Weekly Economic Roundup

PNC Economics

Headlines

- **Over the past two weeks, odds of a rate hike at the September FOMC meeting have whipsawed several times**, in what we consider something of a "new normal" under a Fed that prefers to provide less forward guidance about its policy leanings.

- **Hike odds surged after Chair Warsh seemingly endorsed a rate hike** in his Jackson Hole speech by downplaying recent inflation prints, noting that "they do not tell me that underlying trends have meaningfully improved."

- **Those odds then fell last week after Fed Governor Waller appeared to endorse the opposite view**, expressing optimism that recent inflation readings could mark the beginning of a more sustained trend lower. Waller indicated that his decision on whether to support a hike would depend largely on this week's CPI report.

- **September rate hike odds then moved sharply higher again following last Friday's blockbuster jobs report**, which showed the economy added 162k jobs in August, nearly triple the consensus expectation, while the unemployment rate held steady at 4.1%. Taken together, the August employment report reinforced the view that the economy remains near full employment and that the Fed can focus squarely on returning inflation to target.

- **Ultimately, this Friday's CPI report will likely determine whether the Fed hikes rates at the September 15-16 FOMC meeting.** We expect a 0.2% m/m increase in core CPI, which would be right on the cusp of what the more dovish wing of the Committee may be looking for to justify a hold. With the Fed now in its blackout period, policymakers will not have an opportunity to publicly react to the report, which, in our view, leaves the September decision very close to a coin flip.

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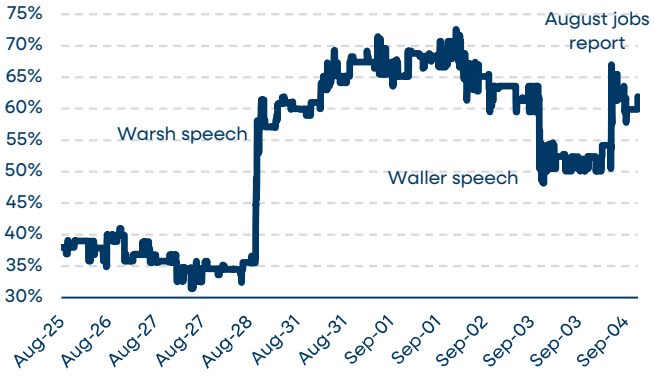
A new normal of uncertainty on the rate path?

Similar to the July meeting, market-implied odds of a rate hike at the September 15th and 16th FOMC meeting have been highly volatile and unsettled. Currently, markets are pricing in a little over 60% odds of a rate hike, not much more than a coin flip, a level of uncertainty that would have been rare under a Powell-led Fed.

Figure 1: Market-implied odds of a September hike



Sources: Bloomberg, PNC

To be clear, some of this uncertainty simply reflects the environment we're in. It feels as though many FOMC participants are genuinely undecided about how they will vote next week and are waiting for this Friday's CPI release before making up their minds. However, the Fed is also saying less under Warsh's preferred vision of a central bank that provides less forward guidance about future policy decisions.

It's worth recounting the moves in rate hike odds over the past two weeks as we prepare for next week's FOMC meeting.

Warsh sounded hawkish at Jackson Hole

Warsh had a job to do at Jackson Hole. He needed to come across as credible and resolute in the Fed's mission to return inflation to target, while also demonstrating leadership as the Committee weighs whether additional rate hikes are warranted.

We think he largely achieved both goals. You don't accomplish that by sounding overly dovish or by deflecting difficult questions to the various task forces he has created. You do it by projecting confidence in the Fed's ability to return inflation to target and by emphasizing the Committee's commitment to price stability.

> *"But on the price-stability side of our mandate, the numbers are more concerning... while the summer's PCE and CPI readings were better than expected,* ***they did not tell me that the underlying trends have meaningfully improved.****"*
>
> Chair Warsh, Jackson Hole

To some extent, Warsh sounded hawkish because he needed to. But there were elements of the speech that arguably went further than necessary. Most notably, he downplayed recent inflation readings, noting that "they do not tell me that underlying trends have meaningfully improved." Market-implied odds of a rate hike jumped to over 60% following the speech.

Fed Governor Waller seemingly endorsed the opposite view

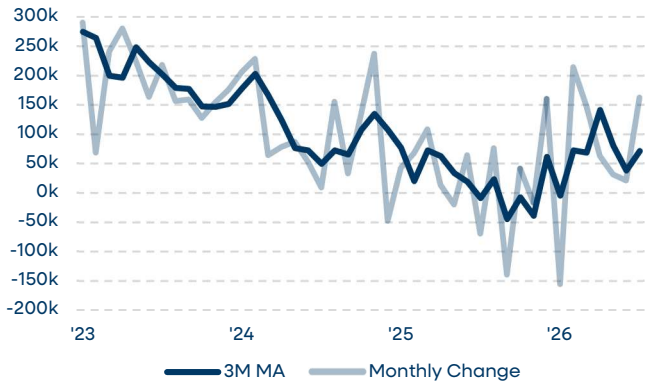
Rate hike odds then fell following remarks from Governor Waller, who indicated that he was leaning toward keeping rates unchanged next week. In contrast to Warsh, Waller expressed optimism that recent improvements in inflation were more signal than noise and that the trend could continue in the months ahead.

Though he effectively conditioned his decision on this week's CPI report, markets paid close attention given that Waller is widely viewed as representative of the bloc of voters that supported holding rates steady at the July FOMC meeting.

A blockbuster jobs report

At one point in his speech, Waller noted that he didn't expect last Friday's jobs report to be strong or weak enough to alter his view on hiking. However, with the U.S. economy adding 162k jobs in August, alongside 55k in net upward revisions to prior months' job growth, it's not clear to us that this assessment will hold.

Figure 2: Nonfarm payroll job growth



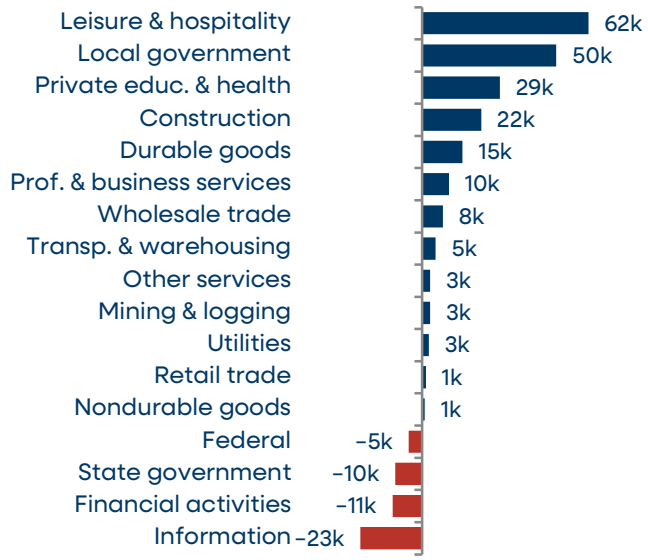
Sources: BLS, PNC

To be sure, nearly 70% of the jobs added in August came from just two sectors, leisure and local government, which appear to be unwinding unusually weak seasonal readings from prior months. Even so, the three-month moving average of job growth increased to 71k. That's meaningfully higher than what most economists, ourselves included, believe is necessary to keep the unemployment rate from falling further in the months ahead.

While the labor market is not currently a source of inflationary pressure, it has clearly tightened in 2026, and the direction of travel suggests further tightening in the months to come.

As a result, market-implied odds of a rate hike climbed back above 69%, roughly where they stood before Waller's speech.

Figure 3: August job growth ranked by sector



Sources: BLS, PNC

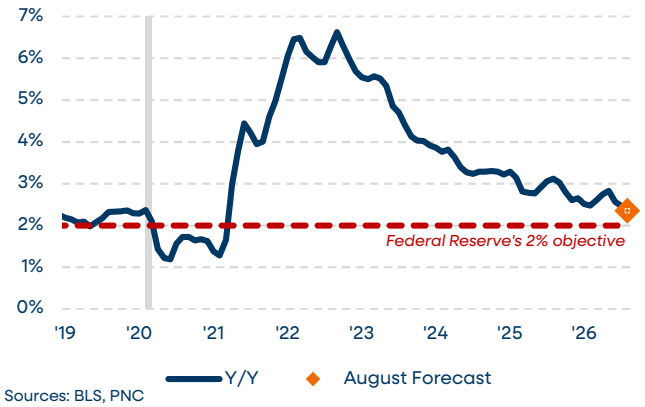
Well-behaved core CPI print may not be enough for a hold

We're estimating that headline CPI rebounded to 0.4% m/m in August from 0.1% the month prior, largely due to higher energy prices. **However, core CPI inflation is expected to come in around 0.2%, roughly in line with July's pace.** Combined with PPI, due out Thursday, we estimate this will translate into core PCE inflation of around 0.2% m/m, slightly lower on an unrounded basis from last month, but perhaps not convincingly enough to persuade the Committee that durable progress toward target is being made.

Within core CPI, continued moderation in shelter inflation should remain an important source of disinflation, especially given its outsized weight of 45%. However, several upside risks threaten that progress. Higher energy prices most immediately affect core inflation through airfares, which are the largest source of uncertainty in our forecast. Jet fuel prices have risen alongside oil prices, while robust travel demand increases the risk that airfares surprise to the upside. After averaging monthly

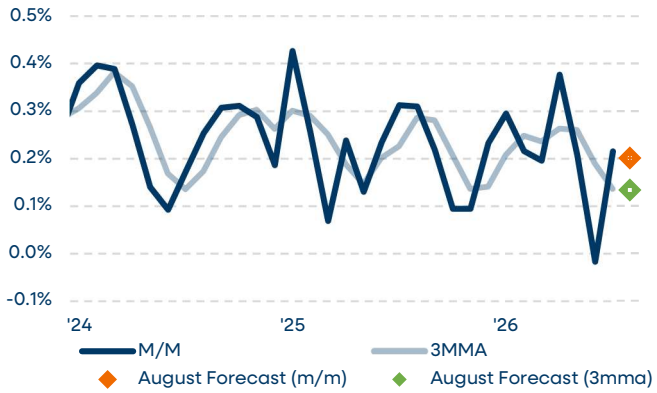
declines of 2.5% in June and July, hotel prices could also normalize and rebound more than expected. Finally, core goods inflation could retain some momentum through electronics prices, which rose 1.4% in July as the AI buildout spills over into broader IT prices.

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



Sources: BLS, PNC

Figure 5: Core CPI (% chg., m/m)



Sources: BLS, PNC

Based on our CPI and PPI forecasts, we expect core PCE inflation to come in around 0.2% m/m. As the Fed's preferred inflation gauge, core PCE is particularly important for monetary policy decisions. The official August report will not be released until September 30, after the FOMC meeting, but officials should have enough information to form their own nowcasts. The translation from CPI and PPI to core PCE is more uncertain than usual because of planned methodological changes affecting software, portfolio management services, and legal services.

Collectively, these changes are expected to shave around 20 to 30 basis points from year-over-year core inflation. While encouraging, officials will likely focus more on recent momentum in core PCE inflation. Within PPI, we view healthcare services as an important source of upside risk.

After recent Fed communication questioning the pace of progress toward the inflation objective, it is unclear whether an implied core PCE reading of 0.2% m/m will be enough. The downside and upside surprises map more cleanly into the possible policy decisions. A reading below 0.2% should give the Fed space to monitor continued disinflation, while a reading around 0.25% would significantly strengthen the hawks' case and could persuade swing voters that a hike is warranted. However, our base case is that core PCE inflation comes in between 0.20% and 0.24%, a less decisive outcome that would leave the September decision close to a coin flip. A third consecutive core PCE reading near a target-consistent pace is a necessary, but not sufficient, condition for a September hold.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
NFIB Small Business Optimism	Tue 9/8	6:00 am	Aug	--	99.3	98.7*
NY Fed 1-Yr Inflation Expectations	Tue 9/8	11:00 am	Aug	--	3.60%	3.63%
Consumer Credit	Tue 9/8	3:00 pm	Jul	$12.5b	$11.340b	$14.173b
MBA Mortgage Applications	Wed 9/9	7:00 am	Fri 9/4	--	--	0.8%
ADP Weekly Employment Change	Wed 9/9	8:15 am	Sat 8/22	--	--	11.750k
Initial Jobless Claims	Thu 9/10	8:30 am	Sat 9/5	210k	205k	206k
Continuing Claims	Thu 9/10	8:30 am	Sat 8/29	--	1780k	1779k
PPI Final Demand M/M	Thu 9/10	8:30 am	Aug	0.3%	0.4%	0.0%
PPI Ex Food and Energy M/M	Thu 9/10	8:30 am	Aug	0.3%	0.3%	0.2%
Existing Home Sales	Thu 9/10	10:00 am	Aug	3.97m	3.99m	4.06m
Wholesale Trade Sales M/M	Thu 9/10	10:00 am	Jul	--	--	-3.0%
CPI M/M	Fri 9/11	8:30 am	Aug	0.4%	0.4%	0.1%
Core CPI M/M	Fri 9/11	8:30 am	Aug	0.2%	0.2%	0.2%
U. of Mich. Sentiment	Fri 9/11	10:00 am	Sep P	51.2	51.0	51.7
U. of Mich. 1 Yr Inflation	Fri 9/11	10:00 am	Sep P	--	4.2%	4.0%
Household Change in Net Worth	Fri 9/11	12:00 pm	2Q	--	--	$113b
Federal Budget Balance	Fri 9/11	2:00 pm	Aug	--	-$220.0b	-$344.8b

Sources: Bloomberg, PNC
*Released prior to publication

Consumer Credit

- $12.5b. Consumer credit growth is expected to moderate in July amid a decline in retail sales.

Initial Jobless Claims

- 210kInitial jobless claims are expected to tick higher but remain range bound.

PPI

- **Final Demand MoM**
  - 0.3%. Final demand producer price growth is forecast to accelerate in August, partly due to higher energy prices.
- **PPI Ex Food and Energy MoM**
  - 0.3%. Core producer price growth is projected to edge up in August.

Existing Home Sales

- 3.97m. Existing home sales are forecast to slip with mortgage applications falling for a second straight month in August, while the average 30-year fixed mortgage rate was around 6.7%.

CPI

- **CPI MoM**
  - 0.4%. Headline consumer price growth is projected to accelerate in August with higher gasoline prices boosting growth by approximately 12 basis points.
- **Core CPI MoM**
  - 0.2%. Core CPI growth is expected to remain unchanged at a benign 0.2% in August

U. of Mich. Sentiment

- 51.2 Consumer sentiment is forecast to slip in September amid the ongoing Middle East conflict.

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