Weekly Economic Roundup

PNC Economics

Headlines

- **We expect headline CPI inflation to have accelerated to 0.6% in September, the fastest pace since last April**, driven in large part by a nearly 10% seasonally adjusted increase in gas prices last month. Core CPI should come in meaningfully softer, likely rounding to 0.2% on the month. That would be a step down from August, but would still leave underlying inflation near the roughly 3% annualized pace that has persisted for much of the past three years.

- **There's a high bar for tomorrow's CPI print to bring an October rate hike back into play**, and we expect it to matter more for December rate-hike pricing. **Fed officials have called for additional hikes but are not in a hurry**. Governor Waller further reduced the odds of an October move after saying that hikes don't need to come at consecutive meetings.

- **The minutes of the September FOMC meeting read rather similar to prior meetings**. The FOMC broadly views inflation as the more pressing side of the mandate and retains a hawkish skew. One important element in the minutes was the acknowledgment of "**residual seasonality**," or recognition that in each of the past several years inflation prints have tended to be hotter in the first half of the year and softer in the latter. This could be important as the Fed judges inflation readings throughout the remainder of the year.

- **We expect retail sales to show that consumer spending remained resilient toward the end of Q3**. Ahead of retail sales, real consumer spending appears to have increased at more than a 3% annualized pace in the third quarter.

Gus Faucher
augustine.faucher@pnc.com

Jay Hawkins
jay.hawkins@pnc.com

Ershang Liang
ershang.liang@pnc.com

Brian LeBlanc
brian.leblanc@pnc.com

Alex Mackle
alex.wyattmackle@pnc.com

Rayhan Momin
rayhan.momin@pnc.com

Isfar Munir
isfar.munir@pnc.com

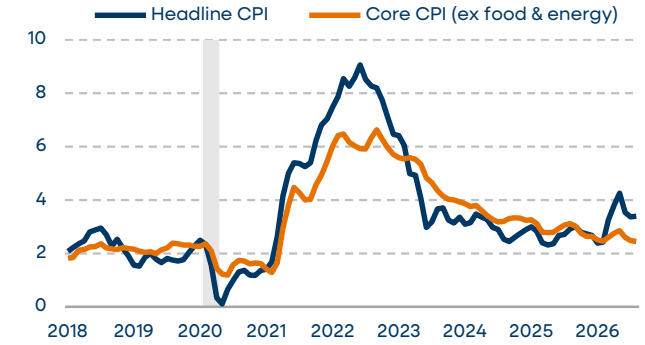
Kurt Rankin
kurt.rankin@pnc.com

Rafael Shifren
rafael.shifren@pnc.com

Headline inflation likely hot in September, core inflation lukewarm

We expect headline CPI inflation to have accelerated to 0.6% in September, the fastest pace since last April, driven in large part by a nearly 10% seasonally adjusted increase in gas prices last month. Core should come in at a much more benign 0.24%, still above the Fed's target but a step down from last month.

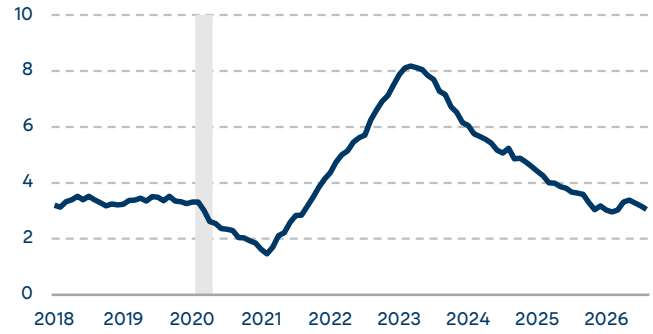
Figure 1: Headline vs. Core CPI inflation (YoY %)



Sources: BLS, NBER, PNC | Oct 2025 interpolated

The details of the August CPI report were more benign than the core CPI print appeared. Nearly 30% of the core inflation reading in August came from a large increase in cell phone plan prices that is unlikely to repeat in September. The main question is how much higher oil-intensive prices, such as airfares, offset that decline.

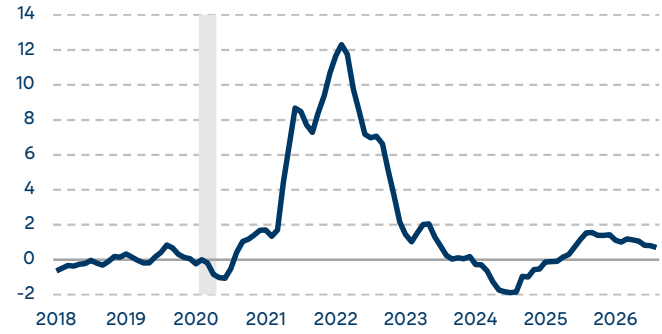
Figure 2: CPI Shelter Inflation (YoY %)



Sources: BLS, NBER, PNC | YoY %; Oct 2025 interpolated

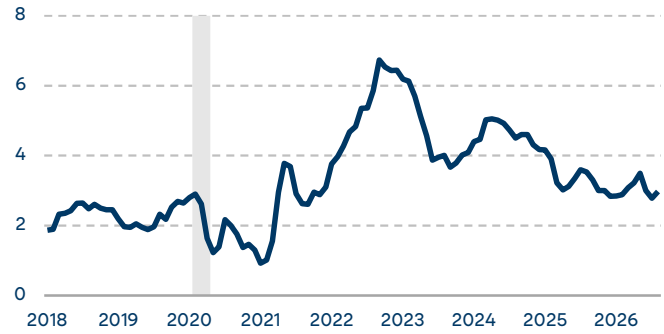
In our view, any monthly increase in core CPI below 0.4% would solidify the case for the Fed to remain on hold at the October meeting. PNC's baseline continues to be that the Fed will hike rates two more times, once in December and again in March 2027.

Figure 3: CPI Core Goods Inflation (YoY %)



Sources: BLS, NBER, PNC | YoY %; Oct 2025 interpolated

Figure 4: CPI Core Services ex. Shelter Inflation (YoY %)



Sources: BLS, NBER, PNC | YoY %; Oct 2025 interpolated

September FOMC minutes

Minutes to the September FOMC meeting read rather similarly to other recent minutes – the FOMC broadly views inflation as the more pressing side of the mandate and thus retains a hawkish skew. Since Kevin Warsh took over as Fed Chair, the minutes have generally covered a smaller span of views and topics than they previously detailed. This has limited some of the usefulness of the minutes but is consistent with Warsh's anti-forward guidance stance.

Despite this, there were a couple of details that stood out to us in the minutes. For one, the minutes explicitly acknowledged that inflation prints in the last few years have exhibited some residual seasonality - "a few participants" noted the 3-month annualized core PCE measure "has a strong tendency to understate inflation in the second half of the year compared with

the first half." There's some acknowledgement here that inflation prints, if they repeat the recent pattern, could be weaker through the end of the year. This is not a reason for the Fed *not* to retain a hiking bias, though, at least to the hawkish wing of the FOMC. More generally, a number of reasons were cited as to why inflation risks were skewed to the upside, including demand pressure from the AI buildout, the potential for a prolonged bout of energy inflation to seep into the core inflation measures, and the possibility of inflation expectations being impacted by the length of time that inflation has exceeded target.

In line with previous minutes, the consensus view on the labor market is that it's "stable" and having "strengthened a bit recently." Between the myriad reasons cited on upside inflation risks and the consensus view that the labor market is not a present concern, it becomes clear that the Fed retains a hawkish tilt. Until proven otherwise, we should expect the Fed to deliver more hikes. That "several participants" view the current stance of policy as "not restrictive or only mildly restrictive" only adds further support to that assessment.

Waller (and others) say consecutive hikes aren't needed

Over the last week, Fed officials' communication has echoed the same message as the minutes - further hikes are likely to be needed. However, the *pace* of tightening is likely slower than what the market had initially anticipated.

Governor Waller called for flexibility last week, saying that the additional hikes he anticipates "do not need to come at consecutive meetings." As a key figure in the FOMC, we expect that Waller's call for patience resonates with a majority of the committee. The prior week, Vice Chair Jefferson called for carefully examining trends, which may take time. Similarly, St. Louis Fed President Musalem (non-voter) signaled that an appropriate timing for the pace of further hikes is six-to-nine months.

On the back of this messaging, the market-implied pace of hikes has slowed, but total number of hikes expected has remained mostly unchanged. In conjunction with the September meeting minutes, Waller's comments have given us further confidence that the Fed will hold between each of its remaining hikes, delivering them in December and March.

Retail sales preview

Consumer spending has been resilient despite modest job growth – job gains have averaged 68K per month this year through September – weak real disposable income growth, high gasoline prices, and an uptick in the unemployment rate last month. Inflation-adjusted consumer spending accelerated to an annualized 3.8% pace in the second quarter, up sharply from just 0.7% in the first quarter and 1.9% in the fourth quarter. The acceleration was broad based with goods spending increasing 4.5% and services spending increasing 3.4%.

Headline retail sales increased a solid 1.2% month-on-month in August, rebounding from the 0.5% decline in July. Monthly growth is expected to slow to a more sustainable pace of 0.3% in September (up 6.0% from a year ago, unchanged from August) on weak job gains, slower wage growth, and low levels of household savings. Retail sales ex autos is forecast to rise 0.4%, pushing the year-on-year growth rate up to a robust 7.0%.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
NFIB Small Business Optimism	Tue 10/13	6:00 am	Sep	--	98.2	97.9*
ADP Weekly Employment Change	Tue 10/13	8:15 am	Sat 9/26	--	--	24.750k*
Existing Home Sales	Tue 10/13	10:00 am	Sep	--	3.95m	3.99m*
MBA Mortgage Applications	Wed 10/14	7:00 am	Fri 10/9	--	--	-4.2%
CPI M/M	Wed 10/14	8:30 am	Sep	0.6%	0.6%	0.4%
Core CPI M/M	Wed 10/14	8:30 am	Sep	0.2%	0.2%	0.3%
Fed Releases Beige Book	Wed 10/14	2:00 pm	Sat 1/0	--		
Retail Sales Advance M/M	Thu 10/15	8:30 am	Sep	0.3%	0.3%	1.2%
Retail Sales Ex Auto M/M	Thu 10/15	8:30 am	Sep	0.4%	0.6%	1.4%
Empire Manufacturing	Thu 10/15	8:30 am	Oct	5.5	12.3	7.6
Philadelphia Fed Business Outlook	Thu 10/15	8:30 am	Oct	32.0	28.0	37.8
Initial Jobless Claims	Thu 10/15	8:30 am	Sat 10/10	200k	200k	197k
Continuing Claims	Thu 10/15	8:30 am	Sat 10/3	--	1710k	1716k
PPI Final Demand M/M	Thu 10/15	8:30 am	Sep	0.5%	0.6%	0.4%
PPI Ex Food and Energy M/M	Thu 10/15	8:30 am	Sep	0.3%	0.3%	0.2%
Business Inventories	Thu 10/15	10:00 am	Aug	0.2%	0.4%	0.8%
New York Fed Services Business Activity	Fri 10/16	8:30 am	Oct	--	-5.6	-8.7
Import Price Index M/M	Fri 10/16	8:30 am	Sep	--	0.9%	0.7%
Export Price Index M/M	Fri 10/16	8:30 am	Sep	--	0.8%	0.6%
Industrial Production M/M	Fri 10/16	9:15 am	Sep	0.3%	0.4%	0.0%
Manufacturing Production M/M	Fri 10/16	9:15 am	Sep	--	0.3%	-0.3%
Capacity Utilization	Fri 10/16	9:15 am	Sep	76.4%	76.5%	76.3%

Sources: Bloomberg, PNC
*Released prior to publication

CPI

CPI M/M

- 0.6%. Growth in the headline CPI is forecast to accelerate to 0.6% in September, partly due to a 25 basis point boost from higher gas prices.

Core CPI M/M

- 0.2%. Core CPI growth is projected to be a more modest 0.2% in September, down from 0.3% in August.

Retail Sales

Retail Sales Advance M/M

- 0.3%. Headline retail sales growth is projected to slow to 0.3% in September on weak job gains, slower wage growth and low levels of household savings.

Retail Sales Ex Auto M/M

- 0.4%. Retail sales ex autos growth will top headline growth on declining auto sales in September.

Empire Manufacturing

- 5.5. Manufacturing activity in New York State is expected to slow somewhat in October but remain positive.

Philadelphia Fed Business Outlook

- 32.0. Manufacturing activity in the Philadelphia region is forecast to slow somewhat in October from September's torrid pace.

Initial Jobless Claims

- 200k. Initial jobless claims have hovered around 200k recently and that isn't expected to change in this "low-hire" "low fire" labor market.

PPI

PPI Final Demand M/M

- 0.5%. Final demand producer price growth is expected to accelerate slightly in September, partially due to higher energy prices.

PPI Ex Food and Energy M/M

- 0.3%. Core PPI growth is forecast to pick up slightly in September but still grow at a modest pace.

Business Inventories

- 0.2%. Business inventory growth is projected to slow sharply in August from the unsustainable pace in July.

Industrial Production M/M

- 0.3%. Industrial production growth is forecast to accelerate in September from the flat reading in August amid the continued buildout of AI data centers.

Capacity Utilization

- 76.4%. The capacity utilization rate is expected to increase in September on an acceleration in industrial production growth.

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