Weekly Economic Roundup

PNC Economics

Headlines

- **July CPI and PPI data were tame and should translate to a tolerable 0.2% m/m increase in core PCE inflation**, the Fed's preferred measure. This is the second consecutive month of benign inflation data and, in our view, should give the Fed more confidence that inflation is improving on its own without the need for additional fed funds rate hikes.

- **Inflation readings over the next month will be make-or-break for a September rate hike.** The Fed tends to follow a "rule of threes" when determining shifts in the inflation and employment data, and FOMC voters already have two consecutive months of benign inflation readings and two weaker jobs reports under their belts. **Market-implied odds of a September rate hike have fallen to around 30%.**

- **Retail sales fell 0.6% m/m in June, far below consensus expectations but in line with the trend implied by PNC debit and credit card data**. Prime Day's shift into June weighed on the July report by both pulling forward spending and distorting the Census Bureau's seasonal adjustment process. We expect retail sales to rebound in August, much as they did the last time Prime Day was in June and not July.

- **It's a light data week, with the focus on Wednesday's release of the July FOMC meeting minutes.** The Atlanta Fed GDPNow model still estimates Q3 Real GDP growth of above 4% even after last week's weak retail sales figure. That will likely be revised down as we get more data in but speaks to the growth momentum heading into the quarter.

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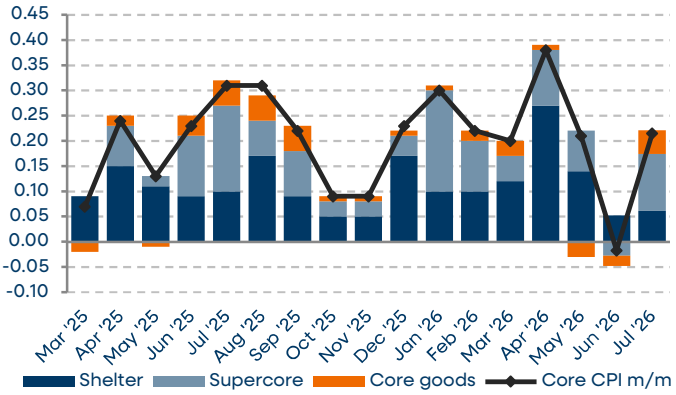
Fed should view July's inflation data as good enough to hold rates steady

Core CPI matched expectations in July, rising 0.22% m/m after declining outright in June. This brings the three-month annualized pace of growth to a very mild 1.6%, broadly in line with the Fed's inflation target. Combined with an even weaker PPI reading last week, this should translate to roughly a 0.2% m/m increase in the July core PCE price index, the Fed's preferred inflation measure.

Figure 1: Core CPI and Contributions (ppt., m/m)

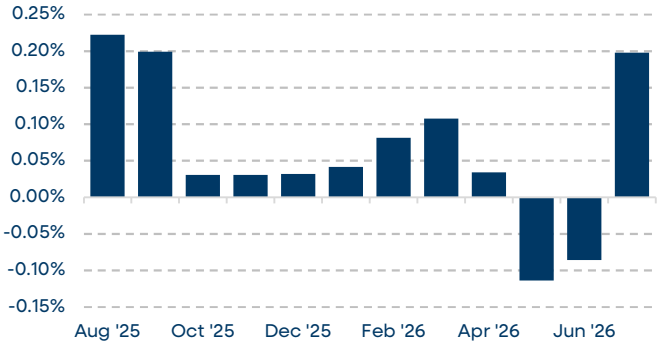


Sources: BLS, PNC

The July inflation readings should give the Fed more confidence that inflation is improving on its own without the need for additional fed funds rate hikes. However, the details of the report weren't all good. The most concerning development was the rebound in core goods inflation, which rose 0.2% after declining in each of the prior two months. Given that shelter disinflation has largely run its course, the Fed will need to see convincing evidence that tariff-related pressures in core goods prices are beginning to subside.

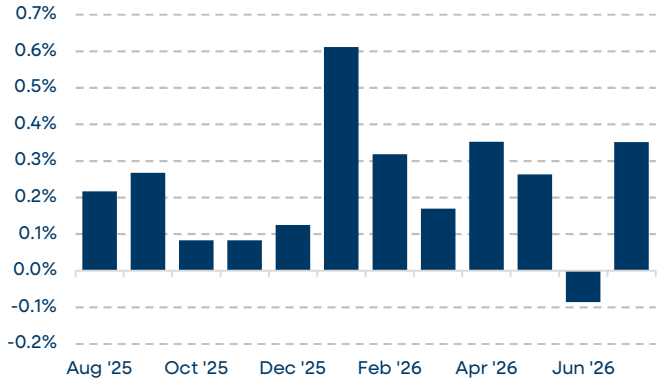
Services inflation also picked up in July, although much of the increase reflected payback from unusually large declines in telecom services and motor vehicle insurance prices in June. As a result, the average of the June and July services readings is probably a better gauge of the underlying trend, and this points to a reasonably soft 0.13% m/m increase.

Figure 2: Core Goods CPI (% chg., m/m)



Sources: BLS, PNC

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



Sources: BLS, PNC

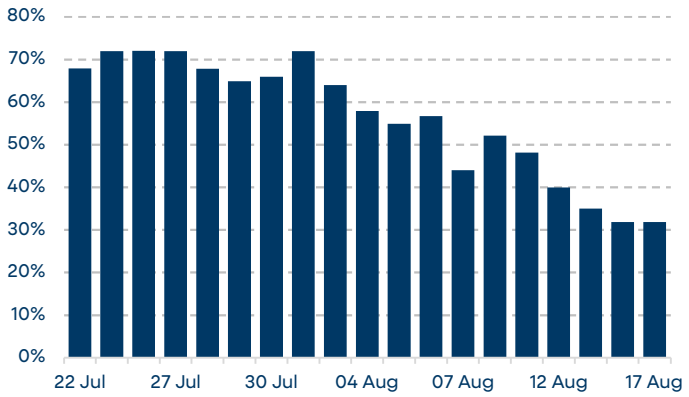
September hike odds fall to around 30%, August inflation readings key

Odds of a fed funds rate hike in September have tumbled following the weak July employment report and relatively benign July inflation readings. Although we continue to expect that the Fed will remain on hold through the remainder of 2026, we do not think a September rate hike is out of the question, and the August CPI inflation report (scheduled for release September 11) could prove make-or-break for the FOMC's decision.

The FOMC tends to follow a "rule of threes" when determining whether shifts in the inflation and employment data represent a genuine change in trend. With two consecutive months of relatively benign inflation readings and two weaker jobs reports already under their belts, a third in-line inflation

reading would likely be enough to keep the Fed on hold through September.

Figure 4: Market-implied odds of a September hike



Sources: Bloomberg, PNC

Additionally, residual seasonality issues have created a pattern where inflation readings tend to be stronger in the early months of the year and weaker in the latter months. This should provide an additional tailwind to inflation data in the fourth quarter, reinforcing our view that the Fed will remain on hold through the end of the year.

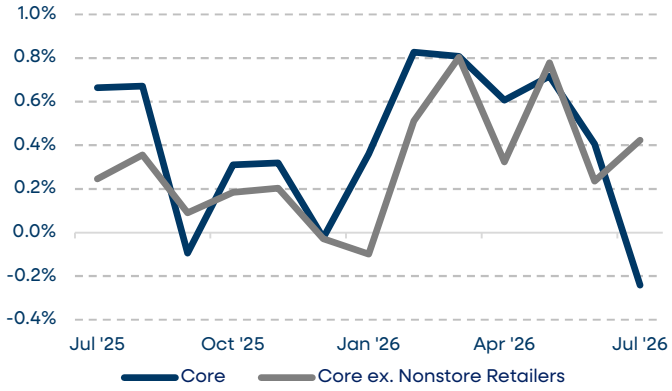
Retail sales contract but much of that from timing of Prime Day

Headline retail sales contracted 0.6% in July after averaging a very strong 0.7% m/m increase in the first half of the year. Under the hood, nearly all of the weakness was concentrated in auto sales, gasoline stations, and online retailers, with the latter declining a sizable 2.2% on the month.

However, the shift in Amazon's prime day from July to late June this year drove the 2.2% monthly decline in nonstore (primarily online) retail sales. This has two implications for the retail sales data. First, it pulled forward purchases that would normally occur in July into June. Second, it disrupts the Census Bureau's seasonal adjustment process, creating volatility in the June through August retail sales prints. This same pattern occurred in 2021, with nearly all of the reported weakness in July reversing in August. We expect a similar pattern this year.

Excluding online retailers, core retail sales rose 0.4% m/m in July, exactly matching the average pace in the first half of the year.

Figure 5: Retail Sales (% chg., m/m)



Sources: Census, PNC
Note: Core retail sales excludes spending on gas and autos

July FOMC meeting minutes to be more stale than recent Fed speak

The Federal Reserve will release the minutes of the July FOMC meeting on Wednesday. While we view the content as somewhat stale given the data developments--job losses and cooler than expected CPI inflation in July--since the meeting occurred in late July, we are still hopeful of learning something about the committee's thought process. As we discussed following the meeting, Warsh's press conference left markets confused on his inflation tolerance considering his comments on using a "broader set of data" than just PCE when assessing whether inflation is running at the central bank's 2% target. While it is unlikely to occur, it would be helpful if the minutes provide any insight into how the rest of the FOMC views the available inflation metrics in context of Warsh's comments. The Chair's annual Jackson Hole symposium is next week, which is Warsh's next opportunity to provide context on his thought process.

The June FOMC meeting minutes, the first under Warsh, included meaningfully less discussion of minority views held by committee members compared to earlier minutes. As a result, we expect a more limited explanation of the views of the

dissenting voters (Hammack, Kashkari, and Logan). Recent Fed commentary, particularly as this month's macro data has unfolded, is likely a better gauge of how dispersed the committee's views are. Several officials, including Governor Cook and Regional Presidents Daly and Barkin, outlined scenarios that would warrant a rate hike.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Empire Manufacturing	Mon 8/17	8:30 am	Aug	10.0	10.0	20.6*
NAHB Housing Market Index	Mon 8/17	10:00 am	Aug	--	33.0	35.0*
Total Net TIC Flows	Mon 8/17	4:00 pm	Jun	--	--	$132.2b
ADP Weekly Employment Change	Tue 8/18	8:15 am	Sat 8/1	--	--	8.250k
New York Fed Services Business Activity	Tue 8/18	8:30 am	Aug	--	--	8.7
Import Price Index M/M	Tue 8/18	8:30 am	Jul	--	0.1%	0.3%
Export Price Index M/M	Tue 8/18	8:30 am	Jul	--	0.0%	-0.6%
Housing Starts	Tue 8/18	8:30 am	Jul	1335k	1345k	1427k
Building Permits	Tue 8/18	8:30 am	Jul P	--	1374k	1374k
Industrial Production M/M	Tue 8/18	9:15 am	Jul	0.30%	0.30%	0.10%
Manufacturing Production M/M	Tue 8/18	9:15 am	Jul	--	0.20%	0.00%
Capacity Utilization	Tue 8/18	9:15 am	Jul	76.20%	76.30%	76.10%
Pending Home Sales M/M	Tue 8/18	10:00 am	Jul	--	0.00%	-5.40%
MBA Mortgage Applications	Wed 8/19	7:00 am	Fri 8/14	--	--	3.6%
FOMC Meeting Minutes	Wed 8/19	2:00 pm	Wed 7/29	--	--	--
Philadelphia Fed Business Outlook	Thu 8/20	8:30 am	Aug	23.0	25.0	41.4
Initial Jobless Claims	Thu 8/20	8:30 am	Sat 8/15	212k	211k	209k
Continuing Claims	Thu 8/20	8:30 am	Sat 8/8	--	1792k	1777k
Leading Index	Thu 8/20	10:00 am	Jul	0.1%	0.1%	-0.2%
S&P Global US Manufacturing PMI	Fri 8/21	9:45 am	Aug P	--	53.9	53.9
S&P Global US Services PMI	Fri 8/21	9:45 am	Aug P	--	53.9	54.6
S&P Global US Composite PMI	Fri 8/21	9:45 am	Aug P	--	53.7	54.5
Chicago Fed Nat Activity Index	Mon 8/24	8:30 am	Jul	--	--	-2.0%

Source: Bloomberg, PNC
*Released prior to publication

Housing Starts

- 1335k. Housing starts are forecast to decline in July on higher mortgage rates and softer homebuilder sentiment.

Industrial Production M/M

- 0.3%. Industrial production growth is projected to accelerate in July amid the surge in the ISM Production Index to the highest since February 2022.

Capacity Utilization

- 76.2%. Capacity utilization is expected to rise in July on accelerating industrial production growth.

Philadelphia Fed Business Outlook

- 23.0. Manufacturing activity in the Philadelphia region is expected to expand at a more moderate pace in August based on the forward-looking indicators in the July report.

Initial Jobless Claims

- 212k. Initial jobless claims are forecast to edge up but remain low.

Leading Index

- 0.1%. The Leading Economic Index is projected to rebound modestly in July after declining in June.

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