Weekly Economic Roundup

PNC Economics

Headlines

- **Last week was unusually bad for the inflation outlook.** Headline and core CPI increased at its fastest pace since last April, producer price inflation increased at its fastest pace since 2022, and oil prices breached $110/bbl for the first time since May.

- **Inflation in September was also very broad-based,** without any one-off price increases skewing our read of the numbers. "Supercore" inflation has increased at a 4.5% annualized pace over the past three months; both it and core goods inflation are much higher than where the Fed wants then to be.

- **Still, it is more likely than not that the Fed remains on hold in October.** The market is pricing in only a 20% chance of a fed funds rate hike, which follows a near-unanimous agreement from recent Fedspeak that the Fed should be patient with the pace of future rate increases. We think a December hike is a lock and expect at least one more hike in 2027.

- **Bonds sold off last week despite the hot inflation print on jitters around the continued AI buildout.** The strong correlation between term premia and the KOSPI index suggests investor demand for Treasuries has picked up amid the risk-off event.

- **September retail sales disappointed under the hood but capped off a strong quarter of spending.** It appears that the economy expanded at a greater than 3% rate in the third quarter, an acceleration from the pace in the first half of the year.

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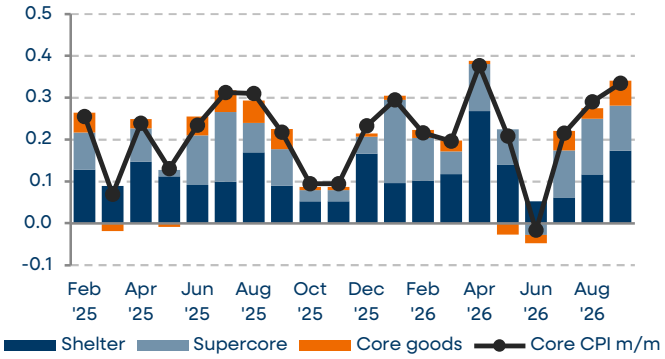
CPI hottest since April, oil highest since May, PPI hottest since 2022

Last week was an unusually bad week for the inflation outlook. The September Consumer Price Index (CPI) reading was the hottest for both headline and core inflation since April. Additionally, unlike in the prior month, there were no one-off price increases that skewed the results in either direction.

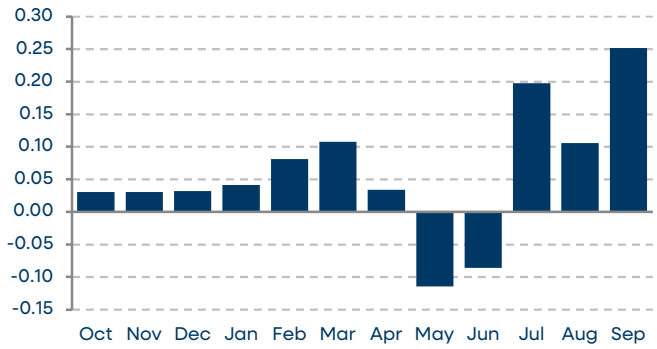
Figure 1: Core CPI and contributions (% chg., m/m)



Sources: BLS, PNC

The strengthening in inflation was broad-based and concerning almost no matter where you looked. Shelter inflation picked up on the back of a 2% increase in hotel prices and strengthening owners' equivalent rent. Core goods inflation also re-accelerated in September, increasing at a 2.2% annualized pace over the last three months, the fastest since 2025, when tariffs were pushing goods prices higher. Lastly, "supercore" inflation, which is core services inflation excluding shelter, was also firm, increasing at a 4.5% annualized pace over the past three months.

Figure 2: Core Goods Inflation (m/m %)



Sources: BLS, PNC

Adding to the inflationary pressure, Brent crude oil prices briefly hit $110 per barrel last week, a level not seen since May, putting continued upward pressure on prices of refined products like diesel and gasoline. Diesel in particular is putting significant upward pressure on producer and wholesaler prices, since diesel costs feed into nearly every part of the U.S. economy.

As such, Producer Price Inflation (PPI) increased at its fastest pace since 2022 in September. Prices for intermediate goods, which feed into other parts of the supply chain, accelerated to their second-fastest year-over-year growth rate outside of the pandemic. How much of that ultimately gets passed on to consumers will be one of the more important questions over the coming months.

Figure 3: Final demand PPI: total (% chg., y/y)

Sources: BLS, PNC

Still, the FOMC will likely skip hiking at the October meeting

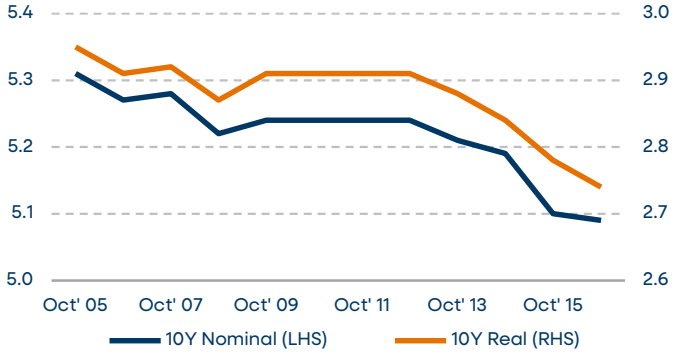
Even with last week's firmer inflation readings, the market is still only pricing in a one-in-five chance that the Federal Open Market Committee raises the federal funds rate in October. There has been a chorus of Fed speak over the past two weeks making two things very clear: 1. the Fed will hike more in the coming months, but 2. it is in no rush to do so. Last week's inflation readings certainly give the FOMC more to debate and discuss when it meets at the end of the month. However, our baseline expectation is for a "hawkish hold," with messaging firmly pointing toward more hikes in the coming months. We think a 25bps hike in December is a lock, followed by another

in March of next year, but the balance of risks points to more hikes rather than fewer.

Why did bonds rally last week?

Despite the hotter-than-expected inflation print last week, Treasury yields ended the week 11-17 basis points lower across the curve, with the long end falling the most. The move came almost entirely from changes in real yields (nominal yields minus market-implied inflation compensation), primarily driven by fears over an AI-led equity correction and credit risk warnings. Warsh's speech at the IMF also contributed to the rally, after he avoided commenting on the recent string of firm inflation prints, which markets interpreted as supportive of a hold at the October FOMC meeting.

Figure 4: Nominal and real 10-year constant-maturity Treasury yields (%)

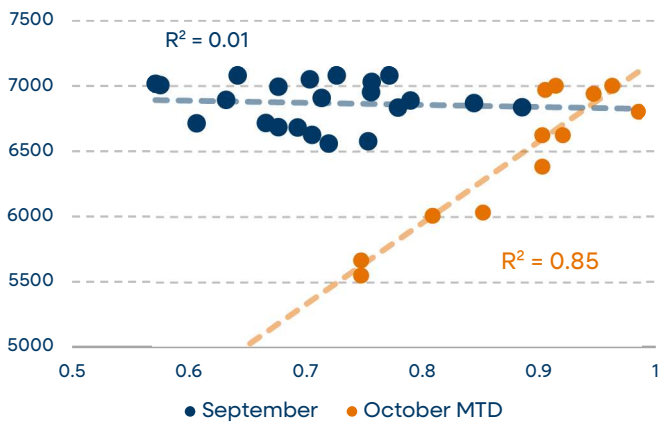


Sources: Fed Board, Bloomberg, PNC

South Korea's KOSPI index ended Friday down over 14% from the prior week's close, reigniting fears over an AI-led equity market correction. The weakness came alongside worries regarding the financing costs of the AI infrastructure buildout. The risk-off move showed up in the bond market, where yields fell as investors returned to Treasurys as hedging instruments.

The flight to quality compressed measures of term premia, particularly the 10-year ACM term premium, which quantifies the additional compensation investors demand to hold a Treasury above the expected average path of short-term interest rates. Figure 5 shows that after showing no relationship in September, the relationship between the KOSPI and 10-year ACM term premium has been strong in the first half of October.

Figure 5: ACM term premium (%, x-axis) vs KOSPI Index (index points, y-axis)



Sources: NY Fed, Bloomberg, PNC

September retail sales disappointed, but capped off a strong quarter

September retail sales jumped 0.8% on a more than 6% increase in spending on gas. However, under the hood, the numbers were disappointing. The "control group" measure, which feeds directly into GDP, increased by just 0.1%, lower than anticipated. However, even with the lackluster September print, spending was still strong in the third quarter, with control sales up more than 4% annualized. Real GDP growth is set to come in above 3% annualized for the quarter, which would be the fastest pace of growth this year.

Data Preview

The economic data calendar is light this week. September housing starts and building permits are released Tuesday, followed by weekly initial jobless claims on Thursday. On Friday, the preliminary S&P October PMIs will provide the first broad look at economic activity this month, while the final University of Michigan consumer sentiment reading will provide an updated look at household confidence.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
NAHB Housing Market Index	Mon 10/19	10:00 am	Oct	--	31	29*
ADP Weekly Employment Change	Tue 10/20	8:15 am	Sat 10/3	--	--	24.750k
Philadelphia Fed Non-Manuf. Activity	Tue 10/20	8:30 am	Oct	--	--	-22.0
Housing Starts	Tue 10/20	8:30 am	Sep	1280k	1300k	1275k
Building Permits	Tue 10/20	8:30 am	Sep P	--	1385k	1403k
Pending Home Sales M/M	Tue 10/20	10:00 am	Sep	--	-0.8%	0.3%
MBA Mortgage Applications	Wed 10/21	7:00 am	Fri 10/16	--	--	-2.7%
Initial Jobless Claims	Thu 10/22	8:30 am	Sat 10/17	202k	200k	199k
Continuing Claims	Thu 10/22	8:30 am	Sat 10/10	--	1713k	1710k
Leading Index	Thu 10/22	10:00 am	Sep	-0.2%	-0.1%	-0.1%
Kansas City Fed Manf. Activity	Thu 10/22	11:00 am	Oct	--	12	14
S&P Global US Manufacturing PMI	Fri 10/23	9:45 am	Oct P	--	55.5	55.9
S&P Global US Services PMI	Fri 10/23	9:45 am	Oct P	--	58.0	58.8
S&P Global US Composite PMI	Fri 10/23	9:45 am	Oct P	--	57.1	58.4
U. of Mich. Sentiment	Fri 10/23	10:00 am	Oct F	46.1	46.3	46.3
U. of Mich. 1 Yr Inflation	Fri 10/23	10:00 am	Oct F	--	--	4.7%
Kansas City Fed Services Activity	Fri 10/23	11:00 am	Oct	--	--	0

Sources: Bloomberg, PNC
*Released prior to publication

Housing Starts

- 1280k. Housing starts are expected to rise slightly in September but drop 2% to 3% from a year earlier, as elevated mortgage rates continue to weigh on housing demand, while homebuilder confidence remains broadly unchanged from a year ago.

Initial Jobless Claims

- 202k. Initial jobless claims are forecast to remain little changed at a low level.

Leading Index

- -0.2%. The Leading Economic Index is projected to decline in September for the second consecutive month.

U. of Mich. Sentiment

- 46.1. Consumer sentiment is expected to slip further in the final October reading amid the ongoing Middle East conflict and a resurgence in inflation.

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