Weekly Economic Roundup

PNC Economics

Headlines

- Focus last week centered on the **June FOMC meeting minutes and uncertainty over the state of the ceasefire with Iran**. The minutes confirmed a split FOMC committee that has grown more concerned about inflation than the labor market. Oil prices increased over 9% in the past week.

- The Fed released more information about Chairman Warsh's five new task forces. **The picks to lead them are reputable, largely from academia, and should help allay concerns about political influence** in Warsh's plans for reform at the Fed.

- **Focus this week will center on the June CPI reading and retail sales.** Falling gas prices through June should have pushed headline CPI to essentially zero growth on the month, potentially even negative. **Core CPI is expected to come in at roughly 0.3% m/m.**

- **June's retail sales report on Thursday** will provide more insight into the pace of Q2 real GDP growth. The print is expected to be mixed, showing **nominal spending growth holding up despite falling gas prices through the month.**

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June FOMC minutes showed more concern over inflation than jobs

The minutes to the June FOMC meeting were released last week – these are the first minutes released under Fed Chair Warsh's tenure. The minutes were somewhat shorter than prior releases, although the structure and content was largely upheld. Less focus was paid in the minutes to views held only by a small minority of participants.

The minutes were generally hawkish, confirming a split FOMC committee that continues to become more attuned to the upside risks on the inflation side of the mandate. This provided confirmation and context to the hawkish move in the dot plot released at the meeting itself. There were three core themes that came up in relation to inflationary risks: 1) the ongoing supply-chain and energy market disruptions posed by the Iran conflict, 2) inflationary pressures brought on by AI-driven demand, and 3) the potential for inflation expectations to be impacted by inflation printing above target for over 5 years.

"A few participants commented that, in light of these developments, there was a case for raising the target range for the federal funds rate, but those participants indicated that they supported maintaining the current target range at this meeting."

Developments in the Iran conflict since the meeting may have improved the committees outlook since the time of the FOMC meeting, but elevated energy prices remain a threat to headline inflation and will likely seep into core inflation as well the longer the conflict continues. AI-driven inflation was another pressure cited, with "many" FOMC participants sharing the view that demand for AI infrastructure would maintain upward price pressure on technology-related prices and on electricity prices. With AI capex continuing at very strong level despite the current level of interest rates, the mechanical inflationary pressure on the impacted segments is unlikely to dissipate anytime soon. A majority of the committee also expressed *"that growth in economic activity that exceeded that of potential output, owing in part to strong AI business investment, could contribute to more persistent inflationary pressures."*

The inflationary pressures from an economy growing above potential is likely to be much more broad-based than AI capex inflation alone. For the Fed, inflation stemming from a rise in aggregate demand is the kind of inflation that likely would need more aggressive policy action, should it appear.

"[A]fter several years of inflation above 2 percent, continued elevated inflation rates could begin to affect inflation expectations and wage- and price-setting decisions."

The majority of FOMC participants also "highlighted the possibility that, after several years of inflation above 2 percent, continued elevated inflation rates could begin to affect inflation expectations and wage- and price-setting decisions" and "stressed the importance of closely monitoring inflation developments and inflation expectations." The potential for inflation expectations to become de-anchored remains a very significant threat to the Fed's ability to curb inflation. There's been no evidence from that in market measures, and survey-measures remain generally consistent with what the Fed would need for inflation to get back to target, but the continued and increasing worry on the topic is significant – the Fed will almost certainly move to a more hawkish stance of policy if it believes that expectations are moving away from the 2% target.

On the labor market, views were a bit more mixed. "Many" participants viewed the labor market as not a current source of inflationary pressure, and "several" were of the view that economic and geopolitical uncertainty could still lead to slower hiring or even layoffs in the future. Despite the recent bounce-back in payrolls prints, there remains a non-negligible amount of FOMC participants that remain cautious around the state of the labor market (Participants were also noted broadly as saying that labor market growth had gotten better this year to date and were roughly consistent with growth in the labor force, so it's not an imminent problem facing the labor mandate, to be clear).

As such, we can understand why the Fed has not shifted the policy rate despite the uptick in perceived risks to the inflation mandate over the last few months – inflation risk has grown, but the risk has yet to be realized in a manner that demands Fed action. At the same time, the labor market is showing evidence of improving, but the committee is still attuned to downside risks. In this environment, the Fed can afford to remain patient – should risks to either side of the mandate bear out and demand a response, we can expect the Fed to act, but until then, the Fed can afford the luxury of waiting to see if such action is indeed warranted.

Fed announces Warsh's task force leadership

On Thursday, the Fed announced the objectives and leaders of Kevin Warsh's five task forces, which he outlined during his press conference at the June FOMC meeting. The task forces will review the FOMC's "means and methods, analytical tools and policy approaches" of "areas central to the broad conduct of monetary policy": (1) communications, (2) balance sheet policy, (3) data, (4) productivity and jobs, and (5) inflation framework.

According to the press release, each task force will be assigned three distinct leaders. A majority of the 15 names listed have a background in academia, joined by several ex-central bankers and business leaders.

There is little evidence to suggest leaders will provide overt influence of Warsh's priors and we should expect them to uphold their academic integrity in their findings. The group's strong reputation is also likely to abate concerns over potential political influence in Warsh's plan for reform at the Fed.

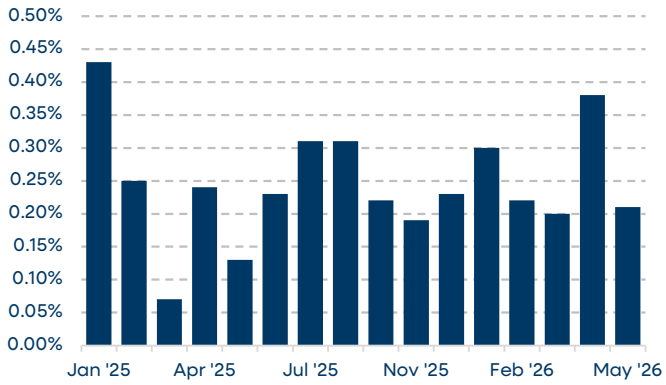
Notably, the task force on productivity and jobs, tasked with assessing the economic impact of AI, is led by prominent figures at Microsoft, Anthropic, and Silicon Valley-based venture capital firm Andreessen Horowitz. Warsh has been a strong proponent of AI's potential productivity gains and its disinflationary impact, which the industry bulls are unlikely to push back on.

Altogether, the group shows an emphasis on outside expertise and credibility, while specifically being mandated to operate independently and provide candid feedback. No timeline was included in the press release, but additional information is to be periodically shared by the Fed.

Tomorrow's CPI print important in determining near-term rate hikes

PNC expects core CPI to increase 0.3% month-over-month in June, bringing the year-over-year rate to 2.9%. Inflation reaccelerated in the first half of 2026, a trend that began before the conflict with Iran and has become increasingly broad-based. Both core goods and core services inflation have firmed, with higher tariffs likely contributing to renewed price pressures in goods, compounded by higher energy prices earlier this year. Falling gas prices in June should leave headline CPI flat, if not slightly negative, providing some support to household purchasing power even as the outlook for energy prices remains highly uncertain.

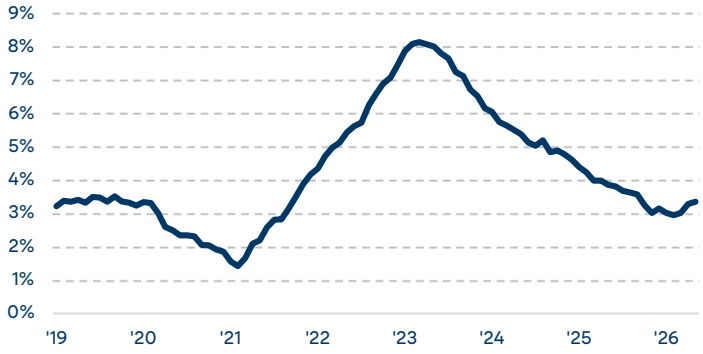
Figure 1: Core CPI (% chg., m/m)



Sources: BLS, PNC

Shelter inflation, the largest component of core CPI, has been the primary source of disinflation over the past several years. That process now appears largely complete. While shelter inflation is unlikely to reaccelerate meaningfully in the near term, it is also unlikely to provide the same degree of disinflationary relief that it has in recent years.

Figure 2: Shelter CPI (% chg., y/y)



Sources: BEA, PNC

Outside of shelter, services inflation remains stubbornly elevated despite softer job growth and moderating wage gains. Core services excluding shelter has averaged 0.26% month-over-month over the past three months. To make sustained progress toward its inflation objective, the Federal Reserve will likely need to see that pace move closer to 0.20% per month.

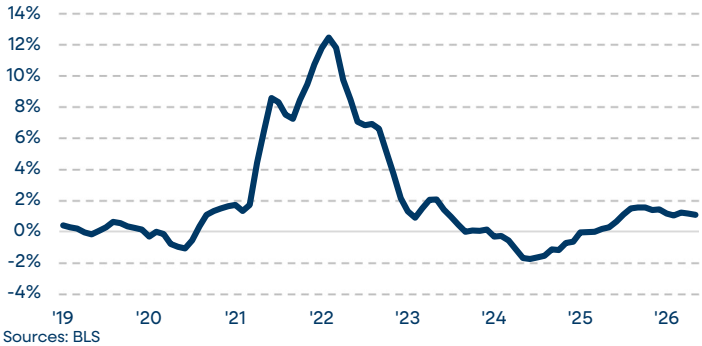
Figure 3: Core Services CPI ex Shelter (% chg., y/y)

Sources: BLS

Core goods inflation began to reaccelerate in the first half of 2026 following significant tariff increases, with higher energy prices adding further upward pressure earlier this year. While uncertainty remains elevated, there are reasons to believe the worst of the goods inflation acceleration may be behind us. Much of the tariff-related pass-through appears to have already occurred, while the decline in energy prices since mid-June should help ease some cost pressures in the months ahead.

Overall, elevated inflation has once again become the Fed's primary concern. Recent comments from policymakers suggest the bar for additional rate hikes has fallen as inflation has reaccelerated. Governor Waller noted that a "still hot" inflation print tomorrow could warrant a more restrictive policy stance, while Governor Williams recently suggested core inflation would need to average roughly 0.2% month-over-month to keep inflation on a path back toward target.

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



Sources: BLS

Retail sales to tell us more about Q2 real GDP growth

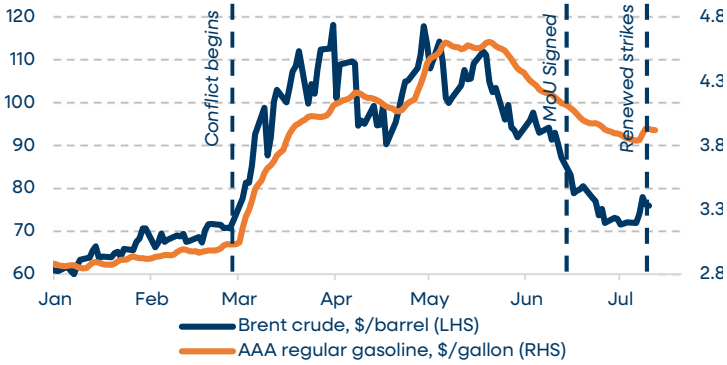
Headline retail sales growth in 2026 has been uneven, primarily because of volatile gasoline prices. Growth was flat to start the year when gasoline sales fell 2.2%, then accelerated to 1.7% month-on-month in March (the fastest pace since March 2025) when sales at gasoline stations spiked 14.2%. More recently, headline growth accelerated to 0.9% in May, more than double the 0.4% advance in Apri.

The solid growth in May was broad based with sales in 11 of 13 categories rising on the month except for electronics and appliance stores (-0.5%) and restaurant and bars (-0.1%). Moreover, growth in retail sales excluding gasoline stations was a strong 0.7% in May, suggesting firm consumer demand amid a solid nonfarm payroll gain of 129,000. Headline growth is expected to slow to 0.3% in June on slower job gains, weaker real disposable income growth and falling gas prices, which declined a seasonally adjusted 9.3% month-on-month. That would push the year earlier growth rate down to a still strong 5.9% from 6.9% in May. Retail sales ex-auto growth is expected to slow to 0.1% from the strong pace of 0.8% in May.

Renewed fighting pushes oil prices higher

The ceasefire with Iran has effectively collapsed. Renewed attacks on commercial shipping in the Strait of Hormuz, further U.S.-Iran military exchanges, and the reimposition of the U.S. blockade on Iranian shipping mark a clear return to hostilities. Brent crude has risen about 9% over the past week to around $80 per barrel, although it remains roughly 34% below the high reached earlier this year. We expect oil prices to remain volatile as markets assess the outlook for shipping through the Strait and the risk of further military escalation

Figure 5: Retail gasoline has retraced less of its spring increase than Brent

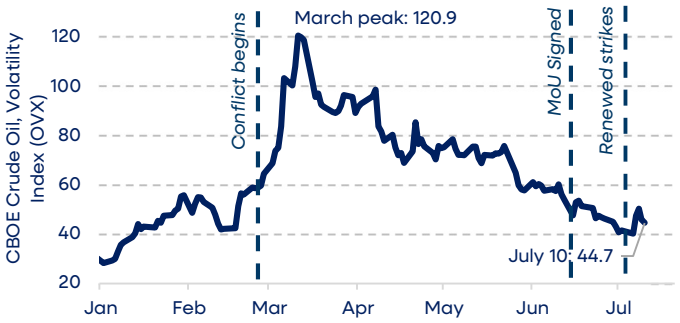


Sources: Bloomberg, AAA, PNC, Brent through July 13; gasoline through July 12,2026

Both sides have left the door open to renewed talks, but we believe a durable agreement will be difficult to reach while the central dispute over Iran's nuclear program remains unresolved. Several of the same forces we highlighted last week have nevertheless helped contain the rise in oil prices. Chinese and broader global oil demand have weakened, while higher U.S. and other non-OPEC supply has offset part of the disruption to Gulf exports. Gulf producers are also using pipelines and export terminals outside the Strait, and regional oil flows remain above the lows reached earlier in the conflict. Global inventories are not unusually depleted. These buffers should cushion a partial or short-lived disruption, although their effectiveness would diminish if shipping volumes fell sharply or remained depressed for an extended period.

Our base case is for oil prices to remain volatile but below the peaks reached earlier in the conflict. A sustained move higher would likely require a more severe and prolonged reduction in Gulf oil exports, rather than intermittent military exchanges or temporary disruptions to shipping.

Figure 6: Oil-price volatility remains elevated but below the March peak



Sources: CBOE, PNC

Data Preview

This week's economic calendar is dense and should provide greater clarity on how easing Middle East tensions and the resulting decline in energy prices are feeding through to headline inflation, with Tuesday's June Consumer Price Index (CPI) report serving as the key release for assessing underlying price pressures. The data flow will also offer important insight into the resilience of economic activity, as June retail sales and industrial production reports, due Thursday and Friday, respectively, help gauge the strength of consumer spending and broader economic momentum heading into the second half of the year.

Beyond the marquee economic releases, this week's data will provide additional insight into how supply-side constraints are influencing firm-level cost pressures, with the July Producer Price Index (PPI) report due Wednesday, while the preliminary July University of Michigan consumer sentiment survey will offer a timely read on household confidence and inflation expectations amid elevated geopolitical uncertainty and energy prices. Housing market conditions will also be in focus, with pending home

sales on Thursday and June housing starts and building permits on Friday helping to gauge the health of residential activity.

The week also marks the final opportunity to hear from Federal Reserve officials before the communications blackout period ahead of the July FOMC meeting, which begins Saturday. Fed Chair Powell will deliver the Semiannual Monetary Policy Report to Congress before the House Financial Services Committee on Tuesday and Wednesday, while Governors Waller, Barr, Cook, and Vice Chair Bowman are scheduled to speak throughout the week, culminating with remarks from Vice Chair Jefferson on Friday.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Federal Budget Balance	Mon 7/13	2:00 pm	Jun	--	-$128.3b	-$292.6b
NFIB Small Business Optimism	Tue 7/14	6:00 am	Jun	--	95.7	95.3
ADP Weekly Employment Change	Tue 7/14	8:15 am	Sat 6/27	--	--	21k
Real Avg Hourly Earning Y/Y	Tue 7/14	8:30 am	Jun	--	--	-0.7%
CPI M/M	Tue 7/14	8:30 am	Jun	0.0%	-0.1%	0.5%
Core CPI M/M	Tue 7/14	8:30 am	Jun	0.3%	0.2%	0.2%
Total Net TIC Flows	Tue 7/14	4:00 pm	May	--	--	$26.1b
MBA Mortgage Applications	Wed 7/15	7:00 am	Fri 7/10	--	--	-2.2%
Empire Manufacturing	Wed 7/15	8:30 am	Jul	8.0	9.7	5.7
PPI Final Demand M/M	Wed 7/15	8:30 am	Jun	0.3%	0.0%	1.1%
Fed Releases Beige Book	Wed 7/15	2:00 pm	Jul	--	--	--
New York Fed Services Business Activity	Thu 7/16	8:30 am	Jul	--	--	-10.1
Philadelphia Fed Business Outlook	Thu 7/16	8:30 am	Jul	13.0	12.3	10.3
Retail Sales Advance M/M	Thu 7/16	8:30 am	Jun	0.3%	0.3%	0.9%
Retail Sales Control Group	Thu 7/16	8:30 am	Jun	--	0.5%	0.7%
Initial Jobless Claims	Thu 7/16	8:30 am	Sat 7/11	218	217k	215k
Continuing Claims	Thu 7/16	8:30 am	Sat 7/4	--	1815k	1814k
NAHB Housing Market Index	Thu 7/16	10:00 am	Jul	--	35.0	35.0
Business Inventories	Thu 7/16	10:00 am	May	0.2%	0.3%	0.5%
Pending Home Sales M/M	Thu 7/16	10:00 am	Jun	--	-0.2%	3.8%
Import Price Index M/M	Fri 7/17	8:30 am	Jun	--	-0.6%	1.9%
Export Price Index M/M	Fri 7/17	8:30 am	Jun	--	-0.4%	1.3%
Housing Starts	Fri 7/17	8:30 am	Jun	1315k	1315k	1177k

Building Permits	Fri 7/17	8:30 am	Jun P	--	1400k	1410k
Industrial Production M/M	Fri 7/17	9:15 am	Jun	0.3%	0.2%	0.1%
Manufacturing Production M/M	Fri 7/17	9:15 am	Jun	--	0.1%	0.0%
Capacity Utilization	Fri 7/17	9:15 am	Jun	76.3%	76.2%	76.2%
U. of Mich. Sentiment	Fri 7/17	10:00 am	Jul P	--	51.0	49.5

Source: Bloomberg, PNC
*Released prior to publication

CPI M/M
- CPI growth is expected to decelerate in June on falling gas prices.

Core CPI M/M
- Core CPI growth is forecast to pick up slightly in June as the earlier surge in gas prices impacts other goods and services prices with a lag.

Empire Manufacturing
- Manufacturing activity in New York State is projected to expand again in July in line with the recent national trend.

PPI Final Demand M/M
- PPI Final Demand growth is expected to decelerate sharply on the over 16% drop in oil prices.

Philadelphia Fed Business Outlook
- Manufacturing activity in the Philadelphia region is projected to accelerate slightly in July.

Retail Sales Advance M/M
- Retail sales growth is expected to decelerate sharply in June on slower job gains, weaker disposable income growth and falling gas prices.

Initial Jobless Claims
- Initial jobless claims are projected to inch up but remain in a fairly tight range.

Business Inventories
- Business inventories are expected to expand again in May amid resilient consumer demand.

Housing Starts
- Housing starts are forecast to rebound from the sharp drop in May but remain below the January level amid higher mortgage rates.

Industrial Production
- Industrial production growth is projected to pick up slightly in June amid the continued expansion in the manufacturing sector.

Capacity Utilization
- Capacity utilization is expected to rise in June on faster growth in industrial production.

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