First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze, CFA – *Economist*
Braden Spiech – *Economic Analyst*

630-517-7756 • www.ftportfolios.com

October 5, 2026

Rate Hike Likely Deferred to December

Only one month ago the big story about the US economy was how strong it was. The August jobs report, which arrived in early September, showed that payrolls were up 162,000 for the month. Meanwhile, at one point the Atlanta Fed's "GDP Now" model was estimating real GDP would grow more than 5% at an annual rate in the third quarter.

This impression about the economy shifted on Friday when the Labor Department reported that payrolls were up only 29,000 in September and job creation was revised down for prior months.

This swing is a good reminder why investors should not get too excited or depressed about one month or even multiple months of economic data, whether good or bad. Data reports are just estimates and can be much more volatile from month to month than the actual economy. Instead, it's more important to focus on economic fundamentals that drive the economy over the longer-term, like monetary policy, taxes, trade, regulation, and of course, the unfolding process of technological innovation and entrepreneurship.

Notably, the jobs report on Friday was not nearly as soft as some analysts claimed. Civilian employment, an alternative measure of jobs that includes small-business start-ups rose 406,000 in September. And although the unemployment rate ticked up to 4.2% from 4.1% in August, the unrounded increase was to 4.175% from 4.141%, so relatively minor. Furthermore, the rise was due to more people participating in the labor market, either working or looking for work, which is not bad news.

Where does this leave us with the economy? Based on the latest economic reports we still think real GDP was up at about a 3.0 – 3.5% annual rate in the third quarter (data coming on October 29.) Not bad at all. By the way, the Atlanta Fed has come our way, and now expects real GDP to grow at a 3.7% rate in Q3. Like we said above, data can be volatile. What this means is that the Fed can be more patient than many believe and will likely defer a rate hike until December.

A rate hike in late October would draw attention to the Fed the week before the mid-term election and make the move seem political whether it was, or not. Yes, it is possible for the Fed to raise rates at election time, but only if it's extremely well-telegraphed, part of a pre-existing pattern of rate moves, or if the economy is desperately crying out for a change in rates, and this economy right now is not.

Average hourly earnings rose only 0.1% in September and are up a modest 3.0% from a year ago. This is well within the range you'd expect if the Fed were achieving it's 2.0% inflation target, so the Keynesians at the Fed – and there are plenty of them! – don't really have a strong justification for tightening monetary policy; there is no evidence of "cost push" inflation getting embedded in wages.

Moreover, CPI inflation excluding energy is 2.5%, the lowest it's been since 2021, which suggests that in about six months overall inflation including energy will be about 2.5% (versus 3.4%, at present) even if energy prices stay where they are right now. Other measures of inflation, like the Cleveland Fed trimmed mean data show a similar picture of contained inflation.

Combined, this gives the Fed some breathing room to wait until December.

However, inflation risk should not be causally dismissed. Yes, M2 money growth has been moderate. However, nominal GDP – real GDP growth plus inflation – is up 6.3% from a year ago and is up at a 5.5% annual rate in the past two years. Normally, this would signal that a federal funds target at around 3.875% (the middle of the current policy range) is too low.

The problem is that rate hikes will hit rate-sensitive sectors like autos and housing, which are already soft, while doing close to nothing to slow investment in AI and data centers, which is the economy's leading source of strength.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-5 / 9:00 am	ISM Non Mfg Index – Sep	55.0	**55.1**	54.9	55.4
10-6 / 7:30 am	Int'l Trade Balance – Aug	-$102.0	**-$102.4 Bil**		-$88.6 Bil
10-7 / 2:00 pm	Consumer Credit – Aug	$15.0 Bil	**$16.3 Bil**		$18.1 Bil
10-8 / 7:30 am	Initial Claims – Oct 3	200K	**198K**		197K

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.