



Weekly Economic Roundup

PNC Economics

Headlines

- The economy added a net **130k jobs in January**, the strongest gain since late 2024, while the **unemployment rate declined** for the second consecutive month. This is a welcome signal for what we view as the largest risk to the outlook – continued labor market weakness – and suggests **conditions may be stabilizing** after job growth stalled in late 2025.
- Improving labor market conditions are arriving at an important time, as **consumer spending appears to have softened** late last year to better align with slowing labor income growth. Retail sales were flat in December and growth in Q4 slowed to below the pace of inflation.
- **Inflation accelerated in January** and remains too high relative to the Fed’s target, despite coming in slightly below expectations. Tariff pass-through continues to push goods prices higher, with non-auto goods prices rising at a 5.2% annualized pace.
- **The Federal Reserve will be in no rush to cut the fed funds rate** following last week’s labor market and inflation data. Evidence that the labor market is stabilizing gives policymakers the flexibility to remain patient and data-dependent, waiting for clearer progress on inflation before easing again. PNC continues to expect two rate cuts in the second half of the year.
- **Holiday-shortened week but still eventful:** FOMC meeting minutes will be released on Wednesday, followed by key macro prints on Friday – Q4 GDP (advance) and the core PCE price index. Fed speak is heavy throughout the week, while the Supreme Court scheduled an opinion day on Friday that could see a decision on the IEEPA tariffs.

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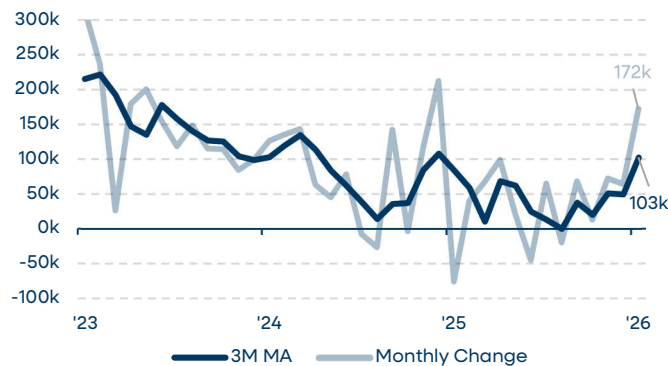
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Labor market starts 2026 on firmer footing than it ended 2025

Last week's employment report provided further evidence that the **labor market stabilization** that began late last year is continuing into early 2026. The economy added **130k jobs in January**, roughly double expectations, driven by a **172k increase in private sector employment**.

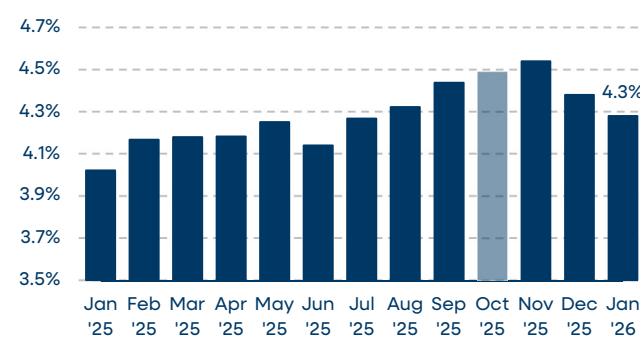
Figure 1: Monthly private sector job growth



Sources: BLS

Recent hiring momentum has improved meaningfully. The three-month moving average of private job growth rose to **103k** through January, the fastest pace since late 2024 and above what we estimate is needed to hold the unemployment rate steady. Consistent with that improvement, the **unemployment rate declined to 4.3%** in January from 4.4% in December, the second consecutive monthly drop.

Figure 2: Unemployment rate

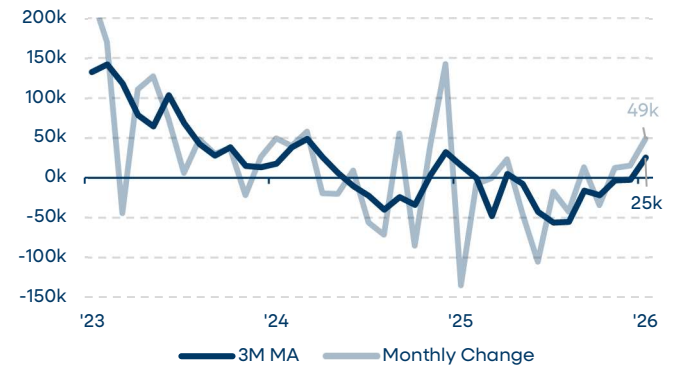


Source: BLS

*The October data has been linearly interpolated

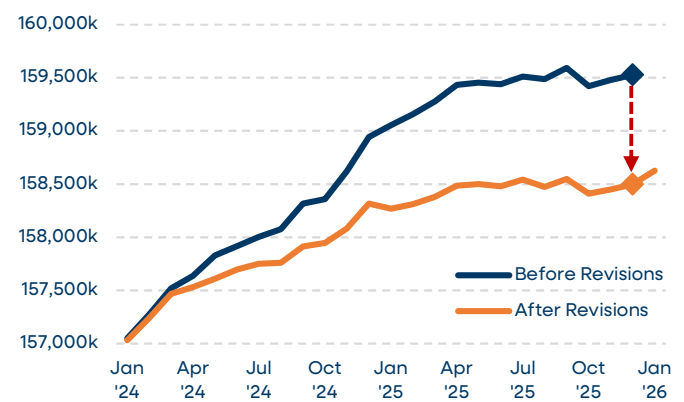
The breadth of hiring also improved somewhat in January, though it remains uncomfortably narrow. **Education and healthcare accounted for 137k of the 172k private jobs added**, but there were notable gains in construction and professional and business services. Outside of these areas, however, employment remains weak, and job losses continue in several cyclical industries, albeit at a slower pace than late last year.

Figure 3: Monthly private sector job growth excluding healthcare jobs



Sources: BLS

Figure 4: Payroll jobs revised down by over one million to end 2025



Sources: BLS

Even so, the January report provides a **welcome signal** for what we continue to view as the **largest risk facing the 2026 outlook – continued labor market weakening**. Hiring slowed substantially throughout 2025, and annual benchmark revisions released along with the January employment report confirm that job growth last year was materially weaker than previously estimated. Revisions



lowered the level of employment as of December by more than one million jobs, making 2025 one of the weakest years for job creation on record outside of recession.

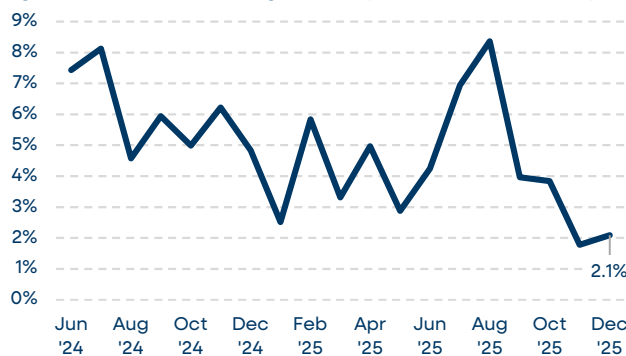
Some caution is warranted in interpreting the January data. Seasonal adjustment issues, methodological changes to the BLS birth-death model, and the concentration of hiring in a small number of sectors all complicate the signal to some degree. January data are also historically volatile and often revised.

Even with those caveats, the broader takeaway is constructive. **After a year of slowing job growth, the labor market appears to have found a floor, reducing near-term downside risks to the economic outlook.**

Spending slows in December

Recent consumer spending data delivered a more mixed signal, with **December retail sales coming in softer than expected.** Headline sales were flat on the month, while the control group (used in calculating GDP) posted a modest decline.

Figure 5: Retail sales growth (3M annualized %)

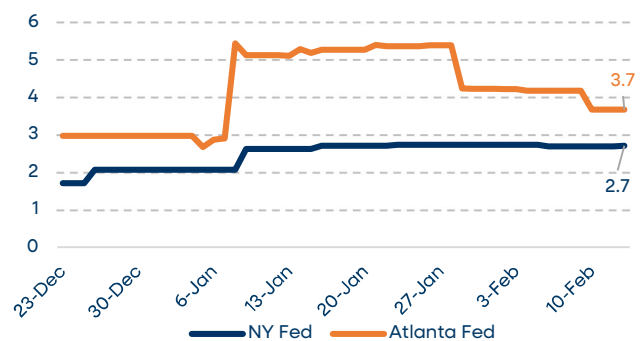


Sources: Census

One reason economic growth proved more resilient than anticipated in 2025 was that consumer spending held up better than underlying job growth and income trends would have suggested. Households – particularly those at higher income levels – were able to draw down excess savings to sustain spending, helping to support overall growth.

We have long argued that this divergence between spending and income growth is **unlikely to be sustainable over time**, and December’s retail sales report suggests some convergence is now underway. Looking ahead, improving labor market conditions and larger tax refunds stemming from the One Big Beautiful Bill Act (OBBBA) should help stabilize consumption. **Stronger aggregate payroll income growth – supported by continued hiring and wage gains – should provide a firmer foundation for consumer spending through the first half of 2026.**

Figure 6: Real GDP growth tracking for 2025Q4 (q/q, ann. % chg)



Source: Atlanta Fed, NY Fed

* Does not adjust for the mechanical drag from the government shutdown.

CPI: Encouraging but far from reassuring

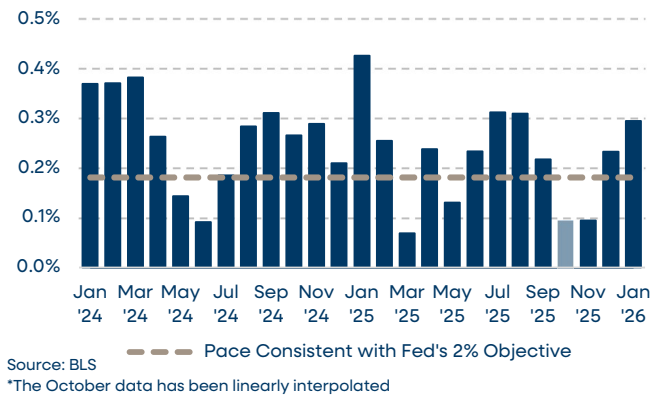
Inflation data released this week were somewhat encouraging but far from reassuring. Core CPI rose 0.3% in January, in line with expectations and slightly below some forecasts that anticipated stronger seasonal pressures. On a year-over-year basis, core inflation eased modestly to around 2.5%, **but the monthly gain still translates to roughly a 3.6% annualized pace – well above what would be consistent with the Fed’s 2% objective.**

The headline CPI reading was softer, reflecting declines in energy prices. However, underlying details point to continued inflation persistence. **Core goods prices excluding used vehicles increased at their fastest pace in nearly two years**, likely reflecting both start-of-year price resets and tariff-related cost pressures. Consistent with this, a recent



study from the NY Fed found that **nearly 90% of the tariffs' economic burden fell on U.S. firms and consumers.** Surveys similarly point to firms anticipating price hikes to shift higher tariff-related input costs to consumers.

Figure 7: Core CPI (m/m, % chg)



Meanwhile, services inflation remained elevated, though shelter inflation continued to gradually moderate. Notably, the January services reading was biased upward by a roughly **+6% m/m jump in airfares** – an outsized move that **we do not expect to continue.**

One complicating factor is that January inflation data are often distorted by residual seasonality and component-specific volatility, including large swings in used vehicle prices and airfares. Nonetheless, translating the CPI report into the Federal Reserve's preferred PCE measure suggests inflation remains meaningfully above target, with **core PCE likely running near or above 3% annualized.**

Even with the downside surprise to CPI, the **CPI-PCE wedge** appears to be widening due to differences in category weights, and that matters because **the Fed explicitly targets PCE inflation.** In other words, it remains to be seen whether core PCE inflation comes down as cleanly as CPI suggests.

Figure 8: Core goods ex. auto CPI (m/m, % chg)

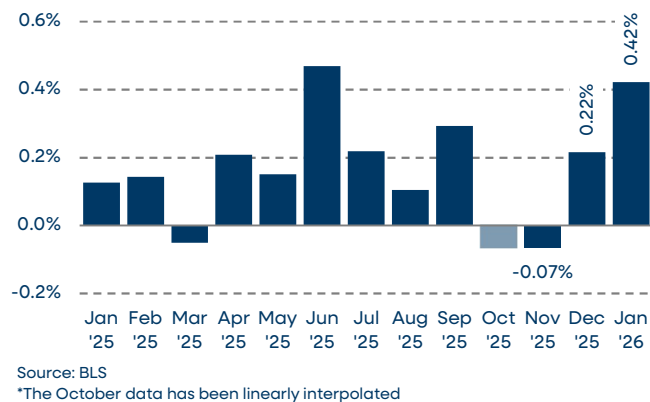


Figure 10: Core services ex. shelter (m/m, % chg)

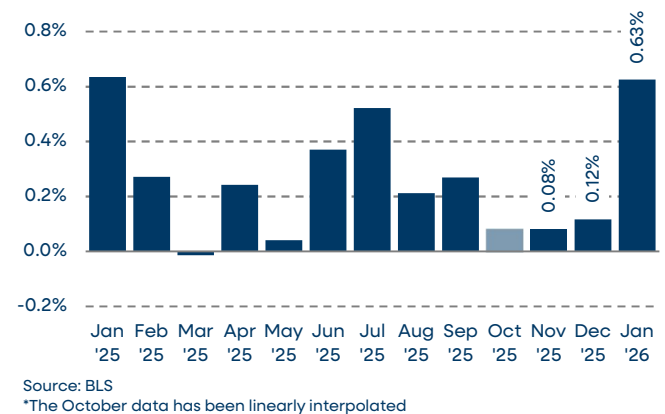
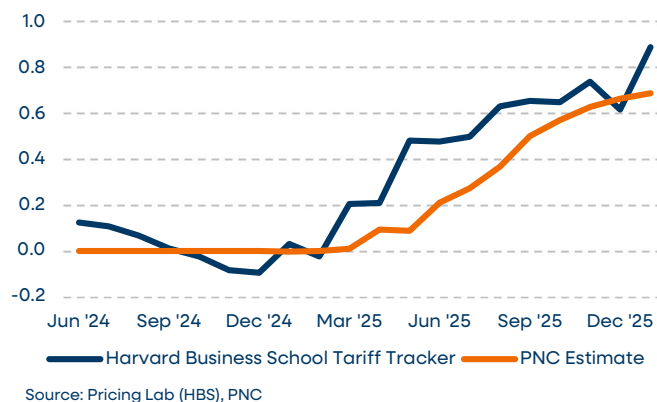


Figure 9: Cumulative impact of tariffs on headline CPI (percentage points)



The key takeaway is that inflation is improving slowly but remains above the Fed's 2% objective. Progress is occurring, but not quickly enough to justify imminent policy easing. We also see clear evidence that tariff pass-through is ongoing and expect it to remain a tailwind for goods prices through the first quarter of 2026 and into Q2 – especially as **larger tax refunds lift household cash flow and support demand during tax season**, which can bolster firms' near-term pricing power.



Fed will be in no rush to cut rates in the first half of 2026

The combination of stabilizing labor market conditions and inflation still above target **reinforces the case for Federal Reserve patience**. Policymakers now have greater confidence that the labor market is not weakening rapidly, reducing the urgency to cut rates to support employment.

At the same time, **inflation data do not yet provide sufficient reassurance** that price pressures are sustainably returning to target. As a result, the most likely near-term policy stance is no change to the fed funds rate while officials wait for clearer disinflation evidence.

Our baseline expectation remains that the Federal Reserve will deliver two rate cuts in the second half of 2026, once inflation shows more convincing progress and policymakers gain confidence that policy rates are sufficiently restrictive.

Data (and dialogue) this week

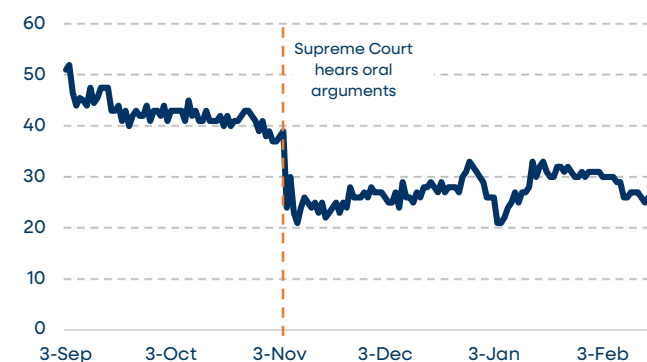
This week's holiday-shortened docket is dominated by shutdown-delayed releases, with **Friday's macro prints helping set a baseline for near-term growth and inflation expectations**.

The main data releases we're monitoring are the January FOMC minutes (Wed 2:00pm), advance Q4 GDP (Fri 8:30am), Q4 core PCE inflation (Fri 8:30am) – the Fed's preferred inflation gauge – and the December Personal Income and Outlays report (Fri 8:30am) to gauge household finances and how well consumption is supported.

Fed speak is heavy this week, which should help size up the direction of monetary policy after a jobs report signaled a falling unemployment rate and a stabilizing labor market, and a CPI report signaled cooling price pressures – important because Fed officials have routinely cited inflation as the key impediment to easing.

Additionally, the **Supreme Court has scheduled an opinion day for Friday, February 20**. It's possible we get a ruling on the IEEPA tariffs. While a ruling against the IEEPA tariffs is widely expected, the details will determine the extent of tariff invalidation and the scope and horizon of refunds (with the pool of collected IEEPA tariff revenue currently estimated to be ~\$175bn). Much also depends on the Administration's response, which has been ambiguous – signaling broad support for tariffs while also appearing to reduce enforcement and roll back some tariffs amid an affordability agenda ahead of the midterms.

Figure 11: Odds of Supreme Court rules in favor of the IEEPA tariffs



Source: Polymarket



Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Empire Manufacturing*	Tue 2/17	8:30 am	Feb	--	6.2	7.1
NAHB Housing Market Index*	Tue 2/17	10:00 am	Feb	--	38	36
MBA Mortgage Applications	Wed 2/18	7:00 am	Fri 2/13	--	--	-0.30%
Durable Goods Orders	Wed 2/18	8:30 am	Dec P	-2.50%	-2.00%	5.30%
Housing Starts M/M	Wed 2/18	8:30 am	Dec	--	--	--
Building Permits M/M	Wed 2/18	8:30 am	Dec P	--	--	--
Industrial Production M/M	Wed 2/18	9:15 am	Jan	0.30%	0.40%	0.40%
Manufacturing (SIC) Production	Wed 2/18	9:15 am	Jan	--	--	0.20%
Capacity Utilization	Wed 2/18	9:15 am	Jan	76.50%	76.50%	76.30%
FOMC Meeting Minutes	Wed 2/18	2:00 pm	Wed 1/28	--	--	--
Advance Goods Trade Balance	Thu 2/19	8:30 am	Dec	-\$89.0b	-\$86.0b	--
Wholesale Inventories M/M	Thu 2/19	8:30 am	Dec P	--	--	0.20%
Philadelphia Fed Business Outlook	Thu 2/19	8:30 am	Feb	--	7.3	12.6
Initial Jobless Claims	Thu 2/19	8:30 am	Sat 2/14	225k	225k	227k
Continuing Claims	Thu 2/19	8:30 am	Sat 2/7	--	1860k	1862k
Trade Balance	Thu 2/19	8:30 am	Dec	-\$59.5b	-\$55.5b	-\$56.8b
Pending Home Sales M/M	Thu 2/19	10:00 am	Jan	--	2.00%	-9.30%
Personal Income	Fri 2/20	8:30 am	Dec	0.70%	0.30%	0.30%
Personal Spending	Fri 2/20	8:30 am	Dec	0.50%	0.40%	0.50%
PCE Price Index M/M	Fri 2/20	8:30 am	Dec	--	0.30%	0.20%
Core PCE Price Index M/M	Fri 2/20	8:30 am	Dec	--	0.30%	0.20%
GDP Annualized Q/Q	Fri 2/20	8:30 am	4Q A	2.40%	3.00%	4.40%
S&P Global US Manufacturing PMI	Fri 2/20	9:45 am	Feb P	--	52.4	52.4
S&P Global US Services PMI	Fri 2/20	9:45 am	Feb P	--	53	52.7
New Home Sales	Fri 2/20	10:00 am	Dec	0.720k	732k	--
U. of Mich. Sentiment	Fri 2/20	10:00 am	Feb F	57.0	57.3	57.3

Source: Bloomberg, PNC

* Reported



Durable Goods Orders

- -2.5%. A decline in civilian aircraft orders in December following the November surge pulls down total durable orders.

Industrial Production M/M

- 0.3%. Manufacturing up 0.2% led by rising new vehicle and aerospace output. Utilities output rose with colder than normal weather.

Capacity Utilization

- 76.5%. Capacity utilization edges up on the increase in industrial production.

Advance Goods Trade Balance

- -\$89.0b. Goods imports rise slightly more than exports, so the trade deficit widens.

Initial Jobless Claims

- 225k. Initial claims are expected to fall slightly but remain range bound.

Trade Balance

- -\$59.5b. Imports increase slightly more than exports, so the trade deficit widens.

Personal Income

- 0.7%. Wages and salaries up 0.5% and social security COLA hikes adds another 0.2 percentage points.

Personal Spending

- 0.5%. Solid holiday sales and a rise in new vehicle sales lift consumer spending.

GDP Annualized Q/Q

- 2.4%. Real consumer spending, business investment outlays (AI) and a smaller trade balance all boost real GDP growth.

New Home Sales

- 0.720k. New home sales slip on weak demand.

U. of Mich. Sentiment

- 57.0. Consumer sentiment is expected to slip slightly in the final reading and remain historically low.



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