Weekly Economic Roundup

PNC Economics

Headlines

- **The FOMC is almost certain to keep the federal funds rate unchanged when it meets this week.** Fed officials have largely aligned around a patient, slower approach to further rate hikes, and the recent AI-driven selloff in equities and bonds gives policymakers additional cover to wait despite September's hotter inflation readings.

- We expect minimal changes to the official FOMC statement, and we're unlikely to get much explicit forward guidance from Chairman Warsh's post-meeting presser. **The true signal from this month's meeting will be whether there are any dissents in favor of raising rates, which we think is likely**, particularly from Cleveland Fed President Beth Hammack.

- **Real GDP growth, out Thursday, should show the economy expanded at a solid, above-trend pace in the third quarter**, supported by strong consumer spending and business capex. But the personal income and spending report, also out Thursday, should show some loss of momentum in September, with real spending up just 0.1% m/m even as core PCE inflation remained elevated at 0.3% m/m.

- **This Friday we will also get the Employment Cost Index**, the Fed's preferred gauge of wage growth. Average Hourly Earnings growth has steadily weakened this year, although some of that could reflect compositional changes in the makeup of job growth. Because the ECI controls for those effects, it should provide a clearer signal of underlying wage pressures.

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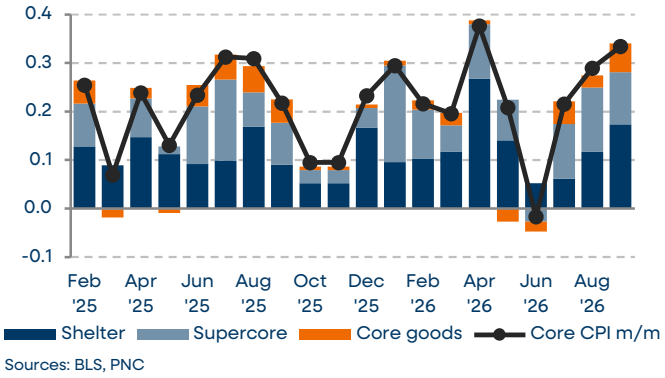
A hawkish hold in October

Statements from Fed officials in recent weeks have made a few things abundantly clear: 1) inflation is still too high, 2) the Fed will need to hike more, but 3) policymakers should be patient with the cadence of future rate hikes.

The last item above is why the Fed is very likely to keep the fed funds rate unchanged at the October FOMC meeting. It certainly isn't because the inflation picture has improved materially since the last FOMC meeting. On the contrary, the September inflation readings were decidedly hot and broad-based.

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



Sources: BLS, PNC

However, the balance of risks around hiking in 2026 is materially different than in 2022, when the Fed started the last hiking cycle. Back then, the economy was adding roughly 500,000 jobs per month, and there were two job vacancies for every unemployed person. Today, the economy is adding only roughly 50,000 jobs per month, and there is very little room to reduce labor demand without causing an unwanted increase in the unemployment rate. So the Fed is right, in our view, to be patient and carefully monitor how the labor market responds to additional rate hikes.

The question for this week's FOMC meeting is how patient the more hawkish wing of the committee is willing to be. We think it's very likely that Cleveland Fed President Beth Hammack will dissent in favor of a hike, and whether other officials join her will be the most informative element of this week's meeting. The statement isn't likely to change much, and Chairman Warsh is unlikely to provide much forward guidance during his presser.

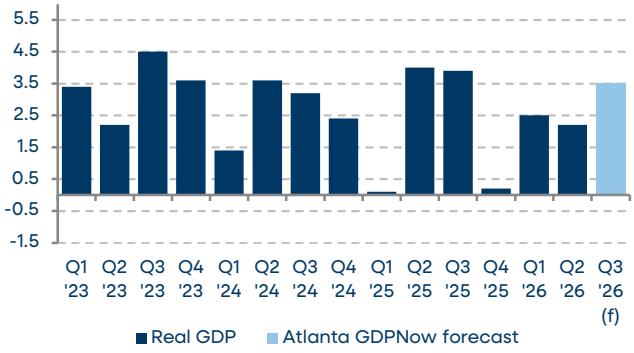
*"When feasible, I generally think it's preferable to make smaller adjustments, **and to do so relatively quickly, rather than to wait** and risk needing a larger course correction."*

Cleveland Fed President Beth Hammack

A solid, above-trend quarter for growth

This week is also a packed week for data, including Thursday's reading on Q3 real GDP, which is likely to show that growth accelerated in the third quarter to an above-3% pace. Two fundamental things are happening in this economy that are keeping demand strong. The first is that consumers are continuing to spend at a solid clip, despite higher gas prices, weaker real income growth, higher interest rates, and ongoing affordability challenges. The second is that we are in the midst of one of the largest capex booms of our lifetimes, and all of that AI-related investment is providing a real boost to economic growth.

Figure 2: Real GDP (% chg., q/q ann.)



Thursday's personal income and spending report should provide a more up-to-date read on the consumer. We expect nominal personal income to rise 0.3% in September, roughly in line with its recent pace, while personal spending should rise a solid 0.5%. However, some of that spending growth will simply reflect higher gas prices rather than stronger real consumption.

ECI should provide a cleaner read on wage growth

Friday's Employment Cost Index should provide another important read on underlying wage pressures. Average hourly earnings growth has steadily weakened this year, although some of that could reflect compositional changes in the makeup of job growth. Because the ECI controls for occupation and industry, it should provide a clearer signal of underlying wage pressures.

Taken together, this week's data are likely to show an economy that continues to grow at a solid pace, but with some signs that consumer momentum is slowing. That combination, alongside inflation that remains too high, reinforces the case for the Fed to remain patient without closing the door on additional rate hikes.

Additional charts and tables

Table 1: Data release calendar

Release	Date	Time	Period	PNC	Consensus	Last actual
Key Releases						
Durable Goods Orders	Tue 10/27	8:30 am	Sept	1.5%	1.9%	-0.1%
Conf. Board Consumer Confidence	Tue 10/27	10:00 am	Oct	80.7	81.0	81.9
New Home Sales	Tue 10/27	10:00 am	Sep	655k	650k	684k
Advance Trade in Goods	Wed 10/28	8:30 am	Sep	-$105.6bn	-$130.2bn	-132.6bn
Personal Income	Thu 10/29	8:30 am	Sep	0.3%	0.3%	0.2%
Personal Spending	Thu 10/29	8:30 am	Sep	0.5%	0.6%	0.9%
Core PCE Price Index	Thu 10/29	8:30 am	Sep	0.3%	0.3%	0.2%
Real GDP	Thu 10/29	8:30 am	Q3	3.1%	3.2%	2.2%
Employment Cost Index	Fr 10/30	8:30 am	Q3	0.8%	0.8%	0.9%

Sources: Bloomberg, PNC
*Released prior to publication

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