

VISTAS from Texas: U.S. Economic Outlook

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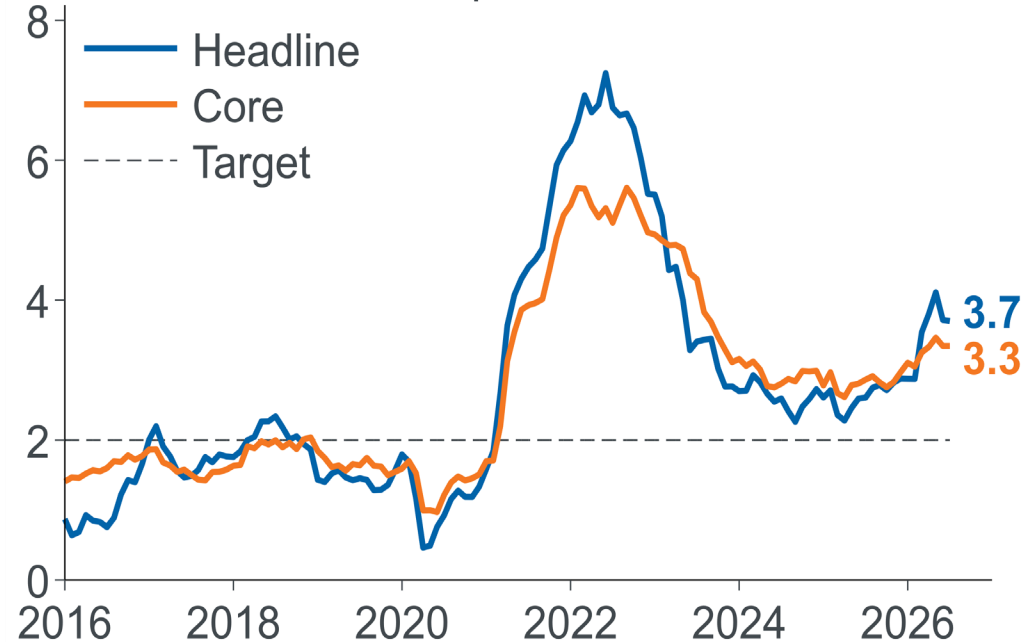
*The views expressed are my own and do not
necessarily reflect official positions
of the Federal Reserve System.*

Current snapshot of the U.S. economy

- Inflation remains above 3 percent, reflecting both supply shocks and demand pressures.
 - Energy prices have contributed to high inflation this year, but so have prices for a range of other goods and services.
- Labor market is stable, near full employment.
 - Unemployment rate has edged down recently.
- GDP growth has been solid, near trend, and shows signs of accelerating.
 - Supported by strong consumption and robust business investment.

Inflation remains above FOMC's target

12-month PCE inflation, percent

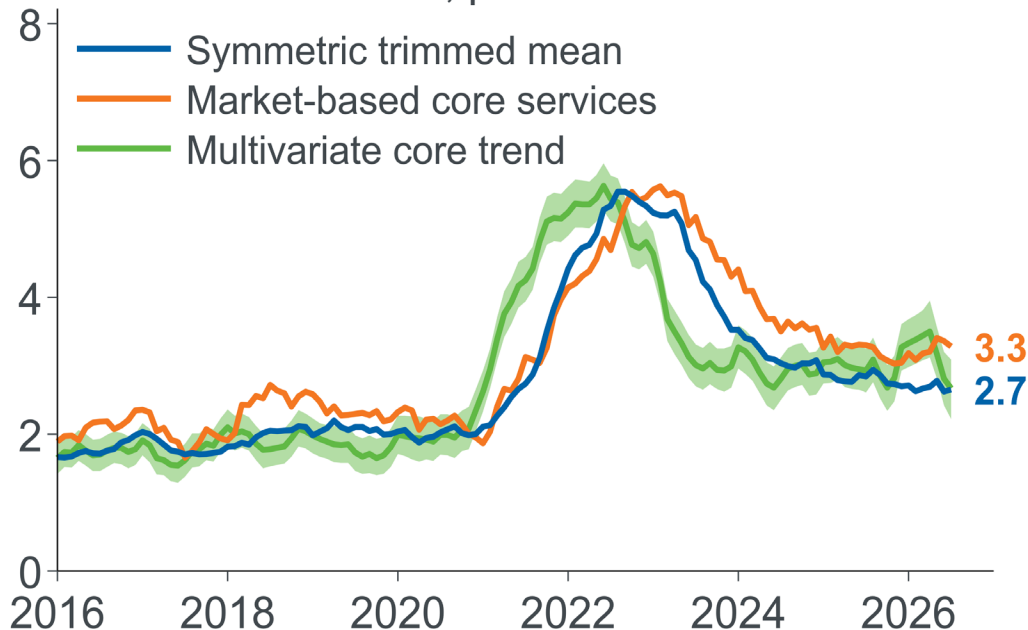


NOTE: Data through July 2026.
SOURCE: Bureau of Economic Analysis.

- Inflation has been above 2 percent target since mid-2021.
- Inflation came down over 2023 and 2024, but started to move up in 2025.
- Tariffs contributed in 2025 and 2026; energy added in 2026.
- Core inflation, which excludes food and energy prices, has also moved up.

Other measures of trend inflation above 2 percent

12-month PCE inflation, percent

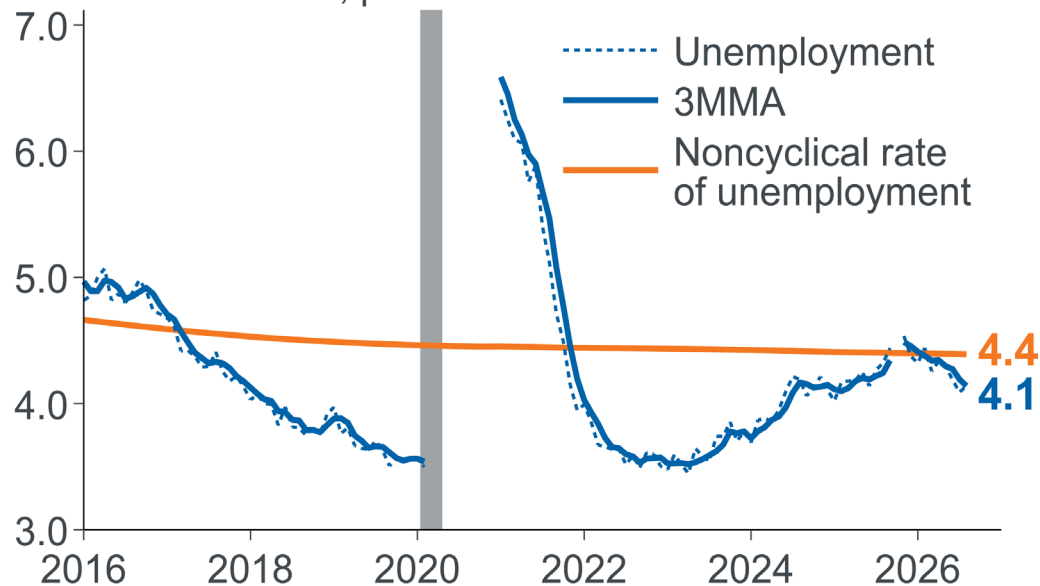


SOURCE: Bureau of Economic Analysis; Federal Reserve Bank of New York; author's calculations.

- Higher inflation may be due to temporary factors rather than broader price pressures.
- Measures of trend inflation strip out these factors.
- A version of the Dallas Fed trimmed mean has been in the high to mid 2s over the past year.
- Other measures which remove sector-specific price changes or the direct effects of energy and tariffs have been near 3.

Labor market stable, near full employment

Share of labor force, percent



NOTES: Unemployment rate dropped from March to December 2020 to preserve axis scale; gray bars denote NBER-dated recessions.

SOURCES: Bureau of Labor Statistics; Congressional Budget Office; National Bureau of Economic Research.

- Firms' demand for qualified workers exceeded supply following the pandemic.
- Unemployment fell to very low levels that added to price pressures.
- Unemployment rate rose gradually over 2024 and 2025 along with tighter monetary policy.
- Unemployment has ranged near estimates of the level consistent with full employment for the past 2 years.
 - And it has recently edged down.

Job growth has slowed in line with labor force growth

Nonfarm payroll employment change, thousands

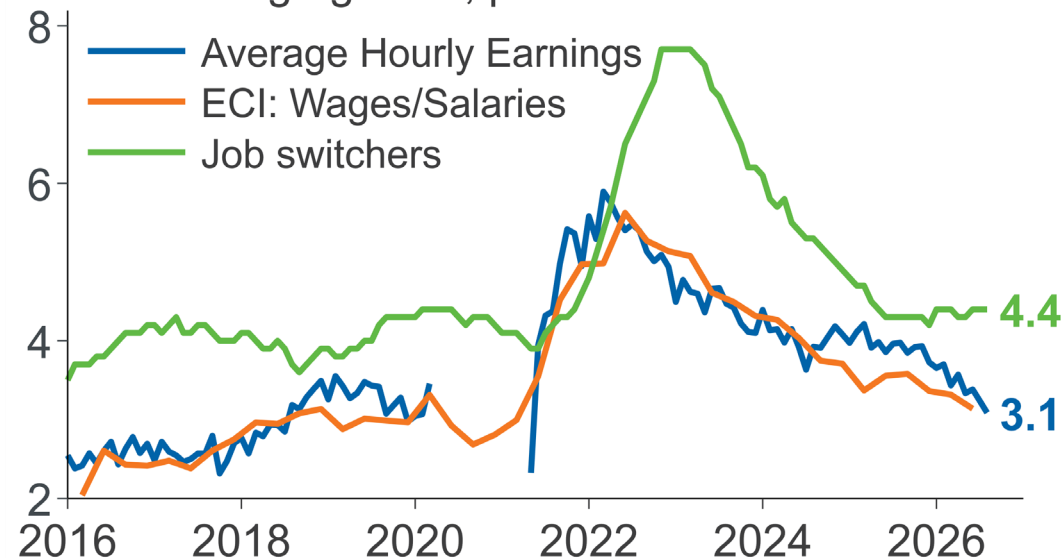


NOTES: 3MMA payrolls dropped from March to December 2020 to preserve axis scale.
SOURCE: Bureau of Labor Statistics; Federal Reserve Bank of Dallas staff.

- Job growth slowed significantly in 2025, but has recently picked to around 70K/month.
- Lower immigration and aging population has slowed labor force growth.
- Lower labor force growth means lower job growth is needed to keep up with labor force.
- Estimates of breakeven number of jobs needed to keep unemployment rate steady slowed from about 200K/month to near zero.

Wage growth cooled along with the labor market

12-month wage growth, percent



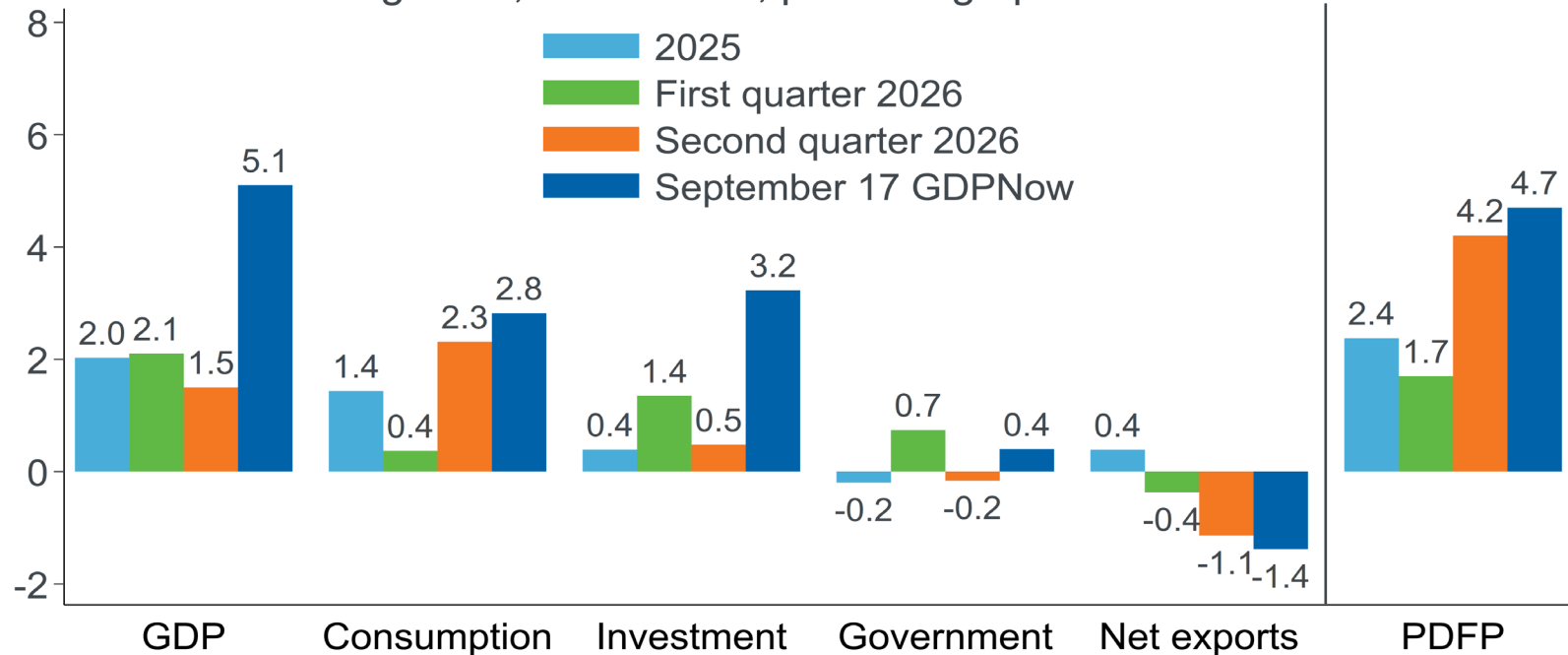
NOTES: AHE/job switchers (ECI) data through August (second quarter) 2026; AHE growth dropped from April 2020 to April 2021 to preserve axis scale; Job switchers is the 12-month moving average of median wage growth for workers obtaining a new job within the month.

SOURCE: Bureau of Labor Statistics; Federal Reserve Bank of Atlanta.

- Wage growth has slowed as labor market has come into balance.
- Average wage growth near 3 percent suggests that the labor market is not currently source of price pressures.
- Wage growth of job switchers has begun to move up.
 - May indicate workers seeking to increase their wages given higher inflation.

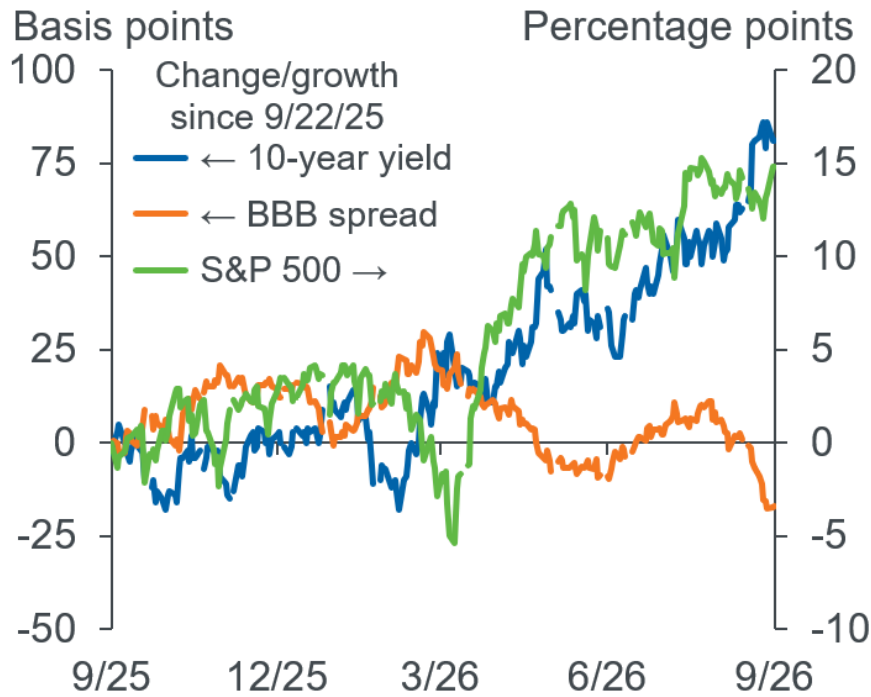
GDP growth solid, driven by consumption and business investment

Contribution to real growth, annual rate, percentage points

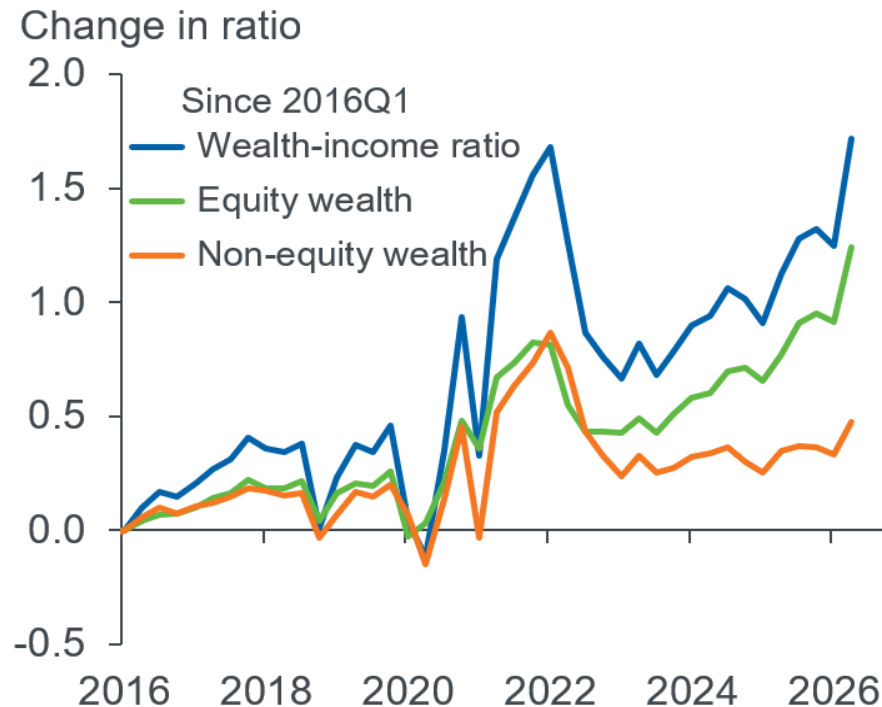


SOURCES: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, author's calculations.

Equity gains, tighter spreads offset higher rate pressures; Wealth-income ratios at all-time highs



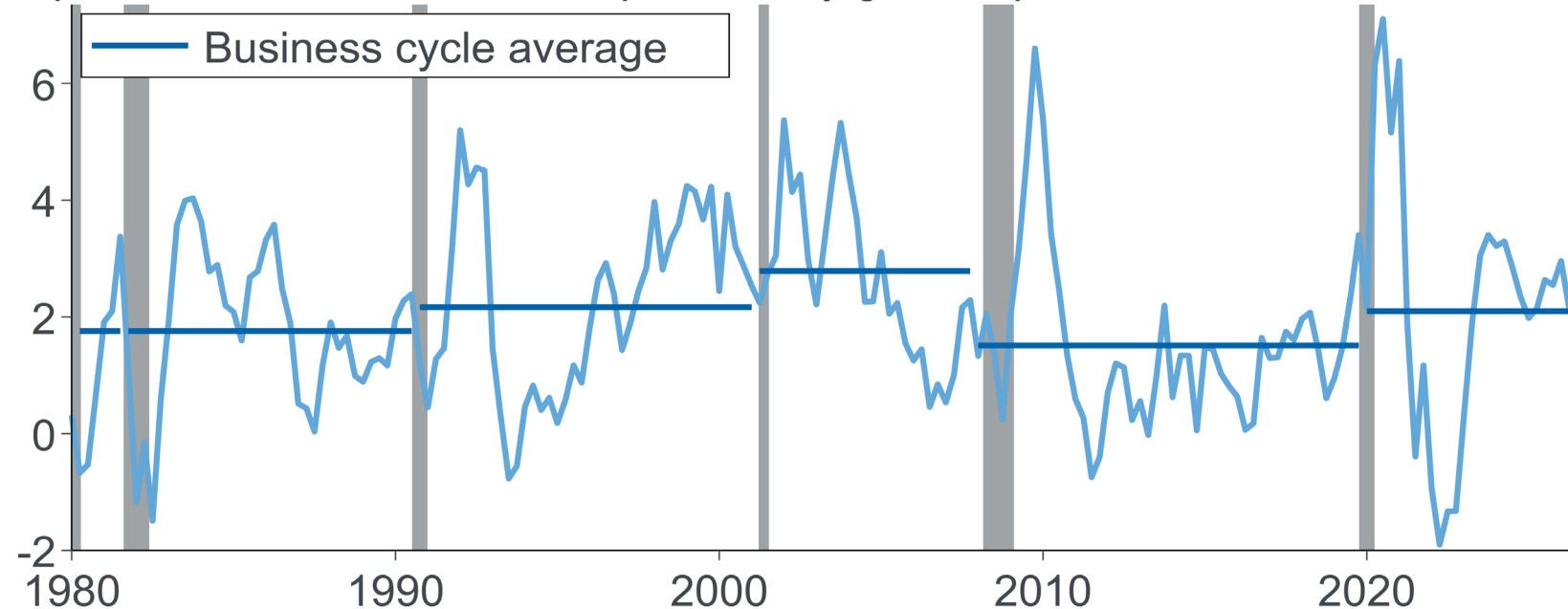
SOURCES: Board of Governors of the Federal Reserve System;
ICE/BofA Merrill Lynch; Standard & Poors.



SOURCES: Board of Governors of the Federal Reserve System.

Productivity up, but not at internet-era levels (yet)

4-quarter business sector labor productivity growth, percent

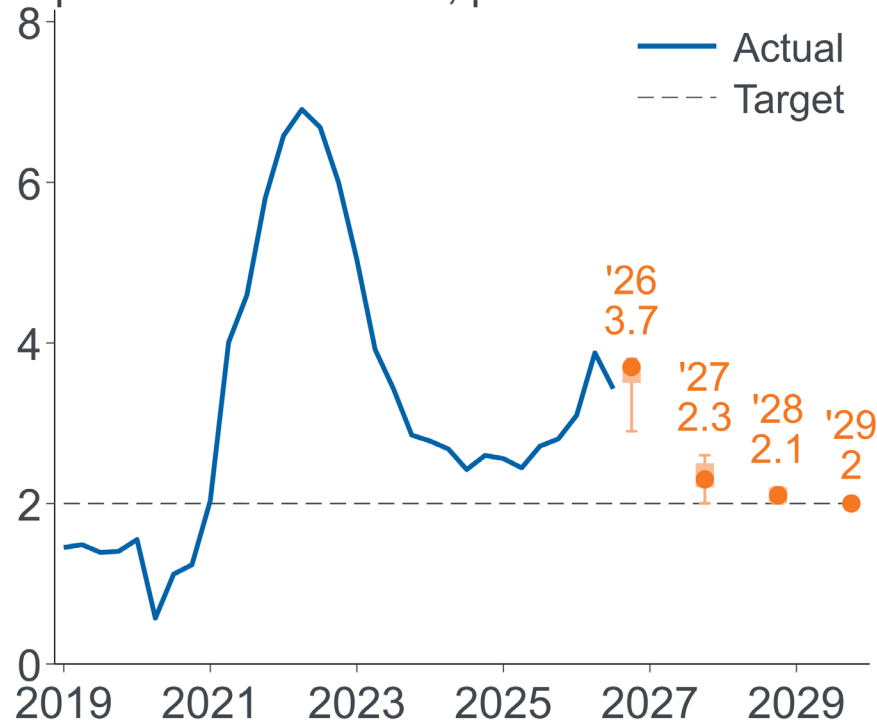


NOTES: Labor productivity growth is output growth less aggregate hours growth; gray bars denote NBER-dated recessions.
SOURCES: Bureau of Labor Statistics; author's calculations.

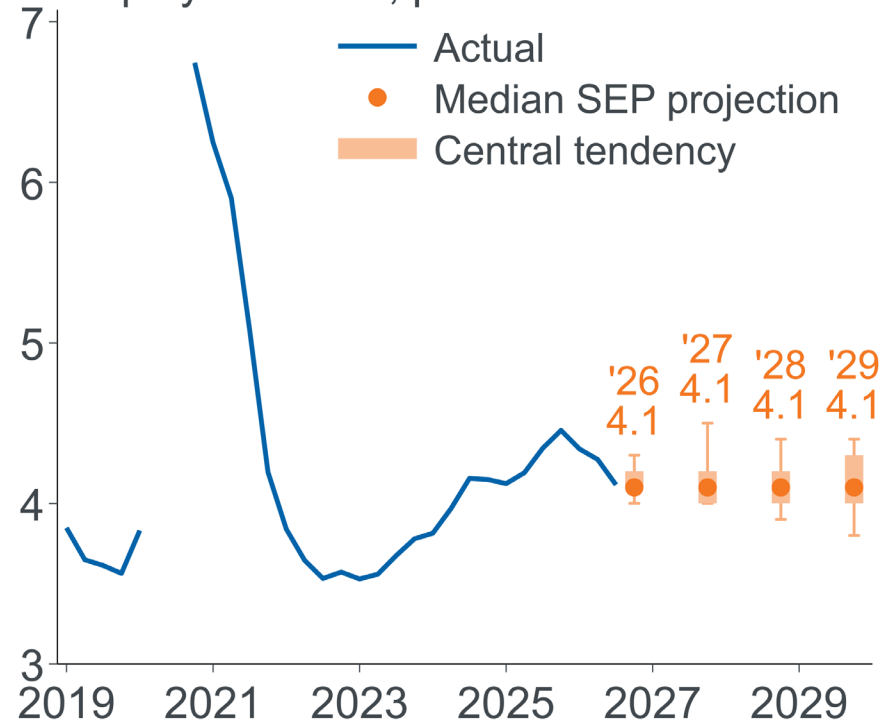
Near-term Outlook: Summary of Economic Projections (SEP)

Outlook for the FOMC's dual mandate

4-quarter PCE inflation, percent



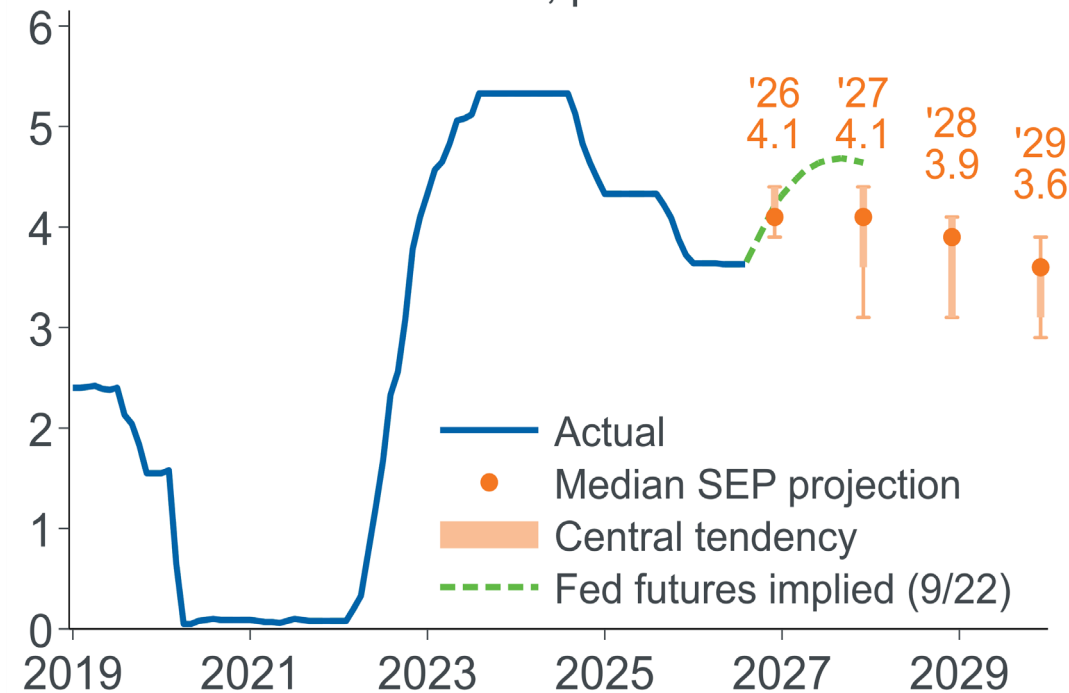
Unemployment rate, percent



SOURCES: Bureau of Economic Analysis; Bureau of Labor Statistics; Board of Governors of the Federal Reserve System.

Outlook for monetary policy

Effective federal funds rate, percent



SOURCES: Board of Governors of the Federal Reserve System; Bloomberg.

- Range of views on the likely future path of monetary policy.
 - Reflects differing views of the state of the labor market and factors driving inflation and the risks to each.
- Most see inflation risks as skewed to the upside, but more balanced risks to the labor market.
- Financial markets that aggregate range of views are pricing in further policy tightening and that inflation will come down some over the coming year.

Risks to the outlook

		Risks to inflation	
		Upside	Downside
Risks to activity	Upside	• Easy financial conditions may further stimulate spending. • Further broadening out of AI demand pressures ahead of supply-side gains. • Second round inflation effects from tariffs or energy costs. • Inflation expectations could move up.	• Positive supply shock, such as productivity boom or increase in productive capacity.
	Downside	• More negative supply shocks (e.g., greater disruption to oil markets; shipping disruptions) leading to eventual pullback in investment or spending. • Inflation expectations could move up.	• Financial conditions could tighten (e.g., AI boom turns to bust).



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