# Weekly Economic Roundup

PNC Economics

## Headlines

- December CPI came in somewhat softer than expected, with **core inflation increasing 0.24% m/m (2.6% y/y)**, the **first clean read** after the October shutdown distortions. **Shelter rebounded (~0.40% m/m)** and **travel prices normalized**, yet **core goods were flat** as **used cars fell 1.1%**. **Excess inflation** now mainly reflects **goods**, where **tariffs** have an outsized impact.

- **November retail sales signaled a resilient consumer and solid Q4 growth**. Headline sales rose **0.6% m/m** after a revised **-0.1%** in October, while the GDP-relevant control group gained **0.4%**, keeping sales up **3.3% y/y**. Growth in 2025Q4 is now **tracking above 2 percent** (annualized), broadly in line with growth seen over the first three quarters of the year.

- **President Trump** threatened a **10% tariff** on eight European countries over the weekend, **rising to 25% in June** absent an agreement related to Greenland. If implemented, the **direct economic impact would likely be small**: the effective tariff rate would increase ~70bps, boosting 2026 inflation by a maximum of ~7bps, though the actual impact likely less given potential carve-outs and trade re-routing. The action comes ahead of the **Supreme Court IEEPA** now expected in **late February**.

- Kevin Hassett's prospects for the Fed chair role **dropped** after President Trump signaled that he preferred **Hasset remain as director of the National Economic Council (NEC)**, while Kevin Warsh became the **clear frontrunner** in prediction markets. Warsh is seen as **dovish on policy rates** but **hawkish on the balance sheet** (preferring a much smaller Fed portfolio). **The announcement is expected to arrive ahead of the FOMC meetings on January 27-28.**

- The data calendar for the holiday-shortened week **centers on Thursday's delayed income and spending report**, including **core PCE**, alongside **Q3 GDP (third estimate)** and **weekly jobless claims**. **Friday** brings **preliminary S&P Global PMIs** and the **final University of Michigan sentiment** report, including **inflation expectations**.

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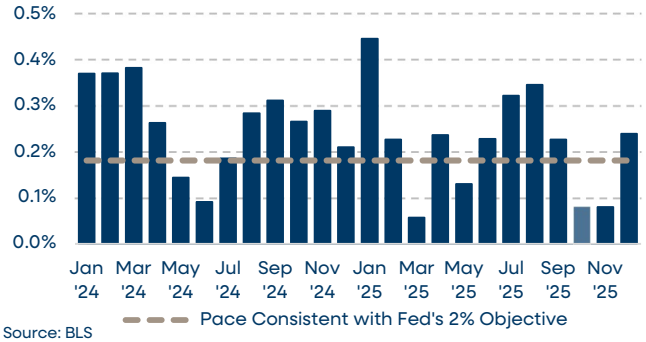
## Softer-than-expected December CPI despite "payback" from shutdown

**December's CPI report** came in below both our forecast and consensus, with **headline CPI up 0.31% m/m (2.7% y/y)** and **core CPI up 0.24% m/m (2.6% y/y)**. The **0.24% core reading** stands out as the **first clean inflation print** since the distortions associated with the **October government shutdown**, which had contributed to an unusually soft November reading. We had expected a clearer rebound as data collection and pricing normalization resumed – especially in **shelter**, where the BLS's handling of missing observations during the shutdown appeared to depress November, and in **goods**, where delayed price collection likely captured a disproportionate share of holiday discounting.

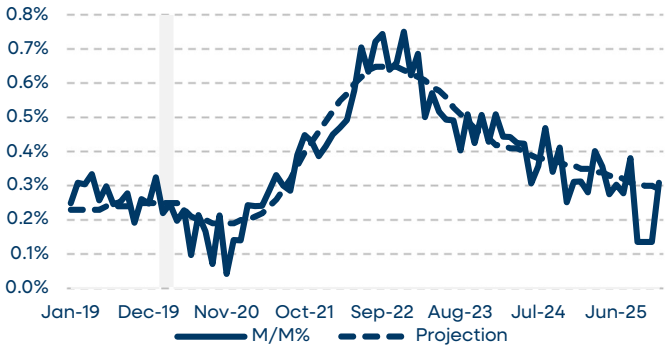
**Figure 1:** Core CPI (m/m, % chg)




Source: BLS
*The October data has been linearly interpolated

On the **services** side, much of that normalization did materialize. **Shelter inflation re-firmed**, with shelter rising roughly **0.40% m/m** in December, including **rent of primary residence ~0.26% m/m** and **owners' equivalent rent ~0.31% m/m**, bringing shelter back toward its underlying trend after the shutdown-related softness. Shelter's influence was also especially pronounced: it **accounted for nearly 75% of total inflation in December**, underscoring its outsized role in shaping the headline. **Travel-related components** rebounded as shutdown-related disruptions faded and pricing normalized, with **airfares up ~5.2% m/m** and **lodging away from home up ~2.9% m/m**, helping lift core services even as broader inflation remained contained. Consistent with that broader containment, **core services ex shelter rose 0.14% m/m**, essentially **in line with its pre-pandemic run rate**.

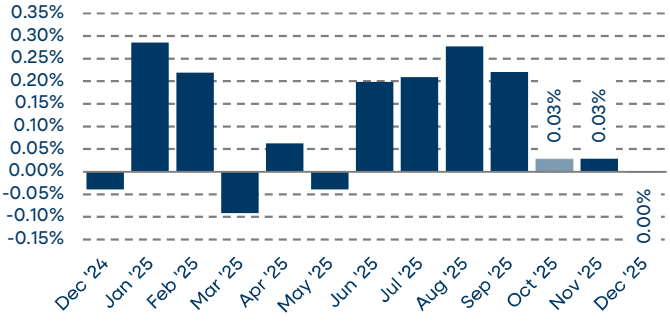
**Figure 2:** CPI owners' equivalent rent of residences (OER): actual versus projection (m/m, % chg)




Sources: BLS, PNC

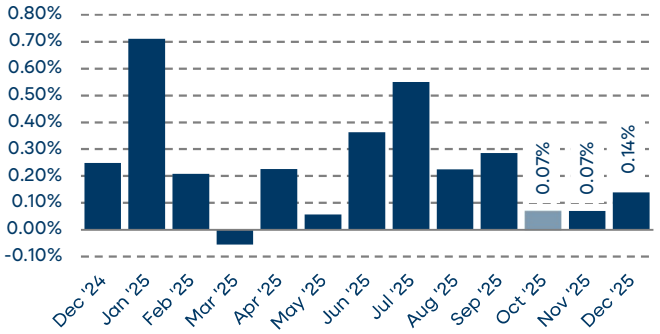
Where the report diverged most from our expectations was in **core goods**, which were **broadly flat** rather than posting the stronger rebound we anticipated. **Vehicle pricing** was the key restraint: **used car prices fell ~1.1% m/m**, while **new vehicle prices were essentially unchanged**. That mattered because a meaningful portion of the expected "payback" had been tied to a more decisive rebound in goods categories – particularly those sensitive to discount timing. Instead, the goods side provided little offset to firmer shelter and travel services, leaving the overall core print softer than forecast. **Outside autos, tariff-related pressure on goods inflation remains visible**, but the effect appears to be **diminishing as we move into 2026**; **including autos, core goods prices were flat in December**.

**Figure 3:** Core Goods CPI (m/m, % chg)



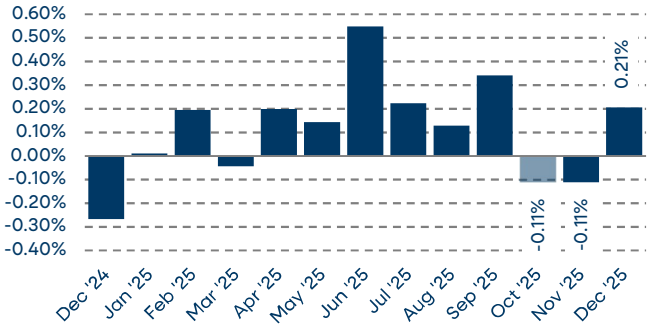

Source: BLS
*The October data has been linearly interpolated

**Figure 4:** Core Services ex. Shelter CPI (m/m, % chg)




Source: BLS
*The October data has been linearly interpolated

**Figure 5:** Core Goods ex. Auto CPI (m/m, % chg)



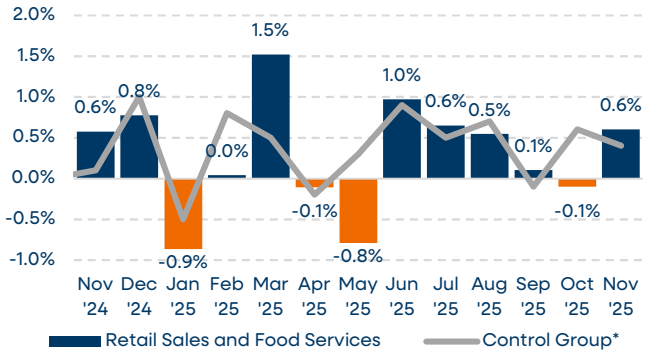

Source: BLS
*The October data has been linearly interpolated

**Bottom line:** Nearly all of the remaining **"excess inflation"** above the Fed's **2% target** now looks concentrated in **goods categories**, which continue to be shaped primarily by **tariffs**, while **services inflation** – especially **ex shelter** – remains well behaved amid ongoing labor-market softness. This backdrop is constructive heading into **2025**, with **tariff impacts fading** and **shelter inflation likely to moderate further into 2026**. However, more accommodative monetary policy, as well as fiscal stimulus, poses some upside risks to inflation.

## Retail sales point to 'resilient consumer' and Q4 GDP growth

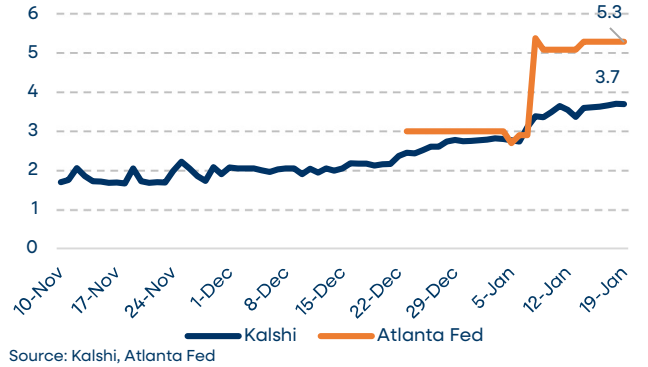
Retail sales in November came in **around PNC's above-consensus expectation**, with the headline up **0.6% m/m** after **–0.1% m/m** in October (revised down). More importantly for growth, the **control group** – the portion that feeds into GDP's **goods PCE** – rose **0.4% m/m** (down from **0.6%** previously), still consistent with firm underlying demand, while total retail sales growth held at **3.3% y/y**.

**Figure 6:** Retail Sales Growth (m/m, % chg)




Source: Census
* Retail sales ex autos, gas, building materials, and food services.

**Figure 7:** 2025 Q4 real GDP growth (q/q, ann. % chg)




Source: Kalshi, Atlanta Fed

The November report reinforces our view that the consumer remains resilient, and it keeps **Q4 GDP tracking above 2%** even after factoring in the drag from the government shutdown. This follows the strong **Q3 growth** backdrop – **real GDP running at 4.3% (annualized)** – driven by a notably strong consumption contribution (**real consumer spending up 3.5% annualized**).

We continue to flag that a gradually cooling labor market and slower wage growth are potential headwinds, but fiscal support arriving in 2026 – especially via **elevated tax refunds** – should provide an offset that helps keep consumption relatively robust.

## New tariffs threatened in Greenland dispute

President Trump has announced a **new round of tariffs presumably to be issued under the International Emergency Economic Powers Act (IEEPA)** tied directly to the United States' stated objective of **purchasing Greenland**. Under the announcement, the U.S. would impose an **additional 10% tariff starting February 1** on imports from **Denmark, France, Finland, Germany, the Netherlands, Norway, Sweden, and the United Kingdom**. The tariff would then **rise to 25% on June 1** if a Greenland deal has not been reached, and it would remain in place **until such time as an agreement is secured**.

The move comes **ahead of meetings among world leaders** at the **World Economic Forum (Davos) annual meeting** this week. European officials have already signaled that **retaliation is a live possibility**, including consideration of counter-tariffs on a large basket of U.S. goods if the measures are implemented. At the same time, there is still a clear path to **de-escalation**, with Davos expected to serve as a key venue for direct engagement and negotiation that could delay, soften, or avert the tariff escalation if talks produce a workable off-ramp.

In terms of estimated macro impact, we estimate that the effective tariff rate would **rise ~70bps to ~11.6%** (from ~10.9%). This suggests a **maximum boost to 2026 inflation of ~7 bp** and a **~3.5 bp drag on growth**, though realized effects would likely be smaller given potential **carve-outs and trade re-routing**.

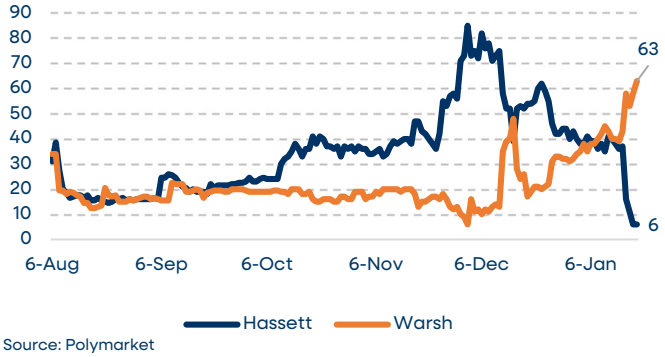
The Greenland tariffs add a new, **geopolitically charged** layer to an already **uncertain trade-policy outlook** just as the Supreme Court is expected to deliver an **unfavorable ruling on IEEPA-based tariffs**, now expected in **late February**. This comes after recent signs the Trump administration was already **softening tariff use and enforcement** – allowing the **effective tariff rate** to broadly stabilize – as it pivots toward an **affordability-focused agenda** heading into the **2026 midterms**. At the same time, the Greenland action reinforces the baseline expectation that, if IEEPA tariffs are curtailed, the administration would **move quickly to replace** invalidated IEEPA tariffs using **other statutory authorities**, keeping the overall path of trade policy – and uncertainty – intact even after a negative ruling.

## New frontrunner for Fed chair

Kevin Hassett's odds fell sharply after President Trump said, **"I actually want to keep you where you are,"** signaling that he intended for Hassett to **remain as director of the National Economic Council (NEC) rather than move to the Federal Reserve**.

Odds of **Kevin Warsh** – the other of **"the two Kevins"** previously referenced by Trump as the leading candidates – **rose** as betting markets concluded he had effectively become the remaining frontrunner. Warsh is viewed as **dovish on policy rates**, supporting lower interest rates, while simultaneously being **hawkish on the balance sheet**, favoring a significantly smaller Federal Reserve portfolio. **The announcement is expected to arrive ahead of the FOMC meetings on January 27-28.**

**Figure 8:** Betting market odds for next Fed chair




Source: Polymarket

## Data preview

This week's calendar is **holiday-shortened** and relatively light, and **Fed officials are expected to remain in blackout** ahead of next week's **FOMC** meeting.

The main data focus is **Thursday**, when the **delayed October/November personal income and spending**

report will also provide updated **core PCE inflation** readings, alongside **Q3 GDP (third estimate)** and **weekly jobless claims** in the same morning release window. **Friday** adds additional checks on activity and the consumer, including **S&P Global's preliminary January PMIs** (manufacturing and services) and the **final University of Michigan sentiment** report, including **longer-run inflation expectations**.

Outside the data, markets may also track **policy and legal headlines**. The **Trump administration** has been signaling additional **affordability-related measures** focused on housing and household costs, and there may be further clarification on proposed **tariffs linked to Greenland**. We're also monitoring any indication of a **Fed chair nomination** timeline. Separately, the **Supreme Court** remains a source of headline risk: it is considering challenges related to **tariffs imposed under IEEPA**, but the timing of a decision is uncertain and could come later in the term; the Court will also hear **oral arguments Wednesday** in the case involving the attempted removal of **Fed Governor Lisa Cook**.

# Additional charts and tables

## **Table 1**: Data release calendar

| Release | Date | Time | Period | PNC | Consensus | Last actual |
|---|---|---|---|---|---|---|
| **Key Releases** | | | | | | |
| ADP Weekly Employment Change | Tue 1/20 | 8:15 am | Sat 1/3 | -- | -- | 11.750k |
| Philadelphia Fed Non-Manufacturing Activity | Tue 1/20 | 8:30 am | Jan | -- | -- | -16.8 |
| MBA Mortgage Applications | Wed 1/21 | 7:00 am | Fri 1/16 | -- | -- | 28.50% |
| Construction Spending M/M | Wed 1/21 | 10:00 am | Oct | 0.0% | 0.10% | -- |
| Pending Home Sales M/M | Wed 1/21 | 10:00 am | Dec | -- | -0.50% | 3.30% |
| GDP Annualized Q/Q | Thu 1/22 | 8:30 am | 3Q T | 4.50% | 4.30% | 4.30% |
| Initial Jobless Claims | Thu 1/22 | 8:30 am | Sat 1/17 | 214k | 210k | 198k |
| Continuing Claims | Thu 1/22 | 8:30 am | Sat 1/10 | -- | 1895k | 1884k |
| Personal Income | Thu 1/22 | 8:30 am | Nov | 0.50% | 0.40% | -- |
| Personal Spending | Thu 1/22 | 8:30 am | Nov | 0.60% | 0.50% | -- |
| PCE Price Index M/M | Thu 1/22 | 8:30 am | Nov | 0.20% | 0.20% | -- |
| Core PCE Price Index M/M | Thu 1/22 | 8:30 am | Nov | 0.20% | 0.20% | -- |
| Kansas City Fed Manf. Activity | Thu 1/22 | 11:00 am | Jan | -- | 4 | 1 |
| S&P Global US Manufacturing PMI | Fri 1/23 | 9:45 am | Jan P | -- | 52.0 | 51.8 |
| S&P Global US Services PMI | Fri 1/23 | 9:45 am | Jan P | -- | 52.9 | 52.5 |
| U. of Mich. Sentiment | Fri 1/23 | 10:00 am | Jan F | 54.7 | 54.0 | 54.0 |
| Kansas City Fed Services Activity | Fri 1/23 | 11:00 am | Jan | -- | -- | 3.0 |

Source: Bloomberg

**Construction Spending M/M**
- 0.0%. A rise in public construction is expected to be offset by a decline in private, mostly residential, construction activity.

**GDP Annualized Q/Q**
- 4.50%. A small upward revision is projected.

**Initial Claims**
- 214k. A rise closer to the underlying trend is expected. Initial claims remain low with layoffs still subdued in the private sector.

**Personal Income**
- 0.50%. A solid income increase from more workers and high average wages is forecast.

**Personal Spending**
- 0.60%. A solid start to the holiday season is expected to push personal spending higher.

**U. of Mich. Sentiment**
- 54.7. Lower gasoline prices and a stabilizing job market are projected to lift consumer sentiment slightly, but it will remain depressed.

## Disclosures

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*Forward-looking statements are necessarily subject to numerous assumptions, risks and uncertainties, which change over time. Future events or circumstances may change our outlook and may also affect the nature of the assumptions, risks and uncertainties to which our forward-looking statements are subject. Forward-looking statements speak only as of the date made. We do not assume any duty and do not undertake any obligation to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance. As a result, we caution against placing undue reliance on any forward-looking statements.*