Weekly Economic Roundup

PNC Economics

Headlines

- **In a very soft July jobs report, the U.S. economy shed 23k jobs on the month versus the consensus expectation of +85k.** Job growth in June and May was also revised down by a total of 103k, bringing the three-month average of job growth down to just 20k. Surprisingly, even with outright job losses, the unemployment rate declined slightly in July to 4.1%. Wage growth was weak at just 0.1% m/m, bringing the year-over-year growth down to 3.15%, close to the pre-pandemic pace. There is little evidence that the labor market itself is a meaningful source of inflation pressure today.

- **All eyes will be on the CPI report this week.** A relatively soft print for core CPI would likely reinforce the muted July jobs report and further reduce market expectations for a fed funds rate hike in 2026. A strong reading, however, could quickly put rate hikes back on the table.

- **We remain cautiously optimistic that core inflation will continue to cool, supporting the wider disinflation narrative from here on out.** Wage pressures have continued to moderate, while the labor market appears broadly balanced, suggesting limited underlying inflationary pressure from labor-intensive service sectors. Whilst the new Section 301 tariffs pose some risk to the goods inflation outlook, we estimate that the increase in the effective tariff rate will be modest, with any impact unlikely to show up in the July data given the timing.

- Q3 GDP growth signals have started out strong, with the Atlanta Fed's current quarter estimate currently at **5.8% annualized**. While this is encouraging, much of the strength **can be attributed to measurement nuances and growth momentum from Q2.**

- The CPI report will be top of mind this week, but there are **several other important data releases, including PPI, July retail sales and the University of Michigan Consumer sentiment survey.**

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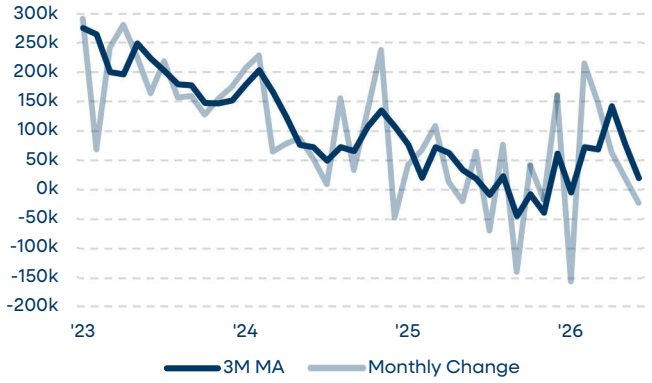
Jobs decline 23k in July with big downward revisions

The U.S. economy shed 23k jobs in July versus the consensus expectation of +85k. Perhaps more importantly, job gains in May and June was revised down a cumulative 103k, which takes out much of the momentum in job growth observed in the second quarter. The three-month moving average of job growth fell to just 20k per month through July.

Figure 1: Nonfarm payroll job growth

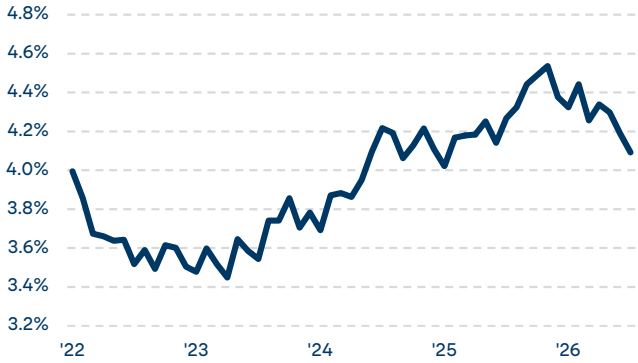


Sources: BLS, PNC

Job losses were concentrated in local government (-57k) and leisure/hospitality services (-40k), which are the two industries that experience the largest seasonal hiring swings during the summer months. It's very possible that some of the weakness in July was overstated due to seasonal adjustment issues, but nevertheless this is a disappointing jobs report, especially with the downward revisions. It's odd that there was essentially no positive impact from the World Cup on leisure/hospitality job growth across the summer payroll reports, another factor suggesting some of the July weakness could be attributable to seasonal adjustment.

Despite the outright decline in jobs the unemployment rate fell to 4.1% in July from 4.2% in June, its lowest level since early 2025. Weaker labor force growth from slower net immigration and an aging population have significantly lowered the bar for the level of job growth needed to keep the unemployment rate constant. We estimate that level is around 30k per month currently, possibly even lower.

Figure 2: Unemployment rate



Sources: BLS, PNC

Wage growth remained subdued in July, rising just 0.1% m/m and slowing to 3.15% year-over-year, roughly in line with pre-pandemic norms. Despite the decline in the unemployment rate there is little evidence that the labor market is generating meaningful inflation pressures today. If anything, the continued moderation in wage growth should ease concerns among Fed officials that a tight labor market could complicate the ongoing disinflation process.

Figure 3: Private sector wage growth (% chg., y/y)

Sources: BLS, PNC

According to the fed funds futures market the probability of a rate hike at the September Federal Open Market Committee meeting fell from around 60% before the release of the July jobs report to below 40% after (market pricing has subsequently moved to a 47% chance of a hike). The labor market is clearly not overheating, but it is too early to tell if the July jobs report is more trend than noise and indicative of a sharper slowing in the labor market.

With the job market looking stable for now, the Fed can focus primarily on the inflation side of its mandate.

All eyes on CPI

Markets will be laser focused on the July CPI report on Wednesday. A relatively soft print for core CPI (excluding food and energy) would likely reinforce the muted July jobs report, and significantly lower market expectations of a rate hike in 2026. Higher core inflation could quickly put rate hikes back on the table, however.

Markets will likely be looking for a core CPI reading of around +0.2% m/m (+2.45% y/y) or lower to gain confidence that inflation continues to moderate. While a +0.2% monthly increase would represent a notable reacceleration from June's -0.02% reading, June appears to have been something of an outlier: it was the first negative core CPI print since April 2022 and, although the weakness was broad-based, it was aided by sizable declines in categories such as lodging away from home and airfares that are unlikely to be repeated in July. More importantly, a reading of +0.2% m/m or below would keep both the three-month average monthly pace and the year-over-year rate of core CPI on clear downward trajectories.

Several FOMC officials have indicated that further tightening could become appropriate if inflation fails to show renewed slowing. Among the most explicit has been New York Fed President John Williams, who recently suggested that core PCE inflation averaging roughly 0.2% m/m in the second half of 2026 would be consistent with a continuing disinflationary process, while higher readings would signal more persistent inflation.

The largest upside risk to the inflation outlook would come from a reacceleration in supercore price growth (core services excluding shelter). Declines in several volatile service categories, including airfares and auto insurance, aided June's unusually soft reading for supercore CPI. A reversal in those components could push supercore inflation higher and raise questions about whether the underlying disinflation trend is progressing as smoothly as the headline data suggest.

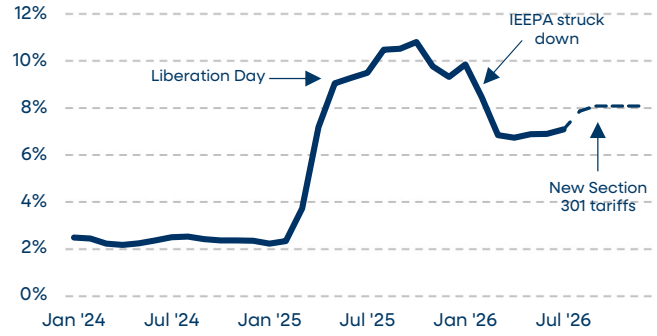
On balance, we remain cautiously optimistic that supercore inflation will continue to cool. Wage pressures have continued to moderate, while the labor market appears broadly balanced, suggesting limited underlying inflationary pressure from labor-intensive service sectors. In addition, final-demand services PPI increased by just 0.2% m/m in June, while final-demand services less food, energy, and trade services rose only 0.13%, both of which are consistent with easing price pressures across the services sector. While the ISM Services Prices index moved somewhat higher in July, the broader set of hard inflation indicators continues to point toward gradual moderation in supercore inflation. That being said, supercore inflation continues to run well above its pre-pandemic pace.

Figure 4: CPI supercore inflation (% chg., y/y)

Sources: BLS, PNC

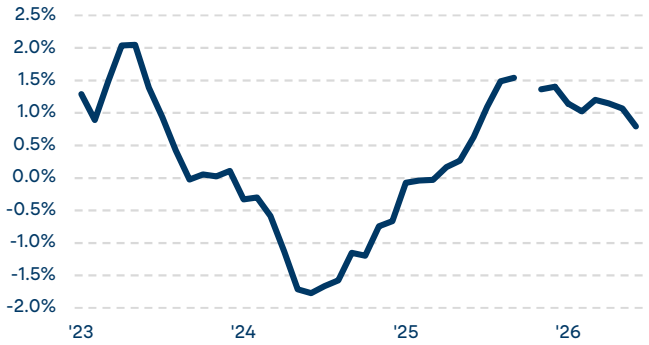
Core goods inflation will also be closely watched for evidence that tariff-related price pressures are continuing to fade. A renewed acceleration in core goods inflation could become the dominant market story, calling into question the assumption that tariff passthrough is largely complete. While the new Section 301 tariffs the Trump administration announced in late July present some risk to the goods inflation outlook, they are unlikely to have materially affected July CPI given the timing. Moreover, we estimate that the effective tariff rate paid by U.S. importers will rise only modestly, limiting the potential upside pressure on core goods inflation down the line.

Figure 5: Effective tariff rate on US imported goods



Sources: Census Bureau, PNC

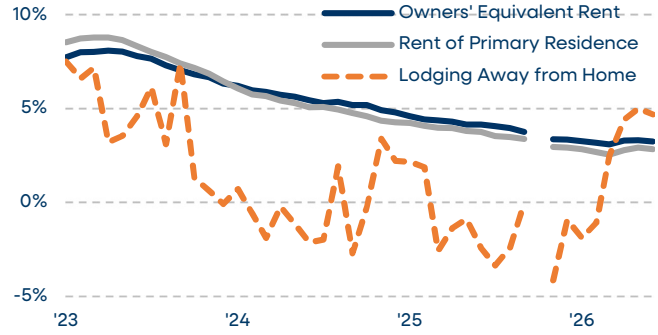
Figure 6: CPI core goods inflation (% chg., y/y)



Sources: BLS, PNC

Shelter inflation will also be under the spotlight given its large weight in core CPI. Shelter inflation was relatively benign in June, rising just 0.1% m/m, although a large decline in lodging away from home (-2.3%) helped the reading; this is unlikely to be repeated. In July attention will focus on whether price increases in the more important owners' equivalent rent and rent of primary residence components remain subdued.

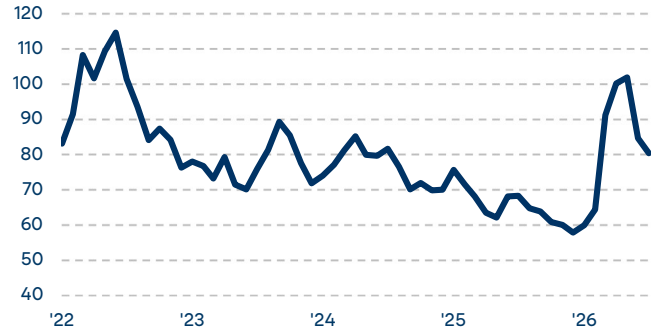
Figure 7: Shelter components of CPI (% chg., y/y)



Sources: BLS, PNC

Headline CPI will also receive some attention given the volatility in energy markets associated with the conflict with Iran. Although WTI crude briefly reached around $94 per barrel in July, the monthly average price fell to approximately $80.5 per barrel from $84.8 in June. As a result, energy prices should again exert a modest disinflationary influence on July CPI, although likely not to the same extent as in June. This should help keep headline inflation below core inflation on a month-over-month basis.

Figure 8: WTI oil price, monthly average ($/bbl)

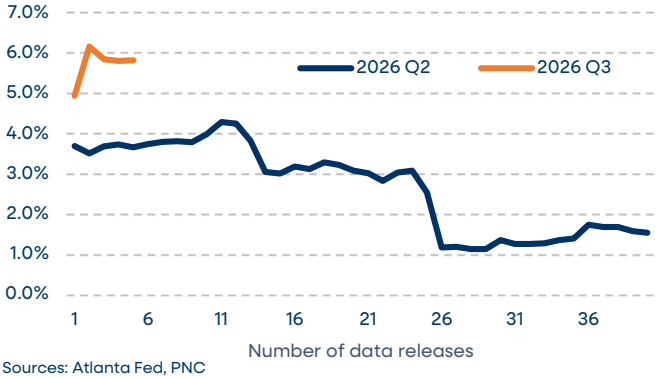


Sources: St Louis Fed, PNC

Q3 GDP signals start out strong

As attention begins to turn to Q3 GDP growth, the quarter has gotten off to a flying start, with the Atlanta Fed's GDPNow estimate currently tracking real annualized growth of 5.8% (keeping in mind few data releases have contributed to the tracker so far this quarter). We saw a similar pattern in Q2, when the estimate started extremely high before gradually declining as additional data became available.

Figure 9: Atlanta Fed GDPNow estimates of annualized real GDP growth



Sources: Atlanta Fed, PNC

Still, it is interesting to examine what is driving such a strong early-quarter estimate. A closer look at the underlying components suggests both personal consumption expenditures (PCE) and non-residential investment momentum remain strong.

The Atlanta Fed's nowcast for Q3 PCE growth is currently tracking at 4.1% annualized. While this is undoubtedly an encouraging signal, it is worth remembering that early-quarter GDPNow estimates rely heavily on momentum from previously reported data. When much of the current quarter's economic data has yet to be released, the model uses information from recent quarters, together with broader measures of economic activity, to help fill the gaps.

There is also a meaningful carryover effect from the monthly spending data. Real PCE rose a solid 0.4% m/m in June, leaving consumer spending at an elevated level heading into Q3. As a result consumption growth begins the quarter with a significant head start, even before much hard spending data for Q3 becomes available.

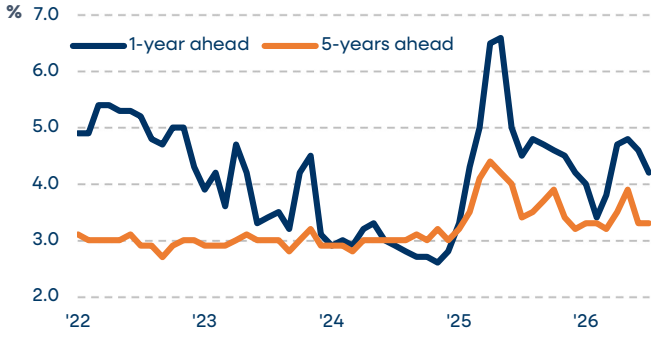
Given the above we shouldn't read too much into the latest nowcast estimates, but it does provide some support to our view that headline growth will reaccelerate in Q3.

More than just CPI this week

The CPI report will be top of mind this week, but there are several other important data releases. The BLS will release PPI on Thursday; this will serve as a direct follow-up to July CPI in framing the inflation picture.

Friday will bring the release of the University of Michigan Consumer Sentiment survey. In addition to looking for signs of a turning point in consumer confidence, markets and policymakers will pay close attention to the survey's inflation expectations measures. Despite considerable volatility in energy markets in recent months, long-term inflation expectations have remained remarkably stable, with the Michigan survey's 5-year measure holding at 3.3% in July. This is an encouraging sign that longer-run inflation expectations remain broadly anchored and that inflation is moving in the right direction. However, if core CPI were to surprise to the upside on Wednesday, an unexpected increase in long-term inflation expectations could reinforce concerns that underlying inflation pressures remain persistent and strengthen the case for further policy tightening. FOMC officials have cited stable long-run inflation expectations as one reason to hold the fed funds rate unchanged.

Figure 10: Inflation expectations



Sources: University of Michigan, PNC

Friday will also see the release of July retail sales. The consumer has been resilient thus far in 2026 despite modest job gains, weak inflation-adjusted disposable income growth, and high gasoline prices. Month-on-month spending growth at gas stations has been extremely volatile, ranging from a high of 14.2% in March to a low of -5.3% in June in response to large price fluctuations amid the unresolved Middle East conflict. Thus, retail sales excluding gasoline receipts is a better gauge of the resilience, and monthly growth in this category has averaged a solid 0.6% year to date in 2026, up sharply from 0.2% last year.

Topline retail sales growth is expected to slow to 0.1% in July on sluggish job gains, weaker real disposable income growth and falling gas prices, which declined a seasonally adjusted 3.1% month-on-month. That would push the year-ago growth rate for retail sales down to a still-strong 5.7% in July from 6.7% in June. Retail sales ex-auto growth is expected to rebound to 0.2% (6.4% year-on-year) from the 0.2% dip in June, the first decline since May 2025.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
NFIB Small Business Optimism	Tue 8/11	6:00 am	Jul	--	97.4	97.4
ADP Weekly Employment Change	Tue 8/11	8:15 am	Sat 7/25	--	--	15.000k
Existing Home Sales	Tue 8/11	10:00 am	Jul	3.98m	4.05m	4.09m
MBA Mortgage Applications	Wed 8/12	7:00 am	Fri 8/7	--	--	-2.9%
Real Avg Weekly Earnings Y/Y	Wed 8/12	8:30 am	Jul	--	--	0.3%
CPI M/M	Wed 8/12	8:30 am	Jul	0.1%	0.1%	-0.4%
Core CPI M/M	Wed 8/12	8:30 am	Jul	0.2%	0.2%	0.0%
Federal Budget Balance	Wed 8/12	2:00 pm	Jul	--	-$383.0b	-$291.1b
Initial Jobless Claims	Thu 8/13	8:30 am	Sat 8/8	--	202k	199k
Continuing Claims	Thu 8/13	8:30 am	Sat 8/1	--	1795k	1801k
PPI Final Demand M/M	Thu 8/13	8:30 am	Jul	0.20%	0.20%	-0.30%
Retail Sales Advance M/M	Fri 8/14	8:30 am	Jul	0.10%	0.10%	0.20%
Retail Sales Control Group	Fri 8/14	8:30 am	Jul	--	0.30%	0.50%
U. of Mich. Sentiment	Fri 8/14	10:00 am	Aug P	54.0	54.7	55.2
U. of Mich. 1 Yr Inflation	Fri 8/14	10:00 am	Aug P	--	4.2%	4.2%
Business Inventories	Fri 8/14	10:00 am	Jun	0.1%	0.1%	0.3%

Source: Bloomberg, PNC
*Released prior to publication

Existing Home Sales

- 3.98m. Existing home sales are expected to fall in July on higher mortgage rates.

CPI M/M

- 0.1%. CPI growth is forecast to rebound in July after the larger-than-expected drop in June, although the 3.1% decline in gas prices in July will limit the bounce back.

Core CPI M/M

- 0.2%. Core CPI growth is projected to accelerate in July from the flat reading in June as the second-round effects from the impact of higher energy prices show up with a lag and services inflation remains sticky.

PPI Final Demand M/M

- 0.2%. PPI final demand growth is expected to rebound slightly in July after the energy-induced decline in June.

Retail Sales Advance M/M

- 0.1%. Retail sales growth in July is expected to moderate on sluggish job growth, weak inflation-adjusted income growth and lower gas prices.

U. of Mich. Sentiment

- 54.0. Consumer sentiment is expected to improve in August amid rising stock wealth and the possibility of a U.S.-Iran deal to open the Strait of Hormuz.

Business Inventories

- 0.1%. Inventories are projected to rise again in June on continued strong demand.

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