Weekly Economic Roundup

PNC Economics

Headlines

- **Markets continue to view no change in the fed funds rate as the most-likely outcome at this week's FOMC meeting, but conviction around that outcome remains unusually low**. The market is still pricing roughly a one-in-three chance of a rate hike, making it one of the most uncertain FOMC decisions of the last decade and the third closest to a directional "coin flip" in market pricing ahead of an FOMC meeting.

- **Chair Warsh has said he prefers "messier" FOMC meetings, and this week's meeting may provide an early look at what that means in practice**. Given their hawkish remarks ahead of the communications blackout period, we expect Regional Fed Presidents Hammack and Logan to dissent in favor of rate hikes, even as **our baseline outlook remains that a majority of the Committee will vote to leave the rate unchanged**. We don't expect Chair Warsh to say much about the outlook in his press conference.

- **Last week's data calendar was light**, with attention focused on rising, albeit volatile, oil prices and a new slate of tariffs that replaced the expiring Section 122 measures. As we argued last week, the new tariffs appear largely designed to replace the expiring tariffs, resulting in little change to the effective tariff rate through year-end.

- **In contrast, this week is packed with significant data releases, including personal income, ECI, the first estimate of Q2 GDP, and core PCE for June**. Together, this data will help provide a clearer picture on the outlook for second half of 2026.

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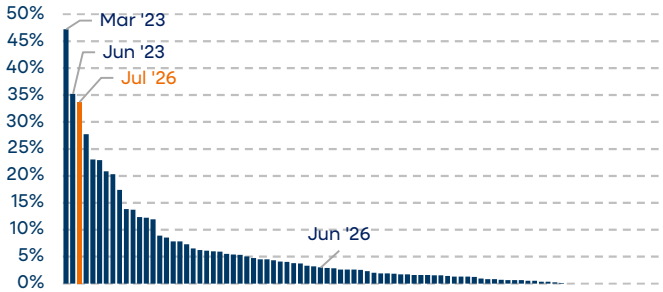
Another hawkish hold, though uncertainty remains high

Markets continue to view no change in the fed funds rate as the most-likely outcome at this week's FOMC meeting, but conviction around that outcome remains unusually low. The market is pricing roughly a one-in-three chance of a rate hike at the July meeting, making it one of the most uncertain FOMC decisions of the last decade and the third closest to a directional "coin flip" in market pricing ahead of an FOMC meeting.

Such uncertainty was rarely seen under former Chair Powell, but may become a more common feature of the Warsh Fed. Unlike Powell, Warsh has repeatedly eschewed the use of forward guidance as a tool for setting monetary policy, preferring "messier meetings" and a Federal Reserve that says less.

Figure 1: Directional uncertainty in market pricing, 5 business days before FOMC meeting (%)



Sources: Bloomberg, PNC

Note: Directional uncertainty defined as 100 minus market-implied odds of a hike/cut (capped at 100%). 50% implies 50/50 odds of a hike/cut or hold.

Despite Warsh's views, other FOMC participants have continued to provide markets with signals about their policy preferences. Recent remarks from regional Fed Presidents Logan and Hammack, both of whom have suggested that current conditions may warrant a higher policy rate, have contributed to the market's reassessment of the July meeting. Renewed conflict with Iran and higher oil prices have added to those concerns, helping drive a recent increase in market pricing for a July rate hike.

Despite this, our base case remains for the FOMC to maintain the current policy rate in its current 3.50% to 3.75% range this week. With outright deflation in core goods in the last few inflation reports, FOMC Committee members will likely have some confidence that they can ride out elevated oil prices while the remaining tariff-related passthroughs fade.

Fed Governor Waller had suggested he would support an imminent hike had the latest CPI print come in hot – which it did not. Furthermore, the labor market does not show obvious signs of tightness; labor market tightness is a threat to non-housing services inflation, and the current slack should give the Fed more confidence that supercore inflation (core services inflation excluding shelter) will not re-accelerate in the back half of the year.

Financial market inflation expectations remain steady. These factors will all help make the majority of the FOMC comfortable in waiting out the next few months of data before making decisions on changes to the policy rate. **We expect dissents, however, from Presidents Logan and Hammack given their pre-blackout period commentary.**

Another reason we expect the Committee to remain patient is that the recently hawkish market pricing is itself tightening financial conditions. We suspect that Warsh may message a hold hawkishly by focusing on the commitment to price stability in the (recently scheduled) post-meeting press conference. Such messaging, combined with potential dissents, could further raise near-term forward rates to a more restrictive level without the Fed actually delivering on a hike. The Committee can wait to see if such tightening in conditions bears fruit over the next few months – if it doesn't and inflationary pressures re-accelerate, it would then add evidence that the Fed may need to hike. But until then, the Fed in our view can afford to be patient.

Warsh indicated that he only provided one FOMC statement for the Committee to vote on at the June FOMC meeting. The FOMC chair typically pre-writes the FOMC statement, giving Warsh a high level of control over the decision he presents to the FOMC. This increases the likelihood of dissents, but importantly, also means that Warsh can unilaterally force the Fed to stay on hold if he doesn't believe hikes are warranted. This risks triggering a revolt by the FOMC Committee (who can elect a separate FOMC

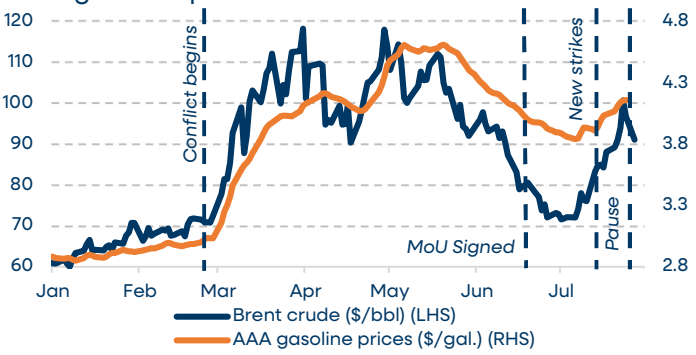
chair than the Fed chair if they want) should holding become a minority view on the Committee, but we suspect that that remains a very unlikely event.

Warsh's press conference is likely to continue his streak of providing very little information that he may consider forward guidance. We expect him to reiterate the Committees commitment to tackling inflation and reiterate many of his comments surrounding the task forces he has established.

Oil surge lifts yields, but expectations remain anchored

After the June CPI report surprised to the downside, including a 0.4% monthly decline in the headline index, several FOMC participants, including Warsh, cautioned against reading too much into one print. The renewed rise in oil prices has reinforced that caution. Retail gasoline prices did not decline as much as oil prices, reflecting elevated refining margins and asymmetric pass-through, and are now following oil prices higher. This suggests that gasoline prices could remain elevated even if oil prices retrace their move lower. Headline inflation will therefore pick up in July and August, while core inflation could also face pressure from higher airfares and second-round effects.

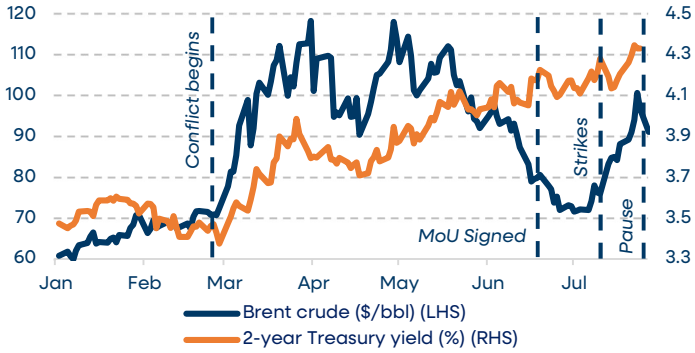
Figure 2: Higher oil prices renew upward pressure on retail gasoline prices



Sources: Bloomberg, PNC

Oil prices have accounted for much of the recent tightening in financial conditions. Treasury yields have generally risen alongside oil prices but have not fully retrace their steps when oil prices decline. The FOMC's hawkish posture may help explain this asymmetry. In the absence of clear forward guidance, markets appear to be treating oil prices as a more important signal for future policy, particularly as the Committee grows increasingly uncomfortable with inflation remaining above 2% target.

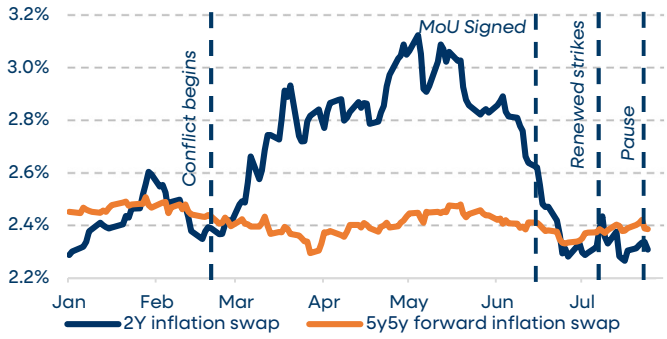
Figure 3: Treasury yields respond more to oil-price increases than declines



Sources: Bloomberg, PNC

The rise in Treasury yields contrasts with the relative stability of inflation expectations. The FOMC's hawkish messaging and clear commitment to price stability may have helped keep longer-term expectations anchored. This is encouraging and could give more dovish participants greater confidence that the Committee can remain patient while assessing whether inflation continues to improve, especially as tariff pass-through appears largely complete and goods prices have started to decline.

Figure 4: Longer-term inflation expectations remain anchored despite higher oil prices

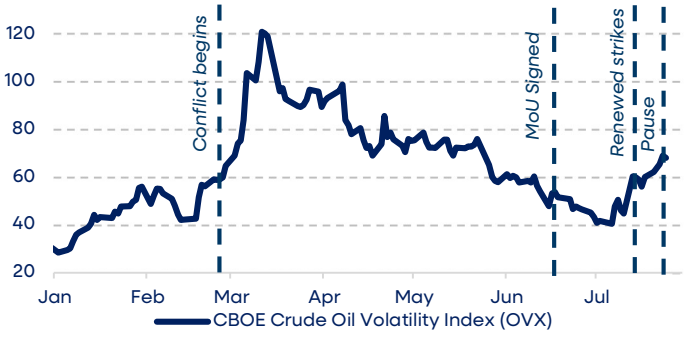


Sources: Bloomberg, PNC

The longer-term outlook for oil remains two-sided. Physical disruptions pose clear upside risks, but softer demand and increased supply could moderate prices if geopolitical tensions ease. A pause in hostilities over the weekend has created room for diplomacy and

triggered an encouraging drop in oil prices. However, the underlying geopolitical issues remain unresolved, leaving the outlook vulnerable to abrupt deterioration. Elevated volatility and continued uncertainty may therefore limit how quickly or fully lower oil prices translate into relief for gasoline prices, inflation, and broader financial conditions.

Figure 5: Oil-price volatility remains elevated amid an uncertain outlook

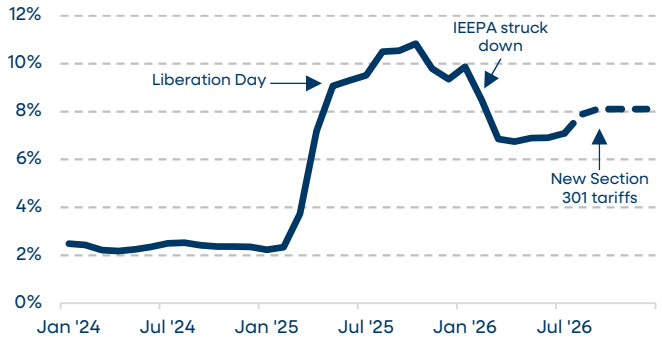


Sources: CBOE, PNC

Tariff update: More durable regime, not a bigger one

The Administration announced new Section 301 tariffs to replace the expiring Section 122 measures imposed after the Supreme Court struck down the International Emergency Economic Powers Act (IEEPA) tariffs. The new tariffs largely preserve the existing structure, including a near-universal 10% baseline, but have no expiration date and rest on firmer legal footing. Brazil faces the largest increase, while new tariffs also apply to a limited subset of Canadian imports.

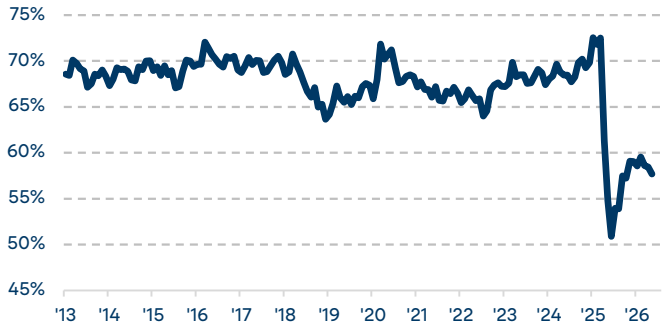
Figure 6: Effective tariff rate to stabilize near 8%



Sources: Census, PNC

We estimate that the effective tariff rate paid by U.S. importers will rise from 6.9% to about 7.7%–8.2% by August. The increase should have a modest economic impact because most existing exemptions remain in place. Nearly 60% of imports entered duty-free in May, leaving the effective tariff rate well below the statutory rate.

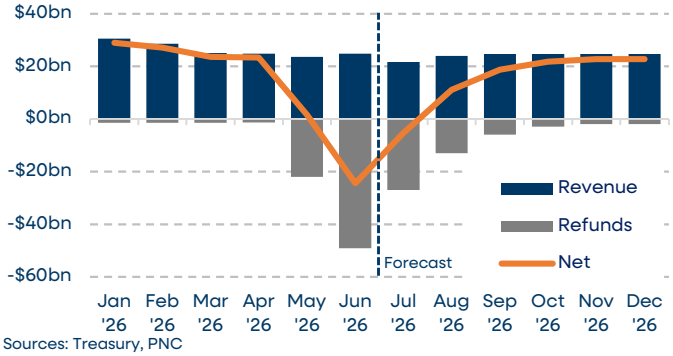
Figure 7: Percentage of imports entering the country "duty free"



Sources: Census, PNC

Meanwhile, the Treasury is roughly halfway through refunding the $166 billion in IEEPA tariffs deemed unlawful. These refunds have supported margins and, in some cases, lowered prices. Recent inflation data suggest that much of the tariff pass-through may be complete, although some firms still expect to raise prices as contracts reset and previously absorbed costs reach consumers.

Figure 8: Monthly tariff revenue to Treasury net of IEEPA refunds



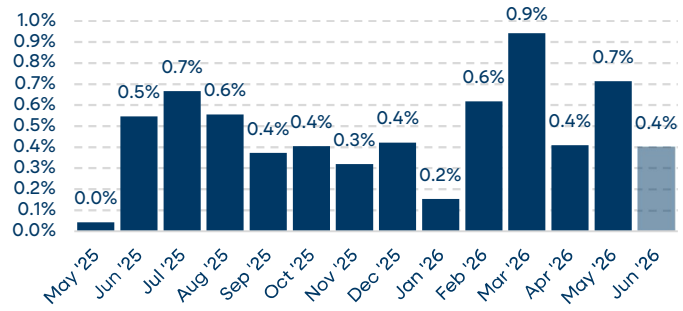
Sources: Treasury, PNC

June personal income and spending preview

Nominal personal income growth has been volatile this year and driven in some months by one-off programs that boosted growth. The annual Social Security cost of living adjustment lifted January's 0.5% m/m gain, while payments from the Farmer Bridge Assistance Program enhanced growth in March (+0.5%) and May (+0.7%). Meanwhile, income was flat in February and April, likely reflecting labor market slack.

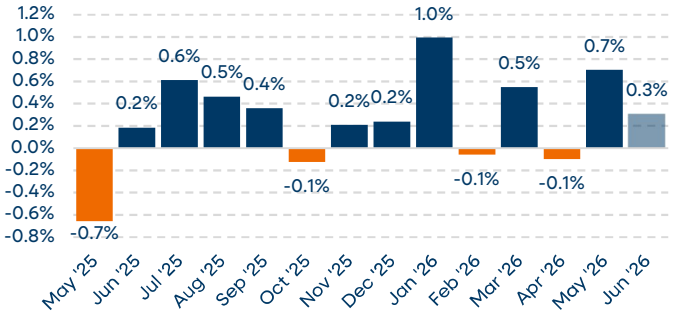
Nominal personal income growth is expected to slow to a more modest 0.3% in June in the absence of support payments to farmers. Growth of that magnitude would lift the year-ago growth rate to 3.9%, the fastest since January 2026. The moderation in personal income will put downward pressure on nominal consumer spending, with growth projected to slow to 0.4% from the unsustainable pace of 0.7% in May. That would lower the year-on-year growth rate to a still-robust 6.1% from 6.3% in May.

Figure 9: Consumer spending growth to moderate



Sources: BEA, PNC
Note: PNC forecast shown for June 2026.

Figure 10: Personal income growth will also slow



Sources: BEA, PNC
Note: PNC forecast shown for June 2026.

Data preview

It is a particularly eventful week for macro news. Beyond the personal income and spending report and the FOMC meeting, several other releases should help clarify the economy's direction. We expect the advance estimate of second-quarter GDP to show solid growth, supported by stronger consumer spending and continued robust nonresidential investment related to the AI buildout. The second-quarter Employment Cost Index will also be informative. We expect employment cost growth to moderate as the labor market cools. Because labor costs are a key driver of labor-intensive services prices, the report should provide a useful gauge of whether supercore inflation will slow further in the second half of the year.

Earnings season will provide another important read on the outlook, particularly through hyperscaler results and updated capital-spending guidance. The AI buildout has become an increasingly important source of business investment and economic growth, while the associated demand for energy, equipment, construction, and skilled labor has added to inflation pressures. Capital-spending plans have repeatedly been revised higher, including Google's increase in 2026 guidance to roughly $200 billion from about $185 billion last week. Further upgrades would strengthen the near-term growth outlook but could also intensify upward pressure on inflation through greater demand for constrained inputs.

Taken together, this week's data and earnings announcements should provide a broader assessment of the economy's underlying momentum. Individually, many of the reports are not typically major market movers because they summarize or lag more timely indicators. Collectively, however, they could reinforce the picture of an economy growing above potential, supported by the AI investment buildout, with wage pressures remaining an upside risk to services inflation. That combination would, at the margin, strengthen the case for an additional rate hike later this year. Softer growth, labor-cost, and capital-spending signals would instead support the Committee's current wait-and-see stance.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Durable Goods Orders	Mon 7/27	8:30 am	Jun P	1.8%	1.8%	0.3%*
Cap Goods Orders Nondef Ex Air	Mon 7/27	8:30 am	Jun P	--	0.7%	0.9%*
Dallas Fed Manf. Activity	Mon 7/27	10:30 am	Jul	--	2.0	0.0
ADP Weekly Employment Change	Tue 7/28	8:15 am	Sat 7/11	--	--	16.500k
Advance Goods Trade Balance	Tue 7/28	8:30 am	Jun	-$96.7b	-$100.0b	-$105.8b
Retail Inventories M/M	Tue 7/28	8:30 am	Jun	--	0.4%	0.6%
Wholesale Inventories M/M	Tue 7/28	8:30 am	Jun P	--	0.5%	0.1%
FHFA House Price Index M/M	Tue 7/28	9:00 am	May	--	0.1%	-0.1%
S&P Cotality CS 20-City M/M SA	Tue 7/28	9:00 am	May	--	0.00%	-0.04%
Richmond Fed Manufact. Index	Tue 7/28	10:00 am	Jul	--	6.0	4.0
Richmond Fed Business Conditions	Tue 7/28	10:00 am	Jul	--	--	-9.0
Conf. Board Consumer Confidence	Tue 7/28	10:00 am	Jul	90.8	92.0	91.2
Dallas Fed Services Activity	Tue 7/28	10:30 am	Jul	--	--	2.9
MBA Mortgage Applications	Wed 7/29	7:00 am	Fri 7/24	--	--	1.9%
FOMC Rate Decision (Upper Bound)	Wed 7/29	2:00 pm	Wed 7/29	--	3.8%	3.8%
Personal Income	Thu 7/30	8:30 am	Jun	0.3%	0.3%	0.7%
Personal Spending	Thu 7/30	8:30 am	Jun	0.4%	0.3%	0.7%
PCE Price Index M/M	Thu 7/30	8:30 am	Jun	--	-0.1%	0.4%
Core PCE Price Index M/M	Thu 7/30	8:30 am	Jun	--	0.2%	0.3%
Initial Jobless Claims	Thu 7/30	8:30 am	Sat 7/25	202k	200k	187k
Continuing Claims	Thu 7/30	8:30 am	Sat 7/18	--	1800k	1796k
GDP Annualized Q/Q	Thu 7/30	8:30 am	2Q A	2.3%	2.1%	2.1%
Personal Consumption	Thu 7/30	8:30 am	2Q A	--	2.3%	0.5%
Employment Cost Index	Fri 7/31	8:30 am	2Q	0.8%	0.8%	0.9%
MNI Chicago PMI	Fri 7/31	9:45 am	Jul	--	56.0	56.7
U. of Mich. Sentiment	Fri 7/31	10:00 am	Jul F	54.0	54.0	54.4
U. of Mich. 1 Yr Inflation	Fri 7/31	10:00 am	Jul F	--	--	4.2%

Source: Bloomberg, PNC
*Released prior to publication

Advance Goods Trade Balance

- -$96.7b. The June trade deficit is forecast to widen to narrow somewhat after widening sharply in May.

Consumer Confidence

- 90.8. Consumer confidence is projected to slip amid the resumption of hostilities in the Middle East.

Personal Income

- 0.3%. Personal income growth is projected to moderate significantly in June but remain solid in the absence of government payments to farmers that lifted growth in May.

Personal Spending

- 0.4%. Personal spending growth is expected to moderate sharply in June on decelerating income growth.

Initial Jobless Claims

- 202k. Initial jobless claims are forecast to increase from the lowest level since September 1969.

GDP

- 2.3%. Real GDP growth is expected to accelerate slightly in Q2 on continued nonresidential investment spending related to the AI buildout and stronger consumer spending growth.

Employment Cost Index

- 0.8%. Employment Cost Index growth is projected to moderate slightly amid a cooler labor market.

Consumer Sentiment

- 54.0. Consumer sentiment is expected to fall in the final July reading on the flare up of the U.S.-Iran conflict on July 7.

Disclosures

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