Weekly Economic Brief

Collaboration with The Investing Group (TIG)

by Saied Toossi | Week of November 2, 2026

The last set of October releases corroborated PMI survey data suggesting accelerating economic activity in the third quarter and persistent inflationary pressures. The advance estimate for Q3 real GDP showed the economy growing by 2.1% on a year-over-year basis, and 0.8% relative to Q2. The quarterly rate translates to robust annualized growth of 3.4%, up from 2.2% in the previous quarter. The expansion was propelled by resilient consumer spending, rising government outlays, and robust business investment boosted by AI expenditures.

In tandem, the Fed's preferred inflation metric pointed to accelerating price growth. Personal Consumption Expenditures (PCE) price index figures for September showed headline PCE inflation rising 0.5% month-on-month, the largest monthly gain since March, driven by elevated energy costs. The core measure, which excludes food and energy, accelerated to 0.3% month-on-month. On an annual basis, headline and core PCE inflation rose to 3.6% and 3.1%, respectively. The path to the 2% target remains elusive amid resilient consumer spending, AI-related capital expenditures, elevated energy costs, and tariffs, with risks skewed to the upside. The Employment Cost Index (ECI), a measure of total compensation costs paid by employers, further underscored persistent cost-push dynamics. The index continued to grow by 3.4% on an annual basis as ongoing increases in employer-provided benefit costs, driven primarily by health insurance costs, offset slower growth in wages and salaries.

Against a backdrop of resilient economic activity, accelerating price growth, and persistent inflationary pressures, the Fed's Federal Open Market Committee (FOMC) voted 10 to 2 to keep its policy rate unchanged at its October meeting. The pause, though inconsistent with the incoming data and the reaction function outlined by many FOMC officials over the summer, was widely expected based on more recent rhetoric from key members. Surging borrowing costs since the U.S.-Israeli attack on Iran and fresh AI jitters may have motivated the "wait-and-see" approach. The rising likelihood of an intensification of the U.S.-Israel-Iran war adds another layer of risk to economic activity going forward. Market attention has now shifted to the December policy meeting, where investors are pricing in further rate action to rein in inflation.

Week ahead for economic data: On the data front, the week's headline releases include the October employment report and ISM PMI survey data for hints of economic momentum in Q4, as well as consumer sentiment data for November. Beyond economic indicators, the focus will be on public commentary from several Fed officials, the November 3rd midterm elections, and heightened prospects of an intensifying war in the Middle East and potential regional and global fallout.

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