Daiwa Capital Markets

U.S. Economic Comment

- FOMC: little additional clarity ahead of December gathering despite September employment data; FOMC minutes from October, along with comments this week from various officials, underscore division among Committee members
- Insights on the economy: S&P PMI flash estimates suggest ongoing moderate growth in Q4

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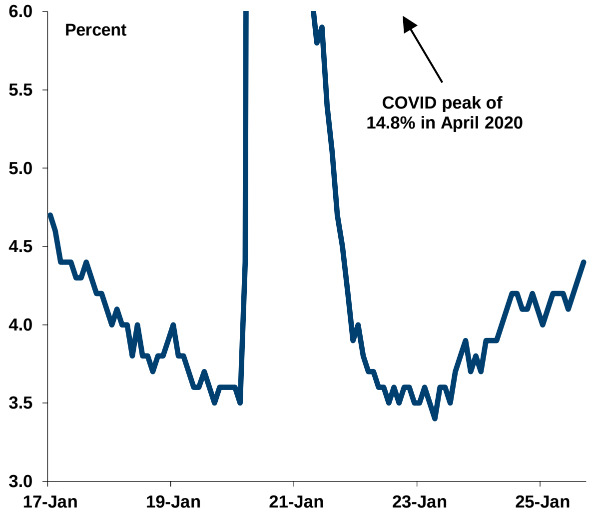
Diverging Opinions in the FOMC Cloud the Near-Term Path of Policy

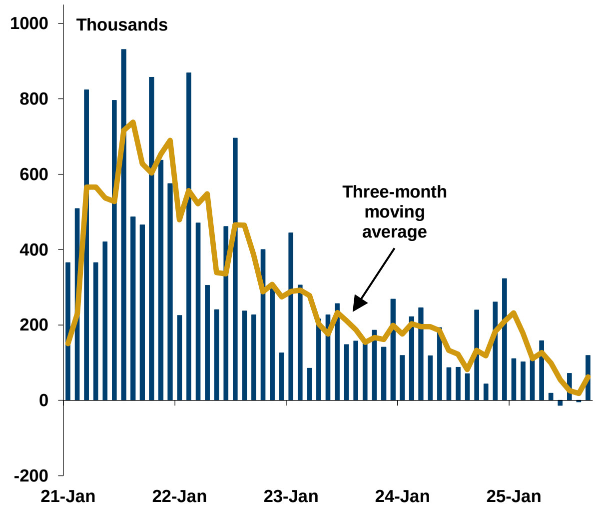
Those hoping for data this week to offer more conclusive insights into how the December 9-10 FOMC meeting could unfold likely were left unsatisfied. The September employment report, released Thursday after a 48-day delay on account of the government shutdown, reaffirmed the prevailing narrative that the labor market is cooling but not deteriorating enough to deter hawkish members of the FOMC from relaxing their focus on above-target inflation. In that regard, the unemployment rate rose 0.1 percentage point to 4.4 percent, concerning in that it was the highest reading since October 2021 but also not overtly problematic as part of the increase was attributable to a jump of 470,000 in the labor force (a positive supply-side development amid concerns about the Trump administration's immigration crackdown impeding labor force growth; chart, below left). Similarly, payroll growth of 119,000 was more than double the Bloomberg median expectation of 53,000 and well above the trailing three-month average of 18,300 (chart, below right). In essence, the employment data offer little new insight amid broader economic conditions that are holding up well enough (see story on November PMIs, below).

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Frustratingly, little additional clarity on data linked to either side of the Fed's dual mandate will be provided to policymakers ahead of the ultimate gathering of 2025. The Bureau of Labor Statistics today affirmed what many had previously anticipated – that a personnel shortage tied to the shutdown prevented the October price survey from being conducted, thus necessitating the cancellation of the monthly CPI report. Moreover, the data for November, which will provide a fresh and timely view for Fed officials, will not be available until after the meeting is concluded on December 18. Similarly, data from the October payroll survey will be incorporated into the November Employment Situation report (the household survey data for October, including the unemployment rate, will go unreleased), which will drop in December 16 -- also beyond the conclusion of the meeting.

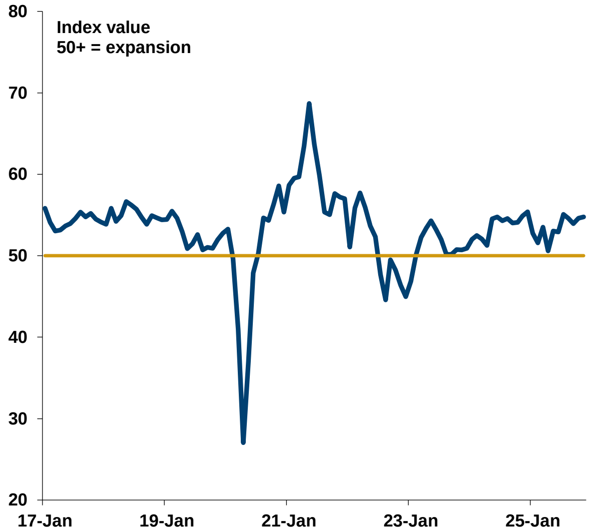
The dearth of timely economic releases in recent weeks has likely been a key catalyst in preventing Fed officials from coalescing around a common view for the December gathering, with the minutes from the October 28-29 FOMC meeting released Wednesday noting, “In discussing the near-term course of monetary policy, participants expressed strongly differing views about what policy decision would most likely be appropriate at the Committee’s December meeting.” Additionally, we suspect that lack of price data may have led to perhaps stale assessments of the inflation situation, while private-sector data (hiring, job openings, layoff announcements) continue to imply further softening in underlying labor market conditions. On the point, the minutes stated, “Many participants suggested that, under their economic outlooks, it would likely be appropriate to keep the target range unchanged for the rest of the year.” And, we suspect that the passage referenced policymakers who have gone on record this past week highlighting lingering concerns about inflation – including Austan Goolsbee of the Federal Reserve Bank of Chicago on Thursday suggesting that he was “uneasy” moving on the assumption that tariff-driven inflation is transitory. Also, Beth Hammack of the Cleveland Fed broadened the argument to concerns about financial stability risks: “Lowering interest rates to support the labor market risks prolonging this period of elevated inflation, and it could also encourage risk-taking in financial markets.” With that said, John Williams of the New York Fed, whom we assess to be closely aligned with the views of Chair Powell, today pushed back on evolving market expectations that policy hawks would set tone for next month’s FOMC meeting. Specifically, while he acknowledged risks to both sides of the dual mandate, Williams kept the door ajar to action in support of the labor market: “Looking ahead, it is imperative to restore inflation to our 2 percent longer-run goal on a sustained basis. It is equally important to do so without creating undue risks to our maximum employment goal. I view monetary policy as being modestly restrictive, although somewhat less so than before our recent actions. Therefore, I still see room for a further adjustment in the near term to the target range for the federal funds rate to move the stance of policy closer to the range of neutral…” The view does not contrast with those of officials amenable to further reductions in the future with an eye on neutral, but it does convey more urgency for action. Thus, it remains too soon to call the outcome of the December 9-10 FOMC meeting (at least with absolute certainty) – although we still cling to our current call of a cut of 25 basis points.

S&P Data: Economy Remains on a Growth Track

Friday saw the release of the November “flash” estimates for S&P Global’s manufacturing and services PMIs, with the metrics suggesting that the U.S. economy remained on a growth track in Q4– although activity in the factory sector was less robust than the prior month. Specifically, the manufacturing index eased 0.6 index point to 51.9, erasing the entirety of October’s gain but remaining in expansion territory for the fourth consecutive month (and 10th in the past 11). Meanwhile, the services PMI advanced 0.2 point to 55.0, its 34th straight expansionary reading. Resultingly, the composite measure rose 0.2 index point to a four-month high of 54.8 in November (note that readings above 50, the critical threshold, indicate expansion while those below signal contraction; chart, next page, left). As noted by Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, “A marked uplift in business confidence about prospects in the year ahead adds to the good news. Hopes for further interest rate cuts and the ending of the government shutdown have boosted optimism alongside a broader undercurrent of improved economic optimism and reduced concerns over the political environment.”

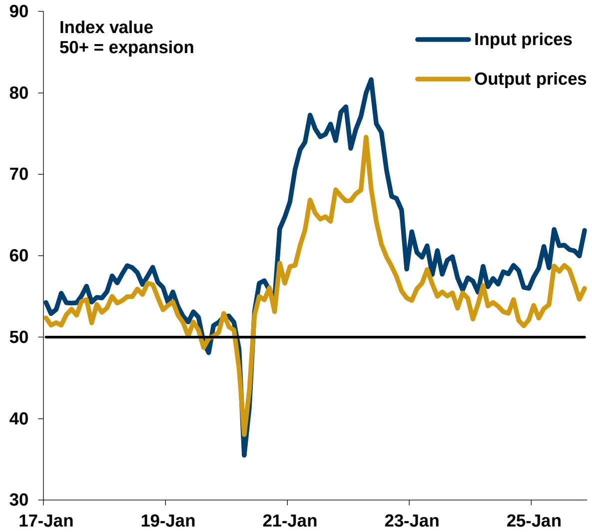
Looking at the internals of the report, the improvement in the composite was fairly broad based, with the new orders standing out on the positive side with a 1.3-point uptick to 55.0, the highest observation since December 2024. Employment, however, eased 0.3 point to 51.0, signaling only modest job creation (which ratifies various “hard” data suggesting that hiring is tepid but job cuts have not accelerated meaningfully). As indicated by survey respondents, there appears to be a “sustained reluctance” in bringing on new staff on account of elevated costs associated with tariffs, budget cuts and a renewed focus on improving efficiency. On the point of levies, the input price index rose 3.1 index points to 63.1, the fastest pace since a 63.2 read in May 2025 (which itself was the highest observation since November 2022). Concurrently, the output price index increased 1.3 points to 56.0, a reading below those seen in the immediate aftermath of the “Liberation Day” announcement but still above levels that prevailed at the beginning of the year (chart, next page, right). That is to say, price pass-through has materialized to a degree, but the worst-case scenario has yet to be realized.

US PMI: Composite



Source: S&P Global via Haver Analytics

US PMI: Composite Price Indexes



Source: S&P Global via Haver Analytics

All told, while there were some pockets of weakness in the latest report (e.g., hiring), the data is still indicative of an expanding economy despite a host of challenges (the recent government shutdown, tariffs and associated disruptions to business activity, etc.). That said, we do suspect that further easing in still modestly restrictive monetary policy will be necessary to support the labor market and underpin the expansion into 2026.

Note to readers:

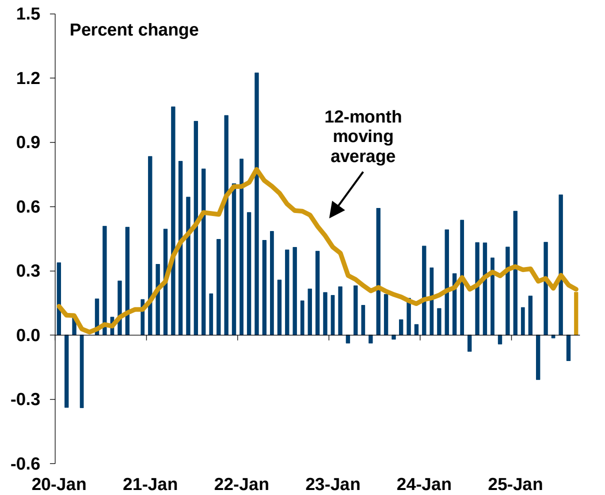
On account of the upcoming Thanksgiving holiday, the next issue of the U.S. Economic Comment will be published on December 5, 2025.

The Week Ahead

PPI (September) (Tuesday)
Forecast: +0.3% Final Demand, +0.2% Ex. Food & Energy

Following a decline of 0.4 percent in the prior month, available data suggests that wholesale energy prices could pick up in September, which would be the third increase in the past four months. Food prices at the producer level, which have been a bit choppy in recent months, could post a reading close to the trailing 12-month average 0.3 percent. Goods prices excluding food and energy have advanced 0.2 percent on average over the past 12 months, approximately in line with the average gain for the broad services category. Construction costs remain on a subdued upward trend, rising 0.1 percent on average in the 12-month period ending August 2025. Please note that this report was originally scheduled to publish on October 16 but was delayed due to the prior government shutdown.

PPI Ex. Food & Energy



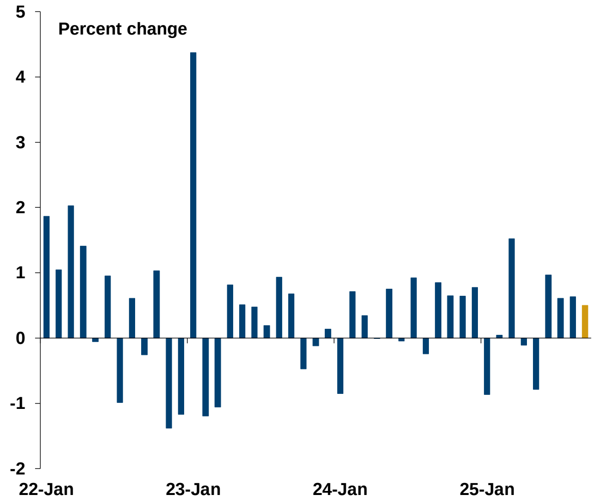
** The gold bar is a forecast for September 2025.*

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

Retail Sales (September) (Tuesday)
Forecast: +0.5% Total, +0.3% Ex. Autos, +0.2% Ex. Autos & Gas

Increases in both new vehicle sales and prices at the pump suggest positive results for the motor vehicles and parts and gasoline components of retail sales in September, raising the prospect of an advance for the headline measure. Excluding autos and gas, sales have been a bit tepid (average monthly change of +0.4 percent in 2025 thus far), a pattern which could continue in September given heightened uncertainty tied to tariffs and a slowing labor market. Please note that this report was originally scheduled to publish on October 16 but was delayed due to the prior government shutdown.

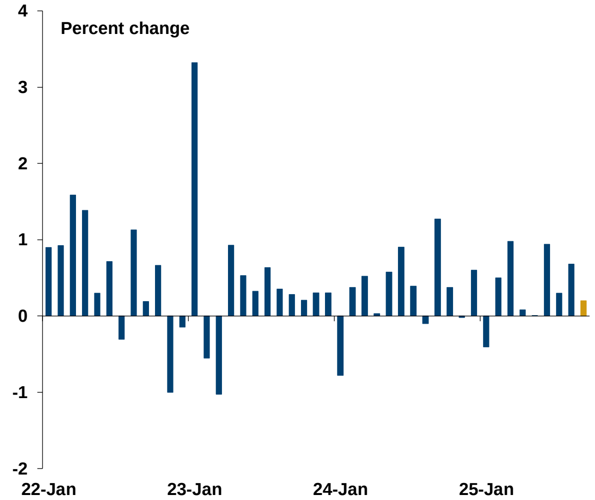
Retail Sales*



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

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

Retail Sales Ex. Autos & Gas*



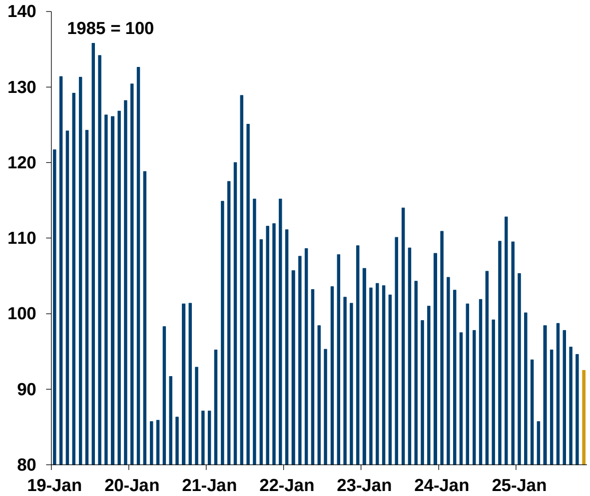
** The gold bar is a forecast for September 2025.*

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

Consumer Confidence (November) (Tuesday)
Forecast: 92.5 (-2.2% or -2.1 Index Pts.)

Despite a resolution to the 43-day government shutdown (the longest on record) on November 12, we expect lingering concerns over a fragile labor market and the potential impact of tariffs on the costs of essential goods to weigh notably on household attitudes (a view corroborated by the drop of 4.9 percent in the University of Michigan's sentiment gauge). The forecast, if realized, would leave the Conference Board's confidence index in the low end of the post-pandemic range. Outside of the headline result, we'll be paying close attention to the updated read of the labor market differential, a metric which provides insight into underlying views on job market strength by comparing the share of survey respondents who say that positions are "plentiful" less those who say they are "hard-to-get." Recall, despite advancing to 9.4 percent in October, this measure is still only modestly above the four-year low of 8.7 percent recorded in September – a development highlighting households' concern about the labor market and leaving us to contemplate potential constraining effects on consumer spending.

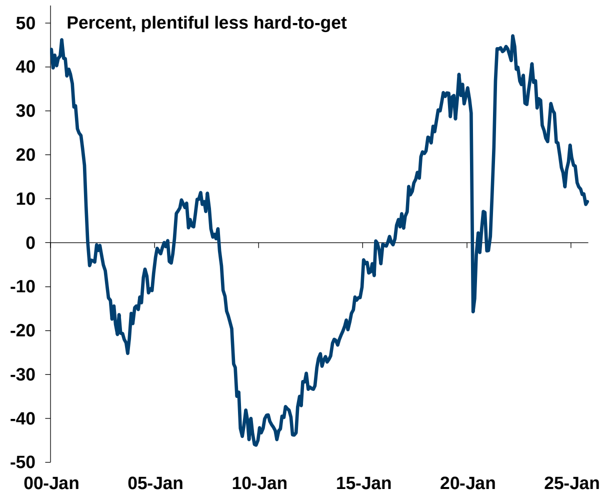
Consumer Confidence*



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

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

Labor Market Differential*



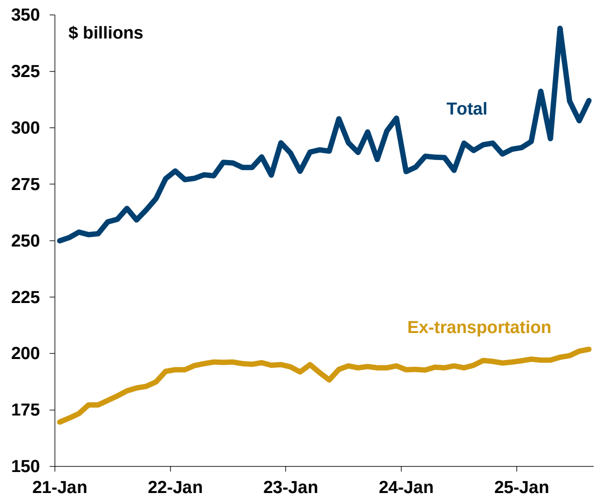
** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*

Source: The Conference Board via Haver Analytics

Durable Goods Orders (September) (Wednesday)
Forecast: +2.5% Total, +0.5% Ex. Transportation

The transportation category has introduced significant volatility to headline durable goods orders over the past few years, influenced primarily by swings in civilian aircraft bookings (range of -52.7 percent to +231.6 in the past six months for that subcategory). That trend is expected to continue in September, with data from Boeing indicating another increase for aircraft bookings (and thus transportation orders). Averaging through the noise, however, leaves a modest upward tilt – a performance a bit better than that of orders excluding transportation. Please note that this report was originally scheduled to publish on October 27 but was delayed due to the prior government shutdown.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Economic Indicators

November/December 2025

Monday	Tuesday	Wednesday	Thursday	Friday
17	18	19	20	21
EMPIRE MFG Sep -8.7 Oct 10.7 Nov 18.7 **CONSTRUCTION** June 0.5% July 0.2% Aug 0.2%	**IMPORT/EXPORT PRICES (POSTPONED)** **IP & CAP-U (POSTPONED)** **FACTORY ORDERS** June -4.8% July -1.3% Aug 1.4% **NAHB HOUSING INDEX** Sep 32 Oct 37 Nov 38 **TIC FLOWS** Long-Term / Total July $39.0B / -$6.6B Aug $134.2B / $187.1B Sep $179.8B / $190.1B	**TRADE BALANCE** June -$59.1 billion July -$78.2 billion Aug -$59.6 billion **FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Oct 25 0.220 / 1.964 Nov 1 0.229 / 1.946 Nov 8 0.228 / 1.974 Nov 15 0.220 / N/A **EMPLOYMENT REPORT** Payrolls / Un. Rate July 72,000 / 4.2% Aug -4,000 / 4.3% Sep 119,000 / 4.4% **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Sep 23.2 Oct -12.8 Nov -1.7 **EXISTING HOME SALES** Aug 4.000 million Sep 4.050 million Oct 4.100 million **LEADING INDICATORS (POSTPONED)**	**REVISED CONSUMER SENTIMENT** Oct 53.6 Nov(p) 50.3 Nov(r) 51.0 **WHOLESALE TRADE** Inventories / Sales June 0.2% / 0.7% July 0.1% / 1.3% Aug 0.0% / 0.1%
24	25	26	27	28
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) (POSSIBLY POSTPONED) **PENDING HOME SALES (10:00)** Aug 4.2% Sep 0.0% Oct -- **BUSINESS INVENTORIES (10:00)** Inventories / Sales June 0.2% / 0.7% July 0.2% / 1.0% **Aug 0.0% / 0.2%**	**PPI (8:30)** Final Demand / Ex. Food & Energy July 0.7% / 0.7% Aug -0.1% / -0.1% **Sep 0.3% / 0.2%** **RETAIL SALES (8:30)** Total / Ex.Autos July 0.6% / 0.4% Aug 0.6% / 0.7% **Sep 0.5% / 0.3%** **FHFA HOME PRICE INDEX (9:00)** July 0.0% Aug 0.4% Sep -- **S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** July -0.1% Aug 0.2% Sep -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Sep 95.6 Oct 94.6 **Nov 92.5**	**UNEMP. CLAIMS (8:30)** **DURABLE GOODS ORDERS (8:30)** July -2.8% Aug 2.9% **Sep 2.5%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** Sep 40.6 Oct 43.8 Nov -- **BEIGE BOOK (2:00)** **October 2025:** "Economic activity changed little on balance since the previous report, with three Districts reporting slight to modest growth in activity, five reporting no change, and four noting a slight softening."	***THANKSGIVING DAY***	
1	2	3	4	5
ISM MFG. INDEX	**VEHICLE SALES**	**ADP EMPLOYMENT** **IMPORT/EXPORT PRICES** **IP & CAP-U** **ISM SERVICES INDEX**	**UNEMP. CLAIMS** **TRADE BALANCE**	**CONSUMER SENTIMENT** **CONSUMER CREDIT**
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX **REVISED PRODUCTIVITY & COSTS** **JOLTS DATA** **FOMC MEETING (FIRST DAY)**	**EMPLOYMENT COST INDEX** **FOMC RATE DECISION** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	

(p) = preliminary, (r) = revised

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

Treasury Financing

November/December 2025

Monday	Tuesday	Wednesday	Thursday	Friday
17	18	19	20	21
AUCTION RESULTS: Rate / Cover 13-week bills 3.795% 2.79 26-week bills 3.710% 2.80 **SETTLE:** $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.850% 2.80 **ANNOUNCE:** $69 billion 17-week bills for auction on Nov 19 $110 billion 4-week bills for auction on Nov 20 $95 billion 8-week bills for auction on Nov 20 **SETTLE:** $69 billion 17-week bills $110 billion 4-week bills $95 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.750% 3.15 20-yr bonds 4.706% 2.41	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.890% 2.75 8-week bills 3.850% 2.64 10-yr TIPS 1.843% 2.41 **ANNOUNCE:** $163 billion 13-,26-week bills for auction on Nov 24 $85 billion 6-week bills for auction on Nov 25 $50 billion 52-week bills for auction on Nov 25 $69 billion 2-year notes for auction on Nov 24 $70 billion 5-year notes for auction on Nov 25 $44 billion 7-year notes for auction on Nov 26 $28 billion 2-year FRNs for auction on Nov 25	**SETTLE:** $163 billion 13-,26-week bills $95 billion 6-week bills
24	25	26	27	28
AUCTION: $163 billion 13-,26-week bills $69 billion 2-year notes	**AUCTION:** $85 billion 6-week bills $50 billion 52-week bills $70 billion 5-year notes $28 billion 2-year FRNs **ANNOUNCE:** $69 billion* 17-week bills for auction on Nov 26 $110 billion* 4-week bills for auction on Nov 26 $95 billion* 8-week bills for auction on Nov 26 **SETTLE:** $69 billion 17-week bills $110 billion 4-week bills $95 billion 8-week bills	**AUCTION:** $69 billion* 17-week bills $110 billion* 4-week bills $95 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Dec 1 $85 billion* 6-week bills for auction on Dec 2	***THANKSGIVING DAY***	**SETTLE:** $163 billion 13-,26-week bills $85 billion 6-week bills $50 billion 52-week bills $19 billion 10-year TIPS $28 billion 2-year FRNs
1	2	3	4	5
AUCTION: $163 billion* 13-,26-week bills **SETTLE:** $16 billion 20-year bonds $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	**AUCTION:** $85 billion* 6-week bills **ANNOUNCE:** $69 billion* 17-week bills for auction on Dec 3 $110 billion* 4-week bills for auction on Dec 4 $95 billion* 8-week bills for auction on Dec 4 **SETTLE:** $69 billion* 17-week bills $110 billion* 4-week bills $95 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $110 billion* 4-week bills $95 billion* 8-week bills **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Dec 8 $85 billion* 6-week bills for auction on Dec 9 $58 billion* 3-year notes for auction on Dec 8 $39 billion* 10-year notes for auction on Dec 9 $22 billion* 30-year bonds for auction on Dec 11 **SETTLE:** $163 billion* 13-,26-week bills $85 billion* 6-week bills	
8	9	10	11	12
AUCTION: $163 billion* 13-,26-week bills $58 billion* 3-year notes	**AUCTION:** $85 billion* 6-week bills $39 billion* 10-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on Dec 10 $110 billion* 4-week bills for auction on Dec 11 $95 billion* 8-week bills for auction on Dec 11 **SETTLE:** $69 billion* 17-week bills $110 billion* 4-week bills $95 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $110 billion* 4-week bills $95 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Dec 15 $85 billion* 6-week bills for auction on Dec 16 $13 billion* 20-year bonds for auction on Dec 17 $24 billion* 5-year TIPS for auction on Dec 18	**SETTLE:** $163 billion* 13-,26-week bills $85 billion* 6-week bills

**Estimate*