



# Weekly Economic Roundup

PNC Economics

## Headlines

- **The FOMC lowered the federal funds rate by 25 basis points last week** to 3.75% - 4.00%, a cut at a second consecutive meeting. Chair Powell emphasized data dependence, cautioning that a **December cut is “not a foregone conclusion – far from it”**. PNC still expects rate cuts in December and January of next year, but the onus will be on the data to justify further cuts.
- **The Fed also announced November as the final month of quantitative tightening (QT)**, with reinvestments starting December 1 to maintain balance sheet size. Powell signaled reserves must eventually grow with the economy, suggesting net asset purchases could resume in 2026, likely through Treasury bills.
- **The CBO estimates the ongoing government shutdown could reduce Q4 GDP by \$18–\$39 billion**, depending on duration, with permanent losses of \$7–\$14 billion. Delayed spending, employment disruptions, and weaker demand drive this decline, **though most lost output may recover in later quarters**.
- Despite reports of large-scale corporate layoffs at companies like Amazon, **alternative data sources provide a more encouraging look at the labor market in October**. ADP’s newly released weekly employment index shows employment firmed up in early October, unemployment insurance claims remain low, and consumer confidence in labor outcomes have improved.
- **Looking forward, focus will turn to this Wednesday’s ADP employment report**, which is expected to show the economy added 50k private-sector jobs in October. In addition, the **Supreme Court will begin hearing arguments against the Trump Administration’s use of IEEPA tariffs**.

Gus Faucher  
augustine.faucher@pnc.com

Jay Hawkins  
jay.hawkins@pnc.com

Stuart Hoffman  
stuart.hoffman@pnc.com

Ershang Liang  
ershang.liang@pnc.com

Brian LeBlanc  
brian.leblanc@pnc.com

Rayhan Momin  
rayhan.momin@pnc.com

Isfar Munir  
isfar.munir@pnc.com

Kurt Rankin  
kurt.rankin@pnc.com



## Fed delivers 25 bps cut, December “not a forgone conclusion”

As expected, the FOMC lowered the federal funds target range by 25 basis point last week to a target range of 3.75% - 4.00%, the second consecutive meeting with a rate cut. There were two dissents, with Governor Miran voting in favor of a larger 50bp cut and Kansas City Fed President Schmidt voting to keep the policy rate unchanged.

In the press conference, **Chair Powell pushed back on market expectations that a December cut is a “foregone conclusion.”** He stressed that recent cuts were made as **“risk management cuts,”** but warned that absent fresh data, the committee may need to **“slow down”** rather than continue easing. Powell likened the situation to **“driving in the fog,”** signaling a **return to data dependence** to determine the path of further rate cuts.



*“In the Committee’s discussions at this meeting, there were strongly differing views about how to proceed in December. A further reduction in the policy rate at the December meeting is not a forgone conclusion – far from it.”*

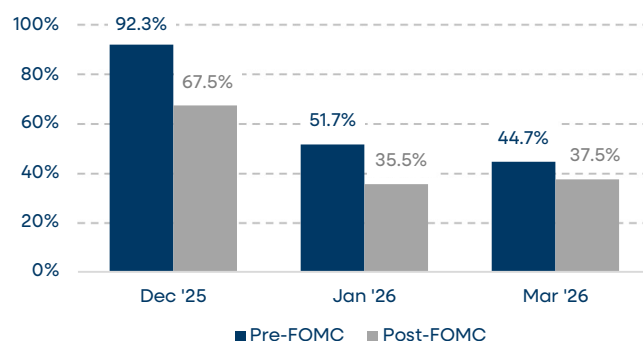
The press conference highlighted a growing divide within the Fed. A hawkish wing remains concerned about inflation and favors a slower pace of cuts, while a dovish wing prioritizes downside risks to the labor market. Chair Powell managed to build consensus for October’s cut, but December hinges on whether incoming data provides convincing evidence for a cut – something less certain with the government shutdown delaying key releases.

**PNC is still expecting a 25 basis point cut in the fed funds rate at the last FOMC meeting of this year in early December, as well as another rate cut in late January 2026.** This would take the fed funds rate to a range of 3.25% to 3.50% by February 2026, where PNC expects it to remain throughout 2026.

Though the timing of additional data releases remains uncertain with the government shutdown,

there is reason to expect weaker data releases in Q4. The government shutdown and deferred DOGE-related resignations are likely to result in an outright decline in payroll employment in October and a slight uptick in the unemployment rate. We think the market agrees with us. Despite Powell’s hawkish press conference, **odds for a December rate cut remain near 70%.**

**Figure 1: Market probability of rate cuts in future meetings**



Sources: BBG

## Fed signals end of Quantitative Tightening starting December 1

In addition to the rate cut, the Fed announced that **November would be the final month of Quantitative Tightening (QT)** – as of December 1, principal payments on Fed asset holdings will be reinvested into new assets, keeping the total size of the Fed balance sheet fixed. This is in line with our own view leading into the meeting.

**The Fed began QT – reducing the central bank’s holdings of long-term Treasuries and mortgage-backed securities – in mid-2022** to put upward pressure on longer-term rates while simultaneously hiking the fed funds rate to combat inflation and to create balance sheet capacity for future downturns. Chair Powell has consistently indicated QT would continue until bank reserves were “slightly above ample.” **With repo rates facing upward pressure in recent months, we agree that now is the right time to pause QT.**



Despite speculation about a technical adjustment to administered rates to address recent funding market volatility, the Fed opted against such changes, signaling tolerance for modest pressures in money markets. Looking ahead, Powell noted that reserves will eventually need to grow in line with the banking system and economy, implying that **net asset purchases could resume in the second half of 2026**, likely through T-bill purchases.

**Figure 2:** Spread of SOFR over IORB (bps)



Sources: NYFRB

## As the shutdown drags on, so does its impact on growth

The Congressional Budget Office (CBO) recently estimated the effect on the economy of the federal government shutdown that began on October 1, 2025. To assess the impact, the CBO developed scenarios based on three possible durations: four weeks (ending October 29), six weeks (ending November 12), and eight weeks (ending November 26). **Under all three scenarios, the shutdown significantly reduces real GDP growth during Q4 2025.**

This is caused by three factors. First, federal spending is delayed for employee compensation, procurement (e.g., equipment, research, and advisory services), and social programs such as SNAP. The estimated spending delays range from \$33 billion to \$74 billion depending on the shutdown duration. Second, employment disruptions caused by the shutdown will be a drag on the economy because federal workers will provide fewer services. Lastly, there will be a temporary reduction in

aggregate demand as households and businesses affected by the shutdown adjust their spending behavior.

Based on these three factors **it's estimated that a four-week shutdown will cause the level of Q4 2025 real GDP to be lower by \$18 billion, relative to the no shutdown baseline, which translates into a one percentage point reduction in the quarterly annualized growth rate. An eight-week shutdown would result in a decline of \$39 billion or a two-percentage point annualized reduction.**

**Table 1:** Shutdown effect on the annualized quarterly growth rate of real GDP

	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
4 Week Shutdown	-1.0%	1.4%	-0.3%	-0.1%	0.0%
6 Week Shutdown	-1.5%	2.2%	-0.5%	-0.1%	-0.1%
8 Week Shutdown	-2.0%	3.1%	-0.7%	-0.2%	-0.1%

Sources: CBO

While much of the lost output should be recovered in subsequent quarters, the output loss from furloughed workers will not be recoverable, contributing to a permanent GDP reduction. Specifically, **between \$7 billion and \$14 billion in GDP will be permanently lost due to reduced output.** The CBO emphasized, however, that the economic effects of the shutdown are highly uncertain and will be influenced by several factors. These include policy decisions made by the Administration during the shutdown as well as behavioral responses from affected workers and businesses.

## Layoffs dominate headlines, but alt-data more encouraging

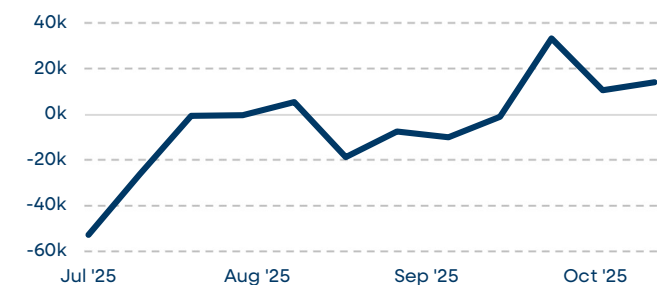
**Despite a wave of corporate layoffs making headlines – from Amazon to Target – recent labor market data suggests a more nuanced picture.** The media narrative has focused on the displacement of white-collar workers amid firm retrenchment and investment into artificial intelligence to streamline operations. **Yet, alternative data points to a modest rebound in private payroll growth and improvement in job seeker sentiment.**



In the absence of timely government data due to the ongoing shutdown, private sources have stepped in. **ADP's newly launched weekly employment tracker shows private payrolls rose by an average of 14,250 jobs per week in the four weeks through October 11 – equivalent to roughly 57,000 jobs gained over the month.** While ADP's monthly figures have historically diverged from official BLS data, recent alignment between weekly and monthly trends lends credibility to the October estimate. **This marks a modest turnaround from the job declines of August and September, suggesting that hiring momentum may be recovering.**

**The Conference Board's October consumer confidence report adds another layer of optimism.** The labor market differential – defined as the share of respondents saying jobs are plentiful minus those saying jobs are hard to get – rose to 9.4 from 8.7 in September. **Importantly, the “jobs are hard to get” metric, which correlates closely with the unemployment rate, has stabilized in recent months.** This suggests that, despite headline layoffs, the broader labor market remains resilient. Nonetheless, the government shutdown is expected to temporarily push the unemployment rate higher, at least for October and, likely, November.

**Figure 3: ADP weekly employment gains**



Sources: ADP

**One reason the labor market hasn't unraveled despite weak demand is constrained labor supply.** Net immigration is expected to total just 0.4 million in 2025 – less than one-half the pre-pandemic norm. The termination of humanitarian programs and tighter visa rules have deactivated over 700,000 work permits, while deportations have picked up.

**At the same time, changes to the H-1B program – such as a new \$100,000 application fee – are likely to reduce hiring of foreign-born workers.** However, applications for the program still far exceed the 85,000 cap and exemptions for international students transitioning from OPT significantly soften the blow, especially as these individuals account for around half of H-1B approvals.

If monthly payroll growth settles around 30,000 to 50,000, offsetting reductions in labor supply will help keep the unemployment rate near its current level of 4.3% in August. **However, amid a weak hiring environment, an acceleration in layoffs could unravel the “curious kind of balance” that has characterized the labor market, in Chair Powell's words.** That said, the effects of the government shutdown will exaggerate labor market softness in the official data for at least the next couple of months.

## This week's data preview

The continued government shutdown will deprive markets of the Friday jobs report. **In its absence, the ADP employment change data will take on increased significance. PNC expects an increase of 50,000, which would reverse two consecutive monthly declines.**

Additionally, the Supreme Court will hear arguments on the Administration's IEEPA authority to implement tariffs on Wednesday; over 60% of the 2025 tariffs were implemented under IEEPA. A ruling would come at the earliest in December, although sometime in 2026 is more likely. **An unfavorable ruling for the Administration could force refunds of roughly \$89 billion – although, this is not automatic – and push the administration toward alternative statutes (e.g., Section 122 or 232).**



## Additional charts and tables

**Table 2:** Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
<b>Key Releases</b>						
ISM Manufacturing	Mon 11/3	10:00 am	Oct	--	--	48.7
Construction Spending M/M*	Mon 11/3	10:00 am	Sep	-0.2%	--	--
Wards Total Vehicle Sales	Mon 11/3	--	Oct	--	15.50m	16.39m
Trade Balance*	Tue 11/4	8:30 am	Sep	-\$92.0	--	--
JOLTS Job Openings*	Tue 11/4	10:00 am	Sep	--	7163k	7227k
JOLTS Quits Level*	Tue 11/4	10:00 am	Sep	--	--	3091k
JOLTS Layoffs Level*	Tue 11/4	10:00 am	Sep	--	--	1725k
Factory Orders*	Tue 11/4	10:00 am	Sep	-1.0%	--	--
MBA Mortgage Applications	Wed 11/5	7:00 am	Fri 10/31	--	--	7.10%
ADP Employment Change	Wed 11/5	8:15 am	Oct	50k	35k	-32k
ISM Services Index	Wed 11/5	10:00 am	Oct	52.0	50.8	50.0
Nonfarm Productivity*	Thu 11/6	8:30 am	3Q P	2.00%	3.3%	3.30%
Initial Jobless Claims*	Thu 11/6	8:30 am	Sat 11/1	224k	225k	--
Continuing Claims*	Thu 11/6	8:30 am	Sat 10/25	--	1946k	--
Wholesale Trade Sales M/M*	Thu 11/6	10:00 am	Sep	--	--	--
Change in Nonfarm Payrolls*	Fri 11/7	8:30 am	Oct	-90k	41k	--
Unemployment Rate*	Fri 11/7	8:30 am	Oct	4.4%	4.4%	--
Average Weekly Hours All Employees*	Fri 11/7	8:30 am	Oct	34.3	--	--
U. of Mich. Sentiment	Fri 11/7	10:00 am	Nov P	55.0	53.0	53.6
U. of Mich. 1 Yr Inflation	Fri 11/7	10:00 am	Nov P	--	4.6%	4.60%
NY Fed 1-Yr Inflation Expectations	Fri 11/7	11:00 am	Oct	--	--	3.38%
Consumer Credit*	Fri 11/7	3:00 pm	Sep	\$10.000b	\$10.730b	\$0.363b

Sources: BBG, PNC

\* Delayed in event of continued government shutdown.

### Construction Spending\*

- 0.2%. Construction spending is forecast to fall 0.2% amid elevated policy uncertainty.

### Trade Balance\*

- \$92.0b. The trade balance is expected to widen with a rebound in imports.

### Factory Orders\*

- 1.0%. Factory orders are expected to decline amid a great deal of trade policy uncertainty.

### ADP Employment Change

- 50k. Private sector employment is projected to rebound from two consecutive monthly declines.

### Nonfarm Productivity\*

- 2.0%. Nonfarm productivity is forecast to decelerate amid a slowdown in output.



**Initial Jobless Claims\***

- 224k. Initial jobless claims are expected to rise slightly from last week's estimate of 219k but remain range bound.

**Change in Nonfarm Payrolls\***

- -90k. Nonfarm payrolls are projected to drop as an estimated 159K Federal government employees who took the retirement buyout ended their employment on October 1, although some may have found jobs in the private sector or retired from the labor force.

**Unemployment Rate\***

- 4.4%. The jobless rate is forecast to rise slightly amid a drop in payrolls and rising layoffs.

**Average Weekly Hours All Employees\***

- 34.3. Average weekly hours are expected to remain steady.

**U. of Mich. Sentiment**

- 55.0. Consumer sentiment is projected to improve amid rising equity markets.

**Consumer Credit\***

- \$10.000b. Consumer credit growth is forecast to accelerate from the slight increase in August.

\* Indicates it could be delayed by the government shutdown.

**Table 3: Fed Funds Rate Projections: PNC vs. other forecasters**

Forecaster	Next Cut	Terminal
BoA	June '26	3.00-3.25%
Barx	December '25	3.00-3.25%
Citi	December '25	3.00-3.25%
DB	December '25	3.50-3.75%
GS	December '25	3.00-3.25%
JPM	December '25	3.25-3.50%
MS	December '25	2.75-3.00%
<b>PNC</b>	<b>December '25</b>	<b>3.25-3.50%</b>



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