Economic Outlook

September 2026

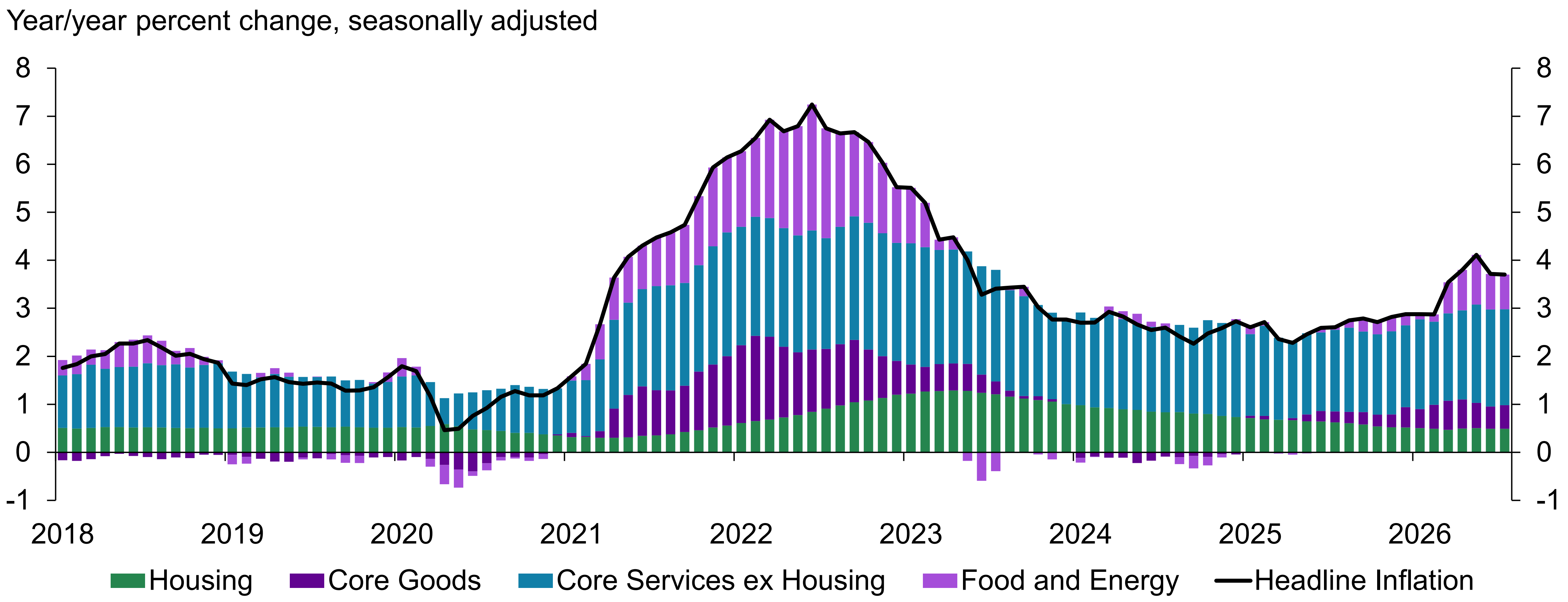
FEDERAL RESERVE BANK OF KANSAS CITY

Denver / Oklahoma City / Omaha

U.S. Economic Outlook

- Inflation remains too high. AI spending is adding upward pressure to inflation.
- Labor market remains resilient. Job growth is healthy, layoffs are low, and unemployment sits near historic lows.
- The fiscal backdrop is stretched. A wide deficit and high debt are pushing up Treasury yields.

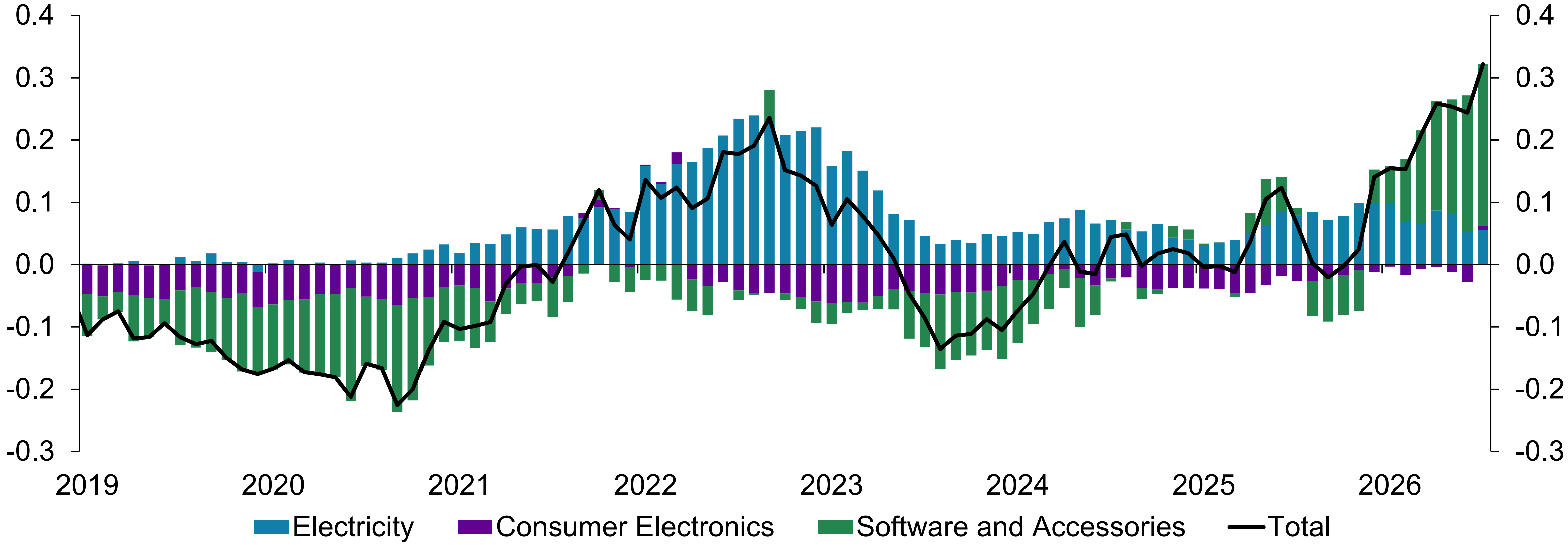
Inflation is above the 2 percent target.



Sources: Bureau of Economic Analysis, Haver Analytics

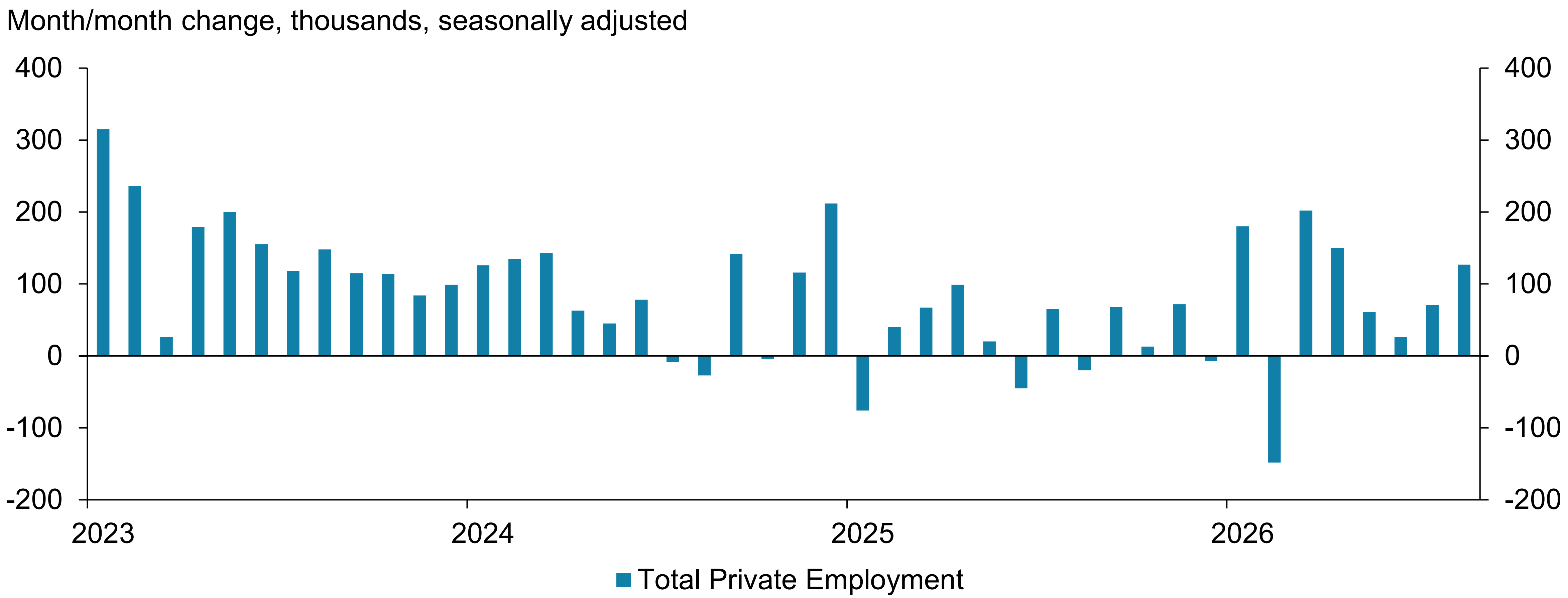
AI spending is adding upward pressure to inflation.

Percentage point contributions to year/year percent change in core PCE, seasonally adjusted



Sources: Bureau of Economic Analysis, Haver Analytics

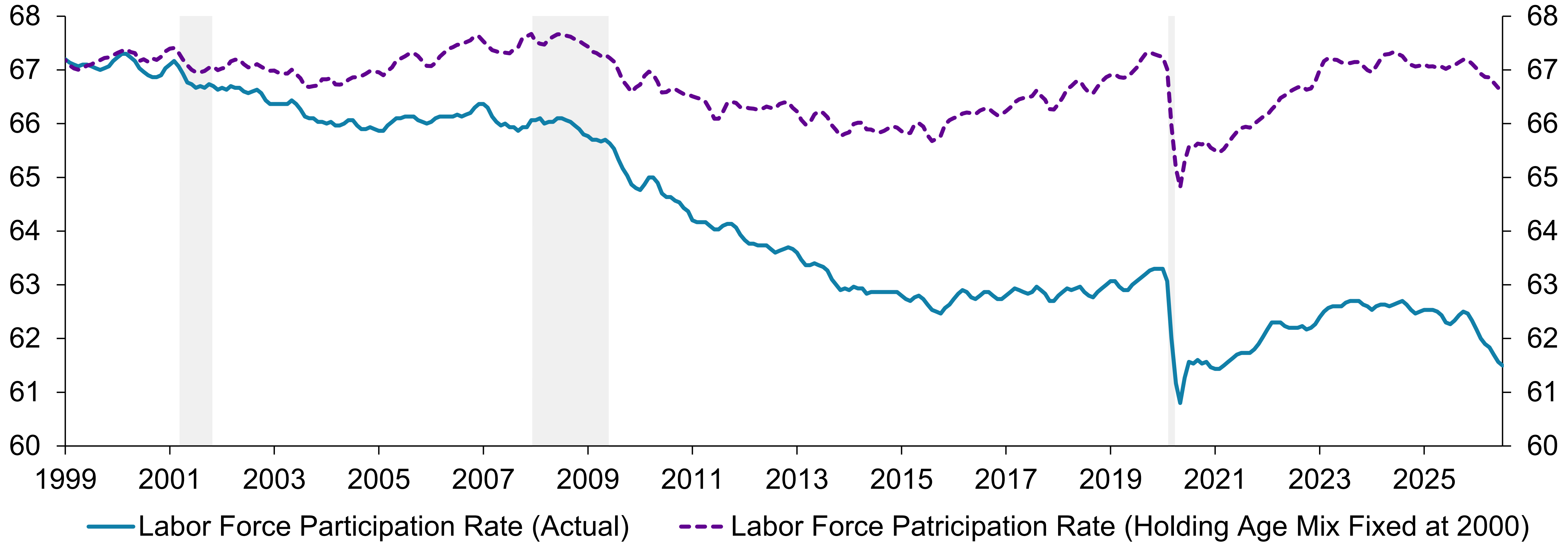
The private sector is adding jobs at a healthy pace.



Sources: Bureau of Labor Statistics, Haver Analytics

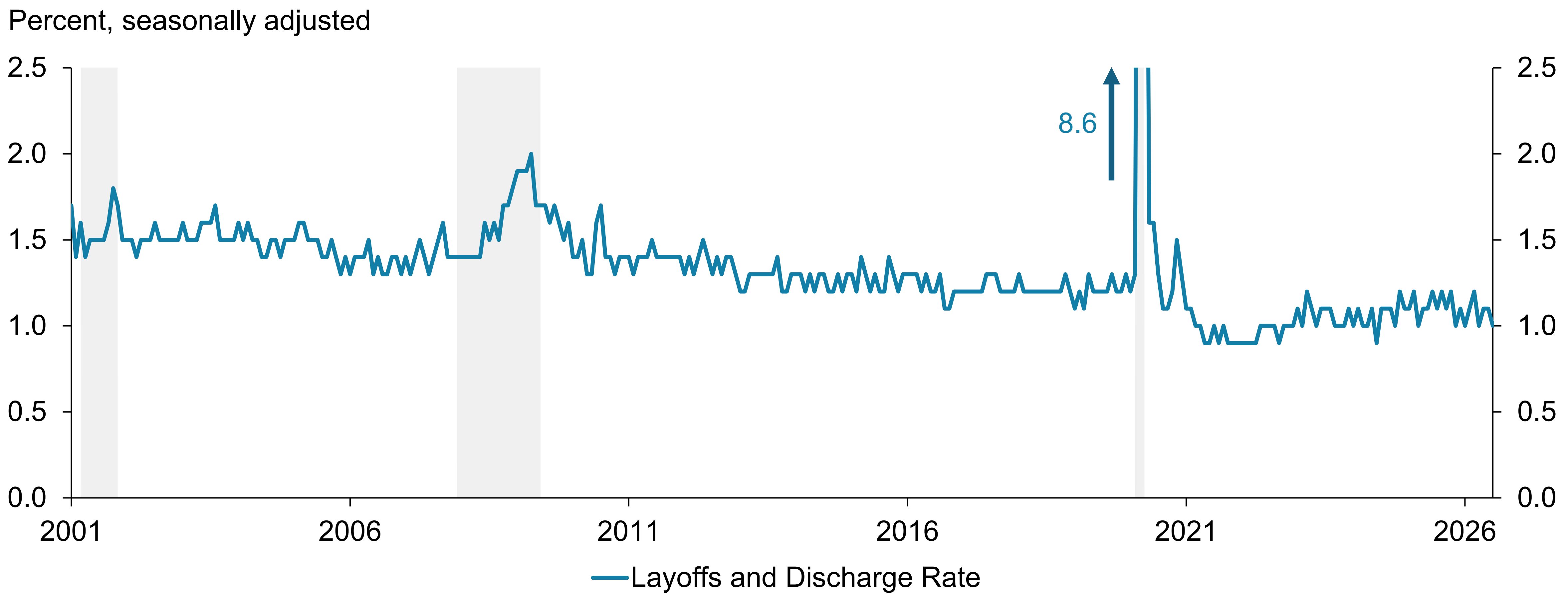
Aging population weighs on labor supply.

Percent, centered 3-month moving average, seasonally adjusted



Sources: Bureau of Labor Statistics, Current Population Survey microdata (IPUMS CPS, University of Minnesota, www.ipums.org), Petrosky-Nadeau (2026) “Labor Market Trends and Projections,” United States Census Bureau, authors’ calculations, Haver Analytics

Layoffs remain subdued.

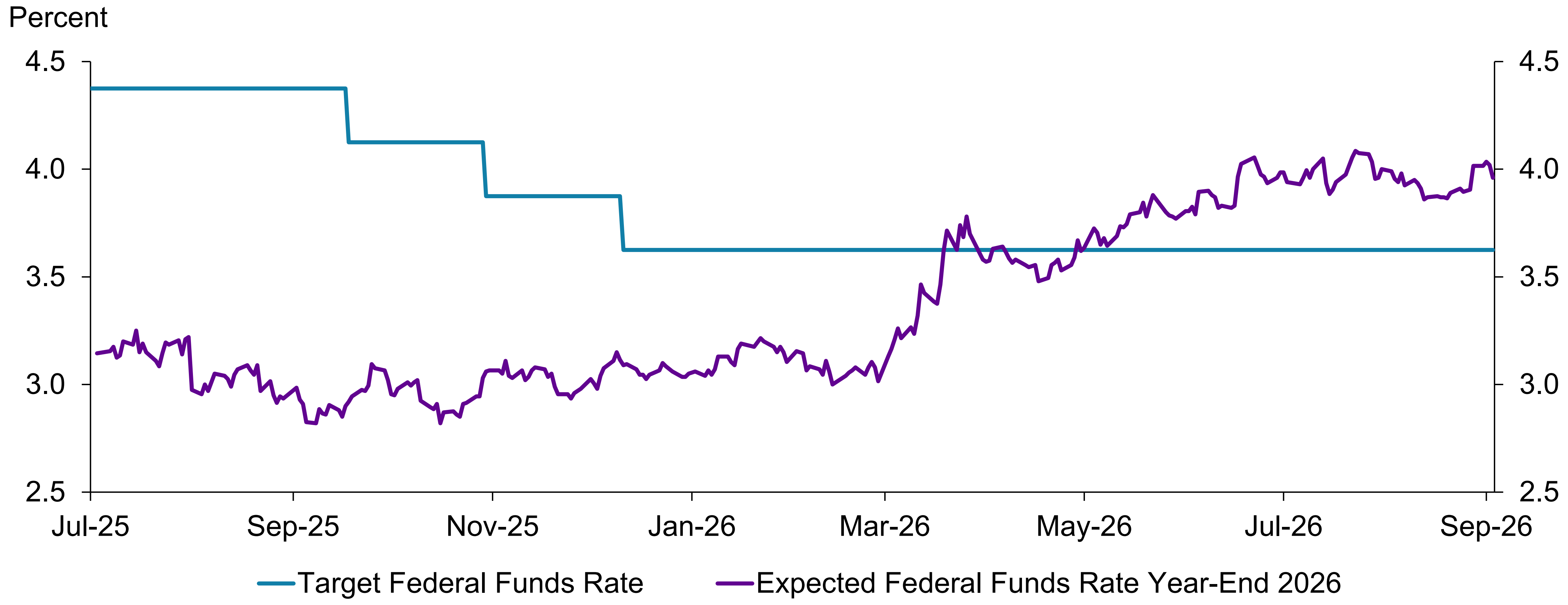


Sources: Bureau of Labor Statistics, Haver Analytics

Unemployment stays near historical lows.

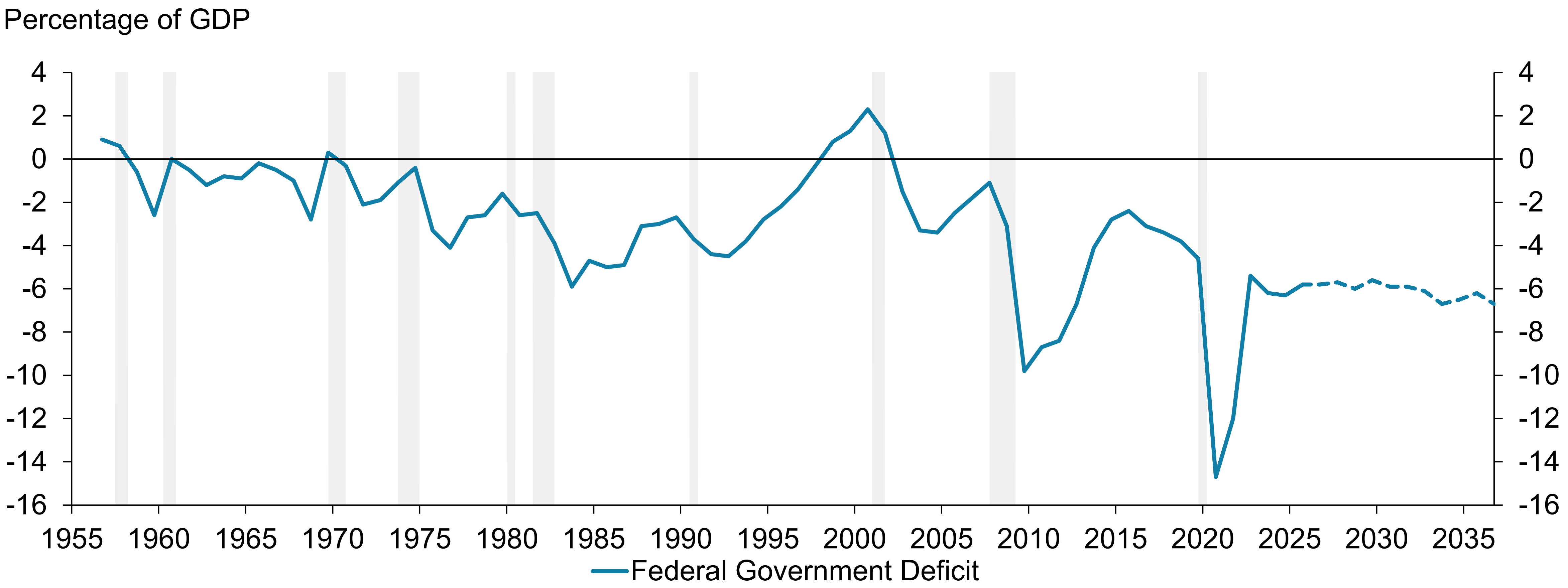
Sources: Bureau of Labor Statistics, Haver Analytics

Markets have priced in higher policy rates.



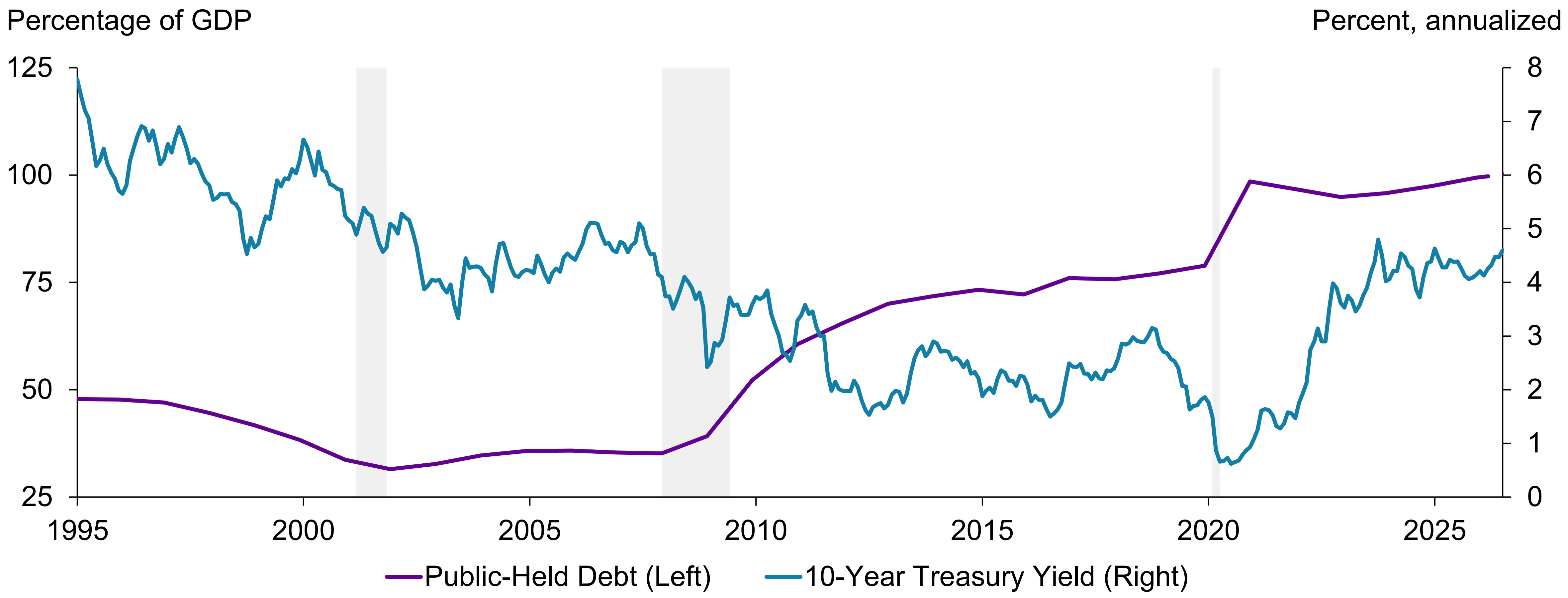
Sources: Chicago Board of Trade, Federal Reserve Bank of New York, Haver Analytics

Government deficit stays historically wide outside of a recession.



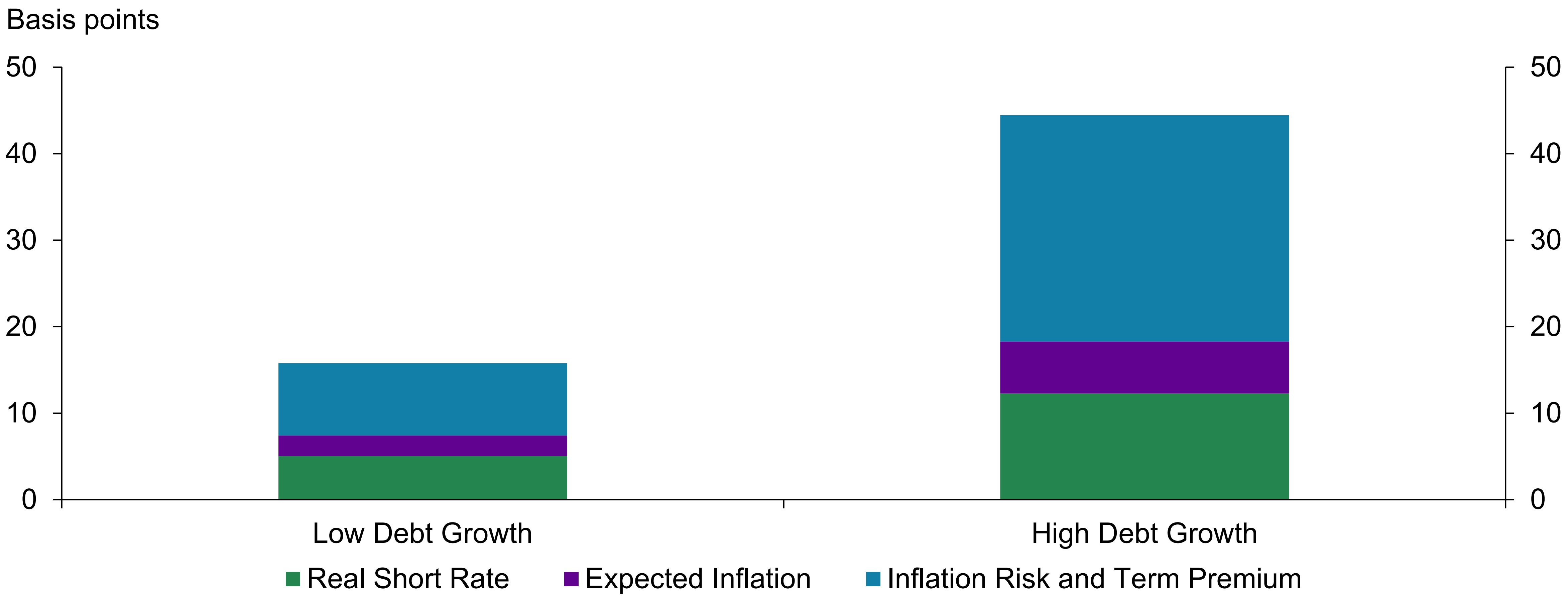
Sources: Congressional Budget Office, Haver Analytics

Government debt is higher while Treasury yield has increased.



Sources: Congressional Budget Office, Federal Reserve Board, Haver Analytics

Higher government debt is likely to put upward pressure on long-term Treasury yields.



Note: The chart shows the responses of five-to-10-year-ahead real short rate, expected inflation, and risk premium following an increase of debt-to-GDP ratio by 20 percent.
Sources: Kim, Walsh, and Wei (2019); Bi, Phillot, and Zubairy. 2025. "Higher Treasury Supply Is Likely to Put Upward Pressure on Interest Rates".

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