

U.S. Economic Comment

- FOMC: easing in monetary policy a near certitude next week
- The data: inflation softer than expected, but risks remain; downside risks to the labor market warrant further easing
- Balance sheet policy: with reserves likely having transitioned from “abundant” to “ample,” the end of Treasury redemptions possibly addressed next week

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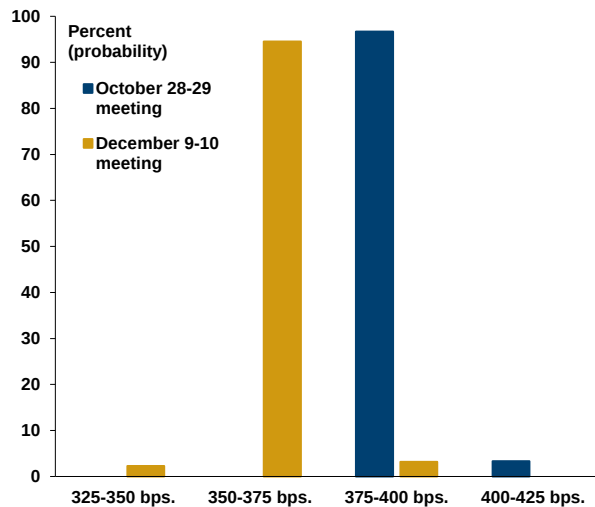
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FOMC Preview: Cut Next Week

The five weeks since the Federal Open Market Committee met on September 16-17 has been an interesting period, to say the least. At the conclusion of that meeting, policymakers cut the target range for the federal funds rate by 25 basis points to 4 to 4-1/4 percent. The move marked the first easing in monetary policy since December 2024, when the Committee had previously reduced interest rates by 100 basis points over the final three meetings of the year with highly restrictive policy no longer necessary given improvement in inflation at that time. Contrastingly, the latest move was prompted by emergent downside risks to the labor market, and while all officials supported the cut, the Committee remained divided about how much additional accommodation was required into year-end given still present concerns about tariffs and above-target inflation (the September Summary of Economic Projections indicated that nine of 19 participants projected one same-sized or no cuts in the final two meetings of 2025). Since that time, the federal government shut down as of October 1, with the development delaying a host of key economic data (including the September Employment Situation from the Bureau of Labor Statistics among others). Moreover, with the shutdown in its 24th day -- the second longest in history behind the 35-day disruption from December 22, 2018 to January 25, 2019 -- further data are unlikely to be released on time, with quality potentially suffering as field agents are not surveying prices for inflation metrics, etc.

Even amid the disruption to essential data, we suspect that the FOMC has received enough essential information to suggest that underlying trends in the economy have evolved little since mid-September -- those being that inflation risks have diminished to a degree, but remain elevated, and that the labor market has softened with the most notable feature being hiring coming to a standstill. In that vein, Chair Powell noted in remarks on October 14, “the outlook for employment and inflation does not appear to have changed much since our September meeting four weeks ago,” a presentation wherein he also refrained from pushing back on market expectations of a cut at the October 28-29 meeting -- which market participants viewed as signaling the high probability of a rate reduction (chart, next page, left). Additional officials that week also reaffirmed support for easier policy, with Governor Bowman using an appearance in Washington, D.C. to confirm her view that cuts of 25 basis points at each of the final two policy meetings of the year were appropriate and the newly appointed Stephen Miran (who we view as likely to dissent in favor of a reduction of 50 basis points) making a case for more aggressive easing. From our point of view, we currently expect that the Committee will not only ratify the market expectation for easing next week but also at the December gathering, although we suspect that policymakers will continue to stress that December is a “live” meeting given downside risks to the labor market and thus not yet a done deal. We currently project two additional cuts next year, with easing occurring every other meeting in the first half (March and June) before holding policy in the range of 3 to 3-1/4 percent (i.e., what we view as within the range of neutral) for the remainder of the year (chart, next page, right).

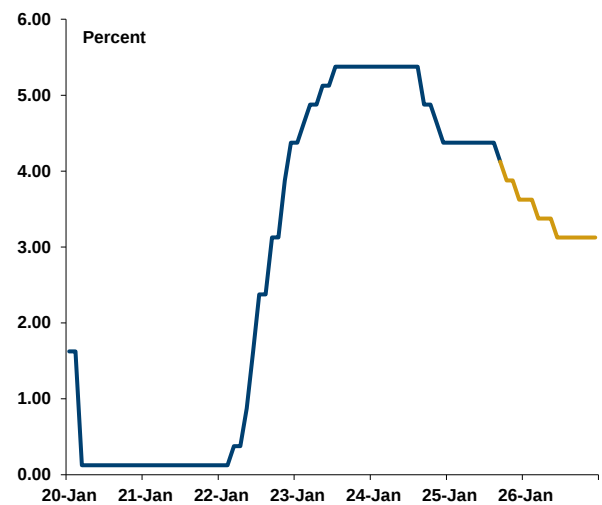
Federal Funds Target Rate Probabilities*



* The implied target range for the federal funds rate based on futures pricing data as of October 24, 2025.

Source: CME Group, FedWatch tool

Federal Funds Target Rate*



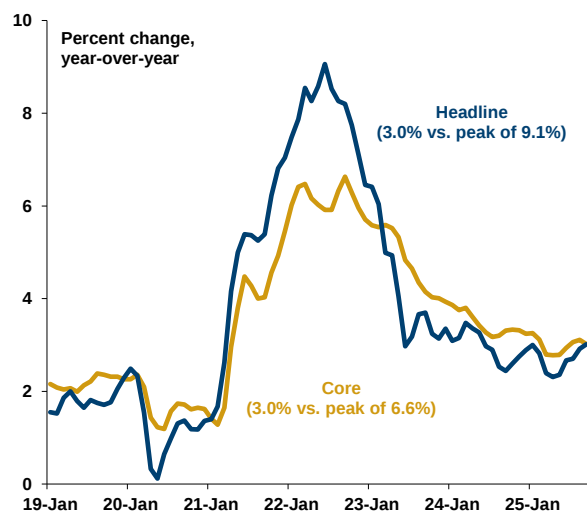
* The gold line shows the forecasted path for the federal funds rate through year-end 2026.

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

The Data

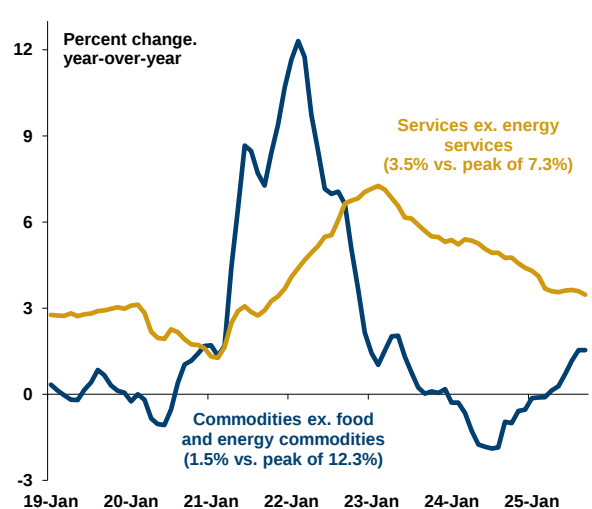
Turning first to the inflation data, the September CPI was released today -- nine days after its previously scheduled date. Underlying data for this report was mostly gathered ahead of the government shutdown, and preference was given despite staffing furloughs on account of the Social Security Administration requiring the input to set the annual cost of living adjustment for recipients. The latest increases of 0.3 percent for the headline index and 0.2 percent for the core each lagged the Bloomberg survey median by 0.1 percentage point, although the year-over-year advances of 3.0 percent for both (versus 2.9 percent and 3.1 percent, respectively, in the prior month) augmented the sideways trend that remains stubbornly above the Federal Reserve's 2 percent target (chart, below left). With that said, we were somewhat heartened by the composition of the latest data and optimistic that inflation will return to target in the medium term after tariff-related price pressure peaks later this year or perhaps into early 2026. Core goods inflation, which captures the effects of tariffs, rose 0.2 percent in the latest month (+1.5 percent year-over-year, essentially matching the prior month's reading), while the advance of 0.2 percent in the services less energy services area translated to a year-over-year increase of 3.5 percent – down from 3.6 percent in the prior month (chart, below right).

CPI



Source: Bureau of Labor Statistics via Haver Analytics

Decomposition of Core CPI

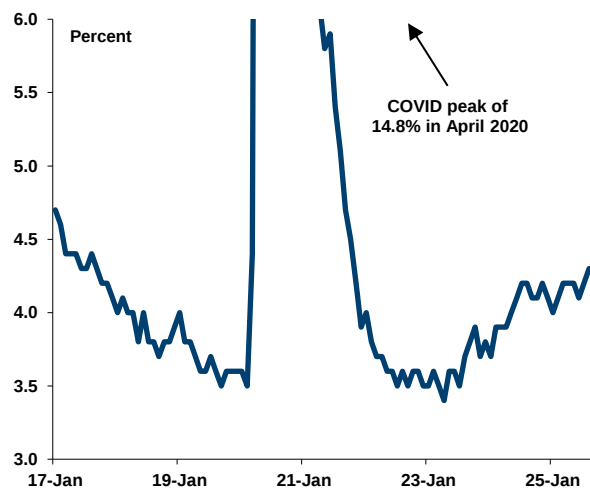


Source: Bureau of Labor Statistics via Haver Analytics

Notably, the deceleration in the housing components has continued apace. Rent of primary residence increased 0.2 percent in the latest month, joined by an advance of 0.1 percent in the owners' equivalent rent of residences component. Moreover, the year-over-year changes of 3.4 percent and 3.8 percent, respectively, are either aligned with or rapidly approaching pre-pandemic trends (which prevailed in a low inflation environment; chart, right). Moreover, various measures of market rents suggest that further cooling could be in the pipeline. We do not want to overstate the development, as risks from tariffs remain elevated, but we do assess the latest inflation reading as favorable enough to support an ongoing policy shift to bolster the labor market.

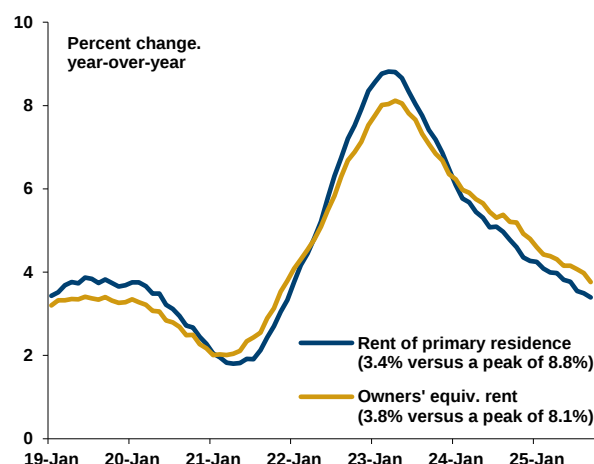
With respect to the employment side of the dual mandate, we view the labor market as holding in the "curious" balance previously described by Chair Powell as characterized by modest hiring and restrained layoffs. The latest available view on payrolls (private-sector data from ADP and the Stanford Digital Economy Lab) showed a contraction of 32,000 in September, with the Q2 and Q3 averages of 22,000 and 23,000 well below the 139,000 pace in Q1 and 200,000 in the fourth quarter of 2024 – a similar story to BLS data through August (latest three-month average of +29,000). Additionally, while the unemployment rate has been low at 4.3 percent as of August (0.1 percentage point above the long-run median from the latest Summary of Economic Projections – a reasonable proxy for full employment), we note deterioration under the surface. For example, the unemployment rate for young people starting their careers surged from 7.9 percent in July to 9.2 percent in August, well above both recent and pre-pandemic trends, and similar developments are manifesting in other population segments such as traditionally underserved communities (charts, below). In essence, the labor market is not in freefall, but risks have intensified.

Unemployment Rate



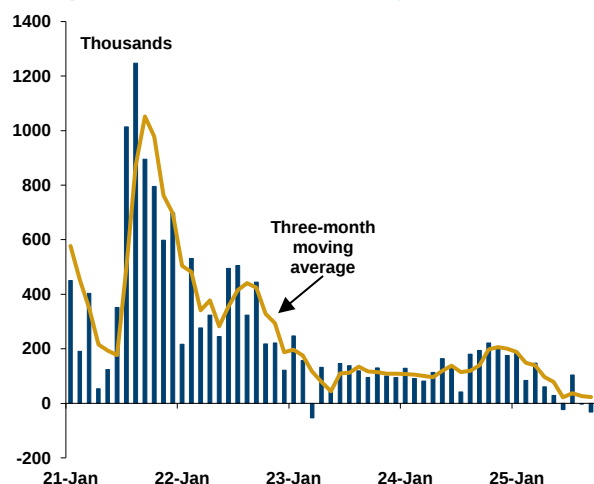
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Shelter



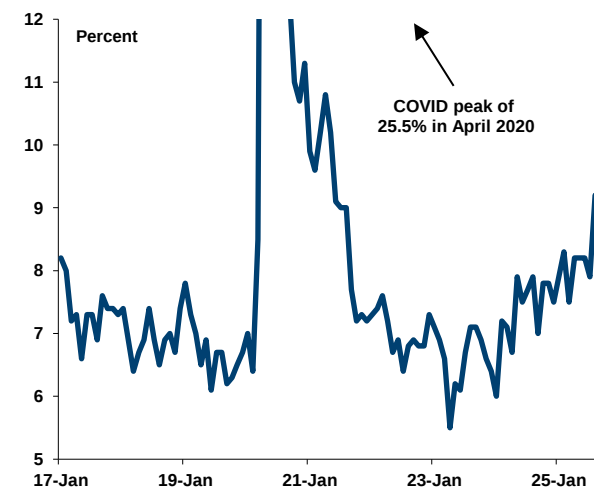
Source: Bureau of Labor Statistics via Haver Analytics

Change in Nonfarm Private Payrolls



Source: ADP Research, Stanford Digital Economy Lab via Haver Analytics

Unemployment Rate: 20-24 Years



Source: Bureau of Labor Statistics via Haver Analytics

Thus, we expect next week's statement to remain broadly similar to that from September, acknowledging that "[J]ob gains have slowed," and justifying another cut "in light of the shift of the balance of risks." Even so, we do not anticipate that Chair Powell in his press conference will declare the "all clear" on inflation or indicate a preference for upcoming cuts at sequential meetings. Rather, he is likely to remain guarded in his assessment of inflation and stress that each meeting is "live." In other words, the future path of policy will still be contingent on the evolution of the balance of risks to both sides of the dual mandate.

Balance Sheet Policy

Given Chair Powell's focus on balance sheet policy in his October 14 remarks, we could foresee guidance on the end of Treasury redemptions at next week's meeting. Currently, QT of around \$22 billion per month is still occurring, with Treasury redemptions of \$5 billion and agency MBS redemptions of approximately \$17 billion (versus a \$35 billion cap). Moreover, this process has continued while reserves have plunged from \$3.4 trillion in mid-July to \$2.9 trillion in mid-October, with the drop attributable to the debt ceiling increase in the One Big Beautiful Bill Act and the associated surge in Treasury bill issuance to rebuild the Treasury Department's cash balance (\$908 billion in the latest week on a weekly average basis; chart on reserve balances, below left). Thus, in a period wherein reserves may have finally transitioned from "abundant" to "ample," we may be beginning to observe signs of stress in short-term funding markets. Use of the Standing Repo Facility, a stand-by operational tool of the Fed designed to alleviate funding pressure, has increased, all while money market rates have picked up (note that SOFR has drifted toward the upper end of the fed funds range; chart, below right). The developments do not necessarily suggest that a market breakdown akin to that in September 2019 is possible, but they do imply that QT may have run its course.

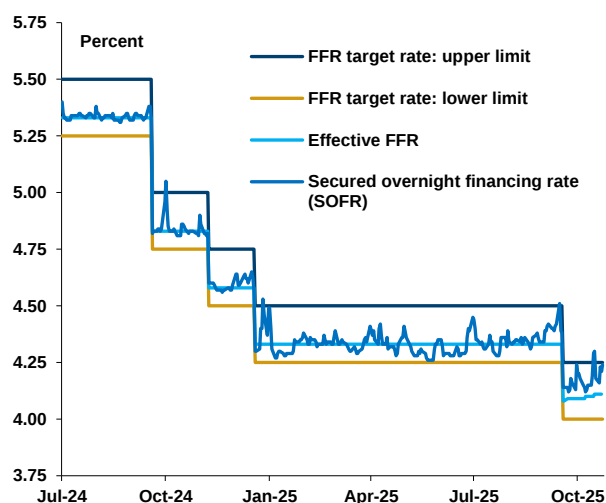
Reserve Balances with Federal Reserve Banks*



* Average of week ending Wednesday

Source: H.4.1 Report, Federal Reserve Board via Haver Analytics

Money Market Rates & the Target Range



Sources: Federal Reserve Board, Federal Reserve Bank of New York via Haver Analytics

Therefore, if guidance is provided, we suspect that it could point to a termination of Treasury redemptions by the end of December. We expect that MBS could be allowed to roll off, as Fed officials have previously indicated a desire to return to a Treasuries-only portfolio, but we suspect that proceeds would be reinvested in Treasuries to maintain the overall size of the portfolio. An announcement next week is not guaranteed, and parameters may deviate significantly from those above, but signs from short-term funding markets have caught the attention of policymakers – including the Fed Chair.

Note to readers:

The next issue of the U.S. Economic Comment will be published on November 14, 2025.

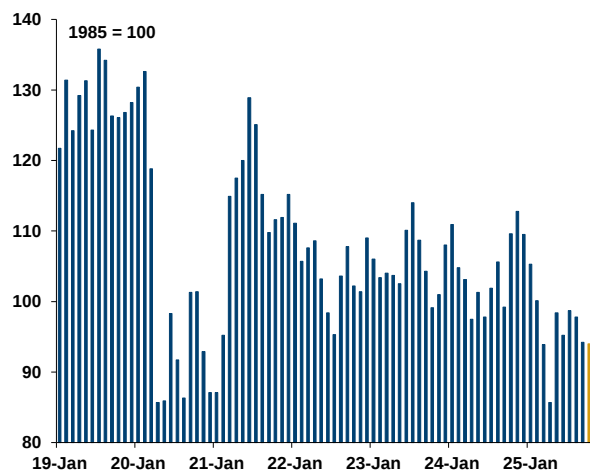
The Week Ahead

Consumer Confidence (October) (Tuesday)

Forecast: 94.0 (-0.2% or -0.2 Index Pt.)

Concerns over a stagnant labor market are likely to weigh on consumer attitudes again in October, as are those about the ongoing potential impacts of tariffs on the costs of key consumer goods. The forecast, if realized, would leave the Conference Board's confidence index at the low end of the post-pandemic range, emphasizing that households remain worried about the economic outlook (chart, below left). Also, keep a close eye on the assessment of the labor market by survey respondents. The share of individuals indicating that jobs are plentiful slipped from 33.9 percent in January (already off appreciably from the expansion peak of 56.7 percent in March 2022) to 26.9 percent in September. Meanwhile, the share noting that jobs are hard to get rose to 19.1 percent in September from 14.5 percent in January (versus an expansion low of 9.6 percent also in March 2022). Thus, the labor market differential ("plentiful" less "hard to get") has fallen from 47.1 percent in March 2022 to 7.8 percent most recently (chart, below right). While we do not view the economy as in recession, such a pronounced deterioration often portends an economy slipping into contraction. With that in mind, the Fed's pivot from mildly restrictive monetary policy to targeting neutral amid increasing risks to the labor market appears well justified.

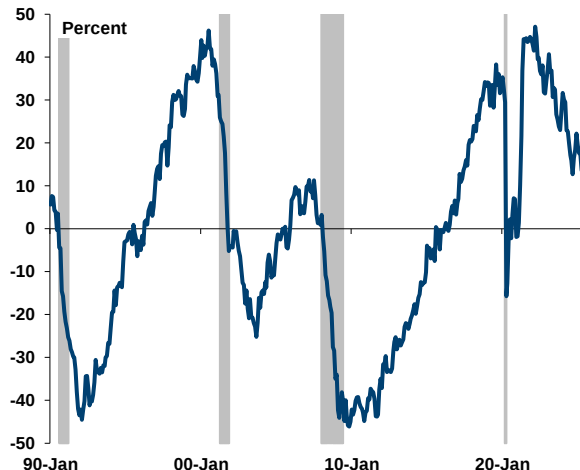
Consumer Confidence*



* The gold bar is a forecast for October 2025.

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Labor Market Differential*



* The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get." The shaded areas indicate periods of recession in the United States.

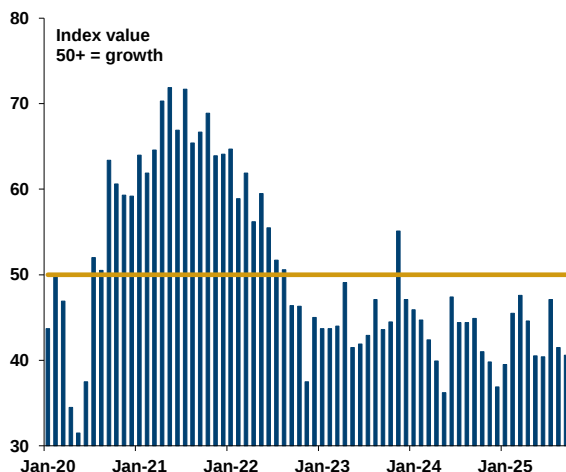
Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics

MNI Chicago PMI (October) (Friday)

Forecast: 43.0 (+5.9% or +2.4 Index Pts.)

Prevailing economic uncertainty stemming from the Trump administration's tariff agenda along with a modestly restrictive stance of monetary policy has generated significant headwinds for manufacturing firms, with the factory sector as a whole stuck at stall speed in recent years. On the point, firms have noted increases in surcharges when importing, softening in order books, and difficulty in planning for future capital expenditures. Thus, the Chicago purchasing managers' index, while possibly improved in October on account the FOMC's resumed easing of monetary policy, seems poised to remain in contractionary territory for the 23rd consecutive month (and 37th in the past 38; chart).

Chicago Business Barometer*



* The gold bar is a forecast for October 2025.

Sources: Market News International via Bloomberg; Daiwa Capital Markets America

Note to readers:

Reports likely to be postponed next week on account of the government shutdown include: Durable Goods Orders, International Trade in Goods, the preliminary estimate of Q3 GDP, the Personal Income & Outlays Report, and the Employment Cost Index. Given the high likelihood of delayed publication, and the reliance of forecasts on previous unreleased data, we will not be including these data in this issue's Week Ahead section.

Economic Indicators

October/November 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
LEADING INDICATORS (POSTPONED) July 0.1% Aug -0.5% Sep -0.3%			CHICAGO FED NATIONAL ACTIVITY INDEX (POSTPONED) Monthly 3-Mo. Avg. July -0.28 -0.20 Aug -0.12 -0.18 Sep -- -- EXISTING HOME SALES July 4.010 million Aug 4.000 million Sep 4.060 million	CPI Total Core July 0.2% 0.3% Aug 0.4% 0.3% Sep 0.3% 0.2% NEW HOME SALES (POSTPONED) July 0.664 million Aug 0.800 million Sep 0.710 million REVISED CONSUMER SENTIMENT Sep 55.1 Oct (p) 55.0 Oct (r) 53.6
27	28	29	30	31
DURABLE GOODS ORDERS (8:30) (POSSIBLY POSTPONED) July -2.7% Aug 2.9% Sep 0.3%	FHFA HOME PRICE INDEX (9:00) June -0.2% July -0.1% Aug -- S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) June -0.2% July -0.1% Aug -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) Aug 97.8 Sep 94.2 Oct 94.0 FOMC MEETING (FIRST DAY)	INTERNATIONAL TRADE IN GOODS (8:30) (POSSIBLY POSTPONED) July -\$102.8 billion Aug -\$85.5 billion Sep -\$90.0 billion ADVANCE INVENTORIES (8:30) (POSSIBLY POSTPONED) Wholesale Retail July 0.0% 0.1% Aug -0.2% 0.0% Sep -- -- PENDING HOME SALES (10:00) July -0.3% Aug 4.0% Sep -- FOMC RATE DECISION (2:00)	UNEMP. CLAIMS (8:30) (POSSIBLY POSTPONED) GDP (8:30) (POSSIBLY POSTPONED) GDP Chained Price 25-Q1 -0.6% 3.6% 25-Q2 3.8% 2.1% 25-Q3(a) 3.0% 2.7%	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30) (POSSIBLY POSTPONED) Inc. Cons. Core July 0.4% 0.5% 0.2% Aug 0.4% 0.6% 0.2% Sep 0.4% 0.4% 0.2% EMPLOYMENT COST INDEX (8:30) (POSSIBLY POSTPONED) Comp. Wages 25-Q1 0.9% 0.8% 25-Q2 0.9% 1.0% 25-Q3 0.9% -- MNI CHICAGO BUSINESS BAROMETER (9:45) Aug 41.5 Sep 40.6 Oct 43.0
3	4	5	6	7
ISM MFG. INDEX CONSTRUCTION VEHICLE SALES	TRADE BALANCE FACTORY ORDERS JOLTS DATA	ADP EMPLOYMENT ISM SERVICES INDEX	UNEMP. CLAIMS PRODUCTIVITY & COSTS WHOLESALE TRADE	EMPLOYMENT REPORT CONSUMER SENTIMENT CONSUMER CREDIT
10	11	12	13	14
	NFIB SMALL BUSINESS OPTIMISM INDEX VETERANS DAY		UNEMP. CLAIMS CPI FEDERAL BUDGET	PPI RETAIL SALES BUSINESS INVENTORIES

(a) = advance (1st estimate of GDP), (p) = preliminary, (r) = revised

Forecasts in bold (except for federal economic statistics which are median projections from the Bloomberg survey). Please note that release dates for select indicators are subject to change based on the duration of the current government shutdown.

Treasury Financing

October/November 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
AUCTION RESULTS: Rate Cover 13-week bills 3.810% 3.01 26-week bills 3.660% 3.02	AUCTION RESULTS: Rate Cover 6-week bills 3.940% 2.93 ANNOUNCE: \$69 billion 17-week bills for auction on Oct 22 \$110 billion 4-week bills for auction on Oct 23 \$95 billion 8-week bills for auction on Oct 23 SETTLE: \$69 billion 17-week bills \$110 billion 4-week bills \$95 billion 8-week bills	AUCTION RESULTS: Rate Cover 17-week bills 3.735% 3.27 20-yr bonds 4.506% 2.73	AUCTION RESULTS: Rate Cover 4-week bills 3.945% 2.73 8-week bills 3.900% 2.77 5-yr TIPS 1.182% 2.51 ANNOUNCE: \$163 billion 13-,26-week bills for auction on Oct 27 \$95 billion 6-week bills for auction on Oct 28 \$50 billion 52-week bills for auction on Oct 28 \$69 billion 2-year notes for auction on Oct 27 \$70 billion 5-year notes for auction on Oct 27 \$44 billion 7-year notes for auction on Oct 28 \$30 billion 2-year FRNs for auction on Oct 29 SETTLE: \$163 billion 13-,26-week bills \$95 billion 6-week bills	
27	28	29	30	31
AUCTION: \$163 billion 13-,26-week bills \$69 billion 2-year notes \$70 billion 5-year notes	AUCTION: \$95 billion 6-week bills \$50 billion 52-week bills \$44 billion 7-year notes ANNOUNCE: \$69 billion* 17-week bills for auction on Oct 29 \$110 billion* 4-week bills for auction on Oct 30 \$95 billion* 8-week bills for auction on Oct 30 SETTLE: \$69 billion 17-week bills \$110 billion 4-week bills \$95 billion 8-week bills	AUCTION: \$69 billion* 17-week bills \$30 billion 2-year FRNs	AUCTION: \$110 billion* 4-week bills \$95 billion* 8-week bills ANNOUNCE: \$163 billion* 13-,26-week bills for auction on Nov 3 \$95 billion* 6-week bills for auction on Nov 4 SETTLE: \$163 billion 13-,26-week bills \$95 billion 6-week bills \$50 billion 52-week bills	SETTLE: \$13 billion 20-year bonds \$26 billion 5-year TIPS \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes \$30 billion 2-year FRNs
3	4	5	6	7
AUCTION: \$163 billion* 13-,26-week bills	AUCTION: \$95 billion* 6-week bills ANNOUNCE: \$69 billion* 17-week bills for auction on Nov 5 \$110 billion* 4-week bills for auction on Nov 6 \$95 billion* 8-week bills for auction on Nov 6 SETTLE: \$69 billion* 17-week bills \$110 billion* 4-week bills \$95 billion* 8-week bills	AUCTION: \$69 billion* 17-week bills ANNOUNCE: \$58 billion* 3-year notes for auction on Nov 10 \$42 billion* 10-year notes for auction on Nov 12 \$25 billion* 30-year bonds for auction on Nov 13	AUCTION: \$110 billion* 4-week bills \$95 billion* 8-week bills ANNOUNCE: \$163 billion* 13-,26-week bills for auction on Nov 10 \$95 billion* 6-week bills for auction on Nov 10 SETTLE: \$163 billion* 13-,26-week bills \$95 billion* 6-week bills	
10	11	12	13	14
AUCTION: \$163 billion* 13-,26-week bills \$95 billion* 6-week bills \$58 billion* 3-year notes ANNOUNCE: \$69 billion* 17-week bills for auction on Nov 12 \$110 billion* 4-week bills for auction on Nov 13 \$95 billion* 8-week bills for auction on Nov 13	VETERANS DAY	AUCTION: \$69 billion* 17-week bills \$42 billion* 10-year notes SETTLE: \$69 billion* 17-week bills \$110 billion* 4-week bills \$95 billion* 8-week bills	AUCTION: \$110 billion* 4-week bills \$95 billion* 8-week bills \$25 billion* 30-year bonds ANNOUNCE: \$163 billion* 13-,26-week bills for auction on Nov 17 \$95 billion* 6-week bills for auction on Nov 18 \$16 billion* 20-year bonds for auction on Nov 19 \$19 billion* 10-year TIPS for auction on Nov 20 SETTLE: \$163 billion* 13-,26-week bills \$95 billion* 6-week bills	

*Estimate