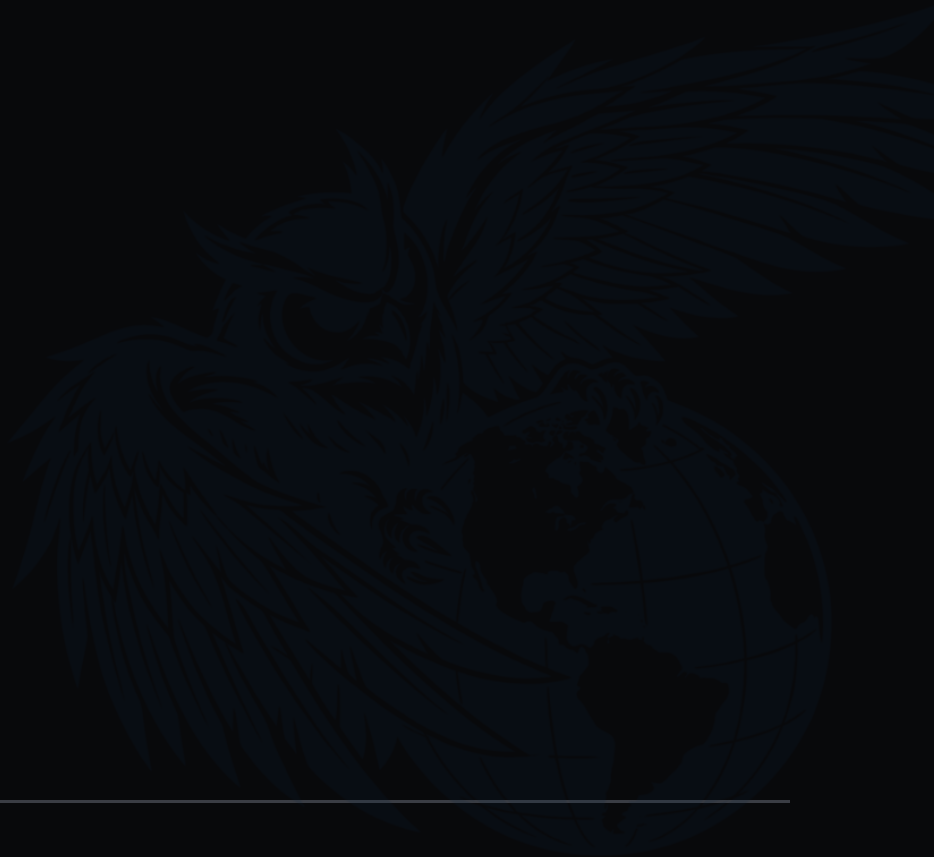

PUBLISHED MARKET RESEARCH

US Prices and Wages After the First Hike

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The Fed's first hike met an inflation problem that sits in fuel, not in pay: wage growth is slowing while headline prices climb, real hourly pay is falling, and within this window the wage channel that turns an energy shock into lasting inflation has not opened.

Headline inflation is running above core on energy while wage growth is slowing, so the Fed's hike is meeting a supply shock that has not reached pay. Average hourly earnings are growing more slowly than consumer prices, so real hourly pay is shrinking, although real weekly earnings and real spending were still rising in August. Core CPI remains subdued, but core PCE runs well above the Fed's goal, the Committee's own projections already carry one more hike and household inflation expectations are rising, and that is where the case for a second hike rests. Because the shutdown of 2025 left no October 2025 CPI, the tests of this read are the September and November 12-month readings and the October monthly change. We expect headline inflation to stay above its August pace through November, core CPI to stay contained and wage growth to stay at or below its recent pace.

HEADLINE INDICATORS

3.75-4.00 percent FEDERAL FUNDS TARGET RANGE AFTER THE SEPTEMBER HIKE	3.4 percent CPI ALL ITEMS 12-MONTH CHANGE, AUGUST 2026	2.4 percent CPI LESS FOOD AND ENERGY 12-MONTH CHANGE, AUGUST 2026
3.0 percent PCE LESS FOOD AND ENERGY 12- MONTH CHANGE, AUGUST 2026	3.0 percent AVERAGE HOURLY EARNINGS 12-MONTH CHANGE, SEPTEMBER 2026	-0.3 percent REAL AVERAGE HOURLY EARNINGS 12-MONTH CHANGE, AUGUST 2026

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CENTRAL JUDGMENT

The first hike landed on an inflation problem that is mostly in energy, not in pay. Wage growth has slowed while headline prices have accelerated, so real hourly pay is falling and the classic second-round channel from fuel to wages to services prices has not opened within this window. That turns the Fed's next move into a question about core PCE, its own projections and inflation expectations rather than about the labour market, and it makes a wage-price spiral the least likely of the paths ahead. The risks to this view are that energy costs pass through to core goods and services by way of freight, diesel and margins even without help from wages, and on the other side that pump prices, already off their September peak, keep easing and pull headline inflation back toward its August pace.

KEY JUDGMENTS

KJ-1	Headline CPI inflation is likely to stay above its August pace in the September and November 12-month readings, driven by energy, with a firm October monthly change in between. The energy index was rising steeply over the year in August, pump prices remain well above their early September level even after easing from the late September peak, and the November reading is lifted by a low November 2025 base.	MODERATE
KJ-2	Core CPI inflation is likely to stay contained through the November reading, with only a small drift higher from core goods and a known mechanical lift in November from the low shelter base of November 2025. Core CPI slowed over the year to August, shelter is decelerating and the available nowcast keeps core CPI near its August rate.	MODERATE
KJ-3	Wage growth is unlikely to accelerate before the year ends, so the wage channel of a price spiral has not opened within this window. Average hourly earnings growth has eased for two months running and the Employment Cost Index slowed between March and June, while payroll gains have nearly stalled.	MODERATE
KJ-4	Real hourly pay is likely to keep falling over the year through November, but the squeeze has not yet reached household spending. Nominal pay growth sits below headline inflation, while real weekly earnings rose on longer hours and real spending rose in August on a low saving rate.	MODERATE
KJ-5	The case for a second hike rests on core PCE, the Committee's own projections and rising household inflation expectations rather than on wages or core CPI. Core PCE runs well above the goal and is nowcast to rise, the median projection already carries one more hike, and survey expectations have risen for two months, though that survey is off our Source List and the gap between core PCE and core CPI may narrow on revision.	LOW

KEY STATISTICS

3.4 percent CPI-U all items 12-month change for August, 2026-09-11³	2.4 percent CPI-U all items less food and energy 12-month change for August, 2026-09-11³	27.4 percent CPI gasoline index 12-month change for August, 2026-09-11³	3.0 percent PCE price index less food and energy 12-month change for August, 2026-09-30⁶
3.0 percent Average hourly earnings of all private employees, 12-month change for September, 2026-10-02²	-0.3 percent Real average hourly earnings 12-month change for August, 2026-09-11⁴	3.2 percent Employment Cost Index civilian wages and salaries 12-month change for June, 2026-07-31⁵	4.2 percent Unemployment rate for September, 2026-10-02²
4.354 USD/gal US average regular gasoline retail price, week of 2026-10-05⁷	4.1 percent FOMC median projection of the federal funds rate at the end of 2026, 2026-09-16¹³		

Scope and method

METHOD

This report reads the official US price and pay releases published since the Federal Reserve's September decision: the Fed's statement and projections, the BLS consumer price, real earnings, employment and employment cost releases, the BEA personal income and outlays release, and the weekly retail gasoline series held in FRED. BLS published no October 2025 CPI after the 2025 shutdown and has said it will not publish 12-month changes for October 2026 where the October 2025 index is missing, so this report tests prices on the September and November 12-month readings and on the October monthly change, and resolves its real pay claim on the November Real Earnings release. The Cleveland Fed's inflation nowcast, the University of Michigan consumer survey and one bank's September CPI forecast are used as context only; they are not on our Source List, are labelled unverified and carry no judgment alone. Wages are compared with prices on the published 12-month changes, without our own seasonal or composition adjustment. Each claim is resolved on the first published figure of a named official series. No client-attributable material is used.

SECTION 01 • ASSESSMENT

The hike and the Fed's reading of inflation

The FOMC raised the federal funds target range by a quarter point to 3.75 to 4.00 percent on 16 September 2026, by a unanimous vote of 12 to 0, and its statement described inflation as elevated without naming energy.¹

The BLS schedules the October CPI for 10 November 2026 and the November CPI for 10 December 2026, after the October employment report.⁹

UNKNOWN: whether the Committee moves again at its October meeting or waits for December; the evidence read here does not settle the timing.

ASSESSMENT • MODERATE CONFIDENCE

The Fed hiked on elevated inflation in general rather than on a wage problem, which leaves its next step tied to how core prices and expectations behave. The statement makes no case built on pay, and the pay data give it none.

SECTION 02 • ASSESSMENT

Headline inflation is an energy story

The CPI-U all items index rose 0.4 percent in August 2026, seasonally adjusted, and 3.4 percent over 12 months; the energy index rose 16.3 percent and the gasoline index 27.4 percent over the year.³

The US average regular gasoline price rose from 4.157 USD per gallon in the week of 7 September 2026 to 4.478 USD in the week of 21 September, and eased to 4.354 USD in the week of 5 October.⁷

BLS issued no October 2025 CPI news release after the 2025 lapse in appropriations and has said it will not publish 12-month percent changes for October 2026 for indexes where October 2025 data are not available.¹⁰

The Cleveland Fed nowcast of 9 October 2026 puts September CPI at 0.53 percent over the month and 3.60 percent over the year, and October CPI at 0.27 percent over the month and 3.63 percent over the year, using its own nowcast in place of the missing October 2025 index.¹¹

One bank forecasts September CPI at 0.6 percent over the month and 3.7 percent over the year, published 9 October 2026.⁸

UNKNOWN: the September CPI is not yet published, the October 12-month rate will not be published by BLS, and the October and November energy readings are inferred from the retail gasoline series, not measured.

ASSESSMENT • MODERATE CONFIDENCE

Headline inflation is likely to rise above its August pace in September and to stay there in the November 12-month reading, with energy doing most of the work and a firm October monthly change in between. Two independent forecasts point to a September rate well above August, pump prices remain far above their early September level even after easing, and neither forecast is on our Source List, so the judgment rests on the official energy data first.

SECTION 03 • ASSESSMENT

Core prices: the CPI and the PCE index disagree

The CPI-U index less food and energy rose 0.3 percent in August 2026 and 2.4 percent over 12 months, after 2.5 percent in July; shelter rose 3.0 percent and services less energy services 3.0 percent over the year.³

The PCE price index rose 3.4 percent and the PCE index less food and energy 3.0 percent in the 12 months to August 2026, in a release that carried the annual update and revised the accounts back to January 2021.⁶

BLS carried October 2025 rents forward from April 2025, leaving the October 2025 rent and owners' equivalent rent indexes unchanged, and calculated November 2025 from collected November rents, so the November 2025 shelter level is low against which November 2026 is compared.¹⁰

The Cleveland Fed nowcast of 9 October 2026 puts core CPI at 2.39 percent over the year in September and 2.30 percent in October, and core PCE at 3.02 percent and 3.10 percent.¹¹

One bank forecasts September core CPI at 0.2 percent over the month and 2.5 percent over the year.⁸

UNKNOWN: how much of the energy shock passes into core goods and transport services through diesel, freight and margins; no official series isolates it yet.

ASSESSMENT • MODERATE CONFIDENCE

Core CPI is likely to stay contained through November, and a rise in its November 12-month rate of around a tenth of a point should be read as the shelter base effect, not as pass-through. Core PCE likely runs above core CPI because the PCE index gives shelter, the component that is slowing, a much smaller weight and gives more to health care and financial services, and because the annual update may still be revised, so the gap could narrow. Shelter is slowing, core CPI eased over the year to August, and both forecasts read here keep core CPI close to its August rate with room under the claim line even after the base effect.

SECTION 04 • ASSESSMENT

Wages are slowing, not chasing prices

Average hourly earnings of all private employees rose 0.1 percent in September 2026 to 37.81 USD and 3.0 percent over 12 months; for production and nonsupervisory employees they rose 0.2 percent to 32.60 USD.²

Average hourly earnings of all private employees rose 3.1 percent over the 12 months to August 2026.¹⁴

The Employment Cost Index for civilian workers showed wages and salaries up 3.2 percent and total compensation up 3.4 percent in the 12 months to June 2026, with private wages and salaries up 3.1 percent; the next release is due on 30 October 2026.⁵

Civilian wages and salaries in the Employment Cost Index rose 3.4 percent in the 12 months to March 2026, after 3.5 percent in the 12 months to March 2025.¹⁵

UNKNOWN: whether the September Employment Cost Index confirms the slowdown; it is the cleaner wage measure and is not yet published.

ASSESSMENT • MODERATE CONFIDENCE

Wage growth is unlikely to accelerate before the year ends, so within this window pay has not opened a channel for the energy shock into services prices. Both the monthly earnings series and the quarterly cost index have slowed over successive readings, a near stall in hiring removes the pressure that would reverse it, and catch-up bargaining works with a lag longer than this window.

SECTION 05 • ASSESSMENT

Real pay and the labour market

Real average hourly earnings fell 0.1 percent in August 2026 and 0.3 percent over 12 months, while real average weekly earnings rose 0.3 percent over the year on longer hours.⁴

Nonfarm payrolls rose 29,000 in September 2026; July was revised to a loss of 10,000 and August to a gain of 133,000, a combined 60,000 lower, and the unemployment rate was 4.2 percent with participation at 61.8 percent.²

Real personal consumption expenditures rose 0.6 percent in August 2026 and the personal saving rate was 4.1 percent.⁶

UNKNOWN: whether households keep spending out of savings as real hourly pay falls; the October and November spending data are not yet published.

ASSESSMENT • MODERATE CONFIDENCE

Real hourly pay is likely to keep falling over the year through November, but the squeeze has not yet reached household income or spending, which longer hours and a low saving rate are holding up. Nominal pay is slowing while headline prices rise, but the weekly earnings and spending data read here both rose, so a hit to spending this winter is possible rather than likely.

SECTION 06 • ASSESSMENT

What would carry a second hike

The FOMC's median projections of 16 September 2026 put the federal funds rate at 4.1 percent at the end of 2026, up from 3.8 percent in June, and core PCE inflation at 3.4 percent over the four quarters of 2026.¹³

The University of Michigan survey's preliminary October 2026 reading put year-ahead inflation expectations at 4.7 percent, up from 4.6 percent in September, and long-run expectations at 3.5 percent, up from 3.4 percent.¹²

UNKNOWN: market-based inflation expectations, such as breakeven rates, were not read for this report.

ASSESSMENT • LOW CONFIDENCE

The case for a second hike rests on core PCE, the Committee's own projections and rising household inflation expectations rather than on wages or core CPI. The median projection already carries one more hike and core PCE is running near the path that projection assumes, but the expectations reading comes from one survey off our Source List and the core PCE to core CPI gap may narrow on revision.

SECTION 07 • DECISION

Decision

Decision	Owner	Trigger	Pre-authorized action
Raise the weight on the wage-price spiral path	Markets desk lead	Average hourly earnings or the Employment Cost Index accelerate clearly while core CPI rises beyond the shelter base effect	Move the Deterioration scenario to the most probable path and review every open wage and rate claim
Cut the weight on a second hike this year	Markets desk lead	Core CPI and core PCE both slow over the month in the October readings and household inflation expectations fall back	Lower the probability on further tightening and flag the change on the open rate claims
Reopen the energy pass-through judgment	Markets desk lead	Core goods or transport services prices jump in the September or October CPI	Commission a short note on pass-through into core and revisit the core CPI claims
Reopen the headline judgment	Markets desk lead	Retail gasoline falls back to its early September level before the November CPI	Review the headline and headline-minus-core claims and the Stabilization scenario

SECTION 08 • OUTLOOK

Outlook

Baseline. Headline inflation stays above its August pace on fuel through November while core CPI drifts sideways and wage growth stays at or below its recent pace. Real hourly pay keeps falling, hiring stays weak, spending holds on hours and savings, and the Fed weighs one more hike on core PCE, its own projections and expectations rather than on wages.

Deterioration. Energy costs spread into core goods and transport services and workers win catch-up raises, so core CPI and wage growth turn up together. The Fed hikes again and signals more, long yields rise and the squeeze on real incomes deepens into spending.

Stabilization. Fuel prices keep easing from their September peak as supply recovers, headline inflation falls back toward core and real pay stops falling. The Fed holds after one hike, and the labour market cools without a rise in layoffs.

Claim C-1. The CPI-U all items index 12-month change for November 2026 is at or above 3.5 percent. Probability 0.60. Resolves on 2026-12-11 from Bureau of Labor Statistics: YES if the CPI-U all items index 12-month change for November 2026, not seasonally adjusted, in the BLS CPI news release, is at or above 3.5 percent, as first published, whatever the method. Horizon 90 days. Energy was up steeply over the year in August, the nowcast puts September and October well above the line, and the low November 2025 base lifts the November reading. The main risk is that pump prices keep easing from their September peak through November.

Claim C-2. The CPI-U all items less food and energy index 12-month change for November 2026 is at or below 2.6 percent. Probability 0.70. Resolves on 2026-12-11 from Bureau of Labor Statistics: YES if the CPI-U all items less food and energy index 12-month change for November 2026, not seasonally adjusted, in the BLS CPI news release, is at or below 2.6 percent, as first published, whatever the method. Horizon 90 days. Core CPI slowed over the year to August, shelter is decelerating and the nowcast keeps core near its August rate. The low November 2025 shelter base and pass-through from diesel and freight into core goods are the risks that could push it above the line.

Claim C-3. Average hourly earnings of all private nonfarm employees rise 3.1 percent or less over the 12 months to October 2026. Probability 0.80. Resolves on 2026-11-07 from Bureau of Labor Statistics: YES if the 12-month percent change in average hourly earnings of all employees on private nonfarm payrolls for October 2026, in the Employment Situation news release, is at or below 3.1 percent, as first published, whatever the method. Horizon 30 days. Pay growth slowed to a monthly rise of a tenth of a percent in September and hiring has nearly stalled. A composition shift as lower-paid jobs are lost is the main way it could print higher.

Claim C-4. Real average hourly earnings of all employees fall over the 12 months to November 2026. Probability 0.80. Resolves on 2026-12-11 from Bureau of Labor Statistics: YES if the 12-month change in real average hourly earnings of all employees for November 2026, seasonally adjusted, in the BLS Real Earnings news release, is below zero, as first published, whatever the method. Horizon 90 days. Nominal pay growth sits below headline inflation and the low November 2025 price base lifts the November inflation rate used to deflate pay. It fails only if fuel prices drop sharply or pay jumps.

Claim C-5. The Employment Cost Index wages and salaries for civilian workers rise 3.3 percent or less over the 12 months to September 2026. Probability 0.75. Resolves on 2026-10-31 from Bureau of Labor Statistics: YES if the 12-month percent change in wages and salaries for civilian workers, not seasonally adjusted, in the Employment Cost Index news release for September 2026,

is at or below 3.3 percent, as first published, whatever the method. Horizon 30 days. The index slowed over the year from March to June and the monthly earnings data since then show no pick-up. It is a quarterly measure, so one large settlement or a public sector rise could move it.

Claim C-6. In November 2026 the CPI-U all items 12-month change exceeds the CPI-U all items less food and energy 12-month change by at least 0.8 percentage point. Probability 0.65. Resolves on 2026-12-11 from Bureau of Labor Statistics: YES if, in the BLS CPI news release for November 2026, the all items index 12-month change, not seasonally adjusted, minus the all items less food and energy index 12-month change, not seasonally adjusted, is at or above 0.8 percentage point, both as first published, whatever the method. Horizon 90 days. The gap between headline and core is the energy shock in a single number, and fuel prices remain far above their level a year earlier. It fails if fuel prices fall back further over the next two months or core accelerates.

Indicators.

- The September CPI: headline against core, and core goods and transport services
- The October CPI monthly changes, since BLS will not publish most October 12-month changes
- The November CPI 12-month changes, read with the shelter base effect in mind
- The September Employment Cost Index: wages and salaries for civilian and private workers
- The October employment report: average hourly earnings, payrolls and revisions
- The November Real Earnings release
- The weekly US average retail gasoline price
- Household and market-based inflation expectations
- The October FOMC statement and any change in its inflation language

SECTION 09 • SCORECARD

Scorecard

- CLM-2026-307: Advanced, not resolved. The energy-led rise in pump prices and two forecasts read here support a September headline reading at or above the line; it resolves on the September CPI release.
- CLM-2026-308: Advanced, not resolved. Core CPI slowed over the year to August and both forecasts read here sit under the line; it resolves on the September CPI release.
- CLM-2026-250: Advanced, not resolved. This draft expects the September headline rate to rise above the August rate; it resolves on the September CPI release.
- CLM-2026-309: Advanced, not resolved. Slowing pay and contained core CPI weaken the case for an October hike and support the claim's low probability.
- CLM-2026-310: Advanced, not resolved. This draft leaves the claim's probability unchanged: the Committee's median projection already carries one more hike, core PCE is nowcast to rise and household expectations are climbing, so the Low confidence of KJ-5 concerns which evidence carries a second hike, not whether one comes.
- CLM-2026-312: Advanced, not resolved. Weak hiring and downward revisions point to a cooling labour market, though not yet to a jump in unemployment.

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