Weekly Economic Roundup

PNC Economics

Headlines

- **Fed Chair Warsh delivered a significantly more hawkish-than-expected speech at Jackson Hole, walking back the two elements of his July press conference that markets had interpreted most dovishly.** He reaffirmed that PCE remains the Fed's preferred inflation gauge and that short-term interest rates remain the "predominant" policy tool, largely wiping away the impression that the Fed had shifted toward a more dovish reaction function.

- **Markets now assign more than a 60% probability to a September hike, up from less than 40% before the speech, despite no significant new economic data.** We still believe there is a core contingent of FOMC voters hesitant to raise rates while inflation is improving, but a more vocal group, now including Warsh himself, appears increasingly impatient with the slow return to target.

- **We expect payroll growth to rebound to 55k in August, partly offsetting July's 23k decline and keeping the three-month moving average near 20k, around our estimate of the pace needed to keep employment stable.** Private payroll growth should pick up to 50k from 30k. Given the sampling error around the payroll estimate, however, there remains about a one-in-three chance of another negative print even if underlying job growth is running at that pace.

- **Warsh appears inclined to look through month-to-month payroll volatility and place greater weight on the unemployment rate.** We expect the unemployment rate to tick up to 4.2% from 4.1%, but that would remain consistent with full employment and would not, on its own, provide convincing evidence against a September hike. The more important print is the August CPI report on September 11. We expect the Fed to hike if CPI is not well behaved, with inflation likely needing to break lower convincingly to keep the committee on hold.

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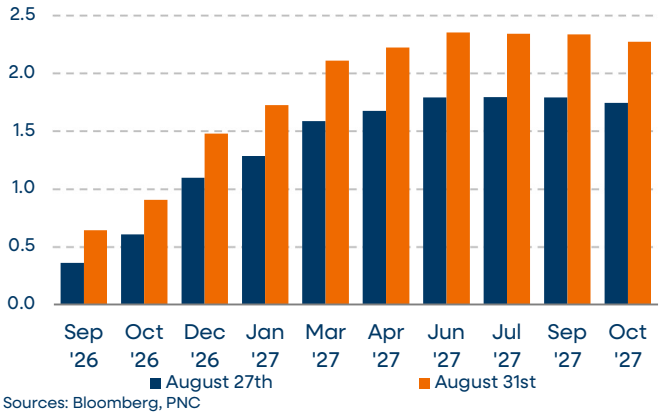
Back to Square June

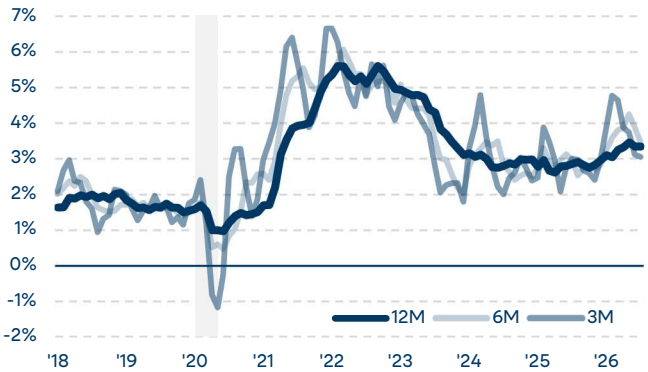
Fed Chair Warsh delivered a significantly more hawkish than expected speech at Jackson Hole on Friday. In our view, Warsh's main goal was to undo the dovish market narratives that emerged after the July FOMC meeting. At that meeting, markets focused on comments suggesting that Warsh might be moving away from PCE as his preferred inflation gauge and could view policy tools other than the federal funds rate as more effective at tightening financial conditions. At Jackson Hole, Warsh explicitly walked back both ideas. He reaffirmed that PCE remains the Fed's preferred inflation measure and that short-term interest rates are the "predominant" tool for monetary policy.

Figure 1: Market Fed hike expectations rise after Jackson Hole speech



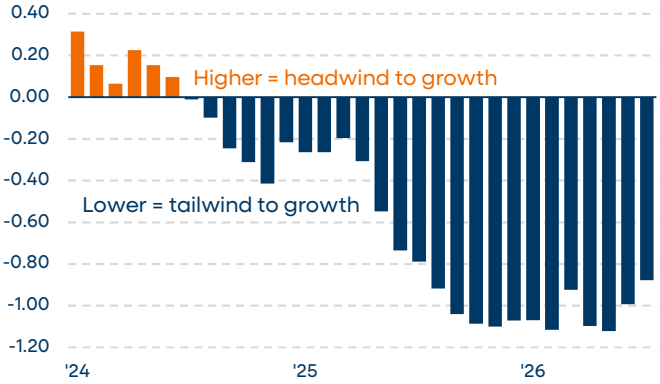
Sources: Bloomberg, PNC

Figure 2: Core PCE inflation (% chg., annualized)



Sources: Bureau of Labor Statistics, PNC

Figure 3: U.S. Financial Conditions Index (FCI)



Sources: Federal Reserve Board, PNC

If we left the July meeting thinking that the Fed had shifted to a more dovish reaction function, Jackson Hole should wipe away that conclusion. But that does not necessarily mean Warsh is setting up a September hike. The better framing may be "back to square June." The June FOMC meeting was also hawkish, but the Fed did not hike afterward, and the inflation data since then have been relatively more helpful to the keep-rates-on-hold camp. Warsh undid July. It is less clear that he told us anything beyond what we already knew in June.

Markets have nevertheless moved aggressively. The probability of a September hike rose to more than 60% after the speech, from less than 40% beforehand, despite no new economic data. The flattening in the Treasury curve has similarly undone much of the steepening that followed the July meeting. This suggests that markets had either priced in too dovish of a Fed reaction function after July or, perhaps more likely, that positioning had become too one-sided in favor of a September pause.

The Fed's decision in September is a near-perfect toss-up between the Fed holding and delivering a hike. On one hand, the data still matters. The two-month annualized pace of core PCE inflation is 2.4%, compared with a 4.3% annualized pace through the first five months of the year. Conditional on the August CPI and PPI reports mapping to a monthly

core PCE reading of 0.2% or less under the existing methodology, this should be in line with what the more dovish majority of FOMC voters have indicated they would be comfortable with at the current level of interest rates.

On the other, there's a clear risk the goalposts are moving. It is not clear whether the center of the committee is becoming more impatient with core inflation settling in the 2.0% to 2.5% range, or whether that pace is still "good enough" to keep rates unchanged. Warsh's speech seemed to imply that it may no longer be enough. The more hawkish members of the committee already believe rates should be higher, and there is a risk that their argument pulls the center closer to a hike even if the next inflation report is reasonably well behaved.

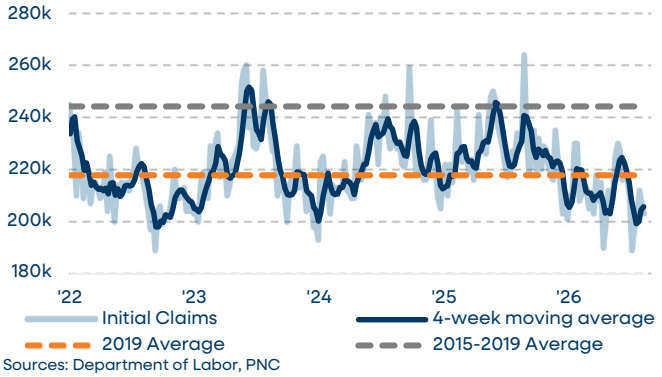
Governor Waller's remarks on Thursday and the August CPI report on September 11 should tell us much more about the September decision than Jackson Hole did. Waller may now speak for the center of the committee. If Waller says that inflation over the past few months has not been that bad, much of the post-Jackson Hole hike pricing could unravel quickly. If Waller instead shares Warsh's impatience, or if CPI and PPI do not map to a core PCE reading of 0.2% or less, the case for a September hike would strengthen materially.

For now, and conditional on another well-behaved inflation report, we lean toward the Fed not hiking in September. Jackson Hole raised the risk to that call, including some risk of a hike even if inflation cooperates, but it did not change the underlying data. Warsh pushed back against the dovish narratives that emerged after the July FOMC, but he has not clearly articulated the case for a September hike. Nor does he appear inclined to use Fed communication to make that case in advance. So, like Warsh, we wait for the data.

Expecting +56k in jobs growth but urate to increase to 4.2%

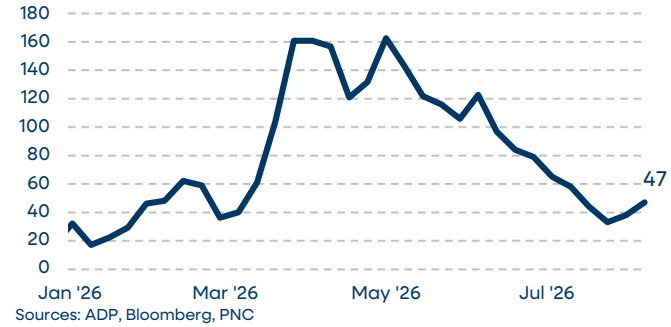
The July jobs report surprised significantly to the downside, with headline payrolls declining by 23k on a sharp decrease in government employment. Private payrolls fared better, increasing by 30k, but the report took some of the wind out of the sails of a September rate hike and shifted pricing back toward a hold. Warsh's Jackson Hole speech, however, provided another gust of wind. The August report probably will not settle the question, with headline job growth rebounding to 56k and private payrolls to 50k, but the unemployment rate rising to 4.2%, paring some of its recent decline.

Figure 4: Initial claims for unemployment insurance benefits (SA)



Sources: Department of Labor, PNC

Figure 5: Weekly ADP data suggests pickup in private payrolls

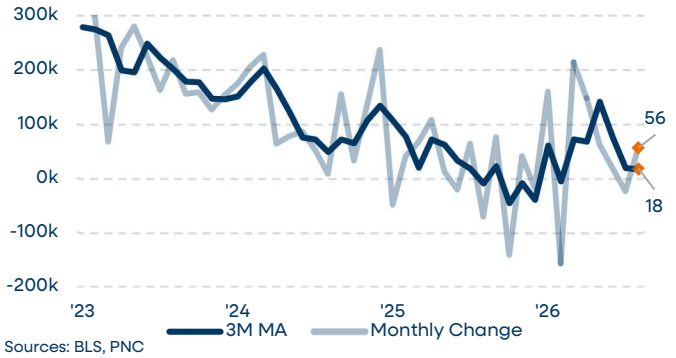


Sources: ADP, Bloomberg, PNC
Note: Four-week cumulative change in ADP private employment, multiplied by four to show a monthly-rate equivalent.

Data since the July report has generally been supportive. Initial claims trended lower and remained low and stable through August, signaling

limited layoff pressure. ADP's weekly measure of private employment has also been constructive, rebounding after bottoming out in July and consistent with our forecast for a 50k increase in private payrolls. All this points to a recovery in payroll growth, alongside a pickup in average hourly earnings growth to 0.3% m/m in August from 0.1% in July.

Figure 6: Nonfarm payroll job growth

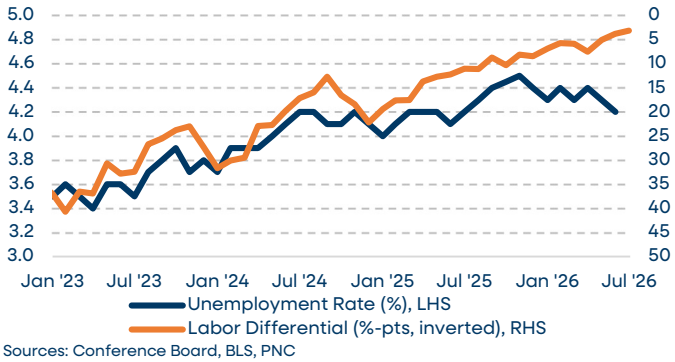


Sources: BLS, PNC
Note: August '26 forecast reported.

However, the sampling error in the establishment survey is sizeable relative to the underlying pace of job growth. The three-month moving average of payroll growth is roughly 20k, around our estimate of the breakeven pace needed to keep the unemployment rate stable. If the true pace of job growth is near that level, the inherent volatility in the survey means we could still expect a negative payroll print in roughly one out of every three reports.

Acknowledging the month-to-month volatility in payroll growth, Chair Warsh has indicated that he places more weight on the unemployment rate, which tends to be more stable. The unemployment rate has moved lower since the start of the year, in no small part because of declining labor force participation, and its improvement has been broadly consistent with the signal from continuing claims. At 4.1%, the unemployment rate is slightly below the FOMC's 4.2% median longer-run estimate, a level consistent with the Fed's measure of full employment. However, the unemployment rate has recently decoupled from historically coincident indicators, including the Conference Board's labor-market differential, which paint a weaker picture.

Figure 7: Labor-market differential points to more weakness than the unemployment rate



Sources: Conference Board, BLS, PNC
Note: October unemployment rate lineraly interpolated by PNC. The labor-market differential is the share of consumers saying jobs are "plentiful" minus the share saying jobs are "hard to get." A lower reading indicates a softer labor market.

Figure 8: Unemployment rate (%)

Sources: BLS, PNC
Note: Oct. '25 data linearly interpolated by PNC. August '26 forecast reported.

In light of this, we expect the unemployment rate to tick back up to 4.2%, but alongside job growth of 56k, that would not be enough to render the August report as dovish or move our view on September much in either direction. More important will be the August inflation report, released on September 11, which may need to show that price pressures remain firm and progress on disinflation has stalled to keep the Committee moving up on the fed funds rate. Against this backdrop, the risks around the August jobs report are asymmetric. A disappointing print would not necessarily seal the case for a September hold. But an upside surprise in payrolls, particularly if the unemployment rate remains at 4.1%, would raise the bar for the inflation report to show clear progress for a September hold to remain in play.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Dallas Fed Manf. Activity	Mon 8/31	10:30 am	Aug	--	1.60	11.6*
ISM Manufacturing	Tue 9/1	10:00 am	Aug	55.3	55.2	54.6*
ISM New Orders	Tue 9/1	10:00 am	Aug	50.0	57.0	53.7*
Construction Spending M/M	Tue 9/1	10:00 am	Jul	0.1%	0.0%	-0.5%*
JOLTS Job Openings	Tue 9/1	10:00 am	Jul	--	7313k	7271k*
Dallas Fed Services Activity	Tue 9/1	10:30 am	Aug	--	8.0	6.6
Omdia Total Vehicle Sales	Tue 9/1	Tue 9/1	Aug	16.2m	16.30m	16.33m
MBA Mortgage Applications	Wed 9/2	7:00 am	Fri 8/28	--	--	-1.0%
ADP Employment Change	Wed 9/2	8:15 am	Aug	46k	47k	44k
Factory Orders	Wed 9/2	10:00 am	Jul	--	0.70%	-0.30%
Challenger Job Cuts Total	Thu 9/3	5:30 am	Aug	--	--	33429
Trade Balance	Thu 9/3	8:30 am	Jul	-$90.5b	-$90.1b	-$73.3b
Imports M/M	Thu 9/3	8:30 am	Jul	--	1.40%	-1.80%
Exports M/M	Thu 9/3	8:30 am	Jul	--	-0.8%	-0.9%
Nonfarm Productivity	Thu 9/3	8:30 am	2Q F	1.5%	1.4%	1.4%
Unit Labor Costs	Thu 9/3	8:30 am	2Q F	1.2%	1.3%	1.3%
Initial Jobless Claims	Thu 9/3	8:30 am	Sat 8/29	208k	205k	203k
Continuing Claims	Thu 9/3	8:30 am	Sat 8/22	--	1785k	1778k
ISM Services Index	Thu 9/3	10:00 am	Aug	53.8	54.1	54.1
Change in Nonfarm Payrolls	Fri 9/4	8:30 am	Aug	56k	55k	-23k
Change in Private Payrolls	Fri 9/4	8:30 am	Aug	50k	50k	30k
Change in Manufact. Payrolls	Fri 9/4	8:30 am	Aug	5k	5k	5k
Average Hourly Earnings M/M	Fri 9/4	8:30 am	Aug	0.3%	0.3%	0.1%
Average Weekly Hours All Employees	Fri 9/4	8:30 am	Aug	34.3	34.3	34.3
Unemployment Rate	Fri 9/4	8:30 am	Aug	4.2%	4.1%	4.1%

Sources: Bloomberg, PNC
*Released prior to publication

Omdia Total Vehicle Sales
- 16.2m. Vehicle sales are projected to fall slightly in August relative to July.

ADP Employment Change
- 46k. Weekly ADP data points to a slight acceleration in job gains in August.

Trade Balance
- -$90.5b. The overall trade balance is likely to deteriorate from last month, driven by a wider goods deficit and a smaller services surplus.

Nonfarm Productivity
- 1.5%. Downward revision to hours worked boosted productivity growth in the second estimate.

Unit Labor Costs
- 1.2%. The increase in productivity lowers unit labor costs in the second estimate.

Initial Jobless Claims
- 208k. Initial jobless claims are expected to edge up but continue to trend at low levels.

ISM Services Index
- 53.8. Service sector activity is forecast to moderate in August as the lift from the World Cup and Independence Day spending fades.

Jobs Report
- Change in Nonfarm Payrolls
  - 56k. Nonfarm payrolls are projected to rebound in August on a decline in initial jobless claims in the survey reference week and the expected acceleration in ADP payrolls.
- Unemployment Rate
  - 4.20%. The unemployment rate is expected to tick up in August after unexpectedly falling in July.
- Change in Private Payrolls
  - 50k. Private nonfarm payroll gains are expected to accelerate in August in tandem with a rise in ADP private payrolls.
- Average Hourly Earnings M/M
  - 0.3%. Average hourly earnings growth is forecast to accelerate in August on the expected rebound in job growth.
- Average Weekly Hours All Employees
  - 34.3. Hours worked are projected to remain steady in August.

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