National Economic Outlook

October 2026

Headlines

- **Growth:** The economy expanded at a rapid pace in the third quarter, continuing to be driven by two powerful forces: a resilient consumer who keeps spending and one of the largest capex booms we will see in our lifetimes, driven by AI. We expect the economy to expand 2.5% in 2026 and 2.2% in 2027.

- **Labor market:** The low-hire, low-fire labor market continues. Layoffs remain abnormally low and are falling further, but net job growth remains at only around 50,000 per month. We expect job growth to remain range-bound between 50,000 and 75,000 per month through the end of 2027, with the unemployment rate hovering around 4.3%.

- **Inflation:** We don't see much evidence that core inflation is moving closer to the Fed's target in the second half of 2026. Elevated domestic demand continues to put upward pressure on services inflation, while the ongoing energy shock is adding pressure to core goods prices. We expect core PCE inflation to remain around 3% through the first quarter of next year before gradually moving back toward target.

- **Monetary policy:** We continue to expect two more Fed rate hikes, once in December and again next March, but stress that the balance of risks is toward more hikes rather than fewer. With households relatively insulated from higher interest rates, we think monetary tightening will increasingly work through financial conditions and wealth effects, making equity prices an important channel for Fed policy.

- **Risks to the outlook:** A large correction in equity markets would be a "two-birds-one-stone" shock to both business capex and consumer spending, the two key pillars of growth in 2026. The upward march in long-term interest rates and continued disruption to global energy markets remain the other two major risks we are watching.

Gus Faucher
augustine.faucher@pnc.com

Jay Hawkins
jay.hawkins@pnc.com

Ershang Liang
ershang.liang@pnc.com

Brian LeBlanc
brian.leblanc@pnc.com

Alex Mackle
alex.wyattmackle@pnc.com

Isfar Munir
isfar.munir@pnc.com

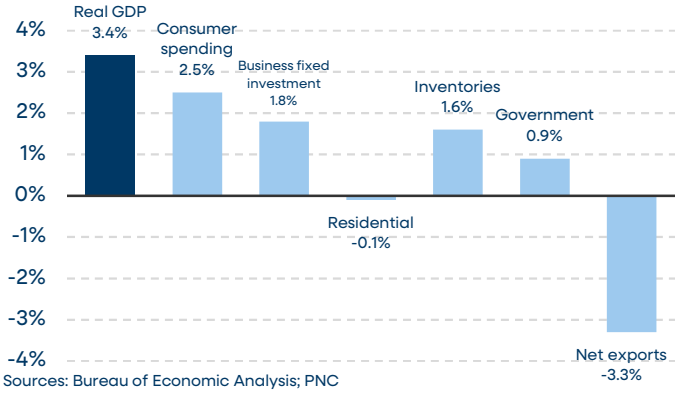
Kurt Rankin
kurt.rankin@pnc.com

Sergio Cervantes
sergio.cervantes@pnc.com

Solid growth in the third quarter

Economic growth has accelerated through the first three quarters of 2026, increasing at an above-trend 3.4% annualized pace in Q3, bringing year-to-date growth to 2.7%. That's an acceleration from the pace seen over the last two years, and it has coincided with a pickup in both the labor market and inflation.

Figure 1: Real GDP and subcomponent contributions (% chg. q/q or pp contribution)



Sources: Bureau of Economic Analysis; PNC

Growth in the U.S. continues to be propelled by two very strong forces. The first is the ongoing capex buildout to support AI, which we think could ultimately be one of the largest capex cycles of our lifetimes. Business fixed investment has grown at a stellar 10.5% annualized pace through the first three quarters of the year, creating strong underlying demand even if much of that capex spending ultimately goes toward imported chips and servers that are counted *against* the headline GDP figure.

The second force driving the economy is the consumer. We spend a lot of time talking about AI, but this continues to be a consumer-led expansion, with consumer spending responsible for over two-thirds of the growth this year. Spending has been remarkably resilient to higher rates, higher inflation, higher gas prices, and weaker income growth. Later in this piece, we spend some time discussing why we think that is happening and whether it can continue.

Against this backdrop, and with inflation still clearly above target, we don't find it surprising or misguided that the Fed is hiking. It should be, but we think it's appropriate for policymakers to move slowly and deliberately. The risks associated with hiking today are different from those the Fed faced when it began hiking in 2022, and the FOMC will need to walk a tightrope: tightening financial conditions without triggering a substantial correction in equity prices, which could deliver a "two-birds-one-stone" shock to both consumer spending and the capex boom.

Ultimately, we expect real GDP growth to finish 2026 at 2.5% and to grow at a slightly more subdued 2.2% pace in 2027. Core PCE inflation should remain near its recent 3% trend through the first quarter of next year before moderating towards the Fed's 2% objective thereafter. Lastly, we anticipate the Fed will raise the federal funds rate by 25 basis points two additional times, once in December and then again in March of next year.

Table 1: Baseline U.S. economic outlook

	Annual (Q4/Q4)		
Indicator	**2025**	**2026f**	**2027f**
Real GDP (Q4/Q4 %)	2.0%	2.5%	2.2%
Core PCE (Q4/Q4 %)	2.8%	3.2%	2.5%
Unemployment Rate (YE%)	4.5%	4.2%	4.3%
Federal Funds (YE%)	3.75%	4.25%	4.50%

YE% = year-end forecast for Q4, f = forecast, please see the expanded table for more forecast series

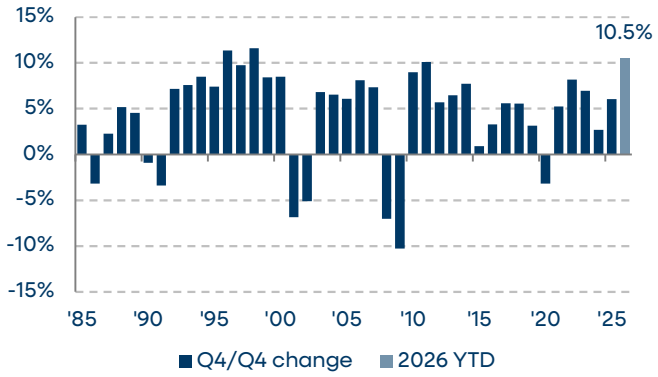
An AI-driven gold rush paying dividends

We think that AI will ultimately have massive impacts on the economy, productivity, and the labor market. The gap between what these models can do today and how they are being used throughout the economy is massive, and in our view it's more a question of when, not if, this technology will have large-scale impacts.

For now, however, the clearest area we are seeing the impacts of AI is through the significant amount of capital being spent to build out AI infrastructure. Thus far in 2026, AI-related business capex has increased at an average 22.5% annualized pace. Business capex outside of AI-related components has improved in 2026, but AI-related investment

continues to account for an outsized share of the strength in business capex.

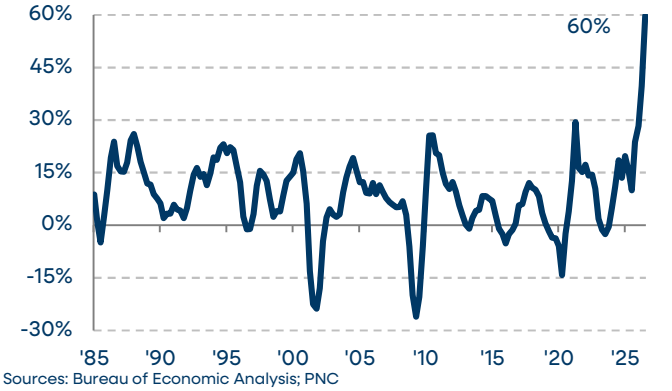
Figure 2: Real non-residential fixed investment



Sources: Bureau of Economic Analysis; PNC

How much this is contributing to headline U.S. economic growth figures is complicated, however. Unlike past capex booms, a significant portion of the investment related to AI is imported, whether it is processors, servers, or other hardware. In other words, the AI boom is generating enormous investment demand in the U.S., but not every dollar of that demand translates into U.S. GDP because a meaningful share of the equipment is imported. Capital goods imports have increased 60% over the past year, more than twice the increase seen at any point since 1985.

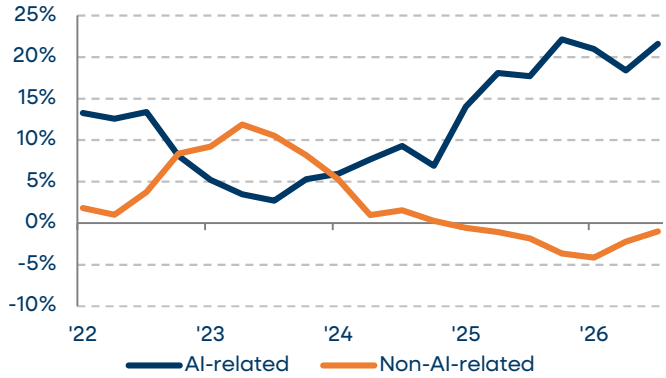
Figure 3: Capital goods imports (% chg. y/y)



Sources: Bureau of Economic Analysis; PNC

However, non-AI-related investment has also improved in 2026, increasing at a 5.0% annualized pace over the past two quarters. In addition, firms have been restocking inventories after having run them down for much of the past year, especially following the implementation of large-scale tariffs. These two things are probably related. We expected that tariffs would have a chilling effect on both inventory accumulation and business capex, which is what likely occurred. Now we're seeing some of that reverse as there is less uncertainty around tariff and trade policy.

Figure 4: AI versus Non-AI capex (% chg. y/y)



Sources: Bureau of Economic Analysis; PNC

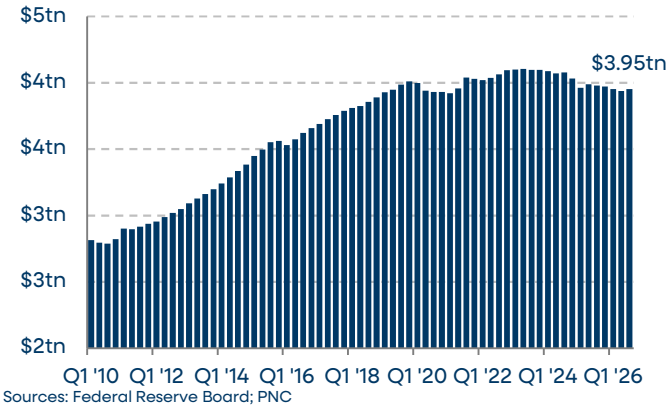
Overall, we continue to expect business capex to contribute meaningfully to growth through 2027. Residential investment, however, is another story, and it's unlikely that we will see much improvement there as long as the Fed is hiking.

How long can the consumer keep up?

Despite all the focus on AI, this is still very much a consumer-led economy. Consumer spending has accounted for over two-thirds of economic growth in 2026 despite continued pressures from higher interest rates, above-trend inflation, high energy prices, and weak real income growth.

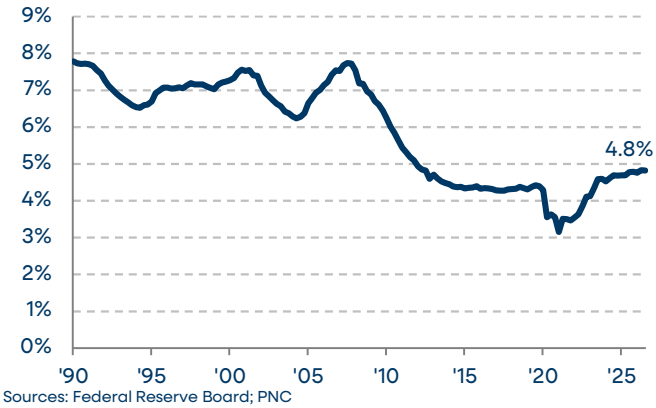
Consumer balance sheets are in much better health than many give them credit for, and households have leveraged that strength to continue spending. Real consumer debt levels are still below 2019 levels, and total net interest expense as a share of income remains very low from a historical perspective. This, combined with significantly less floating-rate debt, has made households much less sensitive to higher interest rates than they were in the past.

Figure 5: Total consumer debt adjusted for inflation



Sources: Federal Reserve Board; PNC

Figure 6: Total net interest expense of households as a percentage of disposable personal income

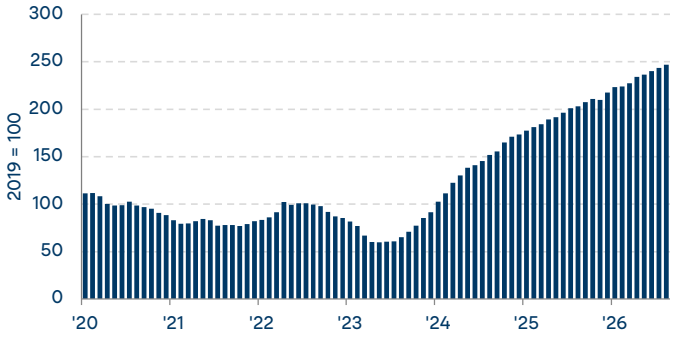


Sources: Federal Reserve Board; PNC

Households have also benefited greatly from large wealth gains from equities and housing. In internal PNC data, we see evidence that households are increasingly drawing on these wealth gains to support spending, particularly among older households approaching or entering retirement.

An aging U.S. population means a growing share of households are entering retirement age and beginning to finance more of their consumption through dissaving rather than labor income. This is likely one reason spending has remained so resilient despite weak real disposable income growth for much of 2026.

Figure 7: Net inflows from brokerage accounts into checking accounts: Boomers and older



Sources: Internal PNC data

With the fiscal boost from larger tax refunds earlier in the year now behind us, we expect consumer spending growth to moderate to a roughly 2% real pace through 2027. But while households have become less sensitive to higher interest rates, they may also have become more sensitive to swings in asset prices. This creates an important risk as the Fed continues to tighten. Higher rates themselves may not be enough to derail consumer spending, but a significant correction in equity prices could weaken household wealth and weigh more substantially on consumption.

Low-hire, low-fire job market continues

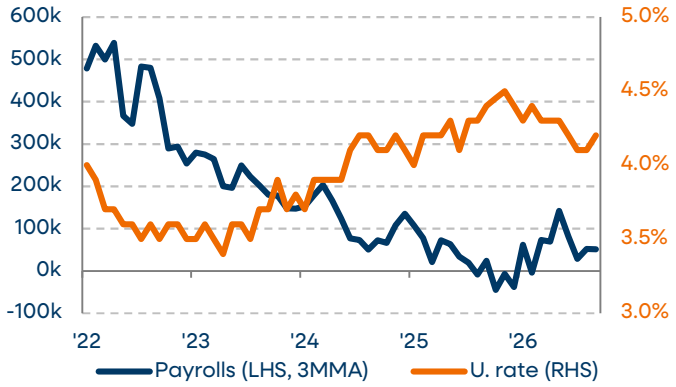
One of the most encouraging developments in 2026 has been the improvement we've seen in the labor market. Job growth fell to a standstill in 2025, even outright declining toward the end of the year, while the unemployment rate had been steadily increasing since 2023.

Both of those trends have reversed this year. Monthly job growth has averaged 68k thus far in 2026, and the unemployment rate has fallen 0.3 percentage points since last November's peak. To be sure, job growth is still very weak by historical standards, but the fact that it has stabilized is a notable improvement.

We continue to expect job growth to remain range-bound between 50k and 75k per month through 2027. Slower growth in the labor supply, in part

because of weaker net immigration, has lowered the pace of job growth needed to keep the unemployment rate stable. As a result, we expect the unemployment rate to remain near current levels over the next several quarters, even with job growth that would historically have been considered quite weak.

Figure 8: Payrolls versus unemployment rate



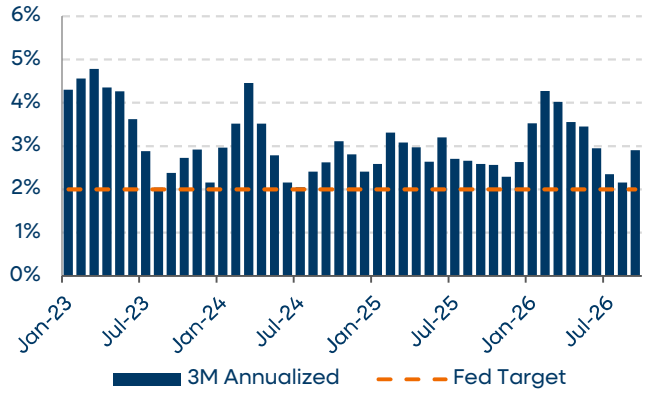
Sources: Bureau of Labor Statistics; PNC

Layoffs also remain abnormally low, and there is evidence that they may be declining further. Continuing unemployment insurance claims are down 13% year over year in late October, while initial unemployment insurance claims are near record lows. Taken together, the data continue to point to a low-hire, low-fire labor market, with businesses reluctant to add workers but also showing little appetite to reduce headcount.

Inflation remains too high in the second half of 2026

Inflation remains above target and broad-based in the second half of 2026. The Fed made substantial progress bringing inflation down from its peak levels in 2022; however, trend core inflation has remained stuck near 3% since early 2024 and began re-accelerating in 2026.

Figure 9: Core PCE inflation (% chg. 3M ann.)

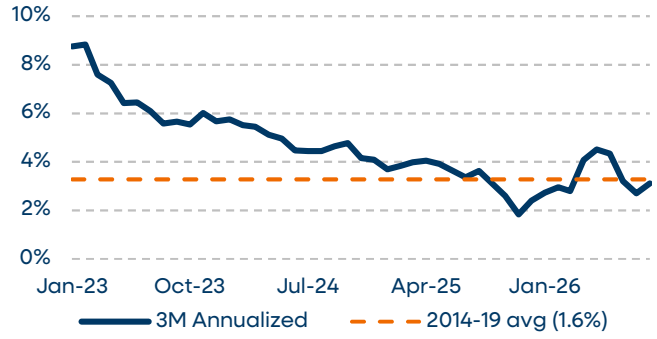


Sources: Bureau of Economic Analysis; PNC

Looking at the components of inflation, the only major component that has returned to a level consistent with the Fed's inflation target is shelter inflation. Services inflation outside of shelter has remained elevated, which in our view is indicative of underlying demand being too strong. Goods inflation has been elevated since widespread tariffs were implemented in early 2025 and remains elevated in part because of the pass-through from higher diesel and energy costs associated with the war in Iran.

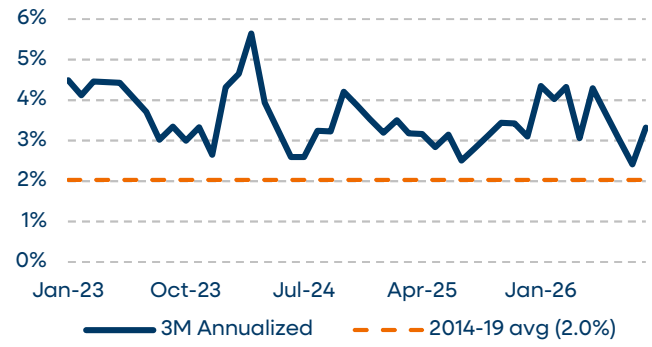
It will take time for the impact of rate hikes to feed through to inflation and for the supply-side shock from higher energy prices to fade, which we expect to begin occurring in 2027.

Figure 10: Shelter PCE inflation



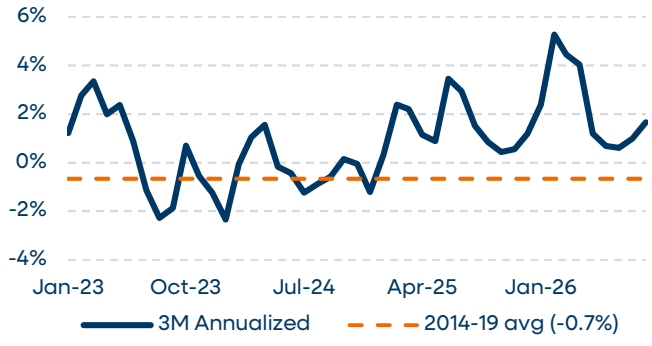
Sources: Bureau of Economic Analysis; PNC

Figure 11: Core services ex shelter PCE inflation



Sources: Bureau of Economic Analysis; PNC

Figure 12: Core goods PCE inflation



Sources: Bureau of Economic Analysis; PNC

Fed to hike two more times

We expect the Fed to raise rates two more times, once in December and again in March 2027. Inflation has remained above target for nearly six years, the labor market has stabilized this year, and policymakers have lost patience waiting for inflation to return to target on its own. Recent Fed communication has increasingly aligned around two themes with which we agree: first, that additional rate hikes are warranted; and second, that policymakers have room to proceed slowly and carefully as they assess the cumulative effects of tighter monetary policy.

We therefore expect the Fed to move at a measured pace, likely raising rates at roughly every other meeting. The greater risk to our forecast is that persistent inflation and continued economic resilience ultimately require more hikes or a longer period of restrictive monetary policy, rather than that the Fed ends the tightening cycle earlier than we expect.

What are the risks to the outlook?

We see the biggest risk to the expansion as tied to equity markets. One reason households have been able to maintain strong spending despite weaker income growth has been through the wealth effect. Large increases in equity prices have helped offset weaker income growth as a source of spending, especially for older households entering retirement age. That said, household wealth has never been so concentrated in equities, and equities have rarely been this concentrated in a small number of companies, many of which are closely tied to the AI buildout. An equity-market correction would also risk slowing the ongoing AI buildout, which, as discussed above, has been an important driver of domestic demand.

Figure 13: Household net worth as a percentage of disposable personal income

Sources: Federal Reserve Board; PNC

Other risks are coming from interest rates and energy markets. The continued rise in long-term interest rates could tighten financial conditions even without additional Fed rate hikes, weighing on housing, business investment, and eventually consumer spending. Continued disruption to global energy markets presents a different kind of risk, potentially keeping inflation elevated while simultaneously weighing on real household incomes and consumption. Either development could complicate the Fed's job by forcing policymakers to navigate weaker growth alongside inflation that remains above target.

Additional charts and tables

Table 2: Baseline U.S. Economic Outlook, Summary Table

Indicator	26Q2	26Q3	26Q4f	27Q1f	27Q2f	27Q3f	27Q4f	2025	2026f	2027f	2028f
Output											
Nominal GDP ($bn)	32,563	33,034	33,451	33,849	34,245	34,650	35,044	31,463	33,451	35,044	36,580
Percent Change Annualized	**8.5**	**5.9**	**5.1**	**4.8**	**4.8**	**4.8**	**4.6**	**5.1**	**6.3**	**4.8**	**4.4**
Real GDP ($bn, '17 SAAR)	24,408	24,611	24,738	24,873	25,006	25,142	25,273	24,125	24,738	25,273	25,776
Percent Change Annualized	**2.2**	**3.4**	**2.1**	**2.2**	**2.2**	**2.2**	**2.1**	**2.0**	**2.5**	**2.2**	**2.0**
Consumer Spending	16,789	16,945	17,047	17,131	17,214	17,297	17,378	16,605	17,047	17,378	17,701
Percent Change Annualized	**3.8**	**3.8**	**2.4**	**2.0**	**2.0**	**1.9**	**1.9**	**2.1**	**2.7**	**1.9**	**1.9**
Business Fixed Investment	3,986	4,107	4,181	4,240	4,294	4,342	4,388	3,810	4,181	4,388	4,555
Percent Change Annualized	**9.0**	**12.7**	**7.4**	**5.8**	**5.2**	**4.6**	**4.3**	**6.0**	**9.7**	**5.0**	**3.8**
Residential Investment	746	740	738	738	738	740	742	756	738	742	762
Percent Change Annualized	**2.8**	**-3.3**	**-1.0**	**-0.1**	**0.3**	**0.8**	**1.2**	**-3.8**	**-2.4**	**0.6**	**2.6**
Change in Private Inventories	-63	20	12	16	19	20	20	-46	12	20	27
Net Exports	-1,099	-1,320	-1,372	-1,394	-1,412	-1,421	-1,429	-1,006	-1,372	-1,429	-1,476
Government Expenditures	4,087	4,139	4,152	4,162	4,173	4,184	4,194	4,041	4,152	4,194	4,227
Percent Change Annualized	**-0.1**	**5.3**	**1.3**	**0.9**	**1.0**	**1.0**	**1.0**	**-0.6**	**2.8**	**1.0**	**0.8**
Industrial Production (*'12 = 100*)	103	104	105	105	106	107	107	101	105	107	110
Percent Change Annualized	**4.5**	**4.3**	**2.9**	**2.9**	**2.8**	**2.7**	**2.8**	**1.6**	**3.2**	**2.8**	**2.4**
Capacity Utilization (*Percent*)	76.2	76.7	77.0	77.3	77.6	77.8	77.9	75.6	77.0	77.9	78.7
Prices											
CPI (% Change Ann.)	6.1	2.3	3.1	2.2	2.1	2.0	2.0	2.7	3.7	2.1	2.0
Core CPI Index (% Change Ann.)	2.9	2.5	3.1	2.9	2.7	2.4	2.3	2.7	2.8	2.6	2.2
PCE Price Index (% Change Ann.)	5.0	2.2	3.1	2.2	2.0	1.9	1.9	2.7	3.6	2.0	1.9
Core PCE Price (% Change Ann.)	3.3	2.5	3.0	2.8	2.6	2.3	2.2	2.8	3.2	2.5	2.1
GDP Price Index (% Change Ann.)	6.1	2.5	3.0	2.6	2.5	2.6	2.5	3.0	3.7	2.5	2.3
Crude Oil, WTI ($/Barrel)	95.6	87.1	90.5	85.0	81.5	80.3	79.6	59.6	90.5	79.6	77.2
Case-Shiller HPI (% Change Ann.)	-0.1	0.0	0.0	1.0	1.0	1.0	1.0	1.3	0.5	1.0	1.0
Labor Markets											
Payroll Jobs (*Millions*)	158.9	159.0	159.3	159.7	160.0	160.1	160.2	158.4	159.3	160.2	160.8
Percent Change Annualized	**0.7**	**0.3**	**0.8**	**0.9**	**0.7**	**0.4**	**0.3**	**0.2**	**0.6**	**0.6**	**0.4**
Unemployment Rate (*Percent*)	4.3	4.1	4.2	4.3	4.3	4.3	4.3	4.5	4.2	4.3	4.2
Avg. Wkly Hours, Prod. Works.	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.7	33.8	33.8	33.8
Personal Income											
Average Hourly Earnings (*$*)	32.3	32.5	32.8	33.0	33.3	33.6	33.8	31.8	32.8	33.8	35.0
Percent Change Annualized	**3.5**	**2.6**	**3.1**	**3.2**	**3.2**	**3.2**	**3.3**	**3.9**	**3.1**	**3.2**	**3.3**
Real Disp. Income (*2017 $bn*)	18,294	18,359	18,430	18,528	18,650	18,775	18,898	18,193	18,430	18,898	19,364
Percent Change Annualized	**-0.2**	**1.4**	**1.6**	**2.1**	**2.7**	**2.7**	**2.7**	**1.4**	**1.3**	**2.5**	**2.5**
Interest Rates (%)											
Prime Rate	6.8	6.8	7.1	7.3	7.5	7.5	7.5	7.0	7.1	7.5	7.5
Federal Funds	3.75	4.00	4.25	4.50	4.50	4.50	4.50	3.75	4.25	4.50	4.50
3-Month Treasury Bill	3.7	3.9	4.1	4.3	4.4	4.4	4.4	3.8	4.1	4.4	4.4
10-Year Treasury Note	4.4	4.7	5.0	4.9	4.8	4.8	4.8	4.1	5.0	4.8	4.8
30-Year Fixed Mortgage	6.4	6.7	7.1	6.9	6.7	6.7	6.7	6.2	7.1	6.7	6.7

Disclosures

The material presented and the views expressed herein are of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation of any particular securities, financial instruments, strategies or banking services. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your needs. To the extent that these materials reference PNC data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial condition or performance of PNC.

Forward-looking statements are necessarily subject to numerous assumptions, risks and uncertainties, which change over time. Future events or circumstances may change our outlook and may also affect the nature of the assumptions, risks and uncertainties to which our forward-looking statements are subject. Forward-looking statements speak only as of the date made. We do not assume any duty and do not undertake any obligation to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance. As a result, we caution against placing undue reliance on any forward-looking statements.

"PNC" is a registered mark of The PNC Financial Services Group, Inc.

© 2026 The PNC Financial Services Group, Inc. All rights reserved.