Daiwa Capital Markets

U.S. Economic Comment

- The labor market: solid topline results in June, although a slowdown in private-sector hiring raises some concern; the unemployment rate remained low
- June PMIs: suggestive of ongoing economic expansion

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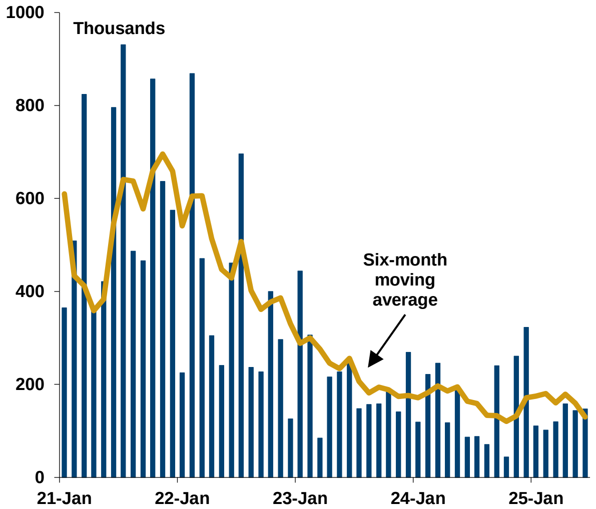
The June Employment Situation

With Fed officials preaching patience with respect to discerning the effects of trade policy (i.e., tariffs) on inflation, the labor market remains a key variable in assessing prospects of near-term easing in monetary policy. In that regard, the June employment report from the Bureau of Labor Statistics, in which payrolls printed well above consensus (+147,000 versus +106,000 anticipated) and the unemployment rate slipped 0.1 percentage point to 4.1 percent, seemingly put to rest (by market assessments, at least) the potential for a rate cut at the conclusion of the July 29-30 policy meeting. Specifically, the probability of the Committee standing pat according to the CME Group Fed Watch tool, which calculates probabilities based on futures contracts, rose from 76 percent yesterday to 95 percent as of writing.

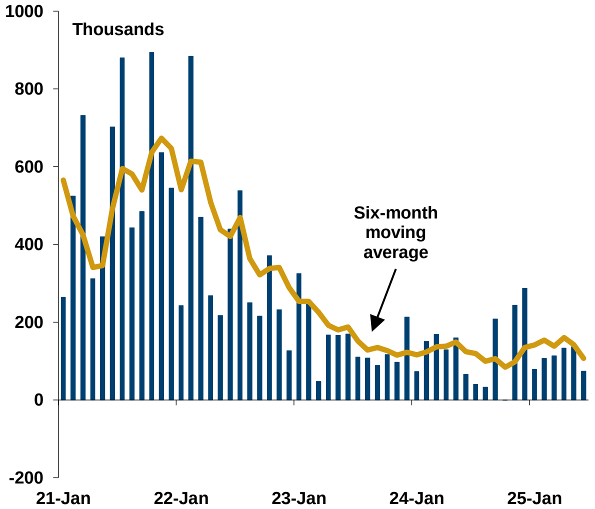
While the headline results for payrolls were solid, with the latest print of 147,000 only modestly slower than the trailing six-month average of approximately 160,000, results for the private sector lagged notably; in the latest month, private-sector payroll growth totaled only 74,000, only a bit more than half of the approximately 143,000 average in the prior six months and the weakest reading since last October when the Fed was initially easing monetary policy in a recalibration designed to support the labor market after hints of emerging weakness (charts, below). The figures, in our view, are not enough to alter the FOMC's prevailing narrative of solid underlying labor market conditions providing cover to be patient with respect to adjusting monetary policy, but they do merit close attention. The data suggest that firms are not yet slashing payrolls but are instead responding to policy uncertainty by slowing hiring (which corresponds with qualitative assessments in various PMIs that suggest hiring managers are proceeding carefully and only adding selectively to staff).

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

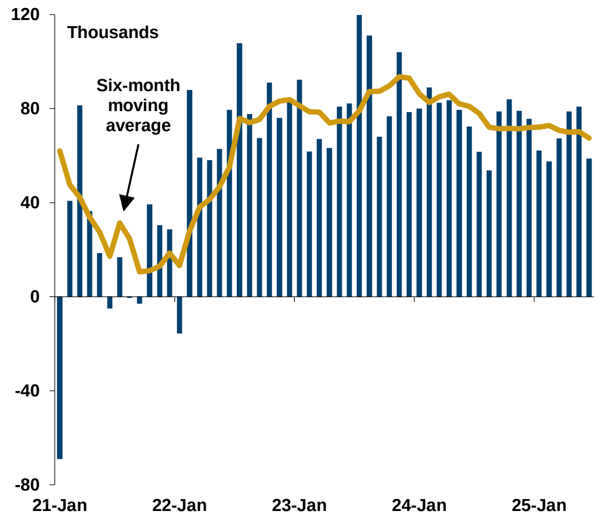
Change in Private-Sector Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

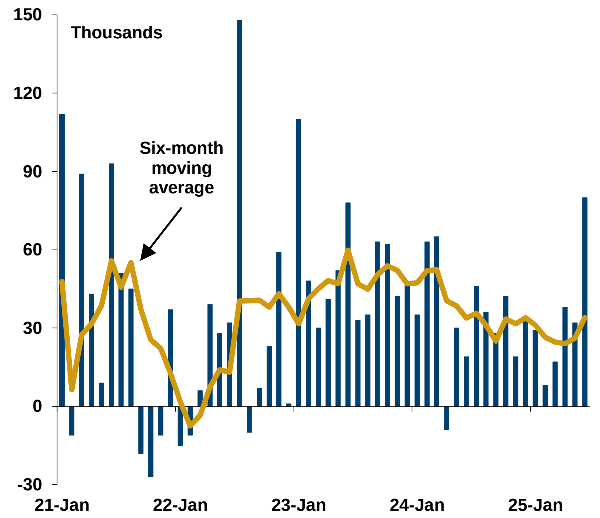
Delving into the detail of the payroll data, private-sector healthcare again led the charge by adding 58,600 positions, although it was down from a trailing six-month average of 70,300 (chart, next page, left). Additionally, the leisure and hospitality sector posted strong results (+20,000 jobs, up from a trailing six-month average of +15,200). Also contributing to the above-consensus headline print amid mixed results in other private-sector areas, the government sector added 73,000 net positions (state and local governments added 80,000 jobs [chart, below right] while hiring by the federal government contracted by 7,000 – the fifth consecutive cut amid ongoing efforts by the Trump administration to reduce the federal workforce). Many of the positions in government were education-related – likely stable and well paying – but the softening in private-sector job growth is nonetheless concerning.

Change in Health Care & Social Assist. Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Change in State & Local Government Payrolls

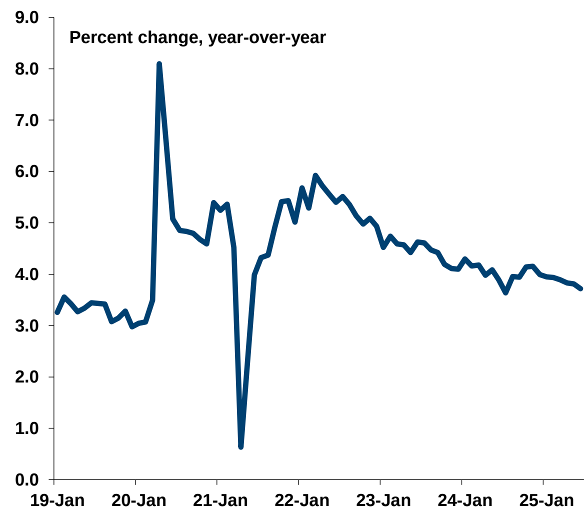


Source: Bureau of Labor Statistics via Haver Analytics

Other elements of the employment report were modestly favorable or alternatingly disappointing, although none signaled a significant deviation from the status quo. On the plus side, the unemployment rate dipped 0.1 percentage point to 4.1 percent after three consecutive months at 4.2 percent – with the latest reading consistent with a fully employed economy and just above the 2025 low of 4.0 percent in January. At the same time, however, employment measured by the household survey was light in June (+93,000 after a plunge of 696,000 in May), while the labor force decreased by 130,000 after a contraction of 625,000 in May, which also prompted an easing of 0.1 percentage point in the labor force participation rate to 62.3 percent (the lowest reading since late 2022). In essence, the decline in the unemployment rate was prompted by a contraction in the labor force rather than a robust increase in employment -- a more disappointing result than the headline number would imply.

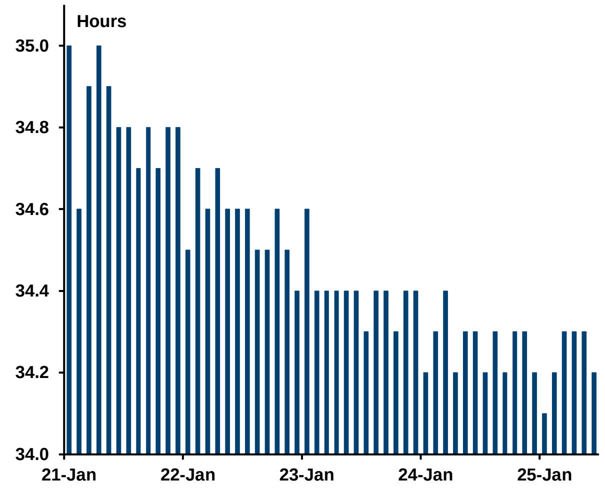
Beyond the unemployment rate and associated data from the household survey, average hourly earnings rose 0.2 percent, contributing to a year-over-year advance of 3.7 percent. The slowing from 3.8 percent in May left wage growth still consistent with an increase in real earnings, but the trajectory also implied that labor demand is easing and that compensation trends are no longer unambiguously favoring employees and job seekers – which could have implications for future consumer spending (chart). Furthermore, the length of the average workweek declined by 0.1 hour to 34.2 hours. The latest reading was within the recent range, but combined with a decline of 0.3 percent in the index of aggregate hours, the results could suggest that firms are curtailing worktimes amid relatively slack demand (charts, next page). Such a development could portend future layoffs should underlying demand not improve, although we remain hopeful that a previous instance of labor scarcity earlier in the expansion could encourage managers to proceed carefully with staff reductions. Again, these developments suggest caution, but do not immediately raise prospects for an easing in

Average Hourly Earnings



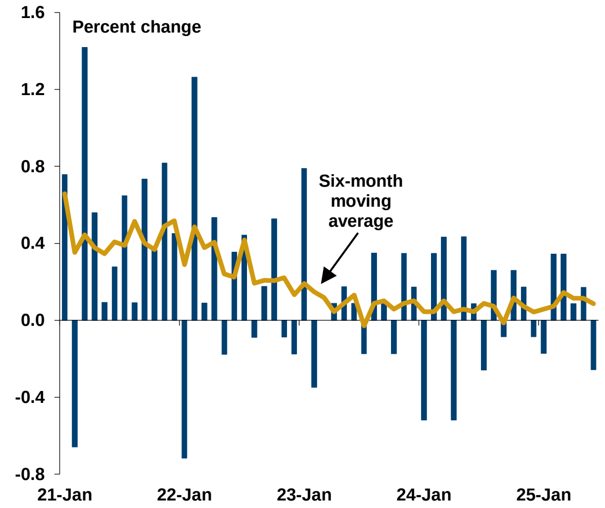
Source: Bureau of Labor Statistics via Haver Analytics monetary policy (we expect the FOMC to remain on hold in July before resuming cuts in the fall; 25 basis point reductions at the September and December policy meetings).

Average Weekly Hours



Source: Bureau of Labor Statistics via Haver Analytics

Aggregate Weekly Hours Index

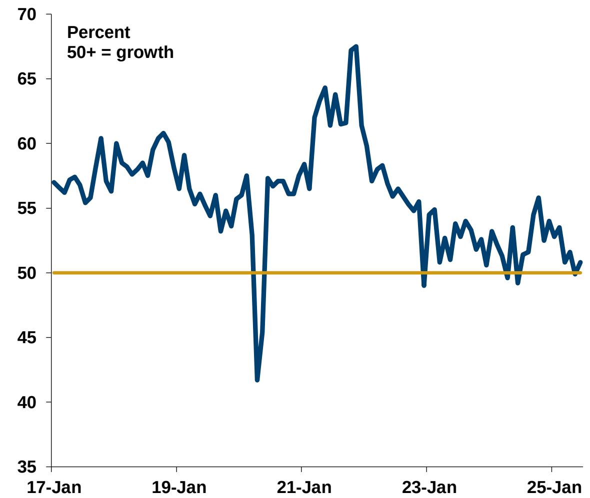


Source: Bureau of Labor Statistics via Haver Analytics

The Services Sector (and Broader U.S. Economy) Remains on Track

Amid Thursday's data releases ahead of the Independence Day holiday, the Institute for Supply Management's services index also provided key insights on the health of the economy, with the measure increasing 0.9 percentage point to 50.8 percent in June, ending its brief, one-month dip into contractionary territory. That said, while the metric suggested ongoing expansion in the service sector, June's observation indicates pervasive caution on the part of survey respondents on account of tariffs and slow-to-materialize trade deals (chart). On that point, as noted by Steve Miller, Chair of the Institute for Supply Management Services Business Survey Committee: "June's PMI level is a welcome return to expansion, although slow growth and economic uncertainty were frequently referenced by respondents… The most common topic among survey panelists continued to be concerns about impacts related to tariffs."

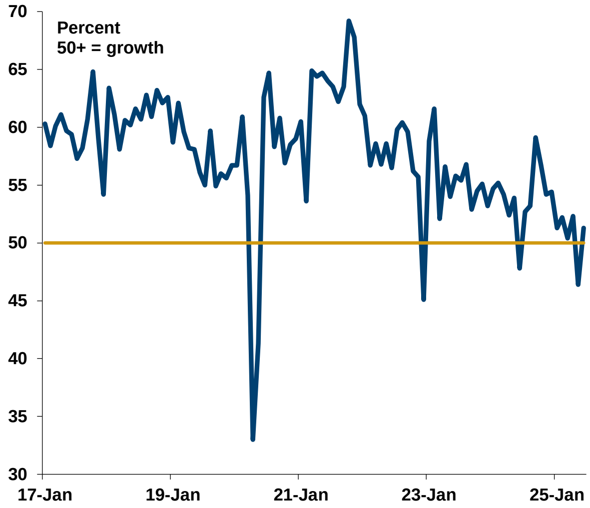
ISM Services: Headline Index



Source: Institute for Supply Management via Haver Analytics

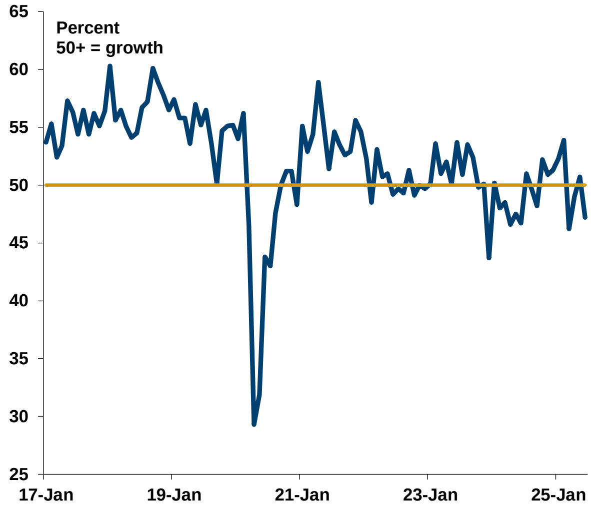
Looking at the internals of the report, the rebound in the composite measure was influenced importantly by increases in the new orders and business activity components. Turning to bookings first, following a plunge of 5.9 percentage points to 46.4 percent in the prior month (which may have contained a dose of downside volatility), new orders rebounded 4.9 percentage points to 51.3 percent in June – its 11th expansionary reading in the past 12 months (chart, next page, left). Business activity, meanwhile, increased 4.2 percentage points to 54.2 percent – its 61st consecutive reading at or above 50.0 percent. There were some soft spots with the June data, however, with the employment index declining back into contraction territory (-3.5 percentage points to 47.2 percent; chart, next page, right). Service-sector firms are exhibiting a marked level of caution in hiring, a potential warning sign for payroll growth in coming months, with the ISM release noting: "The administration's proposed budget for fiscal year 2026 has put a pause on many pending hiring actions." (An additional source of uncertainty beyond trade policy – although the House of Representatives' pending vote on the One Big Beautiful Bill, and the President likely signing it into law this weekend, could alleviate this source of tension.) Moreover, the supplier deliveries index eased 2.2 percentage points to 50.3 percent, indicating "slower" deliveries for the seventh consecutive month.

ISM Services: New Orders Index



Source: Institute for Supply Management via Haver Analytics

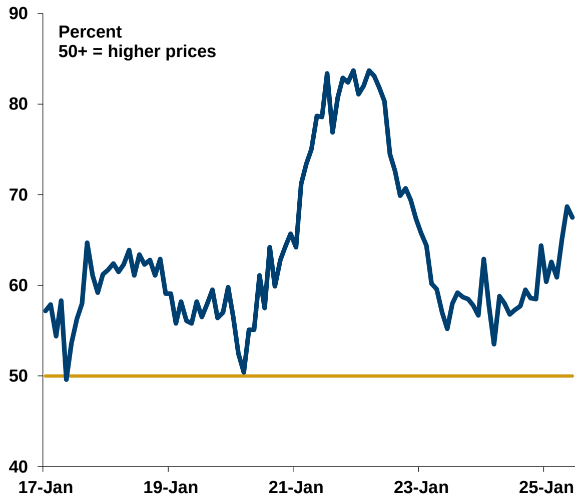
ISM Services: Employment Index



Source: Institute for Supply Management via Haver Analytics

After rising to a new cycle high of 68.7 percent in the prior month (and the highest since November 2022), the prices index softened 1.2 percentage points to 67.5 percent in the latest month (chart). 14 of 18 service industries reported an increase in prices paid, down from 16 in the prior month. While the dip is a favorable result, survey respondents are still indicating increased costs for inputs on account of tariffs.

ISM Services: Prices Index



Source: Institute for Supply Management via Haver Analytics

Thus, although constrained by headwinds from the Trump administration's frenetic approach to policymaking, the ISM services index, along with Tuesday's June report for the manufacturing sector (+0.5 percentage point to 49.0 percent), suggest that the U.S. economy remains on a growth track (note, readings above 42.3 percent and 48.6 percent for the manufacturing and services indexes, respectively, indicate expansion in the overall economy) – a view supported by the final June U.S. estimate from S&P Global also released today (52.9, down 0.1 percentage point from May). This macroeconomic backdrop, reinforced by today's data, likely informed the views of Atlanta Fed President Raphael Bostic in a speech today: "I believe a period characterized by such widespread uncertainty is no time for significant shifts in monetary policy. That is especially the case against the backdrop of a still resilient macroeconomy, which offers space for patience… That is why I fully support the Committee's wait-and-see policy prescription at our latest meeting. I believe the Committee must await more clarity rather than move in a policy direction that it might need to quickly reverse." (For additional context, please see: Bostic, Raphael. "The Dual Mandate and the Primacy of Inflation Expectations," Federal Reserve Bank of Atlanta, July 3, 2025. https://www.atlantafed.org/news/speeches/2025/07/03/bostic-the-dual-mandate-and-the-primacy-of-inflation-expectations).

Note to readers:

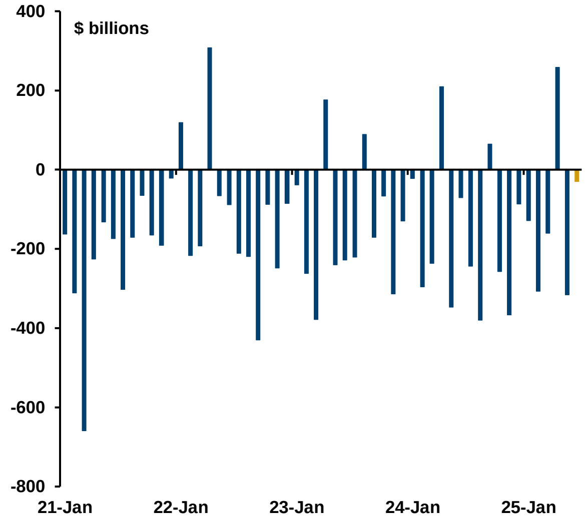
The U.S. economic comment will resume regular publication on Friday, July 11, 2025.

The Week Ahead

Federal Budget (June) (Friday)
Forecast: -$30 Billion

Available data from the Daily Treasury Statement suggest that federal revenue growth was solid last month (up about 12 percent year-over-year by our estimate), but outlay growth also remained on a firm trajectory. If the deficit projection for June 2025 is realized, the cumulative shortfall in the first three quarters of FY2025 will total approximately $1.4 trillion, wider than the $1.3 trillion deficit in the same period of FY2024. Hearkening to Chair Powell's remarks last week, the current fiscal path is unsustainable and requires intervention.

Federal Budget Surplus/Deficit*



** The gold bar is a forecast for June 2025.*
Sources: U.S. Treasury via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

June/July 2025

Monday	Tuesday	Wednesday	Thursday	Friday
30	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER Apr 44.6 May 40.5 June 40.4	**ISM MFG. INDEX** Index / Prices Apr 48.7 / 69.8 May 48.5 / 69.4 June 49.0 / 69.7 **CONSTRUCTION** Mar -0.7% Apr -0.2% May -0.3% **JOLTS DATA** Openings (000) / Quit Rate Mar 7,200 / 2.1% Apr 7,395 / 2.0% May 7,769 / 2.1% **VEHICLE SALES** Apr 17.3 million May 15.6 million June 15.3 million	**ADP EMPLOYMENT** Private Payrolls Apr 60,000 May 29,000 June -33,000	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) June 7 0.250 / 1.937 June 14 0.246 / 1.964 June 21 0.237 / 1.964 June 28 0.233 / N/A **EMPLOYMENT REPORT** Payrolls / Un. Rate Apr 158,000 / 4.2% May 144,000 / 4.2% June 147,000 / 4.1% **TRADE BALANCE** Mar -$138.3 billion Apr -$60.3 billion May -$71.5 billion **FACTORY ORDERS** Mar 3.4% Apr -3.9% May 8.2% **ISM SERVICES INDEX** Index / Prices Apr 51.6 / 65.1 May 49.9 / 68.7 June 50.8 / 67.5	***INDEPENDENCE DAY***
7	8	9	10	11
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Apr 95.8 May 98.8 June -- **CONSUMER CREDIT (3:00)** Mar -$3.4 billion Apr $17.9 billion May --	**WHOLESALE TRADE (10:00)** Inventories / Sales Mar 0.3% / 0.8% Apr 0.1% / 0.1% **May -0.3% / 1.0%** **FOMC MINUTES (2:00)**	**UNEMP. CLAIMS (8:30)**	**FEDERAL BUDGET (2:00)** FY2025 / FY2024 Apr $258.4B / $209.5B May -$316.0B / -$347.1B **June -$30.0B** / -$71.0B
14	15	16	17	18
	CPI **EMPIRE MFG**	**PPI** **IP & CAP-U**	**UNEMP. CLAIMS** **RETAIL SALES** **IMPORT/EXPORT PRICES** **PHILLY FED INDEX** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **TIC FLOWS**	**HOUSING STARTS** **CONSUMER SENTIMENT**
21	22	23	24	25
LEADING INDICATORS		**EXISTING HOME SALES**	**UNEMP. CLAIMS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **NEW HOME SALES**	**DURABLE GOODS ORDERS**

Forecasts in bold.

Treasury Financing

June/July 2025

Monday	Tuesday	Wednesday	Thursday	Friday
30	1	2	3	4
AUCTION RESULTS: Rate Cover 13-week bills 4.235% 3.04 26-week bills 4.110% 2.77 **SETTLE:** $13 billion 20-year bonds $23 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION RESULTS:** Rate Cover 6-week bills 4.340% 2.97 **ANNOUNCE:** $65 billion 17-week bills for auction on July 2 $55 billion 4-week bills for auction on July 3 $45 billion 8-week bills for auction on July 3 $60 billion 77-day CMBs for auction on July 3 **SETTLE:** $63 billion 17-week bills $60 billion 4-week bills $50 billion 8-week bills $60 billion 77-day CMBs	**AUCTION RESULTS:** Rate Cover 17-week bills 4.185% 3.04	**AUCTION RESULTS:** Rate Cover 4-week bills 4.240% 3.26 8-week bills 4.300% 3.10 77-day CMBs 4.285% 2.90 **ANNOUNCE:** $155 billion 13-,26-week bills for auction on July 7 $50 billion 6-week bills for auction on July 8 $50 billion 52-week bills for auction on July 8 $58 billion 3-year notes for auction on July 8 $39 billion 10-year notes for auction on July 9 $22 billion 30-year bonds for auction on July 10	***INDEPENDENCE DAY*** **SETTLE:** $150 billion 13-,26-week bills $50 billion 6-week bills
7	8	9	10	11
AUCTION: $155 billion 13-,26-week bills	**AUCTION:** $50 billion 6-week bills $50 billion 52-week bills $58 billion 3-year notes **ANNOUNCE:** $65 billion* 17-week bills for auction on July 9 $55 billion* 4-week bills for auction on July 10 $45 billion* 8-week bills for auction on July 10 **SETTLE:** $65 billion 17-week bills $55 billion 4-week bills $45 billion 8-week bills $60 billion 77-day CMBs	**AUCTION:** $65 billion* 17-week bills $39 billion 10-year notes	**AUCTION:** $55 billion* 4-week bills $45 billion* 8-week bills $22 billion 30-year bonds **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 14 $50 billion* 6-week bills for auction on July 15 **SETTLE:** $155 billion 13-,26-week bills $50 billion 6-week bills $50 billion 52-week bills	
14	15	16	17	18
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $50 billion* 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on July 16 $55 billion* 4-week bills for auction on July 17 $45 billion* 8-week bills for auction on July 17 **SETTLE:** $65 billion* 17-week bills $55 billion* 4-week bills $45 billion* 8-week bills $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $65 billion* 17-week bills	**AUCTION:** $55 billion* 4-week bills $45 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 21 $50 billion* 6-week bills for auction on July 22 $13 billion* 20-year bonds for auction on July 23 $21 billion* 10-year TIPS for auction on July 24 **SETTLE:** $155 billion* 13-,26-week bills $50 billion* 6-week bills	
21	22	23	24	25
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $50 billion* 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on July 23 $55 billion* 4-week bills for auction on July 24 $45 billion* 8-week bills for auction on July 24 **SETTLE:** $65 billion* 17-week bills $55 billion* 4-week bills $45 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills $13 billion* 20-year bonds	**AUCTION:** $55 billion* 4-week bills $45 billion* 8-week bills $21 billion* 10-year TIPS **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 28 $50 billion* 6-week bills for auction on July 29 $69 billion* 2-year notes for auction on July 28 $70 billion* 5-year notes for auction on July 28 $44 billion* 7-year notes for auction on July 29 $30 billion* 2-year FRNs for auction on July 29	**SETTLE:** $155 billion* 13-,26-week bills $50 billion* 6-week bill

Estimate