Weekly Economic Roundup

PNC Economics

Headlines

- **The June jobs report came in below expectations, and downward revisions to prior months took some, but not all, of the steam out of the labor market's spring rebound.** Headline payrolls rose by just 57k in June, though average monthly job growth of 98k so far this year remains a notable improvement from last year's pace. The unemployment rate fell to 4.2%.

- **For the Fed, the report reduces the risk of near-term rate hikes.** The softer payroll print, downward revisions, and participation-driven drop in the unemployment rate reduce the urgency for additional tightening, particularly with a benign CPI report expected on July 14 after the significant decline in oil prices.

- **Fed Chair Kevin Warsh participated in an ECB panel discussion in Sintra**, Portugal, last week. While reluctant to provide precise guidance on the future path of monetary policy, **he noted that inflation risks had eased since the June FOMC meeting.** Warsh also commented on **potential disinflationary from AI**, and discussed several reforms that newly established Fed working groups are considering.

- **The Supreme Court ruled in favor of Fed Governor Lisa Cook, finding that the President lacks the authority to remove her from office.** The decision affirms the legal protections afforded to Fed officials and underscores the central bank's unique standing within the federal government. While the underlying case remains unresolved, the ruling eases near-term concerns that the President could reshape Fed leadership to influence monetary policy.

- In a relatively light week for economic data, **Wednesday's release of the June FOMC minutes will be closely watched**. Given the wide dispersion in policymakers' dot plot projections, additional insight into participants' thinking could be more valuable than usual. However, there is a risk that the minutes could be heavily abridged, reflecting the shift toward less forward guidance under Warsh's chairmanship.

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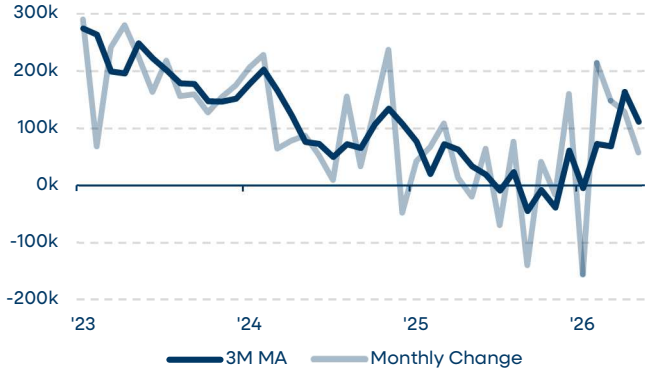
Mixed jobs report for June

The June jobs report was mixed, but the risk of a hot print sealing the case for a near-term federal funds rate hike did not materialize. Headline payrolls rose just 57k, well below consensus expectations of 115k, while the BLS revised down job growth in the prior two months by a combined 74k. As a result, the three-month average of payroll growth through June fell to 111k, down sharply from the recent 180k+ pace, though still well above the very weak average of around 10k per month in 2025.

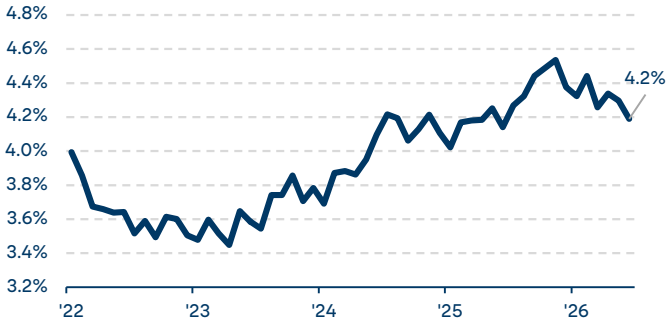
Figure 1: Nonfarm payroll job growth



Sources: BLS, PNC

The report partly moves us in the direction of reconciling the disconnect between the establishment and household surveys, with the unemployment rate little changed despite strong payroll prints. The unemployment rate fell to 4.2%, or 4.189% unrounded, from 4.3% (4.296%) in May. Last year, under Powell, the unemployment rate was the Fed's preferred measure for labor market slack amid labor supply volatility related to immigration.

Figure 2: Unemployment rate



Sources: BLS, PNC

That said, softer underlying details accompanied the drop in the unemployment rate. A sizable 0.3 percentage point drop in the labor force participation rate drove the unemployment rate lower, even as employment measured in the household survey fell by more than 500k over the month. The prime-age participation rate also moved lower despite having been near multidecade highs; this could be a monthly anomaly in the data but bears watching in coming months.

Nominal wage growth increased 3.5% year-over-year, up slightly from 3.4% in May, but a notable slowdown relative to average wage growth of ~4.0% in 2025. Inflation-adjusted wages remain moderately negative on a year-over-year basis.

For the Fed, the report likely reduces the risk of near-term hikes in the federal funds rate. The softer payroll print, downward revisions to April and May, and the participation-driven drop in the unemployment rate reduce the urgency for additional tightening, particularly with a benign CPI report expected on July 14 after the significant decline in oil prices over the past month. Still, the unemployment rate at 4.2% is noteworthy because it is below the FOMC's 4.3% median forecast and is equal to the median longer-run estimate consistent with an economy operating near full employment.

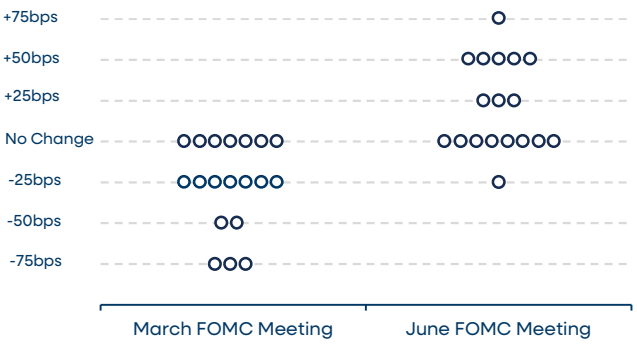
Warsh cools off in Portugal

Fed Chair Kevin Warsh participated in an ECB panel discussion in Sintra, Portugal, last week. While reluctant to provide precise guidance on the future path of monetary policy, he noted that inflation risks had eased since the June FOMC meeting, likely reflecting the sharp decline in oil prices following the ceasefire between the US and Iran. He also reiterated his view that AI has the potential to become a significant disinflationary force if it drives a supply-side expansion in the economy, with potentially important implications for the conduct of monetary policy.

Beyond the inflation outlook, Warsh discussed several reforms that newly established Fed working groups are considering. In particular, he expressed a desire for the Fed to make greater use of real-time data, arguing that policymakers should "no longer have to rely solely on data that we get from government agencies with mismeasurement problems, that have surveys that are no longer relevant." The review reflects a broader effort to modernize the Fed's analytical framework and better capture changes in an economy increasingly shaped by technological innovation.

Warsh also reiterated his skepticism regarding the value of policymakers publishing individual interest rate projections. He confirmed that the Fed's dot plot system is under review and suggested that the central bank could gradually phase it out as part of a broader overhaul of Fed communications. Consistent with this approach, Warsh did not submit a forecast, including a fed funds rate projection at the June FOMC meeting, marking a notable departure from the communication practices adopted under previous Chair Powell.

Figure 3: FOMC participants expectations for changes to the policy rate at the end of 2026



Sources: FOMC, PNC

Supreme Court decision supports Fed independence

The ongoing legal battle between the Trump administration and Fed Governor Lisa Cook took a turn last week. The Supreme Court ruled on June 29 that the President can remove leaders of independent federal agencies, overturning a long-standing legal precedent that had allowed Congress to protect certain agency officials from being fired without cause. However, the Court also carved out a special exception for the Federal Reserve, emphasizing that it is not a standard regulatory agency and has a long tradition of independence from political influence.

The implications for Fed independence are significant. Concerns had been growing that the President could exert greater influence over monetary policy, but the ruling should help reassure markets that a President cannot simply remove a Fed governor at will or use the threat of dismissal to influence policy decisions.

It is worth noting that, while the ruling is broadly supportive of Fed independence, it does not mean that a President can never remove a Fed governor. Rather, the Court affirmed that the Fed's statutory "for-cause" removal protections remain in place. In practice, this means that Lisa Cook will remain on the Board of Governors while litigation over her dismissal continues in the lower courts.

Oil prices have fallen sharply, but risks remain

Following the announcement of a ceasefire between the US and Iran, which took effect on June 24, Brent crude oil prices have fallen sharply and are now trading in the low-$70 per barrel range. As we noted last week, this represents a meaningful improvement in the outlook for headline inflation, real household incomes and business input costs.

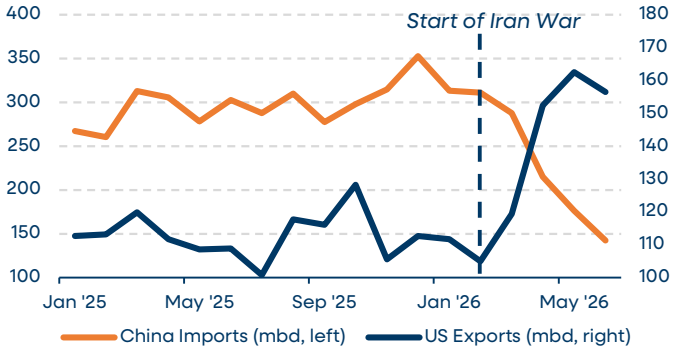
While the ceasefire and reopening of the Strait of Hormuz have been key drivers of the decline in oil prices, several other factors helped contain price pressures during the conflict and have supported the subsequent correction in prices.

A sharp decline in Chinese oil imports limited the extent of any global supply shortfall. China entered the conflict with substantial strategic oil inventories and, with economic growth remaining subdued

during the first half of the year, Chinese demand for oil was weaker than anticipated.

Supply responses elsewhere also helped cushion the shock. In particular, higher exports from major non-OPEC producers, including the US, helped offset part of the disruption to Middle Eastern supply and reduced pressure on global inventories.

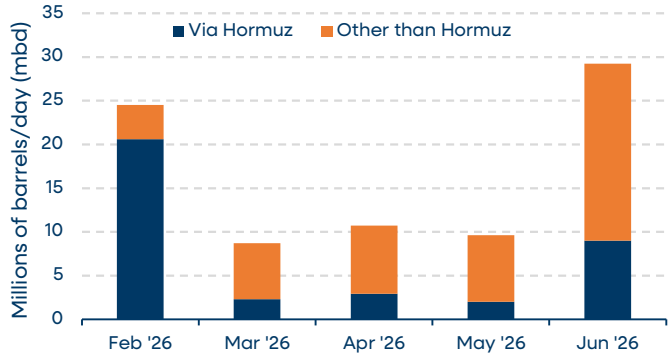
Figure 4: Global oil supply aided by falling oil imports from China and higher US oil exports



Sources: IEA, PNC

A somewhat more surprising factor limiting the impact on oil markets was the ability of Gulf producers to export crude via alternative routes. Prior to the conflict, the vast majority of the region's exports transited the Strait of Hormuz. However, recent data suggest that flows through pipeline infrastructure and export terminals located outside the Strait increased significantly during the disruption, allowing some producers to maintain exports despite maritime restrictions.

Figure 5: Gulf oil exports are increasingly circumventing the Strait of Hormuz



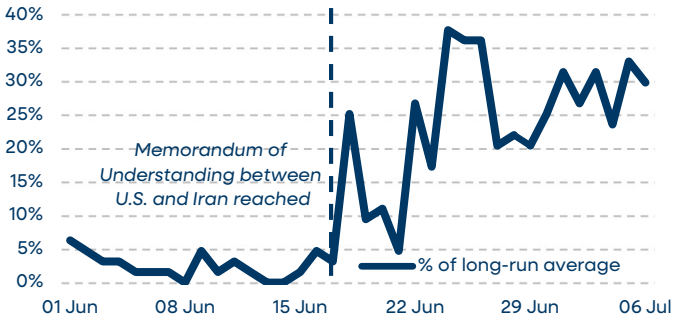
Sources: IEA, PNC
Note: June value imputed from data through mid-month.

Taken together, these developments support a relatively benign near-term outlook for oil prices. Nevertheless, there are several reasons to remain cautious.

First, the agreement between the US and Iran remains a ceasefire rather than a permanent peace settlement. The situation remains fragile and could deteriorate quickly. The conflict demonstrated Iran's ability to significantly disrupt shipping through the Strait of Hormuz, as well as its willingness to absorb substantial economic costs in pursuit of its strategic objectives. The attack on a commercial tanker transiting the Strait on June 27 – just three days after the ceasefire came into effect – serves as a reminder that geopolitical risks remain elevated.

Second, it is likely to take time for energy markets to fully normalize. Transit volumes through the Strait of Hormuz remain well below pre-conflict levels, while shipping rates and insurance costs are likely to stay elevated for some time as market participants continue to price geopolitical risks. In addition, governments and refiners will need to rebuild strategic inventories and precautionary stockpiles they drew down during the disruption. The resulting increase in demand for inventory rebuilding could provide upside pressure to oil prices, even if physical supply conditions continue to improve.

Figure 6: Tanker flows through the Strait of Hormuz quickly rebounded following the US-Iran MoU but remain below long-term levels

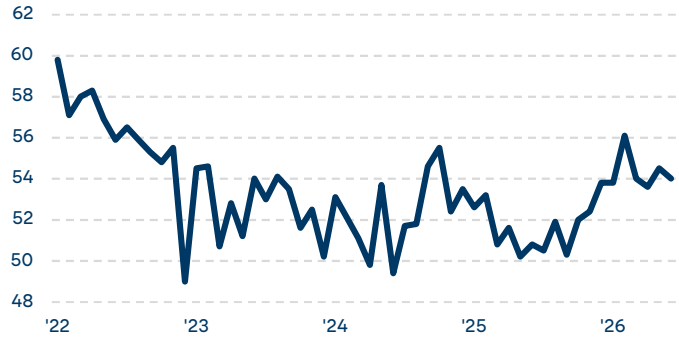


Sources: Bloomberg, PNC
Note: The post-pandemic, pre-conflict average of vessel crossings was 63.5/day.

Data Preview

This week is light on data. June ISM Services PMI was released on Monday and continued to point to solid economic momentum, with the headline index registering 54.0, consistent with ongoing expansion in the services sector. Pricing pressures also eased, with the services prices-paid component falling to 67.7 from a four-year high in May, suggesting that lower energy costs may begin to temper broader inflation pressures. However, the prices-paid index remains elevated, indicating that underlying services inflation is still running at a level that warrants continued monitoring.

Figure 7: ISM Services PMI



Sources: ISM, PNC

Figure 8: ISM Services – Prices Paid (SA)

Sources: ISM, PNC

Tuesday's release of May trade data should firm up expectations for Q2 GDP growth. Following unusually large swings in imports earlier this year, markets will be looking for evidence that trade patterns are becoming less distorted and that net exports are having a more predictable impact on growth.

Wednesday's release of the June FOMC minutes should help clarify the internal debates taking place at the Fed over the future path of policy. Given the wide dispersion in policymakers' dot plot projections, additional insight into participants' underlying thinking could prove more valuable than is typically the case for FOMC minutes. Markets will be looking for clues on the conditions and indicators that could prompt policymakers to either tighten policy further or begin considering a less restrictive stance. However, there's a risk that the minutes may be severely abridged, reflecting the move to less forward guidance under Warsh's chairmanship.

Thursday's initial jobless claims data will provide an updated read on labor-market conditions following last week's employment report. While weekly claims are volatile, a sustained rise would add to evidence that labor demand is softening, whereas continued stability at a low level would support the view that the labor market remains broadly resilient.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
ISM Services Index	Mon 7/6	10:00 am	Jun	54	54	54*
ISM Services Prices Paid	Mon 7/6	10:00 am	Jun	--	67.5	67.7*
ADP Weekly Employment Change	Tue 7/7	8:15 am	Sat 6/20	--	--	30.750k
Trade Balance	Tue 7/7	8:30 am	May	-$77.5b	-$78.5b	-$55.9b
Imports M/M	Tue 7/7	8:30 am	May	--	2.1%	2.00%
Exports M/M	Tue 7/7	8:30 am	May	--	-3.5%	2.6%
NY Fed 1-Yr Inflation Expectations	Tue 7/7	11:00 am	Jun	--	--	3.5%
MBA Mortgage Applications	Wed 7/8	7:00 am	Fri 7/3	--	--	0.0%
Wholesale Trade Sales M/M	Wed 7/8	10:00 am	May	--	--	2.0%
FOMC Meeting Minutes	Wed 7/8	2:00 pm	Wed 6/17	--	--	--
Consumer Credit	Wed 7/8	3:00 pm	May	$17.0b	$17.500b	$20.733b
Initial Jobless Claims	Thu 7/9	8:30 am	Sat 7/4	218k	218k	215k
Continuing Claims	Thu 7/9	8:30 am	Sat 6/27	--	1815k	1814k
Existing Home Sales	Thu 7/9	10:00 am	Jun	4.10m	4.20m	4.17m

Source: Bloomberg, PNC
*Released prior to publication

Trade Balance

- The trade balance is projected to widen noticeably in May as imports increase at a much faster pace than exports.

Consumer Credit

- Consumer credit is forecast to expand at a solid pace in May amid strong retail sales growth.

Initial Jobless Claims

- Initial jobless claims are expected to rise slightly but remain range-bound at a low level.

Existing Home Sales

- Existing home sales are forecast to slip in June on higher mortgage rates.

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