Deutsche Bank
Research

Economics
US Economic Notes

Date
23 January 2026

What you need to know for the week ahead

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Commentary for Monday: Following a tumultuous week for financial markets, investors will focus intently on Wednesday's FOMC meeting. As we noted last week (see "Fed Notes: Jan FOMC: In a world that keeps on pushin' inflation around, gonna stand their ground "), the Fed is widely expected to hold rates steady and present a somewhat more upbeat view about the economy through the policy statement and Chair Powell's press conference. Given recent events, Powell's presser is likely to focus on some non-economic issues – e.g., the recent DoJ subpoena (see "Implications of the latest Fed legal developments"), Governor Cook's case, who will be the next Fed chair, and whether Powell might remain on the Board (see "Could Jerome Powell follow the Marriner Eccles precedent?"). On the fundamental side, we expect he will describe policy as "well positioned" as it has entered a plausible range of neutral. He might also sound somewhat more sanguine on the labor market, while still emphasizing downside risks. As always we will host our pre-FOMC webinar on Wednesday with our colleagues from rates sales, trading and strategy prior to the meeting, to register please see Webinar: Webinar: USD rates outlook ahead of the January FOMC .

Regarding the meeting statement, the Committee is likely to upgrade its growth assessment from "a moderate pace" to a "solid pace". Indeed, this was the language that Vice Chair Jefferson used in his January 16 outlook speech. Regarding the labor market, in light of the recent data – recall that the FOMC only had the September employment report at the time of the last meeting – we expect a more sanguine assessment that indicates at minimum no further deterioration since the last meeting. Hence, we see the statement noting "*Job gains remain low, and the unemployment rate has stabilized in recent months*." On inflation, as Chair Jefferson stated last week, "progress slowed over the past year or so, and inflation remains at a level that is above readings consistent with our inflation target." With November core PCE inflation up 2.8% from a year ago, unchanged from where the annual rate stood in January, June and September, the Committee may simply state that "*Inflation remains somewhat elevated*". Indeed, the risk is that the Committee continues to highlight the lack of inflation progress in the meeting statement similar to Jefferson's characterization.

The most important change to the meeting statement should come in the second paragraph. Recall that the Committee had been justifying rate cuts over the past three meetings by stating that "The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months." Given the more sanguine labor market assessment alongside virtually no discernible progress on inflation, we expect the Committee to drop its prior reference to rising labor market risk and simply state "*The Committee is attentive to the risks to both sides of its dual mandate.*" However, we expect the statement will stop short of the "roughly in balance" language used to describe the risk distribution last January.

With respect to Chair Powell's press conference, we expect considerations around Fed independence and recent geopolitical developments – and the market response – to take precedence over the economic outlook. Powell is likely to be asked about the Department of Justice's subpoena in relation to his Congressional testimony about renovations to the Federal Reserve buildings. He will undoubtedly respond by referring to his unprecedented recorded statement from January 11 in which he forcefully argued that these actions were not about the testimony or renovations but instead "is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the President. This is about whether the Fed will be able to continue to set interest rates based on evidence and economic conditions—or whether instead monetary policy will be directed by political pressure or intimidation."

This will naturally lead to questions about who will be the next chair of the Federal Reserve and whether Powell has considered remaining on the Board of Governors after his chair seat expires. On the former, we expect Powell will not comment. Regarding the latter, Powell has not entertained this question in the past when it was raised. We expect he will follow a similar path and remain noncommittal on his future. While not a base case, we do see recent legal actions as raising the potential for Powell to stay on as a governor. Indeed, if the administration insists on following through with a criminal prosecution of Chair Powell, and Senate Republicans stand firm in not advancing nominees to the Federal Reserve Board, it is likely the FOMC would choose Powell to remain on as chair.

Questions around the implications of geopolitical developments for the economic outlook, and the market response to these events, could also feature prominently in the press conference. We suspect that Powell will frame these as risks to the outlook at this point, rather than impacting officials' base case for the economy.

With respect to economic fundamentals, although Powell will likely continue to emphasize that downside risks remain prominent for the labor market, his tone may sound somewhat more sanguine. On the one hand, the low hiring dynamic has not changed and the labor market remains susceptible to shocks. At the same time, there are some reasons to be more optimistic at the margin. First and foremost, growth momentum remains robust. After a strong Q3 (4.3%), real GDP growth looks to have remained firm in Q4, against most expectations for a sharp deceleration. We expect this sturdy growth backdrop to continue, and it appears Fed officials have generally become more optimistic about the growth outlook as well.

On inflation, the picture has become messier since the December FOMC meeting. Fed officials have generally echoed their prior comments around an expectation that a disinflationary trend remains in place. The underpinnings of that story were mostly that shelter inflation should decline over time with the potential to undershoot pre-covid run rates and tariffs will likely manifest as a one-time price level shock that will begin to unwind in the second half of the year. Fundamentally, these stories remain in place.

In short, the January meeting statement and Powell's press conference should send a strong signal that with the policy rate now within the range of Fed officials' estimates of neutral, the Committee is well positioned to respond to risks to either side of their dual mandate should incoming data warrant an adjustment. Though we expect almost all FOMC voters to be on board with such messaging, Governor Miran will likely continue to dissent in favor of additional easing.

Data releases leading up Wednesday's FOMC meeting are unlikely to have a material impact on the tone coming out of the meeting. Monday's durable goods orders (+1.7% headline / +0.2% ex-transportation / +0.2 core) should show a significant boost to the headline from aircraft orders. However, growth in core orders (nondefense capital goods ex-aircraft) – the key component for gauging equipment spending in GDP – could slow a bit following a string of strong prints. Indeed, the three-month annualized gain on core orders through October was 7.8%, the highest since the first three months of 2022.

Tuesday's consumer confidence (91.1 forecast vs. 89.1 previously) reading from the Conference Board should improve if the earlier-reported improvement in University of Michigan sentiment proves prescient. That being said, with consumer spending continuing to belie depressed sentiment readings (see "US Economic Chartbook: Monthly charts: Fast growth despite furious sentiment "), the main focus will be on consumers' labor market views. As we often noted, the Conference Board's jobs-plentiful / jobs hard-to-get series has historically had a high correlation with the unemployment rate.

The post-FOMC data will mostly sharpen analysts' forecasts for Q4 GDP. Thursday's international trade balance (-$44.0bn vs. -$29.4bn) will be the focus on this front given the volatility in the recent trade data. However, Fed officials are more likely to focus on Thursday's jobless claims (215k vs. 200k) and Friday's December PPI (+0.3% headline / +0.3% core) to inform their near-term outlooks for the labor market and inflation. Regarding the former, we expect some payback from depressed claims during the holiday week. That being said, the recent trends in both initial and continuing jobless claims have been following the typical seasonal patterns and show no signs of further deterioration in the labor market; if anything, the jobless claims have fallen year-over-year. In terms of the December PPI, we will focus on those components of the report that feed through into core PCE inflation—namely, healthcare services, domestic airfares and portfolio management. As a reminder, we recently took our 2026 core PCE inflation projection (Q4/Q4) down by a tenth to 2.6% on base effects while 2027 and 2028 remain at 2.3% and 2.2%, respectively (see "December CPI recap" and "US Economic Chartbook: US Inflation Outlook: Distortions and outliers ").

Lastly, we should note that while President Trump may have walked back tariff threats against European countries last week over the issue of Greenland, tensions with Iran remain high and the President last week reiterated his willingness to impose secondary sanctions on countries "doing business with Iran". Given that China is estimated to account for roughly 90% of Iranian oil exports, if Trump follows through with his threat to impose 25% tariffs on February 1 on China, it could reignite fears of a broader trade war. Indeed, this week's FOMC statement is likely to reiterate that "Uncertainty about the economic outlook remains elevated" – a statement the Committee has been making at each meeting since June of last year.

Please see the following pages for a forecast summary and estimates of the upcoming US high-frequency data over the next several weeks.

Figure 1: Fedspeak Calendar

Region	Name	Date	Dove/Hawk	Voter	Events
FRB	FRB	Jan-17 - Jan-29			Fed's external communications blackout
FRB	FRB	Jan-28			FOMC Meeting
St. Louis	Musalem	Jan-30	Hawk	Y	Speaks on economy and policy

Source: Deutsche Bank Research

Figure 2: DB US Forecast Summary

Economic Activity	2025				2026			
(% qoq, saar)	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
GDP	-0.6	3.8	4.3	2.5	2.9	2.7	2.2	2.0
Private consumption	0.6	2.5	3.5	2.5	2.6	2.4	2.1	1.9
Investment	23.3	-13.7	-0.3	-1.0	5.6	8.0	4.1	3.2
Nonresidential	9.5	7.3	2.8	1.9	4.5	4.2	4.0	3.8
Residential	-1.0	-5.1	-5.1	-8.8	1.5	1.0	1.0	1.0
Gov't consumption	-1.0	-0.1	2.2	-3.8	5.7	1.3	1.0	0.7
Exports	0.2	-1.8	8.8	1.1	2.6	2.1	2.1	2.0
Imports	38.0	-29.3	-4.7	-7.5	7.5	4.5	2.6	2.3
Contribution (pp): Inventories	2.6	-3.4	-0.2	-0.5	0.3	0.8	0.1	-0.1
Net trade	-4.7	4.8	1.6	1.3	-0.8	-0.4	-0.2	-0.1
Unemployment rate, %	4.1	4.2	4.3	4.5	4.5	4.5	4.4	4.4
Prices (% yoy)								
CPI	2.7	2.5	2.9	2.8	2.5	2.8	2.6	2.7
Core CPI	3.1	2.8	3.1	2.8	2.6	2.8	2.7	2.8
PCE	2.6	2.4	2.7	2.8	2.7	2.8	2.7	2.5
Core PCE	2.8	2.7	2.9	2.9	2.8	2.9	2.8	2.6
Fed Funds	4.38	4.38	4.13	3.63	3.63	3.63	3.38	3.38

Economic Activity	2027				2028				2025F	2026F	2027F	2028F
(% qoq, saar)	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4	Q4/Q4
GDP	2.0	2.3	1.9	2.3	2.3	1.8	2.1	1.8	2.5	2.4	2.1	2.0
Private consumption	2.0	2.2	2.1	2.2	2.3	2.2	2.3	2.1	2.3	2.2	2.1	2.2
Investment	3.7	4.2	2.7	4.4	4.8	2.6	3.6	2.5	1.2	5.2	3.7	3.4
Nonresidential	3.3	3.1	3.3	3.2	3.3	3.2	3.3	3.1	5.3	4.1	3.2	3.2
Residential	1.5	2.0	2.2	2.3	2.5	2.3	2.4	2.0	-5.0	1.1	2.0	2.3
Gov't consumption	0.5	0.3	0.1	-0.1	-0.3	-0.5	-0.3	-0.3	-0.7	2.1	0.2	-0.3
Exports	2.0	2.1	2.0	2.1	2.0	2.1	2.0	2.1	2.0	2.2	2.0	2.0
Imports	2.2	2.0	1.9	2.0	2.1	2.2	2.1	2.2	-3.7	4.2	2.0	2.1
Contribution (pp): Inventories	0.1	0.2	-0.1	0.2	0.3	-0.1	0.1	-0.1	-0.1	-0.1	0.1	0.1
Net trade	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	1.3	-0.1	-0.1	-0.1
Unemployment rate, %	4.4	4.4	4.3	4.3	4.3	4.3	4.2	4.3	4.5	4.4	4.3	4.3
Prices (% yoy)												
CPI	2.5	2.4	2.5	2.5	2.5	2.5	2.4	2.4	2.8	2.7	2.5	2.4
Core CPI	2.7	2.7	2.6	2.6	2.6	2.6	2.5	2.5	2.8	2.8	2.6	2.5
PCE	2.4	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.8	2.5	2.2	2.1
Core PCE	2.5	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.9	2.6	2.3	2.2
Fed Funds	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.38	3.63	3.38	3.38	3.38

Source: Deutsche Bank Research

Figure 3: Data calendar and DB forecasts

Jan-19	Jan-20	Jan-21	Jan-22	Jan-23
Martin Luther King Jr. Day **(all markets closed)**		**Construction Spending** 10:00 AM Aug: +0.4% Sep: -0.6 Oct: +0.5 **Pending Home Sales Index** 10:00 AM Oct: +2.4% Nov: +3.3 Dec: -9.3 **20 Yr Bond Auction** $13bn	**Real GDP** **Deflator** 8:30 AM 1Q25: -0.6% +3.6% 2Q25: +3.8 +2.1 Final: 3Q25: +4.3 +3.7 **Initial Claims** 8:30AM Jan-03 207k +7k Jan-10 199 -8 Jan-17 200 +1 **Personal Income** 10:00 AM Sep: Oct: Nov: Income +0.4% +0.1 +0.3 Consump. +0.4% +0.5 +0.5 Core PCE +0.2% +0.2 +0.2 **2 Yr Note Announcement** $69bn **5 Yr Note Announcement** $70bn **7 Yr Note Announcement** $44bn **2 Yr FRN Announcement** $28bn **10 Yr TIPS Auction** $19bn	**Consumer Sentiment** 10:00 AM Nov: 51.0 Dec: 52.9 Final: Jan: 56.4
FORECAST				
Jan-26	Jan-27	Jan-28	Jan-29	Jan-30
Durable Goods Orders 8:30 AM Sep: Oct: *Nov:* Headline +0.6% -2.2 *+1.7* Ex-Trans. +0.6% +0.1 *+0.2* Core +1.0% +0.5 *+0.2* **2 Yr Note Auction** *$69bn*	**Consumer Confidence** 10:00 AM Nov: 92.9 Dec: 89.1 *Jan: 91.1* **5 Yr Note Auction** *$70bn*	**FOMC Meeting** **2 Yr FRN Auction** *$28bn*	**Productivity** **ULCs** 8:30AM 1Q25: -2.1% +7.3% 2Q25: +4.1 -2.9 *Final: 3Q25: +4.9 -1.9* **Initial Claims** 8:30AM Jan-10 199k -8k Jan-17 200 +1 *Jan-24 215 +15* **International Trade Balance** 8:30 AM Sep: -$48.1B Oct: -29.4 *Nov: -44.0* **Wholesale Inventories** 10:00 AM Sep: +0.5% Oct: +0.2 *Nov: +0.2* **Factory Orders** 10:00 AM Sep: +0.2% Oct: -1.3 *Nov: +0.9* **7 Yr Note Auction** *$44bn*	**PPI** **Total** **Core** 8:30AM Oct: +0.1% +0.3% Nov: +0.2% Unch. *Dec: +0.3 +0.3* **Chicago PMI** 9:45 AM Nov: 36.3 Dec: 43.5 *Jan: 44.0*
Feb-02	Feb-03	Feb-04	Feb-05	Feb-06
ISM Index 10:00 AM Nov: 48.2 Dec: 47.9 *Jan: 48.3*	**December JOLTS data released** **Unit motor vehicle sales** Nov: 15.8 Dec: 16.1 *Jan:*	**ADP Employment Report** 8:15 AM Nov: -29k Dec: +41 *Jan: +50* **ISM Services** 10:00 AM Nov: 52.6 Dec: 54.4 *Jan: 54.1* **3 Yr Note Announcement** *$58bn* **10 Yr Note Announcement** *$39bn* **30 Yr Bond Announcement** *$22bn*		**Employment** 8:30 AM Nov: Dec: *Jan:* Payrolls +56 +50 *+50* Private +50 +37 *+50* UnRate 4.5 4.4 *4.4* Hrly Erngs +0.2 +0.3 *+0.3* Workwk 34.3 34.2 *34.2* **Consumer Sentiment** 10:00 AM Dec: 52.9 Jan: 56.4 *Prelim: Feb: 54.3* **Consumer Credit** 3:00 PM Oct: +$9.3B Nov: +4.2 *Dec: +7.0*
Feb-09	Feb-10	Feb-11	Feb-12	Feb-13
Wholesale Inventories 10:00 AM Oct: +0.2% *Nov: +0.2* *Dec: +0.2*	**Employment Cost Index** 8:30AM Q225: +0.9% Q325: +0.8 *Q425: +0.8* **3 Yr Note Auction** *$58bn*	**CPI Price** **Total** **Core** 8:30AM Nov: +0.2% +0.16% Dec: +0.3 +0.2 *Jan: +0.29 +0.33* **10 Yr Note Auction** *$39bn*	**Existing Home Sales** 10:00 AM Nov: 4.14M Dec: 4.35 *Jan: 4.25* **20 Yr Bond Announcement** *$13bn* **30 Yr TIPS Announcement** *$8bn* **30 Yr Bond Auction** *$22bn*	

Source: Deutsche Bank Research

Appendix 1

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