Weekly Economic Roundup

PNC Economics

Fed rate hike Q&A

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- **What happened?** The Fed last week delivered the first in what we expect to be a series of fed funds rate hikes. The details underlying the FOMC meeting were hawkish, with officials penciling in one additional rate hike alongside stronger growth, a lower unemployment rate, and stickier inflation. **With one hike now under its belt, the key questions are how many more will be needed, whether they will work, and how quickly.**

- **Why did the Fed hike?** Inflation remains above the Fed's target, progress toward that target has stalled, and inflation has worsened over the past year. Chair Warsh signaled last week that the Committee has grown impatient of waiting and has a desire to deliver price stability **"on a timelier basis."** There were also clear indications from the FOMC that officials are concerned demand in the economy remains too strong to deliver that price stability and may even be accelerating. **In other words, hike a few times now or risk having to hike a lot more later.**

- **How many more hikes will there be?** We think the Fed hikes two more times, once in December and again next March, but stress that the balance of risks points to more hikes, not fewer. The Fed's actions at last week's FOMC meeting raised the bar for both what level of inflation above target the Committee is willing to tolerate and how quickly inflation needs to return to target. The September Summary of Economic Projections (SEP) released alongside the FOMC decision shows core PCE inflation returning to target in 2029, after more than eight years above target. Moreover, projections for the intervening years were revised higher. In other words, rate hikes may be needed first to restore progress toward price stability, not simply to accelerate it. As such, we are hopeful – but not convinced – that three total hikes will get us there.

- **What will be the pace of additional rate hikes?** The pace at which the Fed delivers more hikes depends on how much time Warsh and the rest of the Committee give inflation to slow before delivering additional hikes. Warsh has implicitly acknowledged that inflation is moving in the right direction, **just not fast enough**. Three-month annualized core PCE inflation peaked at nearly 5% earlier this year before slowing to 3.5% in July, but further progress is likely to be slower and more difficult. This raises the odds that the Fed spaces out hikes between meetings rather than engages in a meeting-by-meeting hiking cycle, as officials will want enough new data to judge whether inflation is moving toward whatever the "fast enough" threshold may be.

- **Will the rate hikes work?** Given enough time, yes, but there is greater uncertainty around the timeline. **The U.S. economy has clearly grown less sensitive to interest rates in recent decades**, and many of the inflationary pressure we're experiencing are coming from largely rate-insensitive sources. Hikes won't bring down oil prices, and they are unlikely to materially slow the AI capex buildout in the near term. Consumer balance sheets remain healthier than many give them credit for, aggregate debt is low and stable, and households have significantly less floating-rate debt than in past hiking cycles.

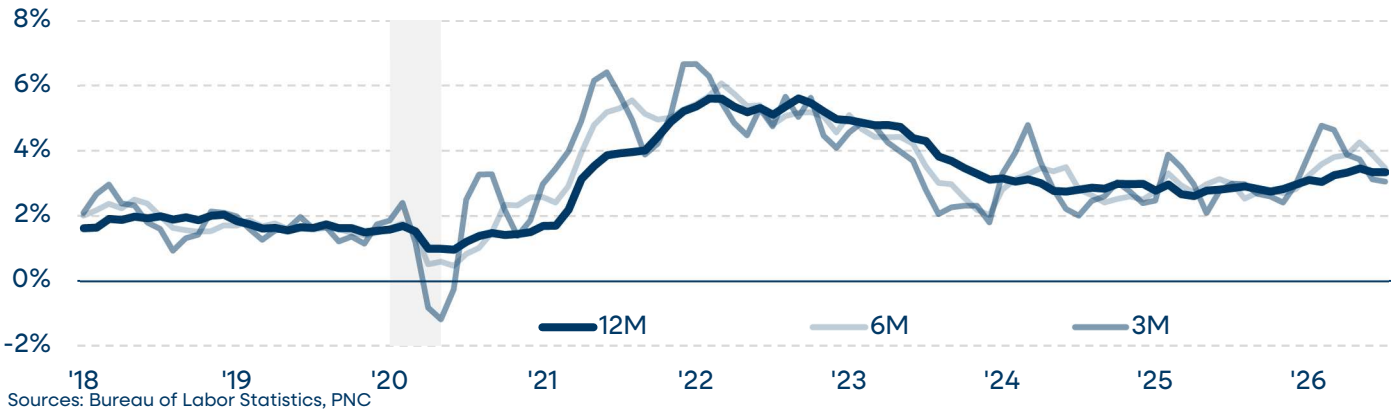
- **Will the stock market need to do some of the Fed's work?** Yes, one plausible endgame is that the Fed will need to keep hiking rates until financial conditions tighten enough to make a dent in the stock market. Wealth effects have been an extremely important driver of spending this cycle, largely drowning out the impact of higher rates. Equity prices fell nearly 20% during the March 2022 to July 2023 hiking cycle, flowing through to weaker spending with a lag, cooling domestic demand and helping moderate inflation over the same period. Outside of this channel, it's difficult to see consumer spending slowing materially enough from just a few additional 25 bp rate hikes. A weaker stock market may ultimately prove necessary for inflation to slow in a timely manner. This is especially true because households have relied on stock-market wealth to offset slower income growth; without that support, consumption growth would likely slow.

- **Will rate hikes burst the AI bubble?** AI stocks have turbocharged equity markets in recent months, raising the risk that valuations have become detached from fundamentals. Historically, tighter monetary policy has often burst technology-driven asset bubbles as higher borrowing costs and reduced risk appetite force investors to reassess valuations. The risk is that the resulting correction in equity and credit markets turn out to be larger than the Fed anticipates, turning a desired cooling in financial conditions into a broader economic slowdown.

- **How do the risks of hiking today compare to 2022-23?** In our view, **they are higher**, even though we remain optimistic about the health of the economy and the pace of growth in the near term. There were two job vacancies for every unemployed worker when the Fed was hiking rates in 2022. As a result, the Fed could reduce demand for workers without necessarily causing a significant increase in unemployment. We are on a very different part of the Beveridge curve (the historical negative

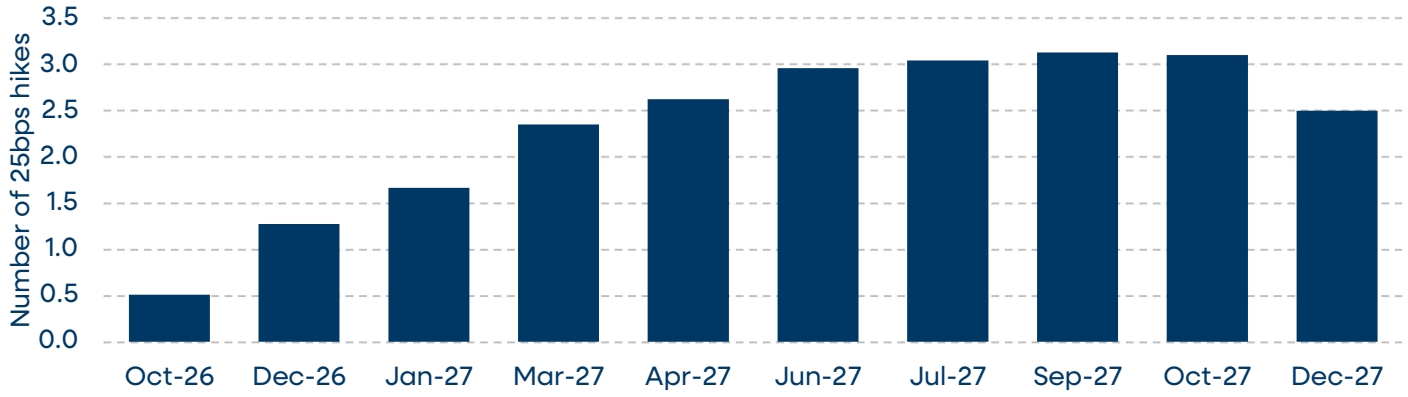
relationship between job openings and unemployment), with only one job vacancy for every unemployed worker. If rate hikes reduce labor demand, we are likely to see a proportionately larger increase in unemployment, which would weigh on both economic growth and consumer spending. Additionally, while consumers remain in good shape in aggregate, excess savings have fallen from their post-pandemic highs during the 2022-2023 hiking cycle.

Figure 1: Core PCE inflation (% chg., annualized)



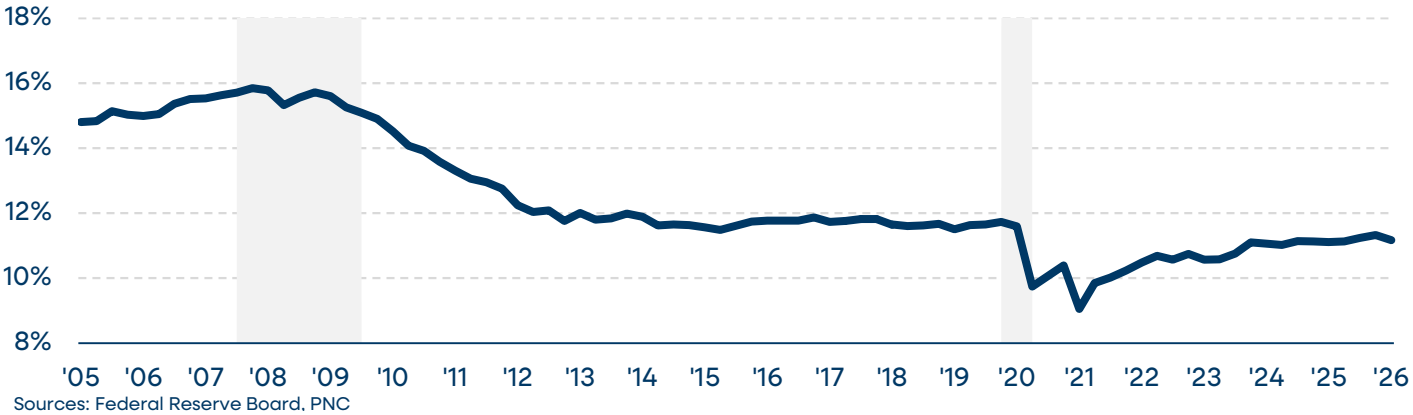
Sources: Bureau of Labor Statistics, PNC

Figure 2: Fed fund futures markets are pricing in three more hikes



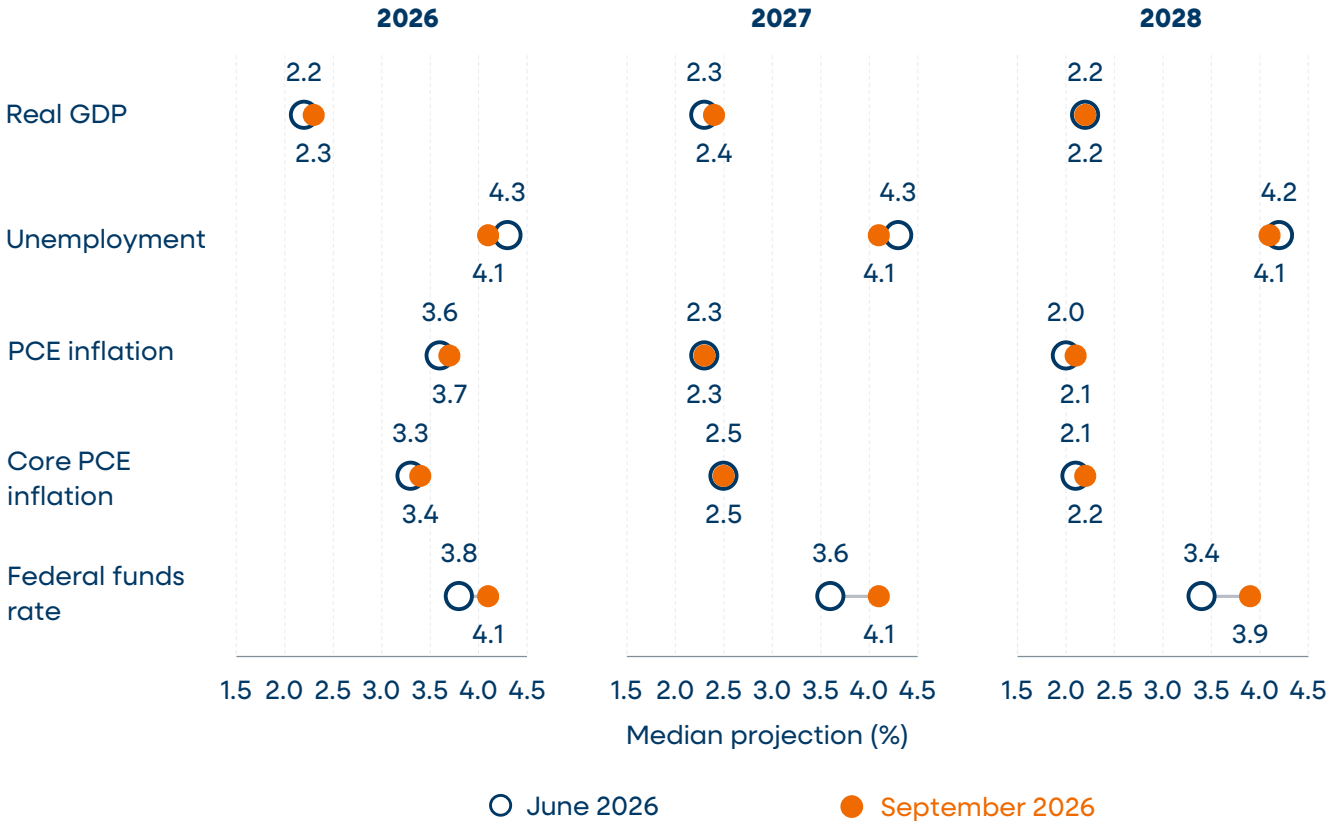
Sources: Bloomberg, PNC

Figure 3: Household service payments as a percent of disposable personal income



Sources: Federal Reserve Board, PNC

Figure 4: September SEP shows stronger growth, lower unemployment, and higher inflation and rates

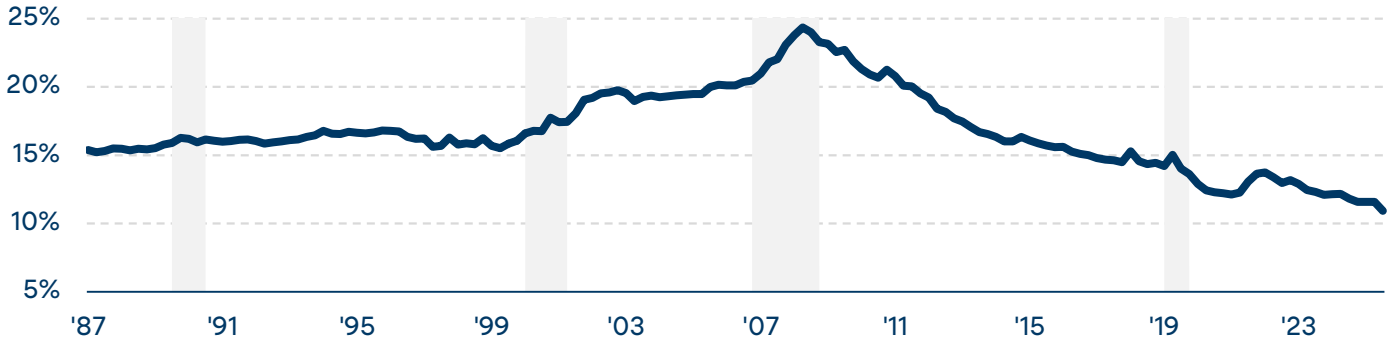


Sources: Federal Reserve, PNC

Figure 5: FOMC concerns about downside risks to GDP are the lowest in SEP history (>0 indicates upside risks to growth)

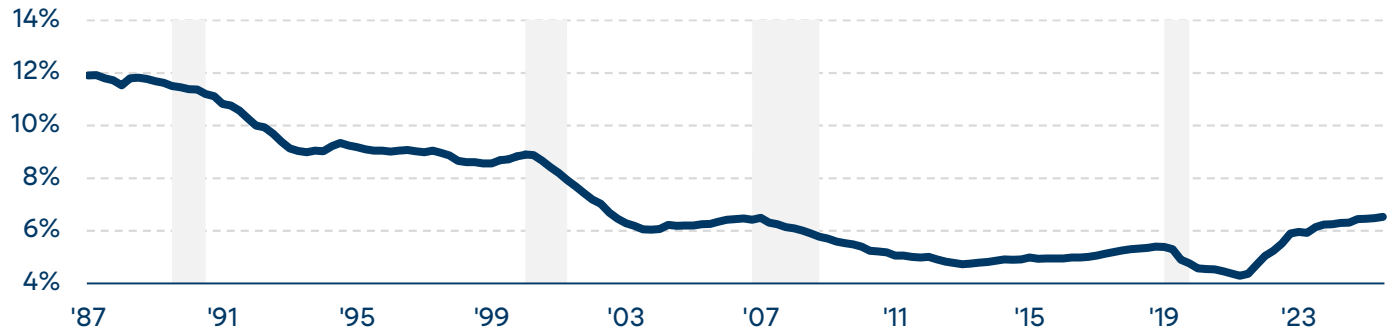
Sources: Federal Reserve, PNC
Note: The diffusion index measures the share of FOMC participants who see GDP growth risks as weighted to the downside, less the share who see risks as weighted to the upside. Negative readings indicate a net upside skew; zero indicates balanced risks. Each observation represents a published SEP. No SEP was published in March 2020.

Figure 6: Household liabilities as a percent of total net worth



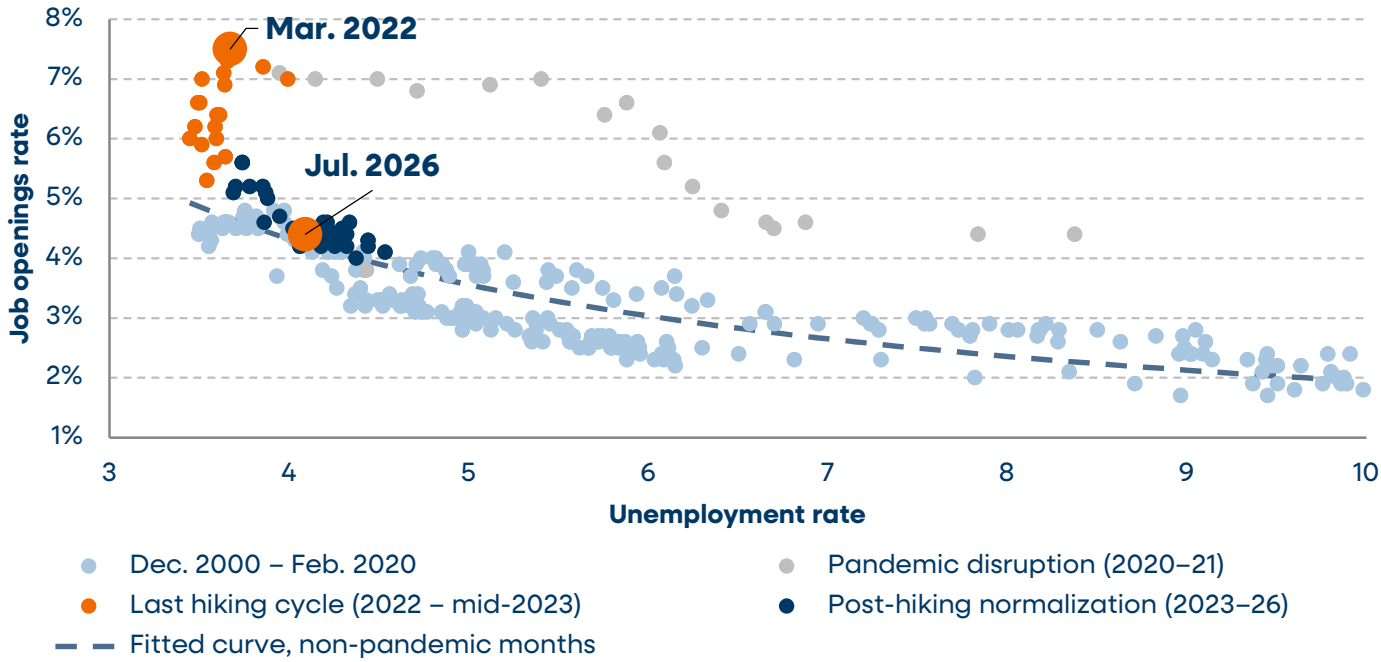
Sources: Federal Reserve Board, PNC

Figure 7: Effective household interest rate



Sources: Federal Reserve Board, PNC

Figure 8: Labor market is currently on the flat portion of the Beveridge curve



Source: BLS, PNC

Note: Openings rate = openings ÷ (employment + openings); UR unrounded (unemployed ÷ labor force). Dashed: power fit to non-pandemic months (v = 14.56·u^-0.88). Oct. 2025 not collected. Unemployment rate (x-axis) clipped at 10%.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Chicago Fed Nat Activity Index*	Mon 9/21	8:30 am	Aug	--	--	-0.04
ADP Weekly Employment Change	Tue 9/22	8:15 am	Sat 9/5	--	--	16.250k
Philadelphia Fed Non-Manufacturing Activity	Tue 9/22	8:30 am	Sep	--	--	-10.6
Richmond Fed Manufact. Index	Tue 9/22	10:00 am	Sep	--	2	4
MBA Mortgage Applications	Wed 9/23	7:00 am	Fri 9/18	--	--	-4.10%
S&P Global US Manufacturing PMI	Wed 9/23	9:45 am	Sep P	--	53.6	53.9
S&P Global US Services PMI	Wed 9/23	9:45 am	Sep P	--	55.9	56.5
Current Account Balance	Thu 9/24	8:30 am	2Q	--	-$256.2b	-$226.8b
Initial Jobless Claims	Thu 9/24	8:30 am	Sat 9/19	202k	200k	196k
Continuing Claims	Thu 9/24	8:30 am	Sat 9/12	--	1745k	1730k
Building Permits	Thu 9/24	8:30 am	Aug F	--	--	1394k
New Home Sales	Thu 9/24	10:00 am	Aug	615k	616k	607k
Kansas City Fed Manf. Activity	Thu 9/24	11:00 am	Sep	--	9	10
Durable Goods Orders	Fri 9/25	8:30 am	Aug P	-0.3%	-0.3%	1.1%
U. of Mich. Sentiment	Fri 9/25	10:00 am	Sep F	47.6	47.5	47.8
U. of Mich. 1 Yr Inflation	Fri 9/25	10:00 am	Sep F	--	--	4.60%
Kansas City Fed Services Activity	Fri 9/25	11:00 am	Sep	--	3.4%	3.4%

Sources: Bloomberg, PNC
*Released prior to publication

Initial Jobless Claims

- 202k. Initial jobless claims are expected to edge up but remain close to the average over the last six weeks.

New Home Sales

- 615k. New home sales are forecast to increase slightly in August but remain constrained amid weak home demand.

Durable Goods Orders

- -0.30%. Headline durable goods orders are projected to drop in August with Boeing aircraft orders falling to 15 from 30 in July.

U. of Mich. Sentiment

- 47.6. Consumer sentiment is expected to fall slightly in the final September reading amid continued uncertainty in the Middle East and rising gas prices.

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