US | Economic Research | 11 July 2025

Daiwa Capital Markets

U.S. Economic Comment

- The Trump agenda: passage of the One Big Beautiful Bill provides stability on tax policy and the debt ceiling for now but economic uncertainty remains high
- Consumer inflation expectations: favorable readings from the New York Fed's Survey of Consumer Expectations despite ongoing tariff concerns

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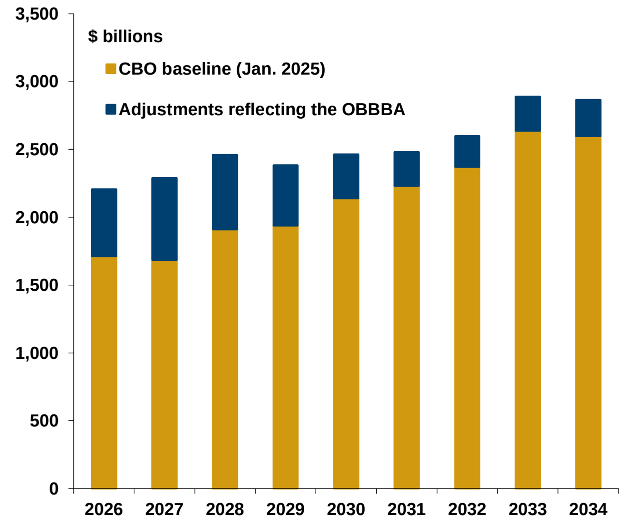
Clarity on Tax Policy and the Debt Ceiling, but Policy Uncertainty Remains High

The One Big Beautiful Bill Act (OBBBA) was signed into law by President Trump on Friday, July 4 provided certainty on tax policy and the debt ceiling (at least in the near term), but in doing so allowed President Trump to refocus his energies on tariffs – all while avoiding thorny questions about the longer-term fiscal path of the United States. The legislation made permanent the individual tax rates in the 2017 Tax Cuts and Jobs Act (TCJA), while offering new deductions for overtime pay, income from tips, interest on car loans, state and local income taxes, and Social Security income for senior citizens (all which lapse in 2028 or 2029). Additionally, the OBBBA adjusted corporate tax policy – including enhancing the business interest deduction and favorable shifts in expensing of research and development costs and depreciation schedules – while maintaining the corporate tax rate at 21 percent (lowered from 35 percent in the 2017 TCJA). Beyond the tax cuts and offsets in the form of reductions to public assistance programs (Medicaid, SNAP, etc.), the OBBBA increased the debt ceiling by $5 trillion to $41.1 trillion, alleviating for at least the next year or two concerns about debt issuance and potential short-term defaults.

Although the OBBBA removed various sources of near-term uncertainty, namely the impending debt ceiling and resetting higher of personal income tax rates at the end of 2025 with the expiration of the previous TCJA, it exacerbated longer-term debt issues rather than contributing to returning the debt trajectory to a more sustainable

Federal Budget Deficit Projections*



** Budgetary effects of the One Big Beautiful Bill Act vis-à-vis the CBO's January 2025 baseline. The calculations are based on scoring by the CBO with input from the Joint Committee on Taxation detailed in reports and addendums issued on June 27, 2025 and July 1, 2025.*

Sources: Congressional Budget Office, staff of the Joint Committee on Taxation: "The Budget and Economic Outlook: 2025 to 2035," January 2025, https://www.cbo.gov/publication/60870. "Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act Relative to CBO's January 2025 Baseline," June 2025, https://www.cbo.gov/publication/61534. "Information Concerning the Budgetary Effects of H.R. 1, as Passed by the Senate on July 1, 2025," July, 2025, https://www.cbo.gov/publication/61537; Daiwa Capital Markets America

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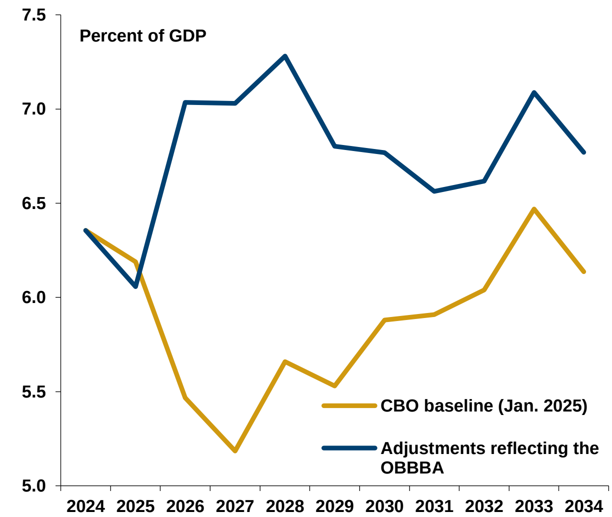

Sources: Congressional Budget Office, staff of the Joint Committee on Taxation: "The Budget and Economic Outlook: 2025 to 2035," January 2025, https://www.cbo.gov/publication/60870. "Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act Relative to CBO's January 2025 Baseline," June 2025, https://www.cbo.gov/publication/61534. "Information Concerning the Budgetary Effects of H.R. 1, as Passed by the Senate on July 1, 2025," July, 2025, https://www.cbo.gov/publication/61537; Daiwa Capital Markets America

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path. To be sure, the OBBBA will likely provide a short-term boost to GDP through increased household consumption and business investment, but the effects most likely will be transient – with the biggest influence in 2026 – and therefore unlikely to affirm the Trump Administration's assertions that the tax cuts will pay for themselves and ultimately reduce the stock of Treasury debt outstanding. Indeed, projections by the CBO suggest that the OBBBA, after reducing the deficit in 2025 by approximately $40 billion vis-à-vis January 2025 baseline projections, will contribute to a jump in yearly to a jump in yearly deficits relative to that forecast (charts, prior page). Moreover, our calculations suggest that debt held by the public relative to GDP could swell to the area of 125 percent in 2034 versus approximately 100 percent now – about eight percentage points higher than the CBO's projection of 117 percent in the January baseline. All this to say, elected representatives have booked a short-term win while not accurately accounting for risks to the longer-term health of the U.S., especially as an aging population will exert further strain on the social safety net and cumulative interest expense may rise sharply.

Tariffs Are Again in the Spotlight

With at least near-term stability achieved regarding tax policy and the debt ceiling, the President is again laser focused on trade policy. Market participants breathed a collective sigh of relief when the administration relented on "Liberation Day" tariffs with a 90-day pause and began active negotiations with key trading partners, but the easing in concern now appears premature. The President signed on July 7 an executive order extending the modification of the reciprocal tariff rates until August 1 – although the move was accompanied by the renewal of aggressive language and threats of higher levies communicated by way of letters sent to key allies and trading partners. Among these were higher rates announced on Brazil (50 percent) and Canada (35 percent on non-USMCA, non-energy or fertilizer goods), as well as 25 percent on goods from Japan and South Korea. Accompanying the renewed prospect of higher country-specific levies, President Trump also threatened a 50 percent tariff on copper, which led to a surge in domestic prices to a record high before retreating later in the week (chart) and up to 200 percent on imported pharmaceuticals (although detail on this front was limited).

Spot Price: Copper*

** High grade; daily series with the latest observation from July 10, 2025. The price jumped to a record high (before retreating later in the week) when President Trump announced a new 50 percent tariff on imports of the metal effective August 1, 2025.*

Source: Wall Street Journal via Haver Analytics

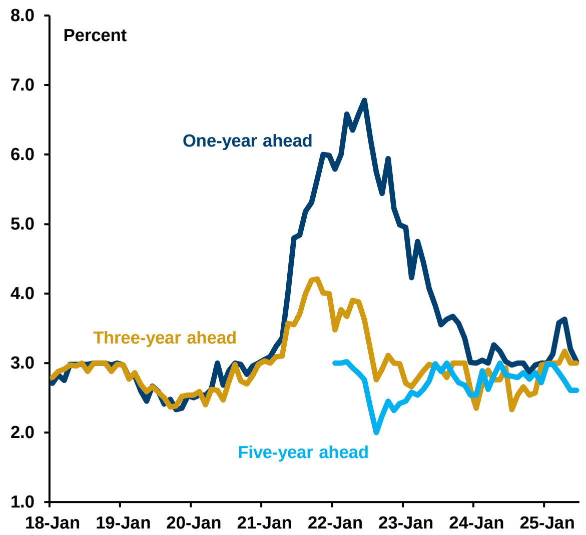
We maintain the view that the latest barrage of proposals is unlikely to be realized in its entirety (a trade deal with the EU appears to be progressing, and a punitive 35 percent rate on various exports of Canada is imprudent on face), but there is likely to be significant fallout both for the global economy and domestically. A baseline 10 percent tariff on all trading partners appears a foregone conclusion, as do tariffs on autos, steel, and aluminum, and many other countries may ultimately face higher rates. The deadweight loss from tariff policy, magnified by the President's constantly evolving targets, have already shown signs of curtailing global economic activity along with domestic household consumption and business' plans for capital investment. We hope for a quick resolution on the trade front but, given the President's proclivity to move back deadlines, it remains difficult to view August 1 as the resolution date for tariff-related uncertainty.

Consumer Inflation Expectations: Anchored

The minutes from the June 17-18 FOMC meeting released on Wednesday kept open the possibility of cuts in the target range for the federal funds rate later this year, with “most participants” in-part supporting the idea because “medium- and longer-term inflation expectations had remained well anchored.” Inflation dynamics have stayed front-and-center in monetary policy discussions even as price pressure has diminished steadily since mid-2022, with renewed concerns generated by the aforementioned tariff program of the Trump administration factoring importantly into ongoing deliberations. In that regard, inflation expectations will play a key role in determining whether any realized increase in inflation from tariffs is ultimately contained as a one-off increase in price levels (which would be unlikely to force Fed officials to abandon an easing bias) or if it becomes more persistent and thus increasingly difficult to manage (which could prompt a pivot to a hawkish stance).

Encouragingly, the latest data on consumer inflation expectations from the Federal Reserve Bank of New York’s June iteration of the Survey of Consumer Expectations ratified policymakers’ previous assessment. The median one-year ahead expectation (which is admittedly less important than longer-term assessments) eased to 3.02 percent in the latest month from 3.20 percent in May (and a recent high of 3.63 percent in April, when the Trump administration had initially announced the tariff onslaught). The three-year ahead measure remained at 3.00 percent, a reading in the upper end of the range in place since mid-2022 but off the recent high of 3.17 percent in April, and the five-year ahead median matched the May reading of 2.61 percent (also off the recent high of 2.98 percent in January and February; chart). Implied by the results is that survey respondents (presumably a representative sample of consumers) are better able to distill signal from noise regarding the President’s bluster on trade policy while also taking note that many retailers have been reluctant to pass along higher costs thus far. In other words, risks to inflation expectations becoming unanchored have seemingly diminished – a welcome development for an FOMC attempting to calibrate monetary policy amid heightened concerns about the labor market and inflation and despite a mercurial President Trump.

Consumer Inflation Expectations*



** Results for inflation expectations five years hence are only available from January 2022 onwards.*

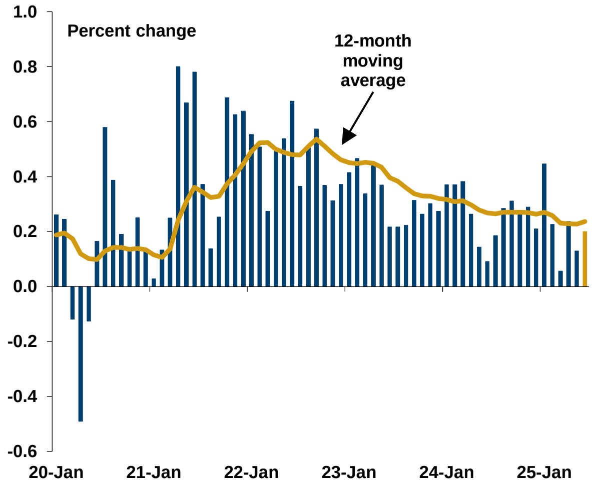
Source: Survey of Consumer Expectations, Federal Reserve Bank of New York via Haver Analytics

The Week Ahead

CPI (June) (Tuesday)
Forecast: +0.2% Headline, +0.2% Core

Available data suggest that a seasonally adjusted decline in energy commodity prices could offset an uptick in the energy services area, thus nudging the broad energy component of the CPI lower in June. The food component, which has settled after significant pressure earlier in the expansion, seems likely to remain on its subdued upward trend (average monthly increase of 0.2 percent in the past 12 months). Core goods prices had previously been a source of disinflation earlier in the current episode, but increases in six of the past nine months suggest that easing in this area has run its course – especially with tariff-related pressure possibly to emerge in coming months. Results for core service inflation has been a bit choppy, but the overall trend indicates ongoing moderation (+3.6 percent year-over-year in May versus +5.3 percent in the same month last year), led by deceleration in select housing components (e.g., primary rent and owners' equivalent rent). Following a below trend increase that rounded up to 0.1 percent in the prior month, core services excluding housing (i.e., "supercore" inflation) could post an advance closer to the trailing six-month average of 0.2 percent.

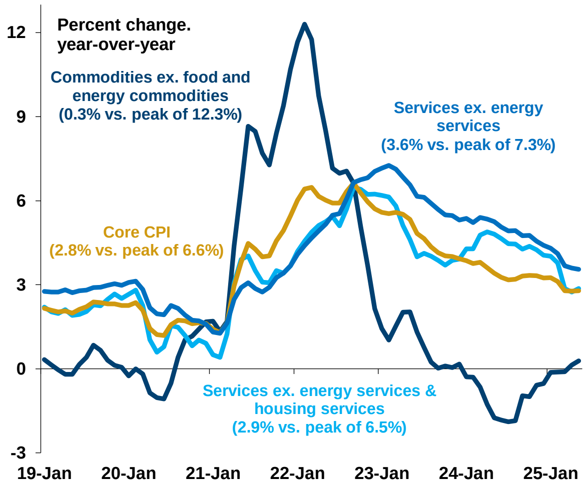
Core CPI*



** The gold bar is a forecast for June 2025.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Decomposition of Core CPI

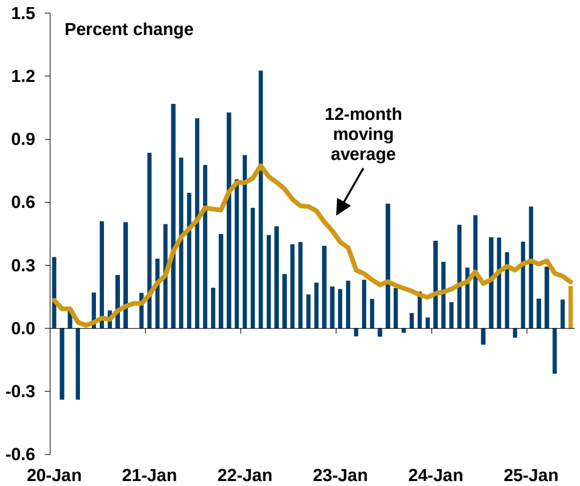


Source: Bureau of Labor Statistics via Haver Analytics

PPI (June) (Wednesday)
Forecast: +0.2% Final Demand, +0.2% Ex. Food & Energy

After registering a marginal increase that rounded down to no change in the prior month (+0.002 percent), available data suggest that wholesale energy prices could ease in June. Prices of some agricultural commodities have picked up recently, but moderation in the U.S. demand environment and emerging resistance to price increases suggest that upward movement in the food area could be limited. Goods prices excluding food and energy have advanced 0.2 percent on average over the past 12 months, a bit slower than the 0.3 percent average for the broad services component. Construction costs have accelerated compared to a year ago but remain on a relatively subdued upward trend (average of +0.2 percent for the twelve-month period ending in May 2025 versus -0.1 percent for the period ending May 2024).

PPI Ex. Food & Energy*



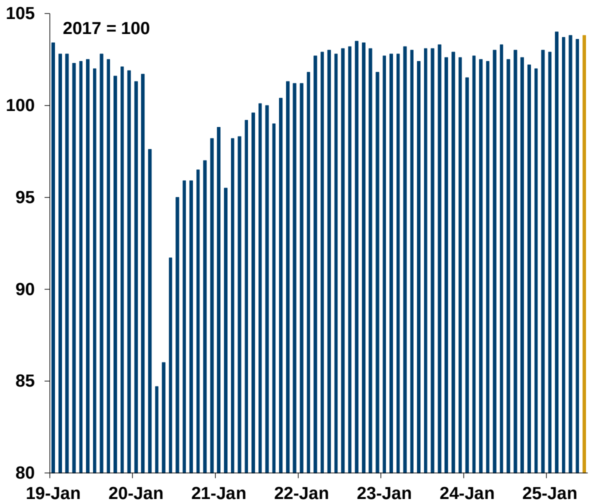
** The gold bar is a forecast for June 2025.*

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Industrial Production (June) (Wednesday)
Forecast: +0.2% Total, 0.0% Manufacturing, 77.4% Cap-U

Declines in both factory employment and aggregate hours indicate an unimpressive reading for the manufacturing component of industrial production, leaving in place the essentially sideways trend. Additionally, a decrease in the rotary rig count coupled with trimmed worktimes point to a decline in the mining area. Warmer temperatures in June suggest above-average home cooling usage, raising the possibility of a marked increase in utility output. Keep in mind, however, that changes in this area often represent shifts in the weather rather than underlying economic fundamentals.

Industrial Production: Headline*



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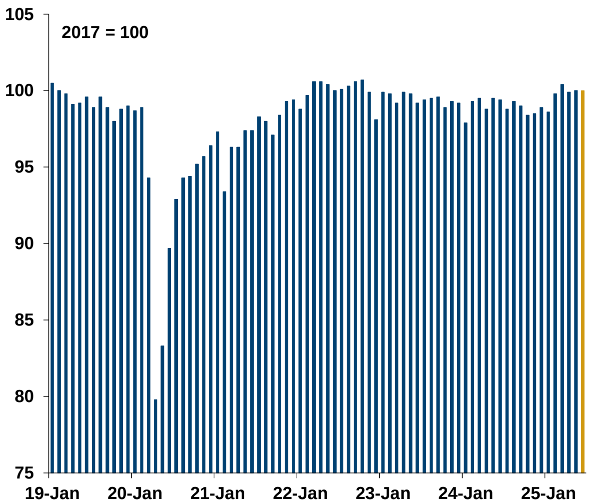
Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Industrial Production: Manufacturing*



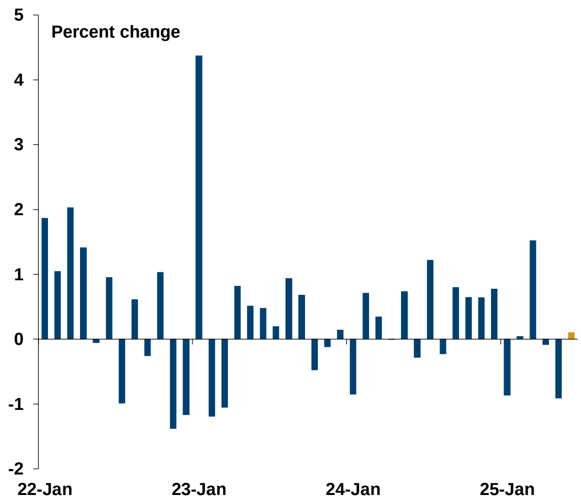
** The gold bar is a forecast for June 2025.*

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Retail Sales (June) (Thursday)
Forecast: +0.1% Total, +0.2% Ex. Autos, +0.3% Ex. Autos & Gas

A decline in vehicle sales suggests softening in the motor vehicles and parts component for the third consecutive month in June. Meanwhile, with prices at the pump potentially down on a seasonally adjusted basis, the gasoline component could come in lower as well. Excluding autos and gas, sales have been fairly tepid (+0.2 percent on average in 2025 thus far). On the point. we could envision discretionary spending by consumers remaining restrained on account of the uncertainty surrounding the Trump administration's tariff policy and signs of softening in the labor market.

Retail Sales*



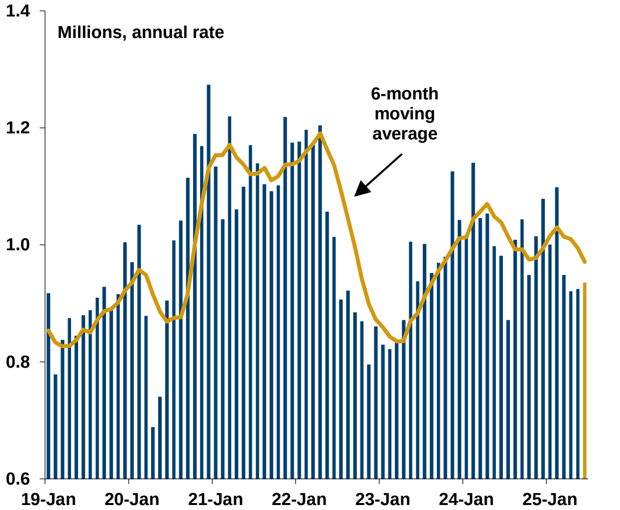
** The gold bar is a forecast for June 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Housing Starts (June) (Friday)
Forecast: 1.285 Million (+2.3%)

Although we look for a modest rebound in housing starts after a drop of 9.8 in May pushed projects to the lowest level since mid-2020, we expect the increase to be modest. On the point, elevated inventories of unsold new homes and slack demand generated by mortgage rates hovering just below seven-percent suggest that builders will exercise caution in initiating new single-family housing projects. Additionally, multi-family starts could revert a bit closer to the trailing six-month average of 0.391 million units, annual rate, in June following the outsized decrease of 29.7 percent in the prior month.

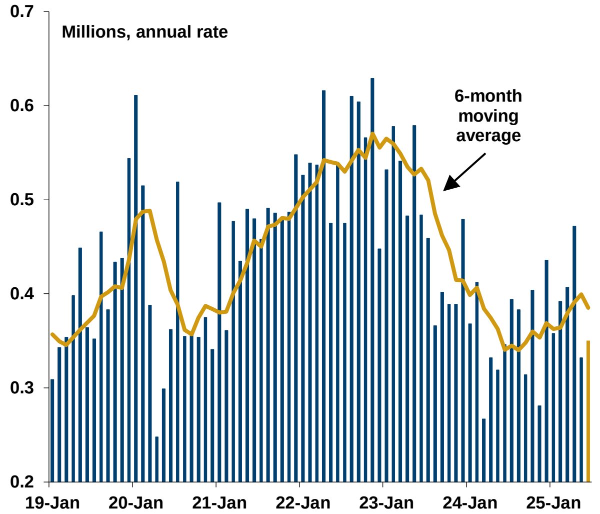
Single-Family Housing Starts*



** The gold bar is a forecast for June 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Multi-Family Housing Starts*



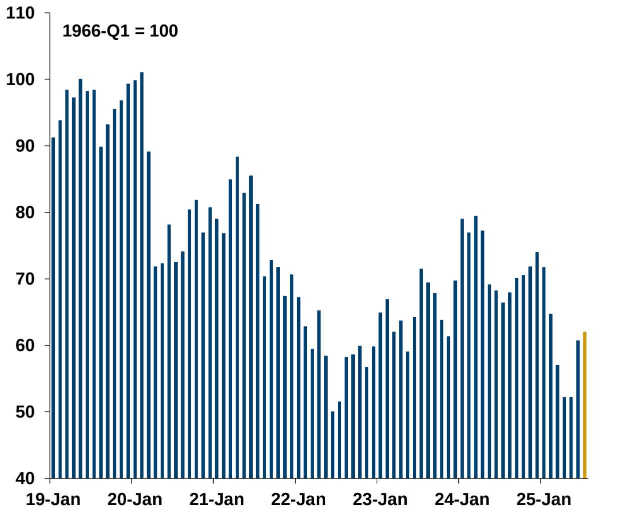
** The gold bar is a forecast for June 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Consumer Sentiment (July) (Friday)
Forecast: 62.0 (+1.3 Index Pts.)

With recent completion of the Trump administration's package of tax cuts in the One Big Beautiful Bill, the University of Michigan's sentiment index could improve again in early July, though a resurgence of tough rhetoric from the President with respect to ongoing trade negotiations and tariffs could prevent a more meaningful recovery in attitudes. Thus, with tariffs (and their potential effects on inflation) likely to remain in focus, updated readings on inflation expectations should continue to be monitored closely. After surging to a four-decade high of 6.6 percent in May, year-ahead inflation expectations decreased 1.6 percentage points to 5.0 percent last month – still-elevated but perhaps indicative of a return to a more normal level. Long-term expectations also improved, easing 0.2 percentage point to 4.0 percent -- only modestly below the recent high of 4.4 percent last April which itself was the highest read since May 1991.

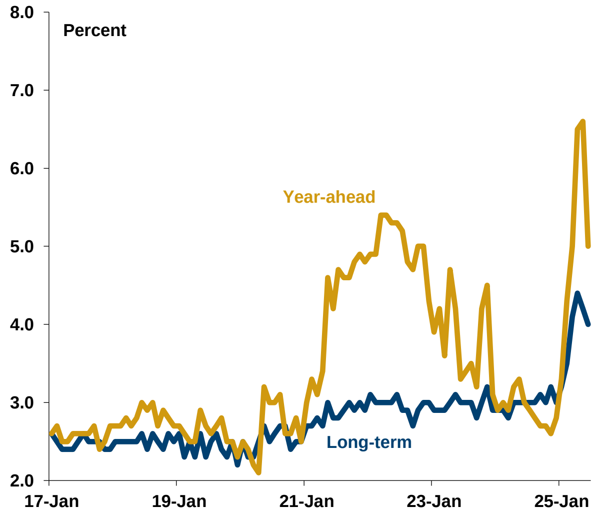
Consumer Sentiment*



** The gold bar is a forecast for July 2025.*

Sources: University of Michigan via Haver Analytics; Daiwa Capital Markets America

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Economic Indicators

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
7	8	9	10	11
	NFIB SMALL BUSINESS OPTIMISM INDEX Apr 95.8 May 98.8 June 98.6 **CONSUMER CREDIT** Mar $66.1 billion Apr $16.9 billion May $5.1 billion	**WHOLESALE TRADE** Inventories / Sales Mar 0.3% 0.8% Apr 0.1% 0.0% May -0.3% -0.3% **FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) June 14 0.246 1.964 June 21 0.237 1.955 June 28 0.232 1.965 July 5 0.227 N/A	**FEDERAL BUDGET** FY2025 / FY2024 Apr $258.4B $209.5B May -$315.7B -$347.1B June $27.0B -$71.0B
14	15	16	17	18
	CPI (8:30) Total / Core Apr 0.2% 0.2% May 0.1% 0.1% **June 0.2% 0.2%** **EMPIRE MFG (8:30)** May -9.2 June -16.0 July --	**PPI (8:30)** Final Demand / Ex. Food& Energy Apr -0.2% -0.2% May 0.1% 0.1% **June 0.2% 0.2%** **IP & CAP-U (9:15)** IP / Cap.Util. Apr 0.1% 77.7% May -0.2% 77.4% **June 0.2% 77.4%** **BEIGE BOOK (2:00)** **May 2025:** "Reports across the twelve Federal Reserve Districts indicated that economic activity has declined slightly since the previous report. Half of the Districts reported slight to moderate declines in activity, three Districts reported no change, and three Districts reported slight growth."	**UNEMP. CLAIMS (8:30)** **RETAIL SALES (8:30)** Total / Ex.Autos Apr -0.1% 0.0% May -0.9% -0.3% **June 0.1% 0.2%** **IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports / Nonagri. Exports Apr 0.4% 0.1% May 0.2% -1.0% June -- -- **PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** May -4.0 June -4.0 July -- **NAHB HOUSING INDEX (10:00)** May 34 June 32 July -- **BUSINESS INVENTORIES (10:00)** Inventories / Sales Mar 0.1% 0.6% Apr 0.0% -0.2% **May 0.0% -0.4%** **TIC FLOWS (4:00)** Long-Term / Total Mar $162.4B $253.1B Apr -$7.8B -$14.2B May -- --	**HOUSING STARTS (8:30)** Apr 1.392 million May 1.256 million **June 1.285 million** **CONSUMER SENTIMENT (10:00)** May 52.2 June 60.7 **July 62.0**
21	22	23	24	25
LEADING INDICATORS		**EXISTING HOME SALES**	**UNEMP. CLAIMS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **NEW HOME SALES**	**DURABLE GOODS ORDERS**
28	29	30	31	1
	INTERNATIONAL TRADE IN GOODS **ADVANCE INVENTORIES** **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE** **JOLTS DATA** **FOMC MEETING (FIRST DAY)**	**ADP EMPLOYMENT** **Q2 GDP** **PENDING HOME SALES** **FOMC RATE DECISION**	**UNEMP. CLAIMS** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **EMPLOYMENT COST INDEX** **MNI CHICAGO BUSINESS BAROMETER**	**EMPLOYMENT REPORT** **ISM MFG. INDEX** **REVISED CONSUMER SENTIMENT** **CONSTRUCTION** **VEHICLE SALES**

Forecasts in bold.

Treasury Financing

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
7	8	9	10	11
AUCTION RESULTS: Rate Cover 13-week bills 4.255% 2.75 26-week bills 4.145% 3.00	**AUCTION RESULTS:** Rate Cover 6-week bills 4.265% 3.27 52-week bills 3.925% 3.23 3-yr notes 3.891% 2.51 **ANNOUNCE:** $65 billion 17-week bills for auction on July 9 $80 billion 4-week bills for auction on July 10 $70 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 RESULTS:** Rate Cover 17-week bills 4.230% 3.03 10-yr notes 4.362% 2.61	**AUCTION RESULTS:** Rate Cover 4-week bills 4.235% 3.08 8-week bills 4.275% 2.86 30-yr bonds 4.889% 2.38 **ANNOUNCE:** $155 billion 13-,26-week bills for auction on July 14 $70 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:** $70 billion 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on July 16 $80 billion* 4-week bills for auction on July 17 $70 billion* 8-week bills for auction on July 17 **SETTLE:** $65 billion 17-week bills $80 billion 4-week bills $70 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:** $80 billion* 4-week bills $70 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 21 $70 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 $70 billion 6-week bills	
21	22	23	24	25
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on July 23 $80 billion* 4-week bills for auction on July 24 $70 billion* 8-week bills for auction on July 24 **SETTLE:** $65 billion* 17-week bills $80 billion* 4-week bills $70 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills $13 billion* 20-year bonds	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills $21 billion* 10-year TIPS **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 28 $70 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 $70 billion* 6-week bill	
28	29	30	31	1
AUCTION: $155 billion* 13-,26-week bills $69 billion* 2-year notes $70 billion* 5-year notes	**AUCTION:** $70 billion* 6-week bills $44 billion* 7-year notes $30 billion* 2-year FRNs **ANNOUNCE:** $65 billion* 17-week bills for auction on July 30 $80 billion* 4-week bills for auction on July 31 $70 billion* 8-week bills for auction on July 31 **SETTLE:** $65 billion* 17-week bills $80 billion* 4-week bills $70 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Aug 5 $39 billion* 10-year notes for auction on Aug 6 $22 billion* 30-year bonds for auction on Aug 7	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 4 $70 billion* 6-week bills for auction on Aug 5 $50 billion* 52-week bills for auction on Aug 5 **SETTLE:** $155 billion* 13-,26-week bills $70 billion* 6-week bill $13 billion* 20-year bonds $21 billion* 10-year TIPS	**SETTLE (CONT.):** $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes $30 billion* 2-year FRNs

*Estimate