U.S. Economic Comment

- Inflation data show initial evidence of tariff pass-through, likely keeping the Fed on hold in July
- Household spending picks up in June as consumers adjust to an uncertain environment
- Activity in the housing sector, and by extension residential construction, remains sluggish

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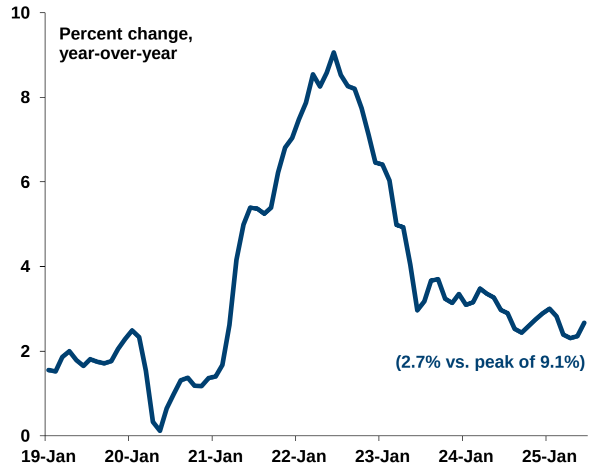
Insights on Inflation and Household Spending

As the calendar turns deeper into the summer months, critical reports from the final cycle of Q2 data (June) have helped to shape our views on the possible path of monetary policy and the trajectory of the U.S. economy. Key among these were Tuesday's CPI release (and PPI the following day) and that for retail sales on Thursday, with the inflation data supporting policymakers' hesitancy to trim further interest rates and the consumption data suggesting that consumers remain active after concern grew following soft consumption data in May.

June Inflation Developments

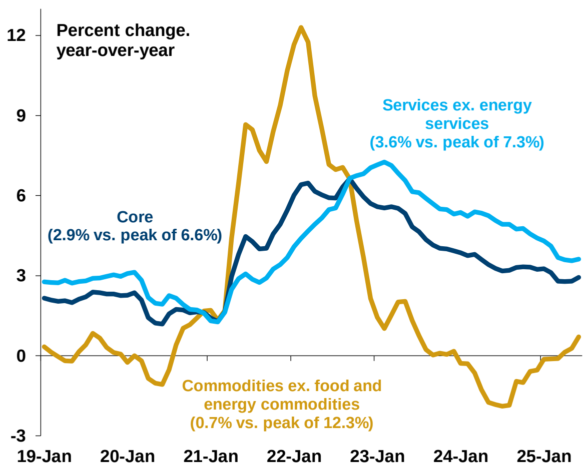
The headline CPI rose 0.3 percent in the latest month, in line with market expectations, while the core was 0.1 percentage point below consensus at 0.2 percent. Correspondingly, the year-over-year advance in the headline index accelerated to 2.7 percent from 2.4 percent previously, and the increase in the core picked up 2.9 percent from 2.8 percent (charts, below). Developments within core broadly aligned with dominant narratives (ongoing moderation in services and an anticipated pickup in goods prices tied to tariff effects) wherein the services less energy services component (i.e., core services) recorded a moderate monthly increase (0.3 percent) that corresponded with a year-over-year increase of 3.6 percent, unchanged in the latest month although the decelerating trend remains decidedly intact, while the commodities less food and energy commodities component (i.e., core goods) rose 0.2 percent after easing slightly on balance in the previous three months (+0.7 percent year-over-year versus +0.3 percent in May). Notably, the increase in core goods prices was contained by a drop in motor vehicle prices, with those for new cars easing 0.3 percent (the fifth time in the past six months that the component declined or showed no change) and those for used cars and trucks falling 0.7 percent (the fourth consecutive decline) -- shifts that obscured jumps in areas dominated by imports. In that regard, appliance prices surged 1.9 percent following firm readings of +0.8 percent in each of the prior two months, and prices of toys leapt 1.8 percent following a firm advance of 1.3 percent in May. Thus, nascent price pressure in several areas could portend faster increases in core goods prices, contingent on where tariff rates ultimately settle.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



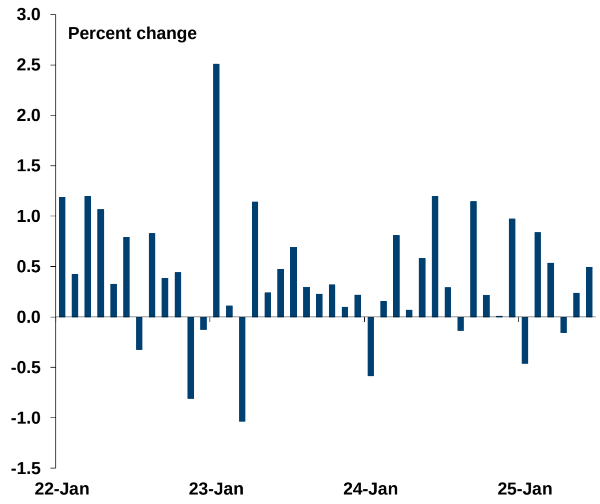
Source: Bureau of Labor Statistics via Haver Analytics

Incorporating the results for the CPI with various elements of the PPI (which was unchanged month to month, and up 2.3 percent year-over-year versus +2.7 percent previously) suggest that both the headline and core price index for personal consumption expenditures (the FOMC's preferred inflation gauge) could record increases of 0.3 percent when published on July 31. Should those projections be realized, the year-over-year change in the headline price index would increase 0.2 percentage point 2.5 percent although the core rate could remain unchanged at 2.7 percent. (We project the year-over-year advance in the core remaining unchanged given the expectation that the monthly change in the core PCE will be in the vicinity of 0.25 to 0.27 percent – rounding up to 0.3 percent.) The anticipated results are not problematic on face, but they remain above the Federal Reserve's two percent target at a time when price pressure from tariffs could be intensifying rather than cresting (see headlines today indicating that President Trump prefers a 15-20 percent tariff rate on goods from the E.U., arguably our most significant trading partner). Therefore, the current situation still demands patience with respect to setting monetary policy -- with a July cut seemingly off the table.

Solid Retail Sales Allay Fears of Pullback by Consumers

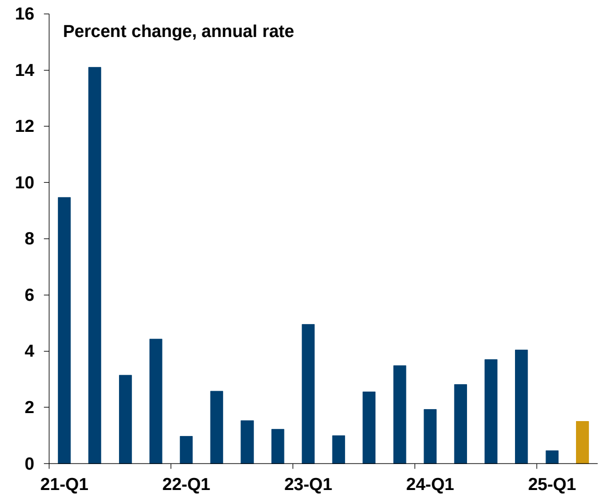
The advance of 0.6 percent in the retail sales report for June (+3.9 percent year-over-year) reflected advances in 10 of 13 key components and suggested that the drop of 0.9 percent in May represented a pause in activity rather than marking the beginning of a wider pullback by the consumer sector. Correspondingly, the retail control, which excludes auto and parts dealers, gasoline stations, and building materials, garden equipment & supply dealers, and correlates with goods outlays in the GDP accounts, rose 0.5 percent in the latest (+4.0 percent year-over-year) following a paltry advance of 0.2 percent in May and a same-sized decline in April (chart, below left). Part of the latest result likely reflected inflation (note the pickup of 0.2 percent in core goods prices discussed above), but there also was likely a gain in real activity. We'll receive a more complete view with the Personal Income and Outlays report on July 31, but data in hand point to real spending growth of approximately 1.5 percent, annual rate, in Q2 – consistent with GDP growth in the vicinity of 1.0 percent. The anticipated results for household expenditures would lag the firm 2.4 percent pace in 2024 (Q4/Q4), but it would exceed tepid 0.5 percent growth in Q1 and affirm that the consumer remains resilient (chart, below right).

Retail Sales: Control Group*



** Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.*
Source: U.S. Census Bureau via Haver Analytics

Real Consumer Spending Growth*

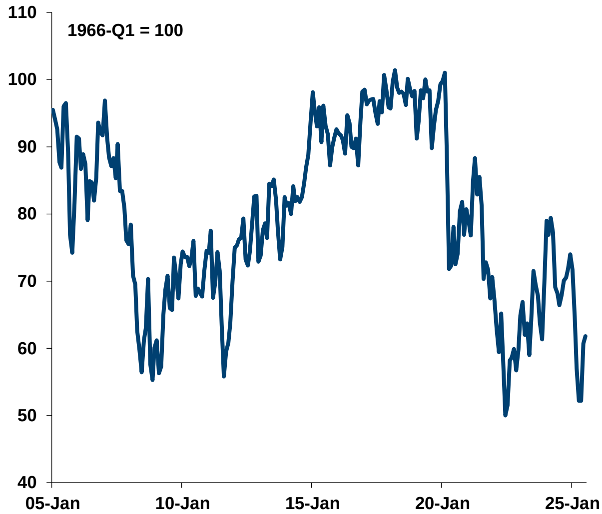


** The gold bar is a forecast for 2025-Q2.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Supportive of more active spending has been a modest improvement in consumer sentiment after a plunge in the spring tied to President Trump's chaotic rollout of tariffs, which reached a crescendo with his "Liberation Day" announcement of reciprocal duties on essentially all trading partners. With that day now receding from view, and Republicans also having passed their signature One Big Beautiful Bill that provides clarity on individual tax rates while enacting further modest cuts to various constituencies, sentiment may be poised for some further recovery after an increase in early July reported earlier today by the University of Michigan (chart, next page, left). To capture the most recent change in the tone of information flow and knock-on effect in consumer moods, we monitor the Daily

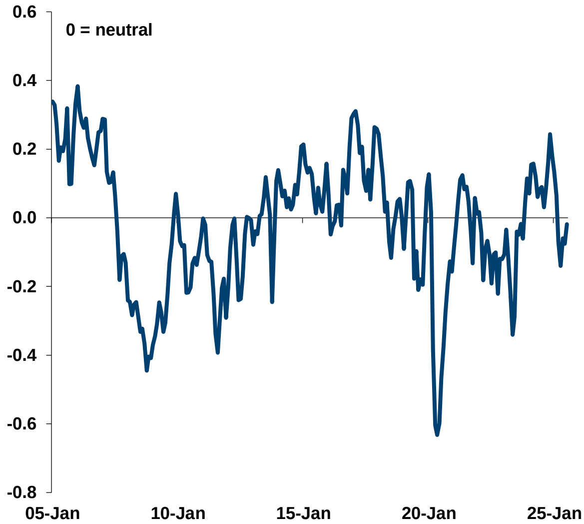
News Sentiment index published by the Federal Reserve Bank of San Francisco. This measure fell in April, coincident to the Liberation Day announcement, but it has improved steadily since then to a point where news sentiment may be neutral or slightly negative (versus persistently negative; chart, below right). We don't mean to suggest that attitudes are poised to register sharp improvement, or that consumer spending is set to spike, but we are hopeful that the lightning rod that is President Trump recedes a bit from the spotlight, thereby allowing pervasive uncertainty to give way to relative calm necessary to foster an ongoing economic expansion. (For more information on the measure and its methodology, please see: "Daily News Sentiment Index," Federal Reserve Bank of San Francisco. https://www.frbsf.org/research-and-insights/data-and-indicators/daily-news-sentiment-index/)

Consumer Sentiment



Source: University of Michigan via Haver Analytics

Daily News Sentiment Index*



** Monthly average of daily data, with the latest observation from July 13, 2025. The Daily News Sentiment Index is a high frequency measure of economic sentiment based on analysis of economics-related news articles The measure constructs sentiment scores for economics-related news articles from 24 major U.S. newspapers compiled by the news aggregator service Factiva. The newspapers cover all major regions of the country, including some with extensive national coverage such as the New York Times and the Washington Post.*

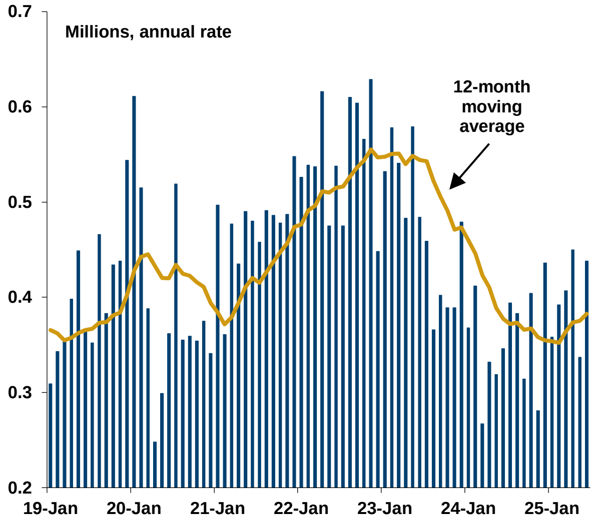
Source: Federal Reserve Bank of San Francisco via Haver Analytics

Disappointing Housing Starts Data (Again)

Housing starts rose 4.6 percent to 1.321 million, annual rate, in June, a reading in the low end of the range of the current expansion. All of the gain was the result of a jump of 30 percent in the volatile multifamily area to 0.438 million – a reading well below heady results earlier in the current expansion but solid from a longer-term perspective. Single-family starts, in contrast, slipped 4.6 percent to 0.883 million units, an unimpressive reading (charts, next page). The results by sector suggest that demand for rental units may again be stirring, but that elevated inventories of new homes available for sale and a sluggish housing market overall are restraining residential construction (which we view as a constraint on GDP at least through 2026).

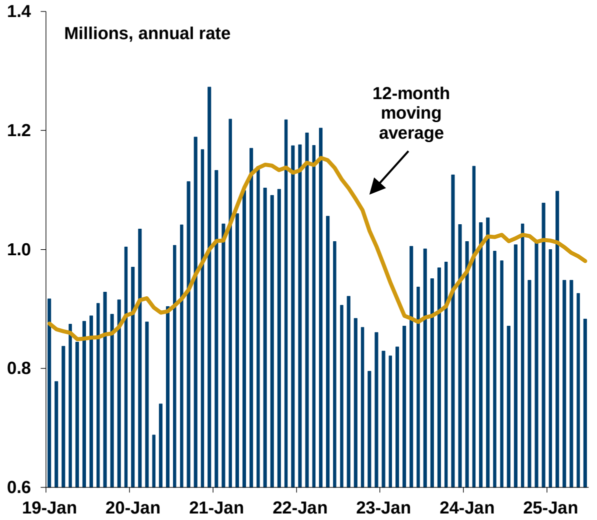
Supportive of our view that conditions in the housing market are challenging and changes for near-term recovery remain remote, builder sentiment data for July (released on July 17) were consistent with results during recent recessions. The National Association of Home Builders Housing Market Index rose one index point to 33 in July, but it has lost ground since the beginning of the year and remains marginally above the COVID low of 30 in April 2020. Contributing to this result is the depressed level of the traffic of prospective buyers subindex, which is also at the bottom of the recent range (charts, next page). The results do not point to an economy in recession, but they do emphasize that household formation for many is being delayed on account of affordability constraints. And, with possible interest rate cuts likely to only nudge mortgage rates lower, the problem could well persist with no easy solutions.

Multi-Family Housing Starts



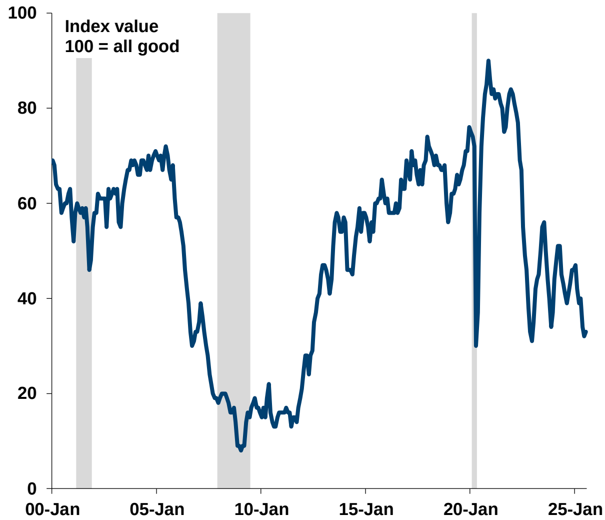
Source: U.S. Census Bureau via Haver Analytics

Single-Family Housing Starts



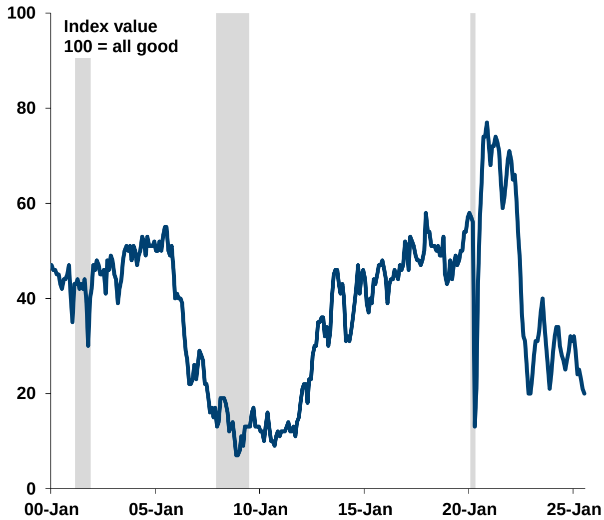
Source: U.S. Census Bureau via Haver Analytics

Home Builders: Housing Market Index*



** The shaded areas indicate periods of recession in the United States.*
Sources: National Association of Home Builders, National Bureau of Economic Research via Haver Analytics

Traffic of Prospective Buyers of New Homes



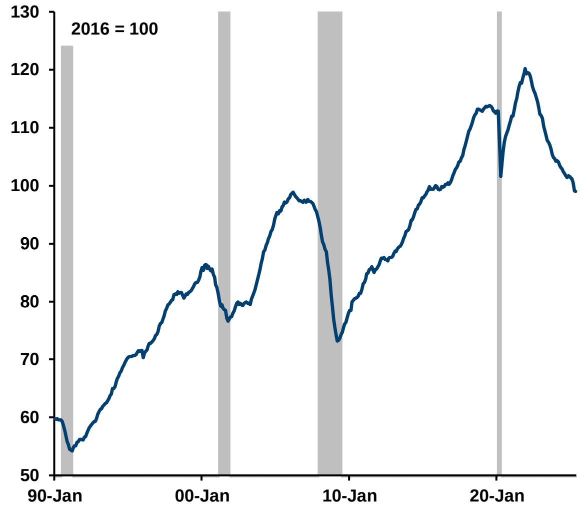
Sources: National Association of Home Builders, National Bureau of Economic Research via Haver Analytics

The Week Ahead

Leading Indicators (June) (Monday)
Forecast: -0.3%

Anticipated negative contributions from ISM new orders and unemployment claims point to the Conference Board's Index of Leading Economic Indicators contracting for the 38th time in the past 40 months. If the forecast is realized, the index would be approximately 17.9 percent below the cycle peak of 120.2 in December 2021. While the easing seen over the past few years would typically be consistent with the economy entering recession, available data still indicate ongoing expansion (though growth has been lackluster in 2025 thus far amid heightened economic uncertainty).

Index of Leading Economic Indicators*



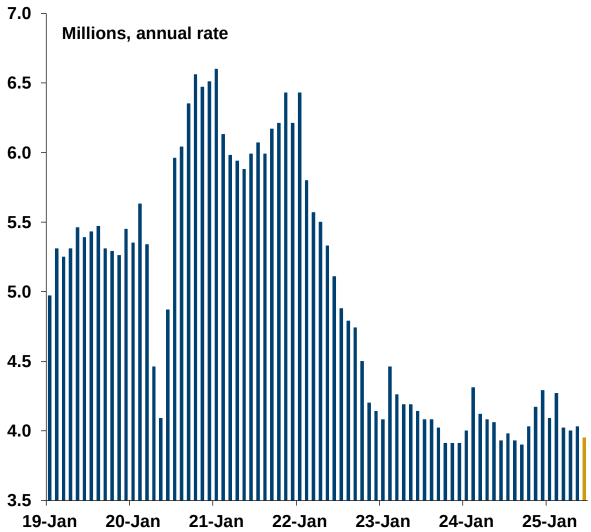
** The shaded areas indicate periods of recession in the United States.*

Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics

Existing Home Sales (June) (Wednesday)
Forecast: 3.95 Million (-2.0%)

Despite pickups in two of the past three months, the index for pending home sales is still only marginally above the record low registered in the first month of the year, indicative of existing home sales remaining rangebound at a low level in June (note that existing home sales are based on closings, with pending home sales usually translating to closings in the next one to three months). By and large, prevailing conditions in the housing market are still mostly unfavorable, with tight inventories and elevated mortgage rates contributing to reduced affordability, thus leaving the current pace of activity near the bottom of the long-term range.

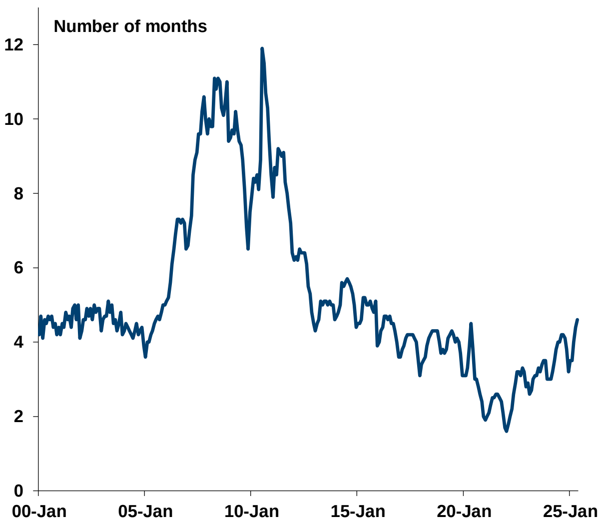
Existing Home Sales*



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

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

Months' Supply of Unsold Existing Homes

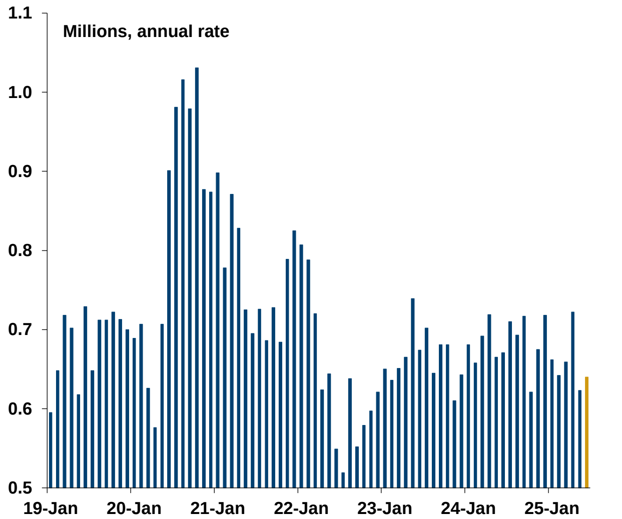


Source: National Association of Realtors via Haver Analytics

New Home Sales (June) (Thursday)
Forecast: 0.640 Million (+2.7%)

With May's decrease of 13.7 percent leaving new home sales well below the trailing six-month average of 0.680 million units, annual rate, we could envision a slight rebound pushing the series to the middle of the recent range in June (a notion supported by an increase in mortgage applications for a home purchase). Keep in mind, however, that this series can exhibit marked volatility on a month-to-month basis, with prior results often subject to large revisions.

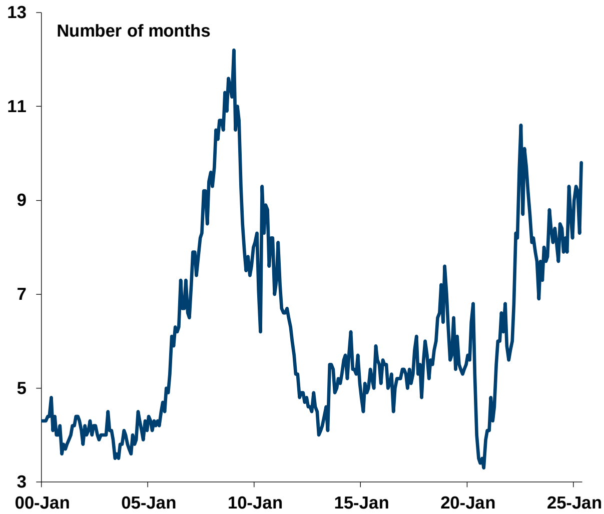
New Home Sales*



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

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

Months' Supply of Unsold New Homes

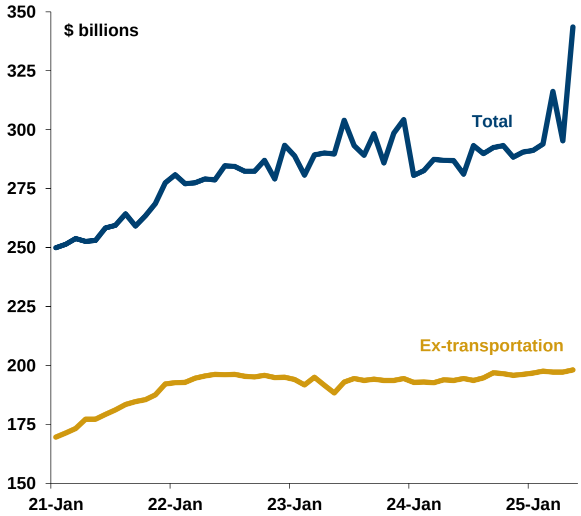


Source: U.S. Census Bureau via Haver Analytics

Durable Goods Orders (June) (Friday)
Forecast: -8.0%

The transportation category has introduced significant volatility into headline durable goods orders for much of the past two years, influenced heavily by shifts in aircraft bookings. A similar result is expected in June. Despite strong new order flows reported by Boeing, they would still be well below May's lofty totals (which contributed to the 230.8 percent surge in the civilian aircraft category). Averaging through the noise, however, leaves a modest upward tilt – a performance a bit better than that of orders excluding transportation.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Economic Indicators

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
14	15	16	17	18
	CPI Total / Core Apr 0.2% 0.2% May 0.1% 0.1% June 0.3% 0.2% **EMPIRE MFG** May -9.2 June -16.0 July 5.5	**PPI** Final Demand / Ex. Food & Energy Apr -0.3% -0.2% May 0.3% 0.4% June 0.0% 0.0% **IP & CAP-U** IP / Cap.Util. Apr 0.0% 77.6% May 0.0% 77.5% June 0.3% 77.6% **BEIGE BOOK** **July 2025:** "Economic activity increased slightly from late May through early July. Five Districts reported slight or modest gains, five had flat activity, and the remaining two Districts noted modest declines in activity."	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) June 21 0.237 1.956 June 28 0.232 1.954 July 5 0.228 1.956 July 12 0.221 N/A **RETAIL SALES** Total / Ex.Autos Apr -0.1% 0.0% May -0.9% -0.2% June 0.6% 0.5% **IMPORT/EXPORT PRICES** Non-Petrol Imports / Nonagri. Exports Apr 0.3% 0.1% May 0.0% -0.7% June 0.0% 0.5% **PHILADELPHIA FED MFG BUSINESS OUTLOOK** May -4.0 June -4.0 July 15.9 **NAHB HOUSING INDEX** May 34 June 32 July 33 **BUSINESS INVENTORIES** Inventories / Sales Mar 0.1% 0.6% Apr 0.0% -0.2% May 0.0% -0.4% **TIC FLOWS** Long-Term / Total Mar $162.2B $171.2B Apr -$8.2B -$14.6B May $259.4B $311.1B	**HOUSING STARTS** Apr 1.398 million May 1.263 million June 1.321 million **CONSUMER SENTIMENT** May 52.2 June 60.7 July 61.8
21	22	23	24	25
LEADING INDICATORS (10:00) Apr -1.4% May -0.1% **June -0.3%**		**EXISTING HOME SALES (10:00)** Apr 4.000 million May 4.030 million **June 3.950 million**	**UNEMP. CLAIMS (8:30)** **CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)** Monthly / 3-Mo. Avg. Apr -0.36 0.06 May -0.28 -0.16 June -- -- **NEW HOME SALES (10:00)** Apr 0.722 million May 0.623 million **June 0.640 million**	**DURABLE GOODS ORDERS (8:30)** Apr -6.6% May 16.4% **June -8.0%**
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**
4	5	6	7	8
FACTORY ORDERS	**TRADE BALANCE** **ISM SERVICES INDEX**		**UNEMP. CLAIMS** **PRODUCTIVITY & COSTS** **WHOLESALE TRADE** **CONSUMER CREDIT**	

Forecasts in bold.

Treasury Financing

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
14	15	16	17	18
AUCTION RESULTS: Rate Cover 13-week bills 4.245% 3.10 26-week bills 4.125% 3.10	**AUCTION RESULTS:** Rate Cover 6-week bills 4.260% 2.92 **ANNOUNCE:** $65 billion 17-week bills for auction on July 16 $90 billion 4-week bills for auction on July 17 $80 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 RESULTS:** Rate Cover 17-week bills 4.230% 3.02	**AUCTION RESULTS:** Rate Cover 4-week bills 4.230% 2.91 8-week bills 4.270% 2.60 **ANNOUNCE:** $155 billion 13-,26-week bills for auction on July 21 $80 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:** $80 billion 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on July 23 $90 billion* 4-week bills for auction on July 24 $80 billion* 8-week bills for auction on July 24 **SETTLE:** $65 billion 17-week bills $90 billion 4-week bills $80 billion 8-week bills	**AUCTION:** $65 billion* 17-week bills $13 billion 20-year bonds	**AUCTION:** $90 billion* 4-week bills $80 billion* 8-week bills $21 billion 10-year TIPS **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on July 28 $80 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 $80 billion 6-week bills
28	29	30	31	1
AUCTION: $155 billion* 13-,26-week bills $69 billion* 2-year notes $70 billion* 5-year notes	**AUCTION:** $80 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 $90 billion* 4-week bills for auction on July 31 $80 billion* 8-week bills for auction on July 31 **SETTLE:** $65 billion* 17-week bills $90 billion* 4-week bills $80 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:** $90 billion* 4-week bills $80 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 4 $80 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 $80 billion* 6-week bill $13 billion 20-year bonds $21 billion 10-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes $30 billion* 2-year FRNs	
4	5	6	7	8
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $80 billion* 6-week bills $50 billion* 52-week bills $58 billion* 3-year notes **ANNOUNCE:** $65 billion* 17-week bills for auction on Aug 6 $90 billion* 4-week bills for auction on Aug 7 $80 billion* 8-week bills for auction on Aug 7 **SETTLE:** $65 billion* 17-week bills $90 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $90 billion* 4-week bills $80 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 11 $80 billion* 6-week bills for auction on Aug 12 **SETTLE:** $155 billion* 13-,26-week bills $80 billion* 6-week bill $50 billion* 52-week bills	

*Estimate