



Weekly Economic Roundup

PNC Economics

Headlines

- **The government shutdown enters its third week** with no clear resolution in sight. The Trump Administration secured temporary funding for nearly 1.3 million active-duty military personnel last week, reducing immediate pressure on lawmakers. Without this urgency, **the shutdown is likely to continue into November.**
- **Permanent layoffs of furloughed workers have begun with over 4,000 notices issued last week.** This is in conjunction with a broader effort to reduce the size of the federal workforce by 300k by year-end. With DOGE-related buyouts, we estimate that over 260k Federal positions have been eliminated as of September 30th.
- Trade tensions re-escalated as **China imposed new export controls** on rare earth minerals and the **Trump Administration threatened an additional 100% tariff on Chinese imports** starting November 1st.
- **The September FOMC meeting minutes indicate increased downside risk to employment and persistent uncertainty around inflation.** PNC expects the Fed to cut rates by 25bps at each of the next three meetings.
- **The BLS announced it will recall furloughed workers to release the September CPI print on Friday, October 24th.** This is ahead of the October FOMC meeting. The FOMC will have to rely on alternative labor market indicators in the absence of the September payrolls print.
- **This week's economic data releases are sparse** due to the shutdown, so market attention will shift to scheduled **Fed speakers ahead of the Fed's blackout period** before the October FOMC meeting.

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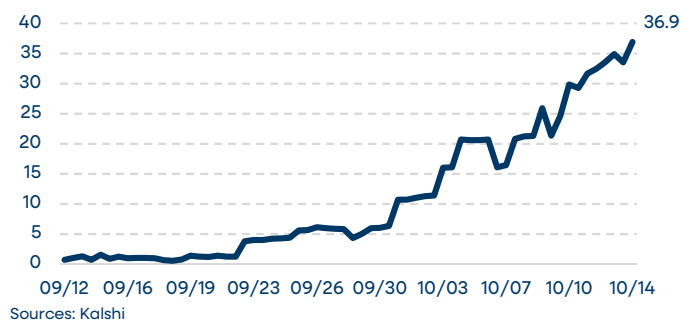
Shutdown continues, likely into November

The government shutdown enters its third week this week with no immediate end in sight. **October 15th was set to be a critical deadline**, as it would have marked the first time that 1.3 million active-duty military personnel **missed their paychecks due to the shutdown**. In previous shutdowns, the prospect of missed military pay has often forced Congress to act quickly, given the public and political pressure that comes with impacting service members and their families.

However, the Trump Administration recently announced it has **secured temporary funding** to ensure that military personnel will still receive their paychecks on October 15th. By removing this immediate pain point, **the urgency for lawmakers to resolve the shutdown has diminished**. Without the pressure of missed military pay, the political stalemate is likely to persist, making it more probable that **the shutdown will drag on well beyond this week and potentially into November**.

Still, political pressure is building, as are the economic consequences of a more prolonged shutdown. If the shutdown lasts into November, we expect a **temporary drag on annualized real GDP growth in Q4 of 0.7 percentage points**, or roughly 0.15 percentage points per week.

Figure 1: Prediction market expectations for length of government shutdown (# days)



Permanent layoffs of furloughed workers begin

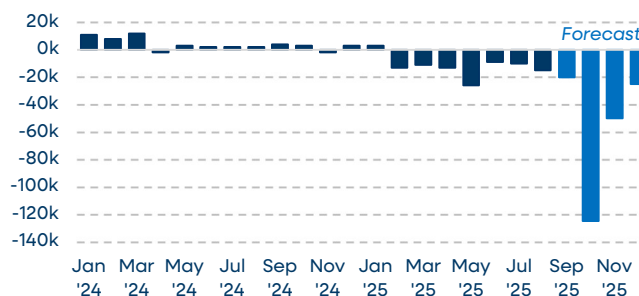
Last Friday, the Trump Administration took its first step toward fulfilling its stated goal of using the **government shutdown to aid in permanent workforce reductions**. More than 4,000 federal employees across seven agencies received layoff notices.

While this initial wave of layoffs may seem modest, it adds to a much larger trend. The Trump **Administration has a stated goal to reduce the size of the Federal workforce by approximately 300k by year-end relative to prior year levels**. So far, we estimate that approximately 100k positions have already been eliminated.

Earlier this year, over 150k employees accepted DOGE buyouts, allowing them to remain on payroll with full pay and benefits through the end of September. The remaining **50k reductions are expected to occur through attrition and layoffs in Q4**.

These federal workforce cuts come at a time when the broader labor market is showing signs of weakness. Both net job creation in the private sector and the pace of gross hiring have slowed to unusually low levels, raising concerns about the potential ripple effects of further public sector contraction.

Figure 2: Monthly change in federal payroll employment





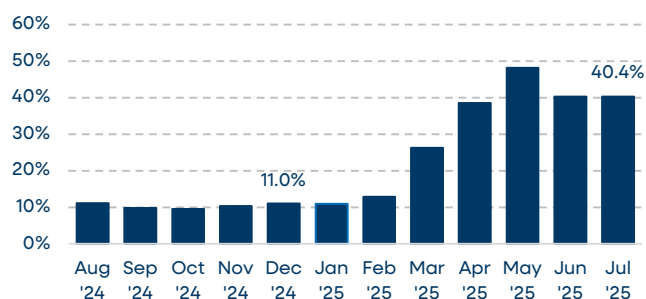
Trump administration threatens additional tariffs on China of 100%

Last week, China levied additional export controls on rare earth minerals in a move that would have significant impacts on downstream US-based industries. **In response, President Trump announced he was planning to impose an additional 100% tariff on Chinese imports to begin November 1st**, as well as export controls on certain critical software.

It's unclear whether or not this is a negotiation tactic ahead of trade negotiations with China at the end of the month. An additional 100% tariff on Chinese imports would be “embargo level,” bringing the effective tariff rate on Chinese imports back to Liberation Day levels.

The effective tariff rate paid on Chinese imports stands at 40% as of July, which is the latest available data. This is a substantial increase from the 11% level at the end of last year. In response, importers have shifted a significant amount of trade away from China to other trading partners. **Imports from China have fallen 36% on a year-over-year basis as of July**, according to the U.S. Census Bureau. The percent of U.S. imports originating in China has fallen to 7.8% in July from 12.9% at the end of last year.

Figure 3: Effective tariff rate paid on U.S. imports from China



Sources: Census/USITC

September FOMC meeting minutes point cautiously to further cuts in 2025

In line with broad support for September's rate cut, the September 16–17 FOMC meeting minutes noted that most participants believed **“downside risks to**

employment had increased” compared with the prior meeting, while **“upside risks to inflation had either diminished or not increased.”** Still, the minutes underscored persistent uncertainty around inflation.

Although inflation has risen less than expected this year, **participants anticipated tariff-related pressures would keep it “somewhat elevated”** in the near term before gradually returning to the 2% target. Most participants continued to view **inflation risks as tilted to the upside** and stressed the importance of keeping long-term expectations “well anchored” through appropriate monetary policy.

The ongoing government shutdown is complicating the Fed's decision-making by delaying key economic data releases ahead of the October 28–29 meeting. While the Bureau of Labor Statistics has recalled personnel to release the September CPI report on October 24th – providing the Fed with current inflation data – labor market data will remain unavailable. Against this backdrop, **PNC expects 25bps cuts at each of the next three FOMC meetings**, which would bring the federal funds rate to a range of 3.25%–3.50% by late-January.

Alternative data sources play a bigger role during the shutdown

With the government shutdown severely disrupting the flow of economic data, alternative data sources – particularly relating to the labor market – are taking on increased importance. As mentioned above, the Fed will have the latest inflation reading by the time of the October FOMC meeting, **but it will have to rely on alternative indicators to gauge the health of the labor market.**

These alternative data sources point to a labor market that is unchanged in September, or perhaps somewhat weaker. For direct estimates of job growth, we have the ADP (private sector) and Revelio Labs (private and government), which estimate that the economy added -32k and 58k jobs in September, respectively. Hiring from the ISM Services and Manufacturing indices improved somewhat in September but are still both in contraction territory. Job postings on Indeed were relatively flat in



September, as were layoffs reported by Challenger and state-level unemployment offices. The Chicago Fed's real-time estimate of the unemployment rate shows 4.34%, essentially unchanged from the month prior.

Figure 4: Estimates of monthly job growth¹

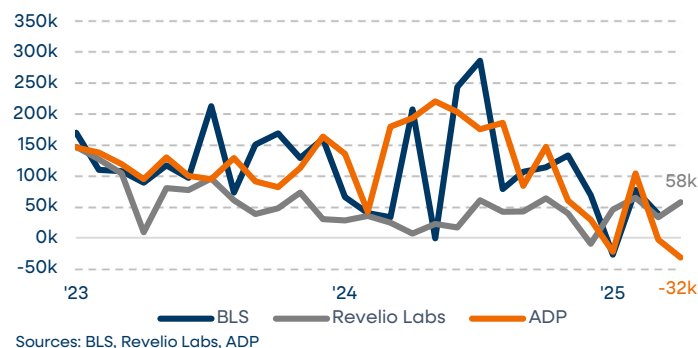
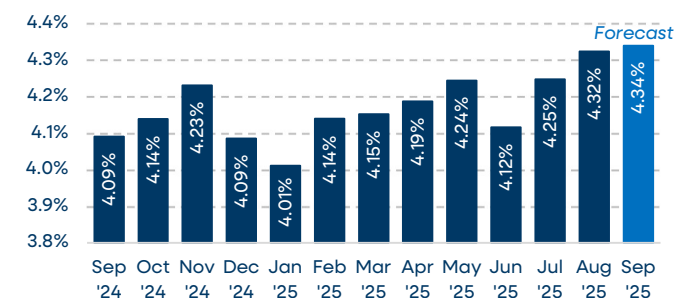


Figure 5: Unemployment rate with Chicago Fed real-time forecast for September



Sources: BLS, Chicago FRB

Light data release schedule this week

This week's data slate will be sparse again, with the planned retail sales, industrial production, inflation, and housing market indicators delayed by the government shutdown. It was announced last week that the BLS was recalling furloughed employees to prepare the September CPI print, with a new scheduled release data of Friday, October 24th.

Any market-moving news will come out of Fed Speak, as a number of Fed officials have planned speeches and remarks ahead of the Fed's blackout period before the October FOMC meeting.

Table 1: Scheduled Fed speakers this week

Release	FOMC Voter?
Monday, October 13	
Anna Paulson, Philly Fed President	No
Tuesday, October 14	
Michelle Bowman, Fed Vice Chair for Supervision	Yes
Jerome Powell, Fed Chair	Yes
Christopher Waller, Fed Governor	Yes
Susan Collins, Boston Fed President	Yes
Wednesday, October 15	
Steven Miran, Fed Governor	Yes
Christopher Waller, Fed Governor	Yes
Jeff Schmid, KC Fed President	Yes
Thursday, October 16	
Christopher Waller, Fed Governor	Yes
Michael Barr, Fed Governor	Yes
Steven Miran, Fed Governor	Yes
Michelle Bowman, Fed Vice Chair for Supervision	Yes
Friday, October 17	
Alberto Musalem, St. Louis Fed President	Yes

¹ BLS and ADP figures show private-sector job growth. Revelio Labs shows private and public-sector job growth.



Additional charts and tables

Table 2: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
MBA Mortgage Applications	Wed 10/15	7:00 am	Fri 10/10	--	--	-4.70%
Empire Manufacturing	Wed 10/15	8:30 am	Oct	--	-1.70	-8.70
Real Avg Hourly Earning y/y*	Wed 10/15	8:30 am	Sep	--	--	0.70%
Fed Releases Beige Book	Wed 10/15	2:00 pm	--	--	--	--
Retail Sales Advance m/m*	Thu 10/16	8:30 am	Sep	0.5%	0.40%	0.60%
Retail Sales Control Group*	Thu 10/16	8:30 am	Sep	0.4%	0.30%	0.70%
PPI Final Demand m/m*	Thu 10/16	8:30 am	Sep	0.3%	0.30%	-0.10%
PPI Ex Food and Energy m/m*	Thu 10/16	8:30 am	Sep	0.3%	0.20%	-0.10%
Initial Jobless Claims*	Thu 10/16	8:30 am	Sat 10/11	228k	230k	--
Continuing Claims*	Thu 10/16	8:30 am	Sat 10/4	--	1925k	1926k
Philadelphia Fed Business Outlook	Thu 10/16	8:30 am	Oct	--	10.00	23.20
New York Fed Services Business Activity	Thu 10/16	8:30 am	Oct	--	--	-19.40
Business Inventories*	Thu 10/16	10:00 am	Aug	0.20%	0.00%	0.20%
NAHB Housing Market Index	Thu 10/16	10:00 am	Oct	--	33.00	32.00
Housing Starts*	Fri 10/17	8:30 am	Sep	1320k	1320k	1307k
Building Permits*	Fri 10/17	8:30 am	Sep P	--	1343k	1330k
Import Price Index m/m*	Fri 10/17	8:30 am	Sep	0.30%	0.10%	0.30%
Export Price Index m/m*	Fri 10/17	8:30 am	Sep	0.20%	0.00%	0.30%
Industrial Production m/m*	Fri 10/17	9:15 am	Sep	0.20%	--	0.10%
Capacity Utilization*	Fri 10/17	9:15 am	Sep	77.5%	--	77.4%

Sources: BBG, PNC

* Delayed in event of continued government shutdown.

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

Forecaster	Next Cut	Terminal
BoA	October '25	3.00-3.25%
Barx	October '25	3.00-3.25%
Citi	October '25	3.00-3.25%
DB	October '25	3.50-3.75%
GS	October '25	3.00-3.25%
JPM	October '25	3.25-3.50%
MS	October '25	2.75-3.00%
PNC	October '25	3.25-3.50%



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