



Energy Inflation

Manufacturing Slows, CPI,
PPI Accelerate and Retail
Sales Lose Momentum

#46

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Executive Overview

U.S. manufacturing momentum is weakening as new orders soften, while consumer and producer inflation accelerate, investors must prioritize pricing power, margin resilience, cash-flow durability and valuation discipline.

The U.S. economy is confronting a challenging combination of moderating manufacturing momentum, accelerating inflation and increasingly distorted consumer spending.

The Philadelphia Fed Manufacturing Business Outlook Survey, released October 15, showed its general activity index falling to 20.9 in October from 37.8 in September, a 16.9-point decline.

New orders dropped to 4.3 from 29.2, while prices received climbed to 40.1, highlighting the growing tension between demand momentum and pricing pressures. National services PMI also eased to 54.9 from 55.4, indicating continued expansion at a slower pace.

Consumer inflation accelerated to 3.7% annually from 3.4%, as September CPI increased 0.6% monthly and gasoline prices jumped 9.1%. Producer inflation intensified further, with September PPI advancing 1.3% monthly and 6.3% annually. Final-demand goods prices rose 2.6%, driven partly by a 10.8% increase in final-demand energy prices.

Retail sales increased 0.8% in September following a revised 1.3% August gain, but gasoline-station receipts rose 6.4%, while sales excluding gasoline stations increased only 0.2%.

Together, these indicators suggest that energy-driven inflation is squeezing household budgets and raising business costs while demand momentum moderates. For investors, margin resilience, pricing power, cash-flow quality and valuation discipline become increasingly important as inflation complicates the Federal Reserve's policy outlook.

Manufacturing Demand Moderates

Philadelphia manufacturing activity remains expansionary, but weaker orders and rising selling prices signal mounting pressure

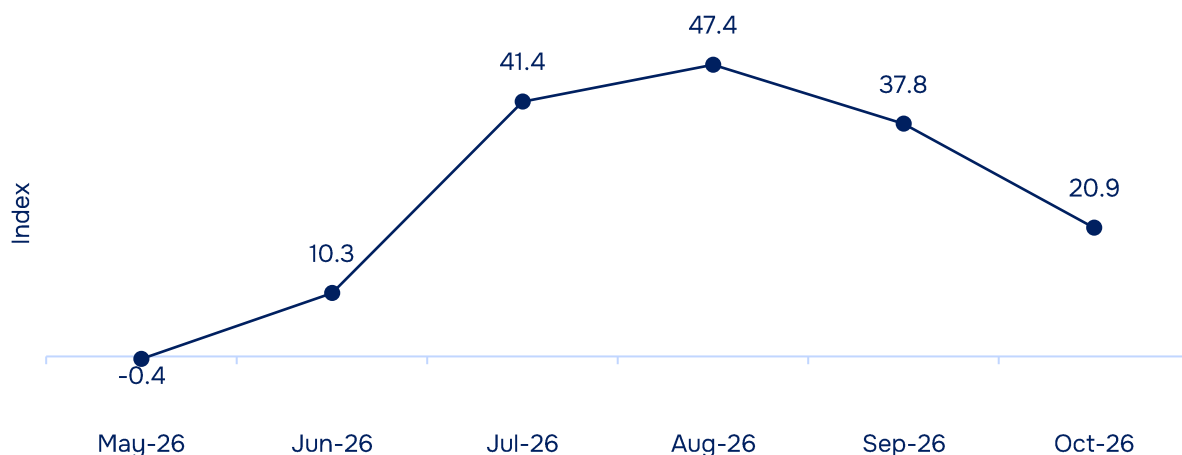
Regional U.S. manufacturing activity continued expanding in October 2026, but the latest Federal Reserve survey signalled a meaningful loss of momentum. Released on October 15, the Philadelphia Fed Manufacturing Business Outlook Survey reported that its general activity index fell to 20.9 from 37.8 in September, a 16.9-point decline. Although the index remained positive, indicating that more firms reported improving than deteriorating conditions, the latest reading pointed to a slower regional expansion.

Underlying demand indicators weakened considerably. The new orders index plunged 25 points to 4.3, while the shipments index declined 12 points to 15.3. The employment index eased three points to 9.1, indicating continued but slower improvement in regional manufacturing employment.

Meanwhile, the prices paid index moderated five points to 43.2, while the prices received index climbed nine points to 40.1, its highest reading since May 2025. These figures highlight the tension between weakening demand momentum and persistent selling-price pressures. Nationally, the services PMI also moderated to 54.9 from 55.4, remaining above the 50-point expansion threshold. Together, the indicators suggest continued economic expansion but increasingly uneven business conditions.

For investors, manufacturers facing softer orders and elevated selling prices warrant closer scrutiny of revenue visibility, margins and capital expenditure. Private equity and credit investors should assess whether portfolio companies can sustain cash generation if demand weakens further while operating costs remain elevated.

Figure 1: General Activity Diffusion Index



Source: Federal Reserve Bank of Philadelphia

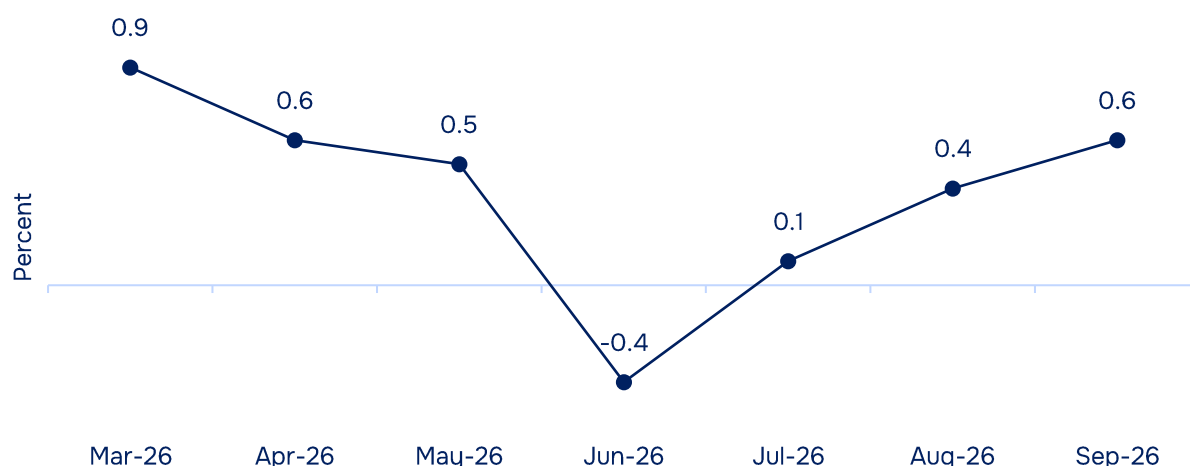
Energy Shocks Fuel Inflation

September CPI reached 3.7% annually as gasoline prices jumped 9.1%, squeezing household purchasing power

U.S. consumer inflation accelerated in September 2026, reinforcing concerns that energy costs could delay a sustained return toward the Federal Reserve's 2% inflation objective. The Bureau of Labor Statistics reported on October 14 that the Consumer Price Index (CPI) increased 0.6% month over month, compared with 0.4% in August. Annual headline inflation rose to 3.7% from 3.4%, marking a renewed acceleration in consumer prices. Energy was the principal immediate driver. Gasoline prices increased 9.1% during September, accounting for more than half of the monthly increase in headline CPI. The overall energy index advanced 5.2%, compared with 2.1% in August. These movements illustrate how fuel costs can influence inflation beyond the energy sector through transportation, distribution and operating expenses.

However, inflation was not exclusively an energy story. Core CPI, which excludes food and energy, increased 0.3% monthly and 2.6% annually, compared with 2.4% annual inflation in August. Shelter costs also rose 0.4% during September, indicating continued pressure from a major household expenditure category.

Figure 2: Monthly change in headline CPI



Source: U.S. Bureau of Labor Statistics

For investors, the distinction between temporary energy shocks and persistent underlying inflation remains critical. Higher fuel bills can constrain discretionary spending, while broader price pressures may limit companies' ability to absorb rising costs. If inflation remains elevated, expectations for Federal Reserve rate cuts could weaken, affecting borrowing costs, discount rates and asset valuations across public and private markets.

Retail Spending Slows

September retail sales rose 0.8%, but fuel-driven receipts masked softer underlying consumer spending

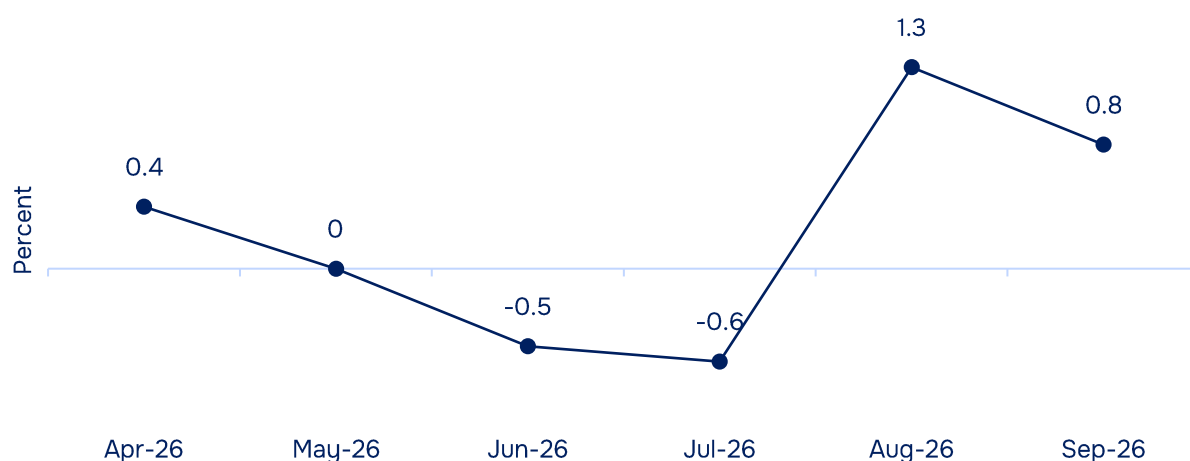
U.S. retail sales increased 0.8% month over month in September 2026, following a revised 1.3% increase in August, according to the U.S. Census Bureau's October 15 release. Although headline sales continued rising, the slower monthly pace and composition of spending provide a more cautious signal about consumer demand. Importantly, these figures measure nominal spending rather than inflation-adjusted purchasing volumes.

Gasoline-station sales increased 6.4% during September, accounting for approximately 71% of the total monthly increase in retail spending. Excluding gasoline stations, retail sales rose only 0.2%. This distinction matters because higher fuel prices can increase reported spending without any improvement in the quantity of goods and services households consume. Consumers may simply be allocating more dollars to essential transportation.

The broader implication is that headline retail growth could overstate the resilience of discretionary demand. Households facing higher fuel bills have less flexibility to spend on nonessential merchandise, travel and other discretionary categories. Businesses dependent on consumer volumes may consequently face greater pressure to balance promotions, inventory management and margins.

For investment research and private equity, the quality of consumer growth matters as much as its headline rate. Retailers with strong customer loyalty, efficient distribution and differentiated products may defend margins more effectively than businesses dependent on price-sensitive demand. Credit investors should monitor whether higher household expenses translate into weaker sales volumes, increased promotional activity or deteriorating borrower cash flows.

Figure 3: U.S. Retail Sales Growth Moderates



Source: U.S. Census Bureau

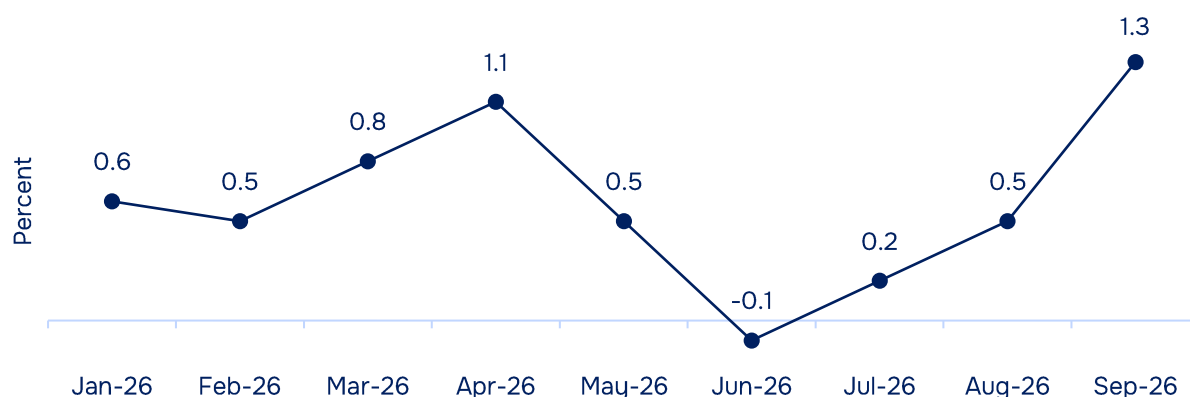
Producer Price Pressures Intensify

September PPI rose 6.3% annually as energy costs surged, threatening corporate margins and earnings resilience

U.S. producer inflation accelerated sharply in September 2026, increasing pressure on business costs and corporate profitability. The Bureau of Labor Statistics reported on October 15 that the Producer Price Index for final demand increased 1.3% month over month, following a 0.5% rise in August. Annual producer inflation reached 6.3%, its largest 12-month increase since December 2022. Final-demand goods prices rose 2.6% in September, their largest monthly increase since the series began in December 2009. Final-demand energy prices jumped 10.8%, while gasoline prices increased 20.3%, highlighting the scale of the energy shock. Final-demand services prices also advanced 0.8%, indicating that producer-price pressures extended beyond goods.

Core producer prices, excluding foods, energy and trade services, increased 0.5% monthly and 5.0% annually, signalling additional underlying cost pressures. The implications for corporate earnings depend on pricing power and cost structures. Manufacturers, logistics operators and energy-intensive businesses face higher procurement, freight and production expenses.

Figure 4: U.S. Producer Price Inflation Accelerates



Source: U.S. Bureau of Labor Statistics

Companies unable to pass through costs risk margin compression, while stronger pricing power may protect profitability. For private equity and credit investors, sustained producer inflation warrants closer stress-testing of EBITDA margins, working capital, debt-service capacity and refinancing assumptions, particularly as moderating demand compounds financing and valuation pressures.

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