Weekly Economic Brief

Collaboration with The Investing Group (TIG)

by Saied Toossi | Week of August 3, 2026

The final week of July delivered a comprehensive pulse check on the economy and what is likely another temporary lull in the fighting between the U.S., Israel, and Iran.

Real GDP expanded at an annualized rate of 1.5% in the second quarter, moderating from 2.1% in the prior period as a wider trade deficit, a drawdown in business inventories, and a decline in government spending dragged down top-line growth. Beneath the headline deceleration, however, real private domestic purchasing accelerated to an annualized 3.9%, propelled by robust consumer spending and business investment. Nondefense capital goods orders excluding aircraft for June also point to resilient economic activity, posting a second monthly increase.

Consumer sentiment also improved, with the University of Michigan Consumer Sentiment Index reaching its highest level since the beginning of the U.S.-Israel-Iran War. Consumers' year-ahead inflation expectations eased while their long-run expectations remain anchored, consistent with recent inflation data. As expected, headline PCE inflation eased from 4.1% in May to 3.7% in June due to lower energy prices in that month. Core inflation, however, which excludes volatile food and energy prices, was little changed at 3.3%, down slightly from 3.4%. Headline inflation is expected to have picked up in July with the surge in energy prices tied to the resumption of hostilities in the Middle East. Meanwhile, the Employment Cost Index rose by 0.9% quarter-over-quarter, highlighting sticky overall compensation costs that are increasingly driven by health benefits and likely to keep core inflation elevated.

Against this backdrop, the Federal Open Market Committee left the benchmark federal funds rate unchanged. However, three members dissented in favor of an immediate 25 basis point rate hike due to persistent upside risks to inflation, highlighting the committee's hawkish tilt. Chair Kevin Warsh reiterated his commitment to stabilizing prices in his post-meeting press conference but dodged questions about how he planned to tackle inflation and refrained from providing any forward guidance. Warsh's remarks were heavily criticized for their lack of substance, and the bond market reacted in real time with a sell-off that sent long-term yields surging to levels last seen in the 2000s.

Week ahead for economic data: On the slate for this week are ISM manufacturing and services PMIs and labor market data. The main spotlight falls on Friday's employment report on job growth, the unemployment rate, and earnings. A strong payrolls print could bolster expectations that the Federal Reserve will resume raising interest rates at its September meeting to address persistent inflation.
