Weekly Economic Roundup

PNC Economics

Headlines

- **June inflation surprised meaningfully to the downside**, with both the overall and core CPI declining over the month. There was broad-based weakness across shelter, services, and goods prices. While encouraging, one soft report does not establish a trend, particularly after several months of inflation moving farther above the Fed's target.

- **The most encouraging development, in our view, was the continued improvement in core goods inflation**. Prices in tariff-sensitive categories such as furniture and apparel now appear to be declining, supporting the view that the tariff-driven reacceleration was temporary and that the peak impact is behind us.

- **Consumer spending remained resilient in June, with a solid retail sales report lifting Q2 GDP estimates**. Spending has been supported by both temporary tailwinds, such as larger tax refunds, and more durable ones, including an improving labor market.

- **The Fed will almost certainly leave the target fed funds range unchanged at next week's FOMC meeting**, but policymakers appear increasingly open to potential rate hikes in the second half of the year. The Fed will need to see further progress on inflation to justify remaining on hold.

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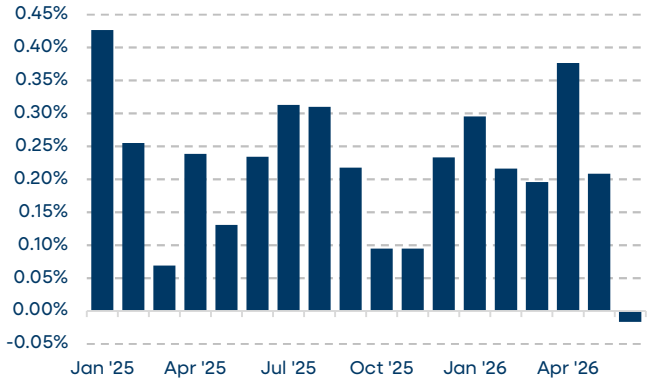
Inflation was weak in June, but one month doesn't make a trend

The core (excluding food and energy) consumer price index came in significantly below expectations in June, down 0.02% m/m, the weakest print since the pandemic. The weakness was broad-based as well, with notable improvements across shelter, services, and goods inflation. Falling gasoline prices also pushed headline CPI further into negative territory, declining 0.42% on the month.

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



Sources: BLS, PNC

However, one month doesn't make a trend, and it comes on the heels of several consecutive months where inflation was moving farther away from the Fed's 2% target, not closer to it. With Brent crude oil prices now above $90 per barrel, some of the supply-side forces that weighed on June inflation will likely reverse.

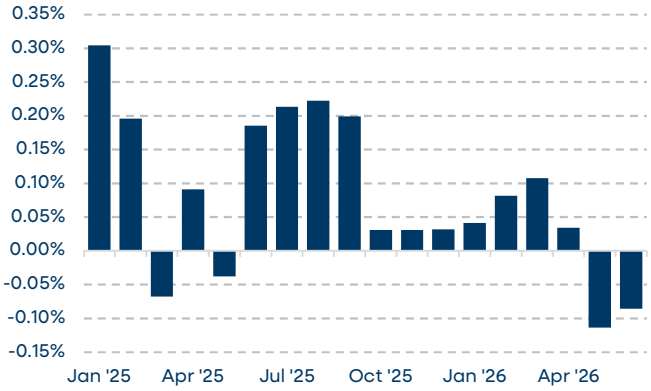
Where we are most encouraged is continued core goods deflation, where the weakness in June appears less like a one-off and more like a continuation of a trend that began in the spring. The Fed has long argued that the reacceleration in goods inflation was largely tariff-driven and temporary, with most research (including our own) suggesting the peak impact was likely behind us.

That appears to be panning out. Core goods prices have declined at an annualized rate of 0.7% over the past three months, down significantly from the 0.8% pace over the past year. Some of the more tariff-sensitive categories, including furniture and apparel, led core goods prices lower.

The downside surprise reading in the price index for services excluding shelter, or, "supercore" inflation, down 0.2%, was also a positive sign. Supercore inflation has remained stubbornly elevated despite continued labor market cooling and slower wage growth. It is unclear how much of June's weakness will persist in the months ahead, but it is nonetheless an encouraging step after the firm inflation readings during the first half of the year.

Last week's CPI and PPI reports should translate to roughly a 0.17% increase in the June core PCE price index, the Fed's preferred inflation gauge. Core PCE inflation will likely need to average around 0.2% m/m to prevent the Fed from hiking, a threshold New York Fed President John Williams explicitly referenced in a recent speech.

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

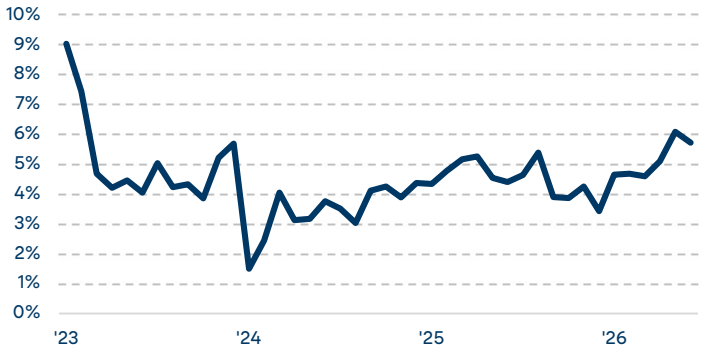


Sources: BLS, PNC

Solid consumer spending data lifts Q2 real GDP estimates

One of the most surprising developments in 2026 has been the apparent acceleration in consumer spending through the first half of the year. Core retail sales increased 0.4% in June, with sizable upward revisions to prior months, bringing the year-over-year growth rate to 5.7%.

Figure 3: Retail Sales ex. autos/gas (% chg., y/y)



Sources: Census, PNC

The resilience in consumer spending appears to stem from four factors: 1) larger tax refunds this spring, 2) lower payroll withholding taxes at the start of the year, 3) improving labor market conditions, and 4) increased reliance on credit card debt. The labor market, and lower withheld taxes are more durable tailwinds, although June may have marked their peak impact. Spending could slow somewhat to a pace more consistent with underlying job and income growth. However, positive wealth effects should remain an important driver of spending, and overall household leverage remains low by historical standards.

Solid consumer spending data has lifted tracking estimates of Q2 real GDP growth. The Atlanta Fed GDPNow estimate is back up to 1.7% annualized, having fallen as low as 1.1% in early July. The New York Fed also revised up its Nowcast for Q2 to 2.8%.

Fed is increasingly comfortable suggesting potential rate hikes

While the weak June inflation and jobs reports should give the Fed more room to be patient, it is increasingly clear that the Committee's bias is to raise the federal funds rate unless it becomes evident that inflation resumes its path back toward the 2% target. Despite Chair Warsh's preference for "saying less," a number of FOMC voters laid out their reaction functions ahead of the communications blackout period that began last Friday.

Cleveland Fed President Beth Hammack, a voting member of the FOMC this year, was the most direct, noting that "there is no conflict in our mandate, inflation is too high." On the other side was New York Fed President John Williams, who acknowledged inflation remained above target but argued that monetary policy was "well positioned" at current levels.

"There is no conflict in our mandate. Inflation is too high. The labor market is right around my level of maximum employment."

- Cleveland Fed President Beth Hammack

These views largely summarize the divide at the FOMC. One group sees little tension in the Fed's dual mandate of maximum employment and price stability and appears prepared to raise rates if inflation does not improve. Another would prefer to leave rates unchanged and monitor inflation's progress through the end of the year.

The Fed will almost certainly leave the target fed funds range unchanged at its current range of 3.50% to 3.75% at the July 28–29 FOMC meeting, although dissents are increasingly possible. The June meeting minutes indicated that a "few" participants would have supported a June rate hike, and subsequent Fedspeak has largely reinforced that view despite the softer June inflation and employment data.

"... there are encouraging reasons to expect that inflation has peaked and should edge down in the coming quarters... the current stance of monetary policy is well positioned..."

- New York Fed President John Williams

With Chair Warsh unlikely to provide much forward guidance, some of the more rate-sensitive participants could use a dissent to signal their preferred path rate hikes over the remainder of the year.

Data preview

This week's data calendar is light, with the focus on July PMIs and weekly jobless claims. The PMIs will provide an early read on third-quarter growth momentum, while claims remain one of the timeliest

gauges of labor market conditions. Housing data will also be in focus with June new home sales on Friday.

Attention will quickly turn to next week, which brings the July FOMC meeting (Wednesday, July 29), and the advance estimate of Q2 GDP, June personal income and spending, and the core PCE deflator (all Thursday, July 30). Together, those releases should help determine whether the recent softening in inflation is durable enough to keep the Fed on hold through year-end, PNC's current baseline outlook.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Leading Index	Mon 7/20	10:00 am	Jun	-0.1%	0.0%	-0.2%*
ADP Weekly Employment Change	Tue 7/21	8:15 am	Sat 7/4	--	--	19.750k
Philadelphia Fed Non-Manuf. Activity	Tue 7/21	8:30 am	Jul	--	--	-25.8
MBA Mortgage Applications	Wed 7/22	7:00 am	Fri 7/17	--	--	-2.7%
Initial Jobless Claims	Thu 7/23	8:30 am	Sat 7/18	212k	211k	208k
Continuing Claims	Thu 7/23	8:30 am	Sat 7/11	--	1807k	1805k
Chicago Fed Nat Activity Index	Thu 7/23	8:30 am	Jun	--	--	-0.1
Kansas City Fed Manf. Activity	Thu 7/23	11:00 am	Jul	--	13	11
S&P Global US Manufacturing PMI	Fri 7/24	9:45 am	Jul P	--	54.5	53.9
S&P Global US Services PMI	Fri 7/24	9:45 am	Jul P	--	51.5	51.2
S&P Global US Composite PMI	Fri 7/24	9:45 am	Jul P	--	51.6	51.9
New Home Sales	Fri 7/24	10:00 am	Jun	630k	605k	580k
Kansas City Fed Services Activity	Fri 7/24	11:00 am	Jul	--	--	5.0
Kansas City Fed Services Activity	Fri 7/24	11:00 am	Jul	--	--	5.0

Source: Bloomberg, PNC
*Released prior to publication

Leading Index

- -0.2%. The Conference Board Leading Economic Index (LEI) slipped 0.2% in June.

Initial Jobless Claims

- 212k. Initial jobless claims are forecast to rise slightly but remain in a narrow range.

New Home Sales

- 630k. New home sales are projected to rebound in June after tumbling in May.

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