party providers from whom Wells Fargo Securities has obtained the applicable information. © 2026 Wells Fargo Securities, LLC

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE