



Cost Pressures

Rising Costs, Industrial Resilience, Housing Weakness and Wage Pressure

#47



Table of Contents



01 Trade Price Inflation Reaccelerates

Rising import costs and export prices signal broader external price pressures, with implications for margins and competitiveness

02 Industrial Output Gains Momentum

Industrial production rose 0.7% in September, powered by utilities and semiconductors, not factories

03 Housing Starts Retreat Sharply

Starts fell 5.2% to 1.221 million annualized, while permits are down 3.0% year-on-year

04 Inflation Outpaces Wage Growth

Real hourly earnings fell 0.5% in September as 0.6% inflation outran 0.1% wage growth

Executive Overview

Rising trade costs and selective industrial strength contrast with weaker housing activity and falling real earnings, leaving margins, credit quality and consumption exposed as investors reassess sector resilience and financing risks.

U.S. data show an economy where external costs are rising, industrial output is strengthening selectively, housing activity is weakening and household purchasing power is under pressure.

September import prices increased 1.1% month over month and 8.1% year over year, while export prices rose 2.2% monthly and 11.6% annually. Fuel, natural gas, industrial materials and capital goods contributed to import cost pressure.

Industrial production rose 0.7% in September and expanded at a 2.8% annual rate in the third quarter, but manufacturing grew only 0.7% annualized as durable goods and semiconductor output outperformed nondurables and autos.

Housing starts fell 5.2% monthly and 7.4% annually; permits and completions were also below year-earlier levels, signalling a weaker construction pipeline. Meanwhile, real hourly earnings dropped 0.5% monthly and 0.7% annually, as nominal pay gains failed to match inflation.

Stronger production does not yet signal broad-based economic strength. Investors should monitor sector-level pricing power, technology-linked capital demand, housing credit exposure and consumer trade-down risks. The key issue is how firms absorb rising costs while demand and real household income remain uneven.

Trade Price Inflation Reaccelerates

Rising import costs and export prices signal broader external price pressures, with implications for margins and competitiveness

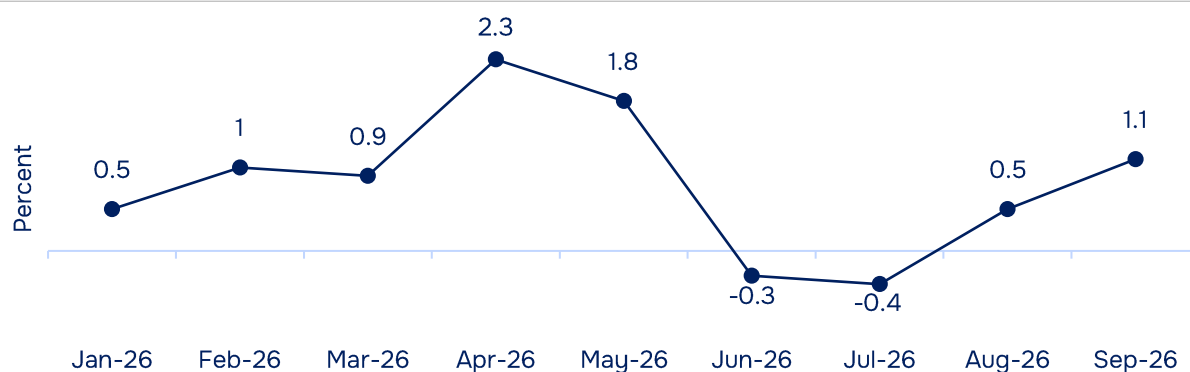
The September 2026 U.S. import and export price report, released October 16, shows external price pressures broadening beyond energy. Import prices rose 1.1% month over month and 8.1% year over year, the largest annual increase since July 2022. Nonfuel import prices advanced 0.7% monthly and 6.0% annually, with capital goods up 0.9% for a second consecutive month.

Industrial supplies and materials rose 1.4%, while imported computers, semiconductors and machinery contributed to higher capital-goods costs. Fuel import prices increased 4.8% in September; over twelve months, fuel prices climbed 34.5% and natural gas import prices rose 96.5%. Export prices increased 2.2% monthly and 11.6% annually.

Agricultural export prices advanced 2.6%, while non-agricultural exports rose 2.1% monthly and 11.8% annually. These figures matter because import costs can pressure U.S. manufacturers' margins or pass through to domestic prices, while higher export prices may support nominal receipts but can weaken competitiveness if buyers resist.

Country-level movements were uneven: import prices from China rose 0.7%, while export prices to the European Union increased 3.9%. For investors, the signal is not simply inflation: input costs, trade exposure, pricing power and currency-adjusted competitiveness will shape company-level outcomes across industrials, technology hardware, transport and consumer goods.

Figure 1: U.S. Import Prices Accelerate in September 2026



Source: U.S. Bureau of Labor Statistics

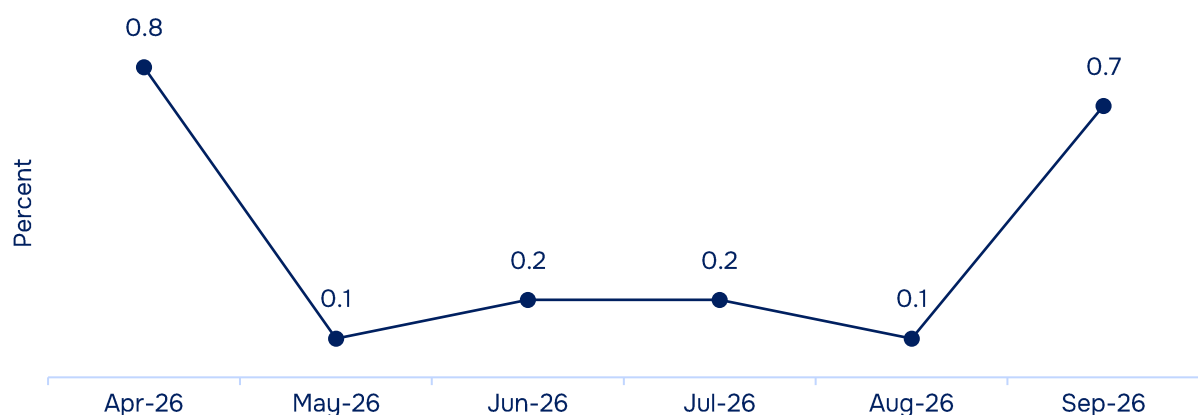
Industrial Output Gains Momentum

Industrial production rose 0.7% in September, powered by utilities and semiconductors, not factories

The Federal Reserve's October 16 release showed U.S. industrial production increased 0.7% in September, following 0.1% growth in August. Third-quarter production expanded at a 2.8% annual rate, while output stood 2.2% above September 2025. The headline masks a sharp sectoral split. Manufacturing output rose 0.3% monthly, but its third-quarter annualized increase was only 0.7%. Durable-goods production advanced at a 3.8% annual rate in the quarter, supported by a 28.4% increase in semiconductors and related electronic components; nondurable manufacturing contracted 1.6%. Motor vehicles and parts output fell 3.0% in September, illustrating that the industrial rebound is not broad-based. Utilities output rose 3.5% monthly and expanded at a 14.8% annual rate in the third quarter, while mining output increased 5.0% annualized over the quarter.

Total capacity utilization reached 76.9%, still 2.5 percentage points below its 1972–2025 long-run average; manufacturing utilization was 75.9%. For investors, semiconductor strength may indicate technology-linked capital demand and infrastructure investment, but uneven factory output and below-average utilization suggest spare capacity remains.

Figure 2: U.S. Industrial Production Rebounds



Source: Board of Governors of the Federal Reserve System

The investment implication for capital allocation is selective: assess exposure to electronics, industrial machinery, energy infrastructure and autos separately, rather than treating stronger aggregate production as proof of a synchronized manufacturing expansion across subsectors and end markets.

Housing Starts Retreat Sharply

Starts fell 5.2% to 1.221 million annualized, while permits are down 3.0% year-on-year

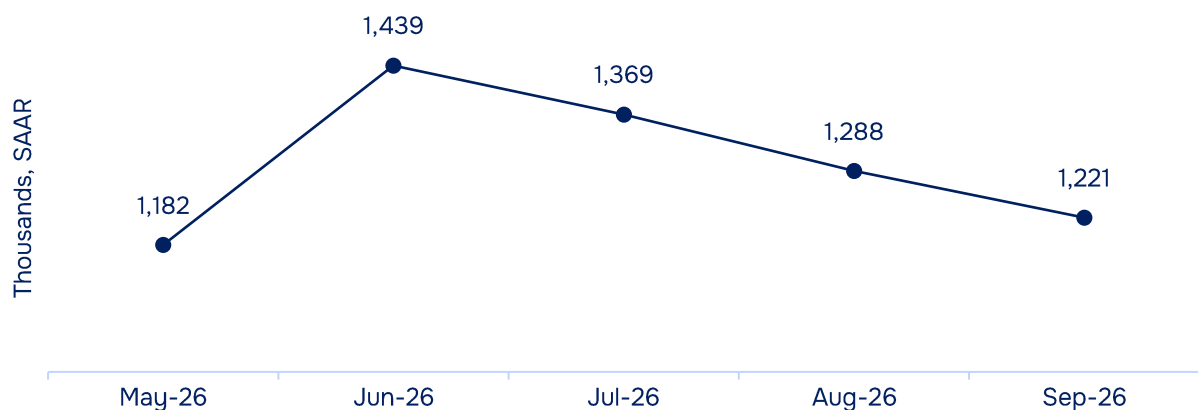
The Census Bureau's September housing report, released October 20, showed housing starts falling 5.2% from August to a seasonally adjusted annual rate of 1.221 million units, down 7.4% from a year earlier. Single-family starts declined 4.6% monthly to 859,000, while starts in buildings with five or more units reached 349,000.

Building permits, a forward-looking indicator of construction activity, slipped 0.2% monthly to 1.400 million and were 3.0% below September 2025. Single-family permits fell 4.0% to 845,000, suggesting builders remain cautious about adding detached-home supply. Completions offered a mixed signal: they rose 2.2% from August to 1.192 million, but remained 14.0% below the year-earlier level. The combination of fewer starts and permits with still

lower annual completions points to a constrained pipeline. Housing weakness matters beyond homebuilders. Residential construction affects demand for lumber, appliances, building products, mortgage finance, brokerage and local employment; fewer projects can temper revenue expectations across these linked industries.

For private equity and credit investors, the key variables are builder incentives, inventory, financing costs, regional affordability and project-level absorption. The data do not prove a housing downturn, but annual declines in starts, permits and completions warrant scrutiny of construction-linked earnings, collateral assumptions and refinancing risk and housing-related credit exposure.

Figure 3: U.S. Housing Starts Weaken Through September



Source: U.S. Census Bureau

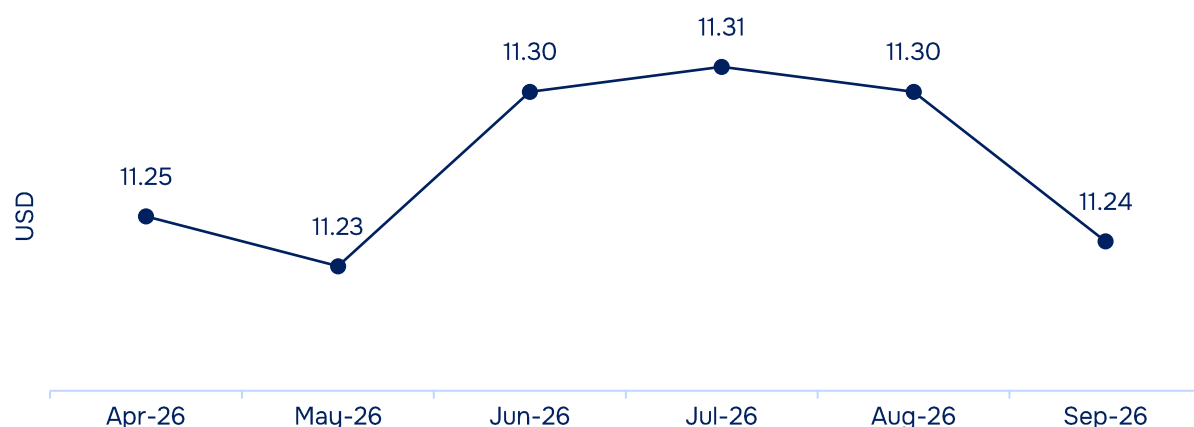
Inflation Outpaces Wage Growth

Real hourly earnings fell 0.5% in September as 0.6% inflation outran 0.1% wage growth

The Bureau of Labor Statistics reported on October 14 that real average hourly earnings for U.S. private nonfarm employees fell 0.5% from August to September, as nominal hourly pay rose just 0.1% while consumer prices increased 0.6%. Real average weekly earnings also declined 0.5%, with the average workweek unchanged at 34.4 hours. In inflation-adjusted terms, average hourly earnings were 0.7% lower than in September 2025, while real weekly earnings slipped 0.1% year over year. Nominal average hourly earnings reached \$37.81, up 3.0% annually, but the 3.7% annual CPI increase outpaced that gain. The squeeze was visible among production and nonsupervisory employees, whose real hourly earnings fell 0.6% monthly and 0.6% annually.

Their nominal hourly pay rose 3.3% year over year, against a 3.9% increase in the CPI for Urban Wage Earners and Clerical Workers. This matters for companies: nominal spending can remain firm even as purchasing power weakens, shifting demand toward essentials and cheaper products.

Figure 4: U.S. Real Hourly Earnings



Source: U.S. Bureau of Labor Statistics

For investors, real earnings provide a link between inflation and demand: erosion could pressure discretionary volumes, raise price sensitivity and complicate margin management. The September reading alone does not establish a sustained trend, but it reinforces the need to monitor wage growth, hours and inflation together when assessing U.S. consumption and revenue resilience.

Work With Us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, data science and engineering solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.

Our capabilities extend to deal origination support, financial due diligence, valuation analysis, portfolio monitoring, and advanced data analytics, enabling clients to enhance decision precision and operational efficiency. Our team focuses on delivering measurable outcomes through insight-driven strategies, helping clients strengthen investment theses, improve capital allocation, and unlock long-term value across dynamic global markets.



Website: www.rckanalytics.com



Email: info@rckanalytics.com



Phone: +91 9145339262



M-109, City Avenue Corporate Park, Wakad,
Mumbai-Bangalore Highway, Pune, India – 411 057

