Weekly Economic Roundup

PNC Economics

Headlines

- **We expect the Fed to hike rates by 25bps at this week's FOMC meeting**, beginning a renewed hiking cycle that should bring two additional rate hikes in December and March of next year. Markets are currently pricing in roughly an 90% chance of a rate hike this week.

- The case for rate hikes is simple: the Fed has made almost no progress in returning inflation to target since early 2024, and trend inflation has worsened this year. While it is tempting to explain away this lack of progress with a rotating set of supply shocks or idiosyncratic factors keeping inflation elevated, the truth may be much simpler: **there is still too much demand in the economy chasing too little supply.**

- **There are few signs that the economy is slowing enough to generate the additional disinflation the Fed needs**, at least not in a timely enough manner for a Fed that is clearly growing impatient. Private-sector demand is still growing above 3%; corporate profits have rebounded sharply; suggesting firms continue to possess considerable pricing power, and job growth has strengthened this year.

- While the labor market is not yet a source of inflationary pressure, the Fed has to be asking itself at what point that changes. Continued improvement in hiring and wage growth would make it even harder for inflation to return to target. **If the Fed doesn't hike a few times now, it risks having to hike much more aggressively later.**

- Outside of the FOMC meeting this week, we expect Wednesday's retail sales print to show consumer spending rebounded in August, keeping Q3 growth on a firm footing. Additional data on housing starts and industrial production should support our view of robust third quarter growth.

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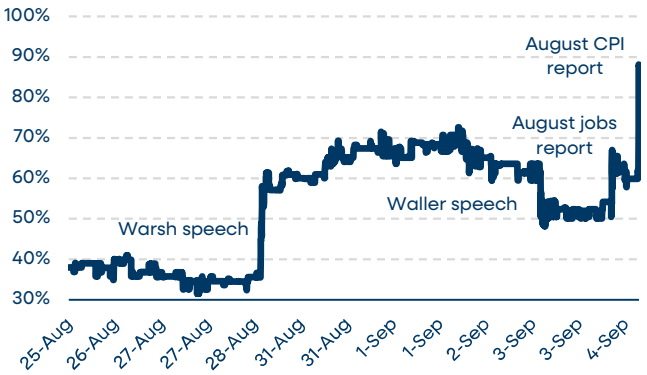
FOMC should hike this week

We expect the Fed to hike the fed funds rate by 25 bps at this week's FOMC meeting, beginning a renewed hiking cycle that should bring additional rate increases in December and March. Market-implied odds of a September hike jumped to around 90% following last Friday's CPI report. This reinforces our that inflation remains too elevated for comfort, even if a large, one-time increase in cell phone plan prices boosted core CPI inflation to 0.3% m/m compared to expectations of a 0.2% increase.

Figure 1: Market-implied odds of a September hike (%)

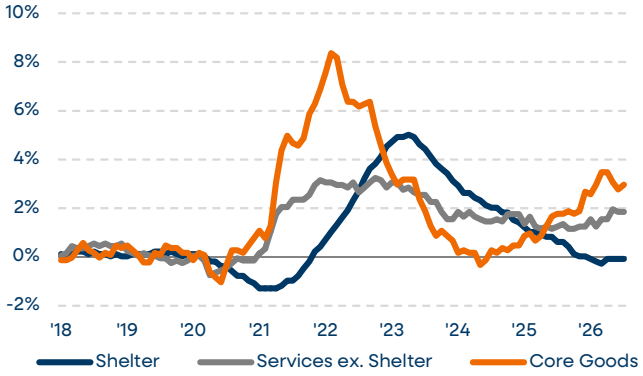


Sources: Bloomberg, PNC

The case for additional rate hikes is straightforward: the Fed has made little progress returning inflation to target since early 2024, and trend inflation has worsened this year. While it has been tempting to attribute the lack of progress to a rotating cast of supply shocks and idiosyncratic factors, the simpler explanation may be the correct one: **demand remains too strong relative to supply.**

Looking beneath the surface, shelter inflation rose just 0.26% in August, lowering its year-over-year rate to 3.0%, a pace broadly consistent with 2% overall inflation. But core goods prices still increased 0.11%, while core services excluding housing, or "supercore" inflation, accelerated to 0.42% from 0.35% in July. More concerningly, this acceleration has occurred despite continued easing in wage growth, suggesting that underlying aggregate demand remains too strong. **Left unchecked, that strength will continue to keep upward pressure on inflation.**

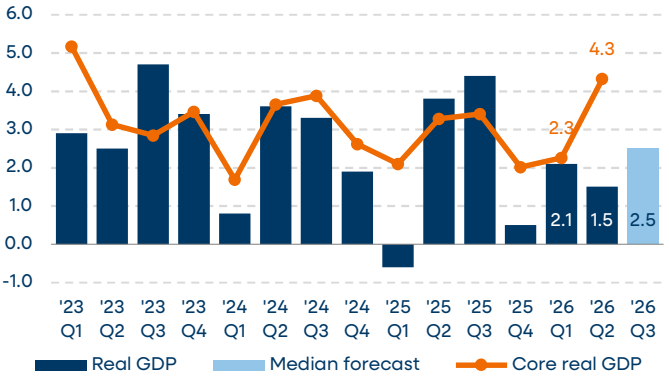
Figure 2: Core PCE components relative to pre-pandemic trend (% chg., y/y)



Sources: BEA, PNC

There are also few signs that the economy is slowing enough to generate the additional disinflation the Fed needs. Private-sector demand is still expanding at a better than a 3% annualized pace in Q3, corporate profits have rebounded sharply; suggesting firms retain considerable pricing power; and job growth has strengthened this year. That is not the sort of backdrop that typically produces a sustained return to 2% inflation and troubles an increasingly impatient FOMC.

Figure 3: Real GDP and core Real GDP growth (% chg., q/q, ann.)

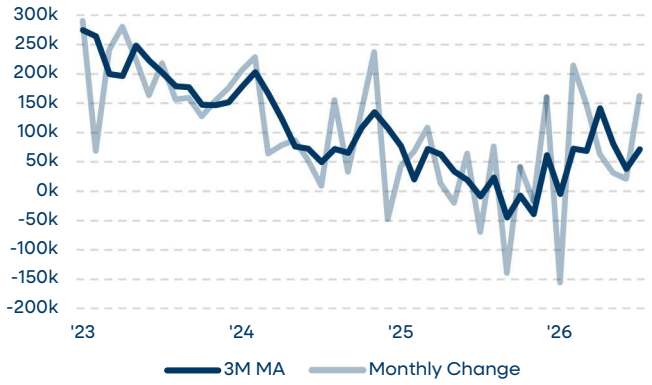


Sources: BEA, PNC
Note: Core real GDP is the sum of consumer spending and investment.

Nor is the labor market providing much reassurance. While employment conditions are not yet a significant source of inflationary pressure, the Fed has to be

asking how long that remains true. Continued improvements in hiring and wage growth would make the inflation problem even harder to solve. **If policymakers fail to act now, they risk needing to move much more aggressively later.**

Figure 4: Nonfarm payroll job growth (thousands)



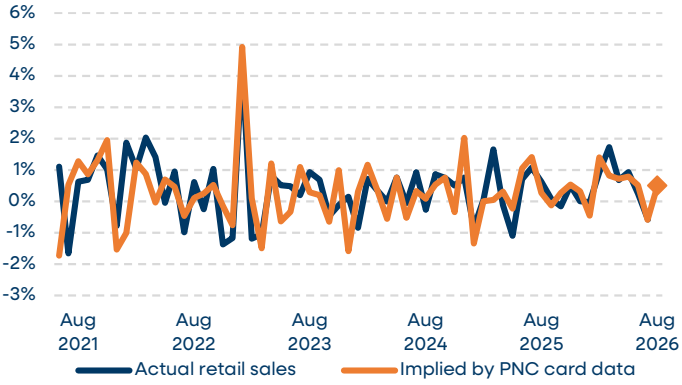
Sources: BLS, PNC

August retail sales to show a rebound

Headline retail sales slipped 0.6% month-on-month in July, the biggest decline since May 2025 (-1.1%). The decline was exaggerated by a shift in Amazon Prime Day to June this year, which moved online sales that would have normally occurred in July. Consequently, sales at nonstore retailers fell 2.2%, the largest drop since January 2025. Moreover, sales at gasoline stations tumbled 0.9% amid a 3.1% seasonally adjusted drop in gas prices in July, also contributing to the sharp decline in headline retail sales. The drop in retail sales excluding online retailers and gasoline stations was a much more modest 0.1%.

Headline retail sales growth is expected to rebound 0.7% in August amid a sharp jump in job gains, a still-low unemployment rate and rising gas prices. The 162,000 increase in nonfarm payrolls in August was the largest since March of this year. Our internal card data also point to a rebound, with our nowcast implying a 0.5% month-on-month increase in retail sales despite the later timing of Labor Day shifting some holiday spending into September. Employment trends in our data, as measured by direct deposit payments, have moderated from the much-improved pace at the start of the year but remain consistent with stronger job growth than in 2025. The number of households receiving unemployment insurance payments has also trended lower than a year ago. Together, stronger job growth and fewer households receiving unemployment payments have supported higher aggregate payroll income and, in turn, spending. The sharp rebound would push the year-ago growth rate in headline retail sales to 5.1%, the first acceleration since May. Retail sales ex-autos is forecast to increase 0.5% in August, with the year-on-year growth rate slipping to 5.6% from 5.8% in July.

Figure 5: PNC card data signal a rebound in August retail sales (% chg., m/m)



Source: PNC internal data

Note: Chart shows actual retail sales (blue) vs. what is implied using PNC card data (orange).

Second-tier data unlikely to change story for Fed

Import prices are the key remaining input for core PCE inflation and could add upside risk to our forecast. We expect core PCE inflation to remain around 0.3% month-on-month on a rounded basis, an uncomfortable pace for the Committee. Weak residential investment provides the clearest evidence of restrictive monetary policy. Housing starts should rebound in August, but elevated mortgage rates and poor affordability will remain a drag as policy tightens. Still, rising stock prices have pushed household net worth to record highs, limiting spillovers to consumption. Initial claims should remain low, while industrial production posts brisk gains, supported partly by the AI buildout.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
ADP Weekly Employment Change	Tue 9/15	8:15 am	Sat 8/29	--	--	12.000k
Empire Manufacturing	Tue 9/15	8:30 am	Sep	15.2	15.0	20.6
MBA Mortgage Applications	Wed 9/16	7:00 am	Fri 9/11	--	--	-2.7%
New York Fed Services Business Activity	Wed 9/16	8:30 am	Sep	--	--	0.5
Retail Sales Advance M/M	Wed 9/16	8:30 am	Aug	0.7%	0.8%	-0.6%
Retail Sales Ex Auto M/M	Wed 9/16	8:30 am	Aug	0.5%	0.5%	-0.3%
Import Price Index M/M	Wed 9/16	8:30 am	Aug	--	0.5%	-0.4%
Export Price Index M/M	Wed 9/16	8:30 am	Aug	--	0.4%	-1.3%
Business Inventories	Wed 9/16	10:00 am	Jul	0.2%	0.8%	0.0%
NAHB Housing Market Index	Wed 9/16	10:00 am	Sep	--	34.0	35.0
FOMC Rate Decision (Upper Bound)	Wed 9/16	2:00 pm	Wed 9/16	4.00%	3.75%	3.75%
Total Net TIC Flows	Wed 9/16	4:00 pm	Jul	--	--	$133.5b
Philadelphia Fed Business Outlook	Thu 9/17	8:30 am	Sep	30.5	31.3	47.4
Initial Jobless Claims	Thu 9/17	8:30 am	Sat 9/12	212k	208k	206k
Continuing Claims	Thu 9/17	8:30 am	Sat 9/5	--	1781k	1774k
Housing Starts	Thu 9/17	8:30 am	Aug	1315k	1315k	1239k
Building Permits	Thu 9/17	8:30 am	Aug P	--	1405k	1433k
Pending Home Sales M/M	Thu 9/17	10:00 am	Aug	--	0.0%	-2.3%
Industrial Production M/M	Fri 9/18	9:15 am	Aug	0.3%	0.3%	0.2%
Manufacturing Production M/M	Fri 9/18	9:15 am	Aug	--	0.3%	0.2%
Capacity Utilization	Fri 9/18	9:15 am	Aug	76.4%	76.4%	76.3%
Leading Index	Fri 9/18	10:00 am	Aug	0.1%	0.1%	0.2%

Sources: Bloomberg, PNC
*Released prior to publication

Empire Manufacturing

- 15.2. Manufacturing activity in New York State is expected to expand again in September but at a slightly slower pace.

Retail Sales

- **Retail Sales Advance MoM**
  - 0.7%. Headline retail sales are forecast to rebound strongly in August on solid job gains, low unemployment and rising gas prices.
- **Retail Sales Ex Auto MoM**
  - 0.5%. Retail sales ex-autos growth is also projected to rebound in August after slipping in July.

Business Inventories
- 0.2%. Business inventories are expected to increase slightly in July on solid domestic demand.

Philadelphia Fed Business Outlook
- 30.5. Manufacturing activity in the Third District is forecast to expand again in September but at a slower pace.

Initial Jobless Claims
- 2112. Initial jobless claims are expected to be little changed at a low level.

Housing Starts
- 1315k. Housing starts are projected to rebound in August from a sharp decline in July but remain constrained by low affordability and elevated mortgage rates.

Industrial Production MoM
- 0.3%. Industrial production is forecast to accelerate in August amid a steadily expanding manufacturing sector.

Capacity Utilization
- 76.4%. The acceleration in industrial production growth should push the capacity utilization rate slightly higher.

Leading Index
- 0.1% . The Leading Economic Index is expected to increase for the second consecutive month in August but at a more subdued pace.

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