U.S. Economic Comment

- FOMC: on track to ease monetary policy next week, with a cut of 25 basis points leaving the target range of the federal funds rate at 4 to 4-1/4 percent the most likely outcome
- The labor market: deterioration since the FOMC met in July paints a vastly different picture on underlying conditions:
- Inflation: above target but expected to ease as tariff-related price increases abate; longer-term inflation expectations remain anchored
- The Summary of Economic Projections: outside of the anticipated path of policy, modest changes expected for other key variables

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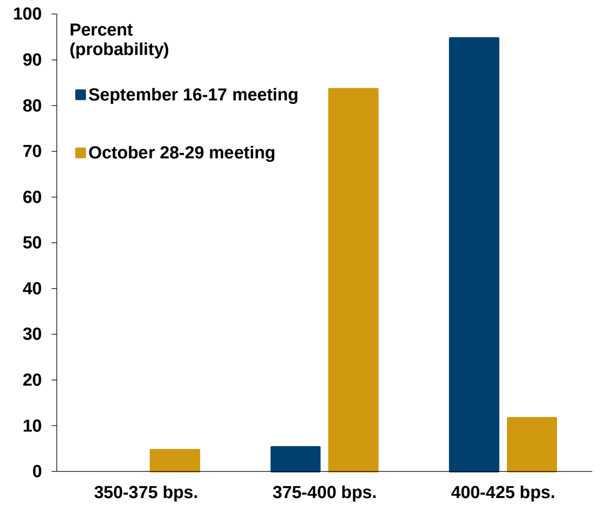
Rate Cuts to Resume Next Week

Utilizing the Jackson Hole Economic Policy Symposium to telegraph an upcoming shift in monetary policy, Fed Chair Jay Powell recalled when the FOMC previously “recalibrated” its policy stance by cutting the target range for the federal funds rate by 100 basis points in the final three meetings of 2024 in support of softening in underlying labor market conditions. The range for the policy rate has remained at 4-1/4 to 4-1/2 percent since then (i.e., a maintenance of that stance for the first five meetings of 2025 on account of concerns regarding inflation), although his comments signaled that intervention on account of the employment side of the dual mandate is again necessary. He noted, “downside risks to employment are rising. And if those risks materialize, they can do so quickly in the form of sharply higher layoffs and rising unemployment.” Thus, he pivoted into the camp of Governors Waller and Bowman, who dissented at the July policy meeting in favor of a rate cut to begin addressing emergent deterioration in the employment situation.

Data on the labor market published since Chair Powell’s remarks have supported the tonal shift (see below), raising the possibility of multiple reductions in the target range over the next several months as the Committee seeks to transition to a neutral policy setting from one characterized by various policymakers as “modestly” or “moderately” restrictive. Additionally, market participants have largely confirmed this view, with the probability of a reduction of 25 basis points at next week’s meeting at approximately 95 percent as of writing, and those for a further reduction at the October 28-29 meeting exceedingly high as well (an approximately 86 percent chance that the target range for the federal funds rate stands at 3-3/4 to 4 percent, or lower, at the conclusion of that meeting; chart). Next week policymakers, including Powell, are likely to push back to a degree against the fixed income market’s aggressive pricing of further cuts – instead likely stressing the optionality to reduce rates in coming months, while also emphasizing the need to remain vigilant regarding inflation.

Federal Funds Target Rate Probabilities*

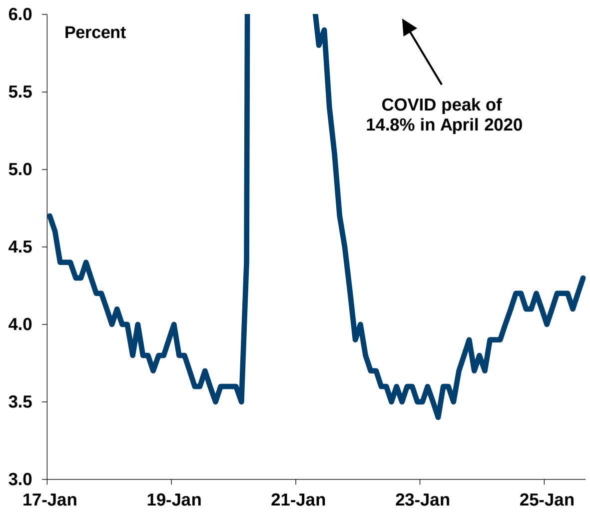


** The implied target range for the federal funds rate based on futures pricing data as of September 12, 2025*
Source: CME Group, FedWatch tool

The Labor Market

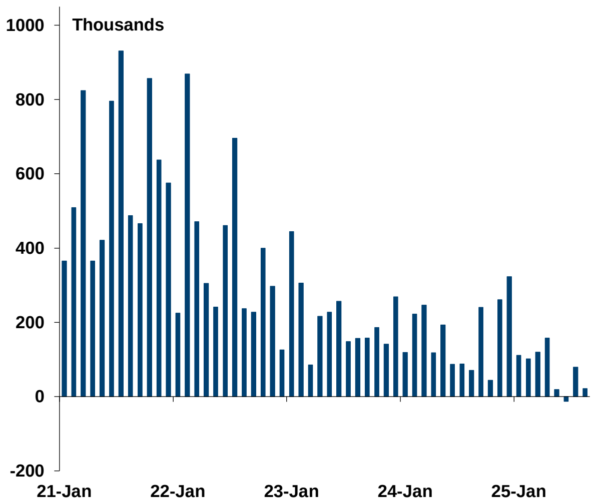
A resilient labor market had previously provided cover for policymakers to remain patient as they waited to discern the potential impacts of tariffs on consumer inflation metrics, but that time has seemingly passed. The unemployment rate rose 0.1 percentage point in August to 4.3 percent, a new high for the year (previous range of 4.0 to 4.2 percent) although only marginally above the median longer-run view in the previous Summary of Economic Projections – which can be considered as a proxy for the unemployment rate in a fully employed economy (chart, right). More concerning was the sharp deceleration in job creation in recent months. Payroll growth of 22,000 in August was modest, with the average of 27,000 in the past four months contrasting sharply with the 123,000 average in the January-to-April period (and the 168,000 average in 2024; chart, below left). Furthermore, preliminary benchmark revisions published earlier this week indicated that job growth in the 12-month period ended March 2025 was 911,000 less than previously indicated on a not seasonally adjusted basis (chart, below right). In other words, firms in the aggregate likely added approximately half as many jobs as the current seasonally adjusted average of 147,000 over that span. The results indicate a labor market operating essentially at stall speed. Firms are not yet reducing headcounts in a meaningful capacity, but as noted earlier, the precarious equilibrium currently in place could give way to a jump in unemployment were the economy to deteriorate meaningfully. Thus, a shift in favor of providing support to the labor market is justified in the eyes of policymakers.

Unemployment Rate



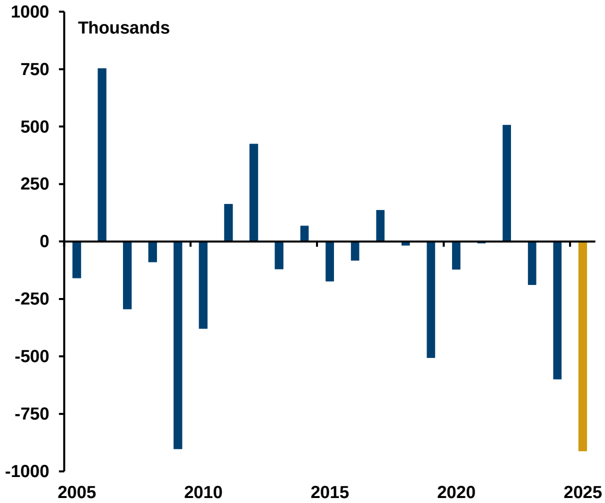
Source: Bureau of Labor Statistics via Haver Analytics

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Benchmark Revisions to Payroll Data*



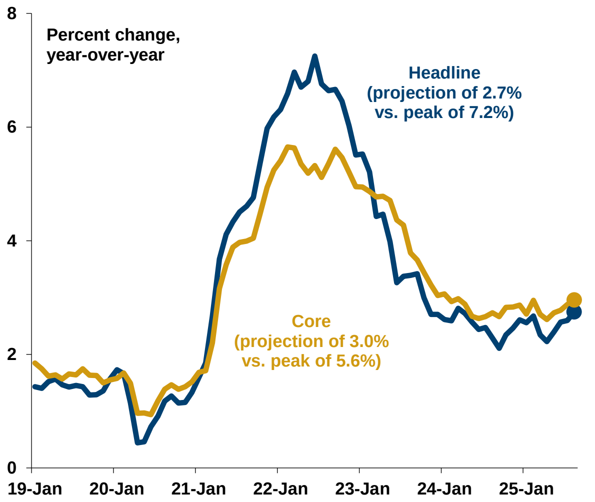
* Revisions to the 12-month period ending March, not seasonally adjusted. The gold bar is the preliminary benchmark revision for March 2025. The final revision will be incorporated into the payrolls data in February 2026 with the release of data for January.

Source: Bureau of Labor Statistics

Inflation

Although the price index for personal consumption expenditures (Fed officials' preferred measure of consumer inflation) has essentially moved sideways for some time, and we anticipate it to pick up in August based on results for the CPI and PPI, policymakers have seemingly adopted the view that tariff-related price pressure will peak later this year without developing into a more persistent inflation problem (chart, below left). The view has merit, as pass-through from tariffs to goods inflation in the U.S. has been somewhat limited and coincides with observable softening aggregate demand that would further inhibit a one-to-one transmission and a slowing in wage growth – which could contribute to easing in service sector inflation. Furthermore, consumer inflation expectations appear to be in check, which mitigates the potential for second-round price pressure from tariffs (chart, below right). From our perspective, we anticipate the core PCE price index peaking in the vicinity of 3-1/4 percent in Q4, higher than the June SEP median of 3.1 percent, although the thought process underpinning our view is consistent with that indicated above. Risks to the inflation outlook remain skewed to the upside, but we view those risks as having retreated somewhat in light of the observed inflation response to tariffs thus far and on account of the likely easing in economic activity suggested by now sluggish labor market conditions.

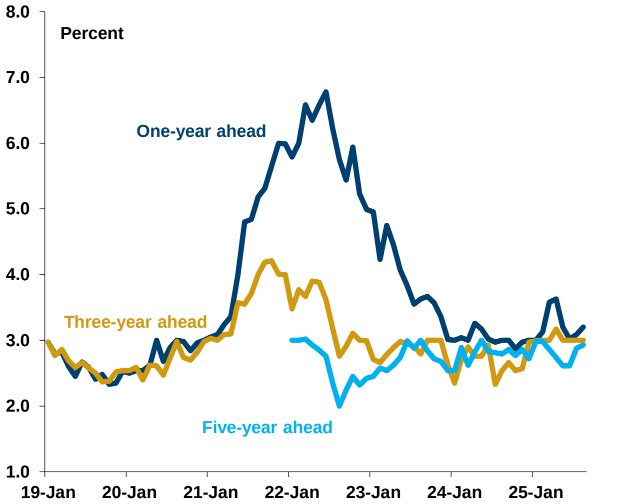
PCE Inflation*



** The August 2025 observations for the headline and core PCE price indexes (blue and gold dot) are forecasts based on a projected month-to-month changes of +0.27 and +0.24 percent, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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 Statement and Summary of Economic Projections

Given that the July 30 FOMC statement indicated that "labor market conditions remain solid," we see a high probability of some change to the text beyond simply the indication of a change in the target range for the federal funds rate. We suspect that it is unlikely to be dramatic, as officials will hope to avoid sending an overly dovish signal, but they could suggest that conditions have perhaps "softened" or "eased" more recently.

In a similar vein, we anticipate that adjustments to economic variables in the Summary of Economic Projections will be somewhat limited. We expect that the median expectation for real GDP in 2025 could be nudged lower by 0.1 percentage point to 1.3 percent, and those for headline and core inflation adjusted higher by a similar amount, but we don't view recent communications as providing guidance for more dramatic changes. Additionally, we will receive new projections for 2028, which we expect to be close to current longer-run observations.

What will almost certainly evolve is expectations for the target range for the federal funds rate. The 2025 median likely will be reduced by 25 basis points to 3.625 percent (three cuts inclusive of one in September versus two previously) and that the 2026 median will be 50 basis points lower at 3.125 percent (2 cuts versus 1 in the prior SEP and a lower median). With the expected changes in 2025 and 2026 leaving the policy rate in proximity to neutral, we expect medians of 3.125 percent in both 2027 and 2028. Furthermore, we see little chance of a revision to views on the longer-run rate.

Ultimately, risks for some form of surprise at next week's meeting are high given the unusually elevated level of uncertainty stemming from the Trump administration's policies, along with still-above-target inflation and rapidly slowing labor market conditions. We could envision dissents in favor of a 50-basis-points cut from Stephen Miran, if confirmed in time, or possibly from Governors Waller or Bowman. Similarly, given concern about inflation, Presidents Alberto Musalem of St. Louis or Jeffrey Schmid of Kansas City – both hawkish leaning – could dissent in favor of no change in policy. Moreover, while we view the scenario for the dot plot outlined earlier as reasonable, a third cut for 2025 may not materialize. Officials have argued to this point that monetary policy is well positioned to deal with risks to both sides of the dual mandate, but we believe that decisions henceforth will be far more difficult than those ratified just a meeting or so ago.

Economic Projections of the FOMC, June 2025*

	2025	2026	2027	Longer Run
Change in Real GDP	1.4	1.6	1.8	1.8
Unemployment Rate	4.5	4.5	4.4	4.2
PCE Inflation	3.0	2.4	2.1	2.0
Core PCE Inflation	3.1	2.4	2.1	--
Federal Funds Rate	3.9	3.6	3.4	3.0

** Median projections*

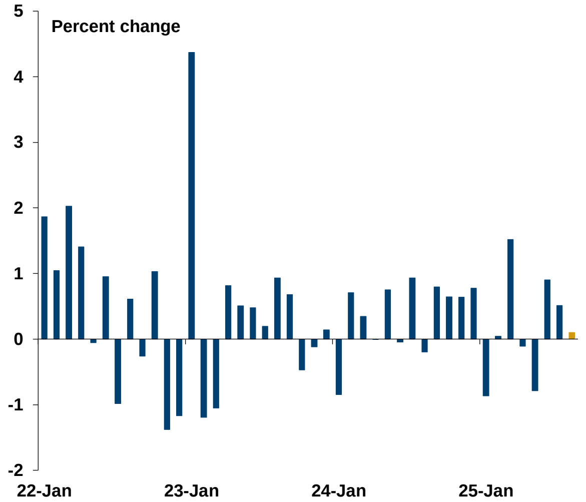
Source: Federal Open Market Committee, Summary of Economic Projections, June 2025

The Week Ahead

Retail Sales (August) (Tuesday)
Forecast: +0.1% Total, +0.3% Ex. Autos, +0.3% Ex. Autos & Gas

A decline in new vehicle sales suggests that the motor vehicle component of retail sales could constrain total activity in August. Excluding autos, sales have been tepid in recent months (average monthly change of +0.2 percent in 2025 thus far), a trend that could continue amid depressed sentiment and softening in the labor market likely deterring consumers from making discretionary purchases.

Retail Sales*



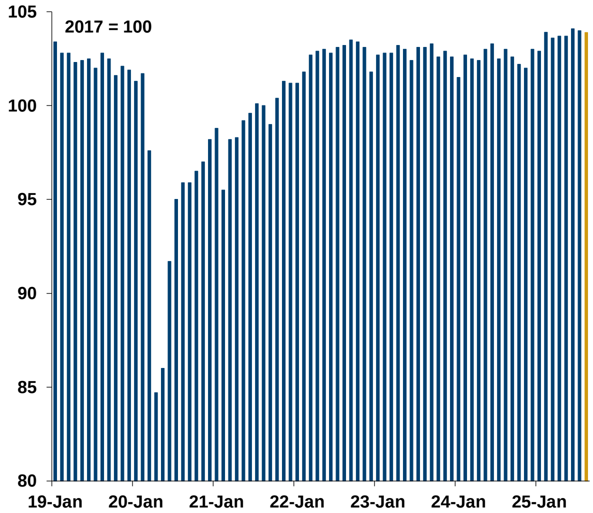
** The gold bar is a forecast for August 2025.*

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

Industrial Production (August) (Tuesday)
Forecast: -0.1% Total, -0.2% Manufacturing, 77.2% Cap-U

Cuts in manufacturing employment and the factory workweek suggest a decline in the manufacturing component of industrial production in August, augmenting an already unimpressive trend. Moreover, a dip in the rotary rig count along with trimmed headcounts in the mining sector point to softening in the mining component for the third straight month. The utility component often reflects swings in weather rather than economic fundamentals, with temperatures within historical norms pointing to an uptick in the latest month. That said, keep in mind that this component can show marked volatility on a month-to-month basis (range of -8.2 to +4.1 percent in the past six months).

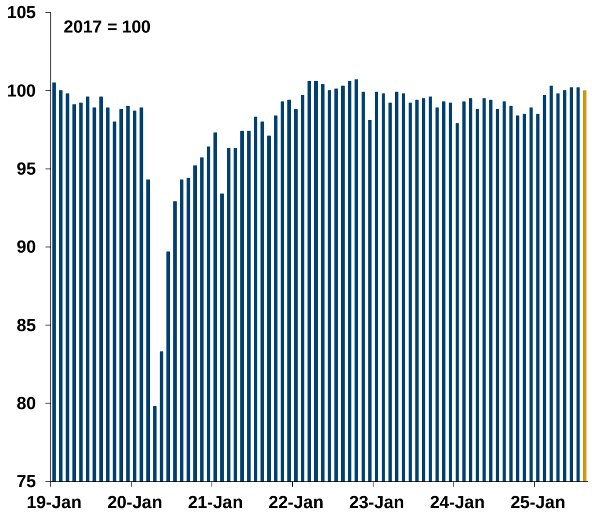
Industrial Production: Headline*



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

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

Industrial Production: Manufacturing*



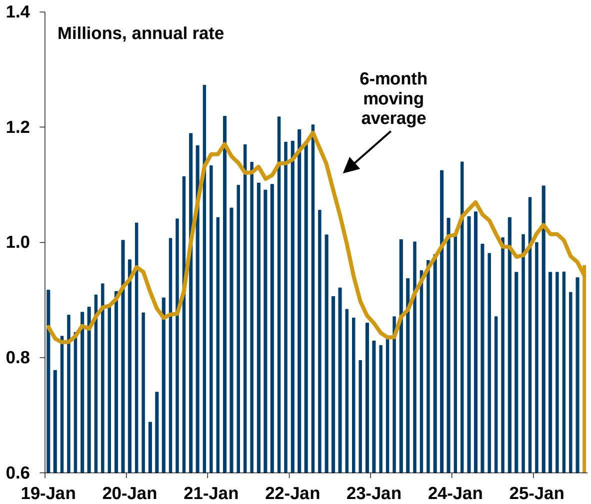
** The gold bar is a forecast for August 2025.*

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

Housing Starts (August) (Wednesday)
Forecast: 1.350 Million (-5.5%)

The recent pattern of permit issuance, which includes declines in each of the past four months, is indicative of housing starts easing in August. With inventories of single-family units elevated, builders could exercise caution in initiating new single-family housing projects – an ongoing situation suggesting that starts in this component are likely to remain in the low end of the range of the last few years (and consistent with the six-month average of 0.966 million). Multi-family starts, which are often highly volatile from month-to-month, could ease after July's surge of 9.9 percent to 0.489 million units pushed starts well above the trailing six-month average of 0.398 million.

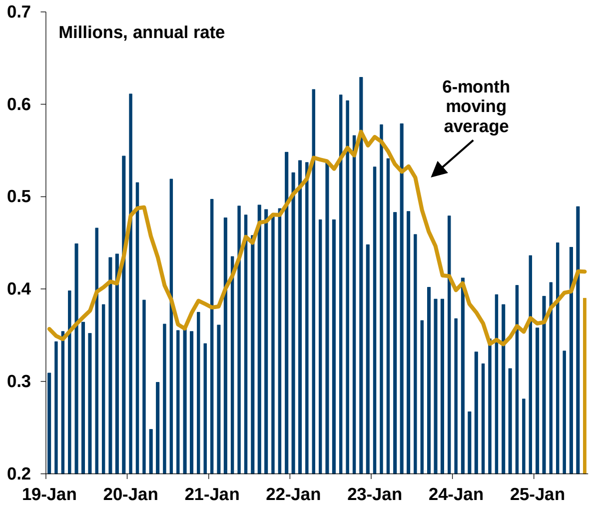
Single-Family Housing Starts*



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

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

Multi-Family Housing Starts*



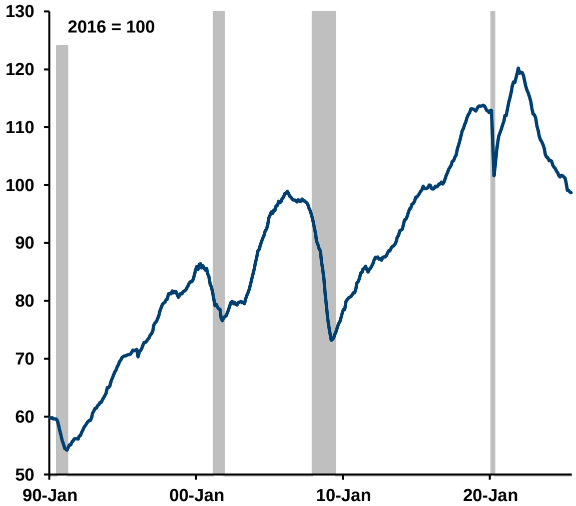
** The gold bar is a forecast for August 2025.*

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

Leading Indicators (August) (Thursday)
Forecast: -0.1%

Anticipated negative contributions from the factory workweek and unemployment claims are likely to offset a positive contribution from stock prices, pointing to a contraction in the Conference Board's Leading Economic Index for the 39th time in the past 42 months. If the forecast is realized, the index would be approximately 18.0 percent below the cycle peak of 120.2in 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 a slowing labor market and 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

Daiwa Capital Markets

Economic Indicators

September/October 2025

Monday	Tuesday	Wednesday	Thursday	Friday
8	9	10	11	12
CONSUMER CREDIT May $7.9 billion June -$4.3 billion July $16.0 billion	**NFIB SMALL BUSINESS OPTIMISM INDEX** June 98.6 July 100.3 Aug 100.8	**PPI** Final Demand / Ex. Food & Energy June 0.1% 0.0% July 0.7% 0.7% Aug -0.1% -0.1% **WHOLESALE TRADE** Inventories / Sales May -0.3% -0.4% June 0.2% 0.7% July 0.1% 1.4%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Aug 16 0.234 1.944 Aug 23 0.229 1.939 Aug 30 0.236 1.939 Sep 6 0.263 N/A **CPI** Total / Core June 0.3% 0.2% July 0.2% 0.3% Aug 0.4% 0.3% **FEDERAL BUDGET** FY2025 / FY2024 June $27.0B -$71.0B July -$291.1B -$243.7B Aug -$344.8B -$380.1B	**CONSUMER SENTIMENT** July 61.7 Aug 58.2 Sep 55.4
15	16	17	18	19
EMPIRE MFG (8:30) July 5.5 Aug 11.9 Sep --	**RETAIL SALES (8:30)** Total / Ex.Autos June 0.9% 0.8% July 0.5% 0.3% **Aug 0.1% 0.3%** **IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports / Nonagri. Exports June -0.2% 0.5% July 0.3% 0.1% Aug -- -- **IP & CAP-U (9:15)** IP / Cap.Util. June 0.4% 77.7% July -0.1% 77.5% **Aug -0.1% 77.2%** **NAHB HOUSING INDEX (10:00)** July 33 Aug 32 Sep -- **BUSINESS INVENTORIES (10:00)** Inventories / Sales May 0.0% -0.4% June 0.2% 0.7% **July 0.2% 1.0%** **FOMC MEETING (FIRST DAY)**	**HOUSING STARTS (8:30)** June 1.358 million July 1.428 million **Aug 1.350 million** **FOMC RATE DECISION (2:00)**	**UNEMP. CLAIMS (8:30)** **PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** July 15.9 Aug -0.3 Sep -- **LEADING INDICATORS (10:00)** June -0.3% July -0.1% **Aug -0.1%** **TIC FLOWS (4:00)** Long-Term / Total May $266.8B $318.1B June $150.8B $77.8B July -- --	
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX	**CURRENT ACCOUNT** **EXISTING HOME SALES**	**NEW HOME SALES**	**UNEMP. CLAIMS** **REVISED Q2 GDP** **DURABLE GOODS ORDERS** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **REVISED CONSUMER SENTIMENT**
29	30	1	2	3
PENDING HOME SALES	**FHFA HOME PRICE INDEX** **S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER** **JOLTS DATA** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**ADP EMPLOYMENT** **ISM MFG. INDEX** **CONSTRUCTION** **VEHICLE SALES**	**UNEMP. CLAIMS** **FACTORY ORDERS**	**EMPLOYMENT REPORT** **ISM SERVICES INDEX**

Forecasts in bold.

Treasury Financing

September/October 2025

Monday	Tuesday	Wednesday	Thursday	Friday
8	9	10	11	12
AUCTION RESULTS: Rate / Cover 13-week bills 3.940% 2.81 26-week bills 3.730% 3.17	**AUCTION RESULTS:** Rate / Cover 6-week bills 4.090% 2.73 3-yr notes 3.485% 2.73 **ANNOUNCE:** $65 billion 17-week bills for auction on Sep 10 $100 billion 4-week bills for auction on Sep 11 $85 billion 8-week bills for auction on Sep 11 **SETTLE:** $65 billion 17-week bills $100 billion 4-week bills $85 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.850% 3.26 10-yr notes 4.033% 2.65	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.060% 2.64 8-week bills 4.000% 2.81 30-yr bonds 4.651% 2.38 **ANNOUNCE:** $155 billion 13-,26-week bills for auction on Sep 15 $85 billion 6-week bills for auction on Sep 16 $13 billion 20-year bonds for auction on Sep 16 $19 billion 10-year TIPS for auction on Sep 18 **SETTLE:** $155 billion 13-,26-week bills $85 billion 6-week bills	
15	16	17	18	19
AUCTION: $155 billion 13-,26-week bills **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $85 billion 6-week bills $13 billion 20-year bonds **ANNOUNCE:** $65 billion* 17-week bills for auction on Sep 17 $100 billion* 4-week bills for auction on Sep 18 $85 billion* 8-week bills for auction on Sep 18 **SETTLE:** $65 billion 17-week bills $100 billion 4-week bills $85 billion 8-week bills	**AUCTION:** $65 billion* 17-week bills	**AUCTION:** $100 billion* 4-week bills $85 billion* 8-week bills $19 billion 10-year TIPS **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Sep 22 $85 billion* 6-week bills for auction on Sep 23 $69 billion* 2-year notes for auction on Sep 23 $70 billion* 5-year notes for auction on Sep 24 $44 billion* 7-year notes for auction on Sep 25 $28 billion* 2-year FRNs for auction on Sep 24	**SETTLE:** $155 billion 13-,26-week bills $85 billion 6-week bills
22	23	24	25	26
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $85 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $65 billion* 17-week bills for auction on Sep 24 $100 billion* 4-week bills for auction on Sep 25 $85 billion* 8-week bills for auction on Sep 25 **SETTLE:** $65 billion* 17-week bills $100 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $100 billion* 4-week bills $85 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Sep 29 $85 billion* 6-week bills for auction on Sep 30 $50 billion* 52-week bills for auction on Sep 30 **SETTLE:** $155 billion* 13-,26-week bills $85 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs
29	30	1	2	3
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $85 billion* 6-week bills $50 billion* 52-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on Oct 1 $100 billion* 4-week bills for auction on Oct 2 $85 billion* 8-week bills for auction on Oct 2 **SETTLE:** $65 billion* 17-week bills $100 billion* 4-week bills $85 billion* 8-week bills $13 billion 20-year bonds $19 billion 10-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $65 billion* 17-week bills	**AUCTION:** $100 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Oct 6 $85 billion* 6-week bills for auction on Oct 7 $58 billion* 3-year notes for auction on Oct 7 $39 billion* 10-year notes for auction on Oct 8 $22 billion* 30-year bonds for auction on Oct 9 **SETTLE:** $155 billion* 13-,26-week bills $85 billion* 6-week bills $50 billion* 52-week bills	

*Estimate