Weekly Economic Roundup

PNC Economics

Headlines

- **Odds of an October fed funds rate hike fell throughout the week**, as a soft September jobs report and a relatively benign inflation reading gave the Fed room to be more patient. The economy added just 29k jobs in September versus expectations for 90k, while the Fed's preferred inflation gauge has increased at just a 2.0% annualized pace over the past three months.

- **A number of speeches from Fed officials last week reinforced this view;** they generally supported the idea that additional rate hikes could be necessary "later this year," but that the Fed would need more time to make that determination. More Fed officials will have an opportunity to weigh in this week.

- **Growth appears to have accelerated through the middle part of 2026**. Real GDP growth in the second quarter was revised up to 2.2%, and it now seems more likely than not that growth in the third quarter will exceed 3%. That's impressive given that the economy is still facing headwinds from higher interest rates and rising energy prices.

- **It's a relatively light data week**, with the ISM services report and the University of Michigan Consumer Sentiment survey among the highlights. Focus will also be on the release of the September FOMC meeting minutes on Wednesday, which could provide helpful context around the Fed's near-term reaction function. Our baseline remains for two additional 25bp hikes, one in December and another next March.

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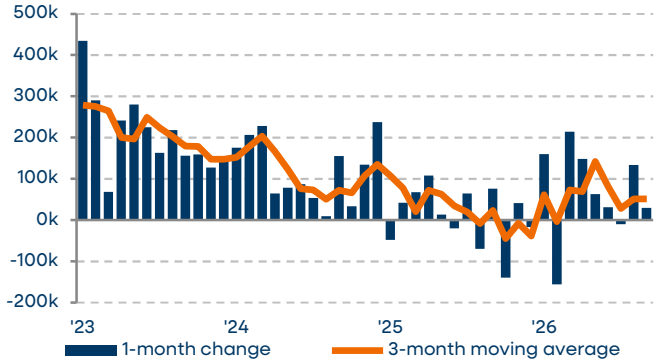
Weak September jobs report with downward revisions

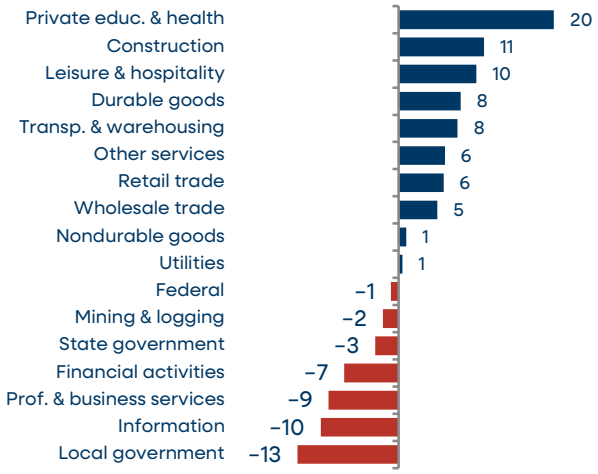
The September jobs report capped a busy data week, showing that the U.S. economy added just 29k jobs versus expectations for 90k, accompanied by downward revisions to the prior two months. This brought the three-month moving average of job gains to 51k, right around where we think it needs to be to keep the unemployment rate stable. Private-sector job growth was somewhat stronger at 46k in September, as weakness in local government hiring weighed on overall job gains.

Figure 1: Nonfarm payroll job growth



Sources: BLS, PNC

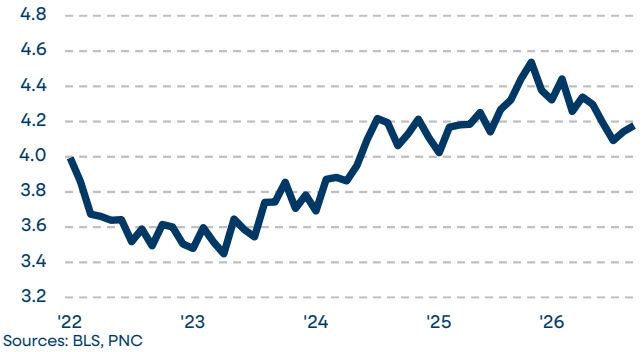
Figure 2: September job growth ranked by sector



Sources: BLS, PNC

The unemployment rate was little changed at 4.18% in September, up just slightly from 4.14% the month prior. We view this as roughly in line with what the Fed considers "full employment," and it's worth noting that a rebound in labor force participation, rather than weaker hiring or an increase in layoffs, primarily drove the increase.

Figure 3: Unemployment rate (%)



Sources: BLS, PNC

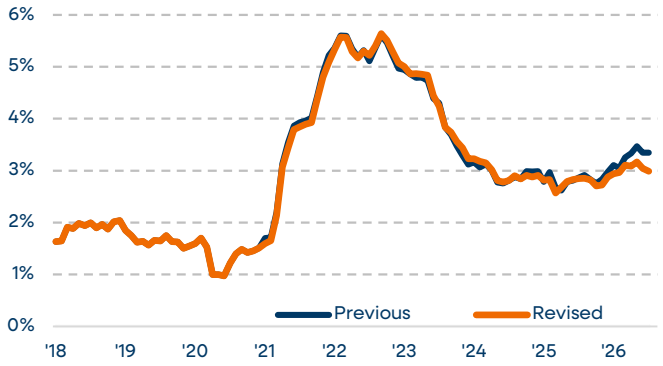
The more dovish wing of the FOMC will likely take last Friday's jobs report as further evidence that they can be patient with additional rate hikes; we agree with that view. It's clear that the labor market itself is not currently a major source of inflationary pressure, even if we continue to believe it is heating up after stalling out through much of 2025. Wage growth, as measured by average hourly earnings, slowed in September and remains firmly below pre-pandemic trends.

Strong consumer numbers in August, upward revisions to income

The September Personal Income and Outlays report offered some encouraging news on both inflation and household finances. The Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index, increased 0.3% in August, while core PCE inflation rose a modest 0.2%. Although both measures remain above the Fed's 2% target on a year-over-year basis, methodological revisions incorporated into this release lowered previously reported inflation readings and made the inflation outlook appear somewhat less daunting.

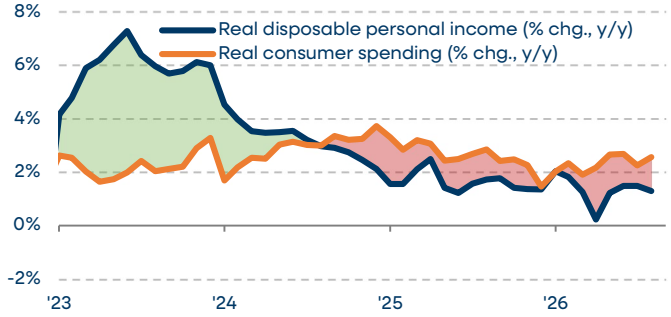
At the same time, consumer spending remained remarkably strong, rising 0.9% in August, before adjustment for inflation, the largest monthly increase since March. Just as importantly, substantial upward revisions to personal income significantly improved the outlook for household finances and savings. The stronger income data suggest consumers are on a firmer footing than previously believed, supporting continued spending growth even in the face of elevated interest rates, higher energy prices, and ongoing affordability challenges.

Figure 4: Core PCE inflation (y/y % chg.)



Sources: BEA, PNC

Figure 5: Consumer spending growth has increasingly outpaced income growth



Sources: BEA, PNC

Note: Green shading indicates periods when income growth exceeded spending growth, while red shading indicates the opposite.

Fed officials pour cold water on October hike

Market-implied odds of an October fed funds rate hike declined throughout last week as several key Fed officials implied that, while they expect further hiking this year, they don't plan to rush the decision. NY Fed's John Williams speech was particularly influential after he said it may be appropriate to adjust the Fed funds rate upward just once "late this year." We maintain our expectation that the committee will deliver only one 25 basis point hike this year, in December, followed by one more in March.

> *"If the economy evolves in a manner broadly consistent with my forecast,* ***one further upward adjustment of the federal funds target range may be appropriate late this year*** *to support a timelier return of inflation to target."*
>
> - NY Fed President John Williams

Multiple regional presidents also explicitly described the current policy stance as only being "somewhat accommodative" or requiring only "modest further tightening," which reinforced the sense that an October hike seems unlikely. Both Vice Chairs emphasized patience, with Bowman saying she doesn't see an "urgent need for further action" and Jefferson saying it "may take more time" for officials to make judgement on trends in the data.

More Fed officials will have an opportunity to weigh in this week, with Bowman, Collins, Hammack, Kashkari, Musalem, Schmid, and Waller all scheduled to make public comments or speeches. We'll be paying particular attention to whether officials adopt a more cautious tone following the weak September jobs report.

Data preview

The economic data calendar is light this week. The ISM Services index, released this morning at 10 a.m., edged down from 55.4 to 54.9, but the September reading still indicates that the nonmanufacturing sector is expanding.

Markets will pay extra attention to the September FOMC meeting minutes, which follow the Fed's first policy rate increase in more than three years and policymakers' indication that an additional hike may be necessary this year. Due this Wednesday, the minutes should shed light on how Federal Reserve

officials assessed incoming economic data and why they deemed the federal funds rate insufficiently restrictive.

The University of Michigan consumer sentiment index is due Friday following three consecutive monthly declines, as consumers contend with the ongoing conflict in Iran and an extended period of elevated gasoline prices. The index recorded its second-lowest reading ever in September. We expect this pattern to continue given the lack of a resolution to the Middle East conflict.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
ISM Services Index	Mon 10/5	10:00 am	Sep	--	55.0	54.9*
ADP Weekly Employment Change	Tue 10/6	8:15 am	Sat 9/19	--	--	20.000k
Trade Balance	Tue 10/6	8:30 am	Aug	-$106.2b	-$102.0b	-$88.6b
Imports M/M	Tue 10/6	8:30 am	Aug	--	3.9%	2.8%
Exports M/M	Tue 10/6	8:30 am	Aug	--	0.6%	-2.1%
MBA Mortgage Applications	Wed 10/7	7:00 am	Fri 10/2	--	--	-6.0%
NY Fed 1-Yr Inflation Expectations	Wed 10/7	11:00 am	Sep	--	3.6%	3.6%
FOMC Meeting Minutes	Wed 10/7	2:00 pm	Wed 9/16	--	--	--
Consumer Credit	Wed 10/7	3:00 pm	Aug	$14.500b	$15.000b	$18.062b
Initial Jobless Claims	Thu 10/8	8:30 am	Sat 10/3	202k	200k	197k
Continuing Claims	Thu 10/8	8:30 am	Sat 9/26	--	1700k	1701k
Wholesale Trade Sales M/M	Thu 10/8	10:00 am	Aug	--	--	0.8%
U. of Mich. Sentiment	Fri 10/9	10:00 am	Oct P	47.8	47.7	48.1

Sources: Bloomberg, PNC
*Released prior to publication

Trade Balance

- -$106.2b. The U.S. total trade deficit likely widened significantly in August, reflecting a significant deterioration from the prior month. A sharp increase in the goods trade deficit was the primary driver, while the services surplus likely offered only limited support.

Consumer Credit

- $14.500b. Consumer credit is forecast to expand at a more modest pace in August but remain supportive of consumer spending.

Initial Claims

- 202k. Initial jobless claims are projected to stay low and in a very tight range.

U. of Mich. Sentiment

- 47.8. Consumer sentiment is expected to slip in October on higher gas prices and no resolution to the Middle East conflict.

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