U.S. Economic Comment

- Monetary policy testimony: Chairman Warsh ushers in change in approach at the central bank, but re-emphasizes unwavering commitment to dual mandate objectives
- June inflation update: soft CPI slashes prospects for a rate hike in July while also suggesting tame reading for the PCE price index
- Resilient households: June retail sales data suggest solid pace of real consumption in Q2, although sentiment remained subdued despite pickup in early July

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Chairman Warsh at Capitol Hill

This week Federal Reserve Chairman Kevin Warsh participated in his first monetary policy testimony as head of the Federal Reserve. Appearing before the House Financial Services Committee on Tuesday and the Senate Banking Committee the following day, Mr. Warsh echoed key themes from his introductory press conference after the June FOMC meeting, key among them a return to two percent inflation. In Tuesday's testimony, he stated emphatically, "The members of our committee have no tolerance for persistently elevated inflation, and we share a resolute commitment to ensure price stability," while returning to defend the point numerous times over the two-day program. Further, he acknowledged the FOMC's employment objective (there is "no disfavored part of the legislative remit") but indicated that it was less in focus at the current time because the labor market remains "resilient." Additionally, he expressed hope in broadening economic growth, discussed potential implications of the rapid development of artificial intelligence for the U.S. economy, and defended several times over the independence of the Federal Reserve.

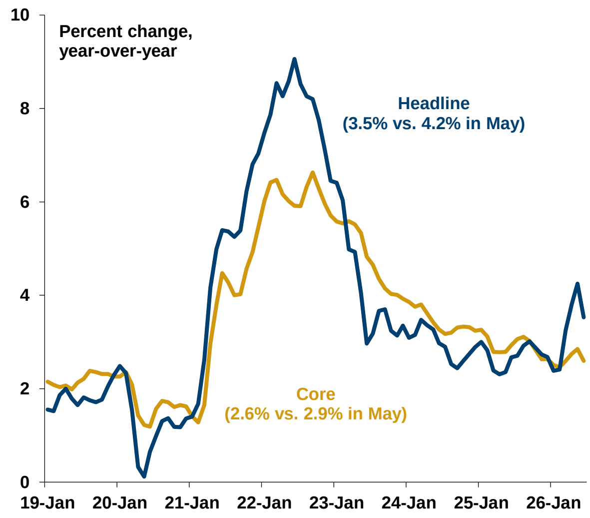
Beyond those points, he again made clear a desire for changing the approach to policy setting at the central bank. He noted that in coming months policymakers and Fed staff, along with outside experts, will receive input and evaluate recommendations from five task forces focusing on communication, balance sheet policy, economic data, productivity and jobs, and the inflation framework. Moreover, he emphasized that all changes would involve a collaborative process and be implemented alongside clear guidance provided to market participants. (For more information regarding the specific mandates of each task force along with their appointed leaders, please refer to: "Federal Reserve announces the leadership and objectives of its task forces to advance the conduct of monetary policy," Federal Reserve Board, July 9, 2026.
https://www.federalreserve.gov/newsevents/pressreleases/monetary20260709a.htm). All told, not much was divulged in the way of new information, but the Chair reaffirmed his staunch commitment to the central bank's dual mandate objectives while signaling a complete reevaluation of the current status quo in the policy making process.

A Welcome Break in Price Pressure

In a speech delivered Monday, Fed Governor Waller spooked market participants by noting that he is "concerned…that data in the coming weeks will show that inflation will remain at its elevated level or even trend higher, requiring tighter monetary policy in the near term." At least for now, that fear failed to materialize, with subdued June prints for both the CPI and PPI providing ample cover for the FOMC to hold interest rates steady at the upcoming policy meeting on July 28-29.

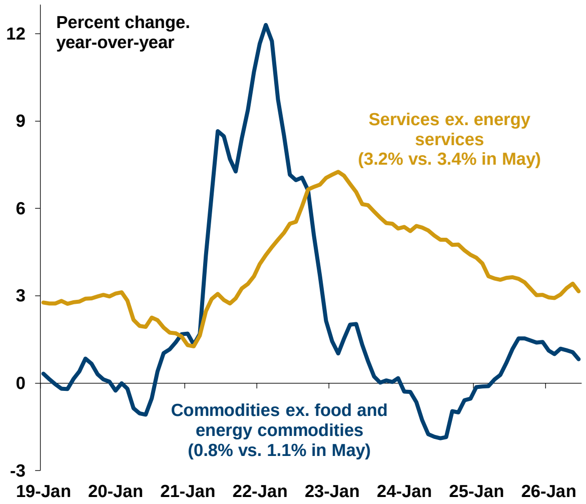
Of this week's data, the CPI published Tuesday was the most salient for policymakers. The headline index fell 0.4 percent in June, its first month-to-month decline since June 2024 and the largest since April 2020 (versus the median expectation of -0.1 percent from the Bloomberg economist survey). At the same time, the core index rounded up to no change (-0.017 percent with more precision), the softest one-month change since a 0.1-percent decrease in May 2020 (versus the survey expectation of +0.2 percent). Those results corresponded with year-over-year advances of 3.5 percent for the headline (versus +4.2 percent in May) and 2.6 percent for the core (versus +2.9 percent previously; chart, next page, left). A drop of 5.7 in energy prices (including a decline of 9.7 percent in gasoline prices) was critical in constraining the headline, but dynamics within core also showed some encouraging signs. Notably, core goods prices eased 0.1 percent, the second consecutive decline, with the year-over-year growth rate slowing to +0.8 percent from +1.1 percent in May and the slowest since June 2025. The effects of tariffs are still present, but they are diminishing. Regarding core services, the measure rounded down to no change with the year-over-year advance slowing by 0.2 percentage point to 3.2 percent – a pace approaching the pre-pandemic trend (chart, below right).

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

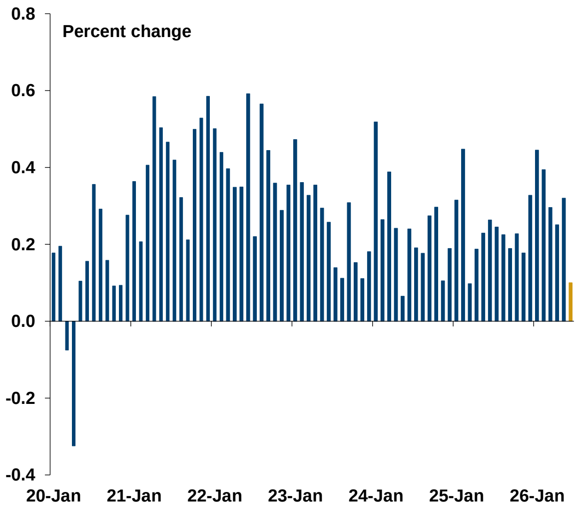
CPI: Core Goods & Core Services



Source: Bureau of Labor Statistics via Haver Analytics

Also at least somewhat reassuring was the June reading on the PPI. The headline measure eased 0.3 percent (versus the consensus expectation of no change), with the shift occurring from a downwardly-revised advance in May (+5.5 percent year-over-year versus +6.0 percent in the prior month); excluding food and energy, the measure rose 0.2 percent (versus +0.3 percent expected), which translated to a year-over-year increase of 4.7 percent (up marginally from the 4.6 percent increase in May). Importantly, combining inputs from both measures contributes to our expectation that the price index for personal consumption expenditures (the Federal Reserve's preferred inflation gauge) will decline 0.2 percent in June (which would be the largest monthly decline since April 2020) with the core measure increasing 0.1 percent (the slowest month since March 2025; see chart on core, right). The results would translate to year-over-year advances of 3.6 percent for the headline index (versus +4.1 percent in May) and 3.2 percent for the core (down from +3.4 percent in the prior month) – results that for now can allow the FOMC to wait and observe the incoming data versus be forced to act.

Core PCE Price Index*



** The gold bar is a forecast for June 2026. Projections of -0.2 and +0.1 percent for the headline and core PCE price indexes, respectively, would translate to year-over-year advances of 3.6 percent (versus +4.1 percent previously) and 3.2 percent (versus +3.4 percent).*

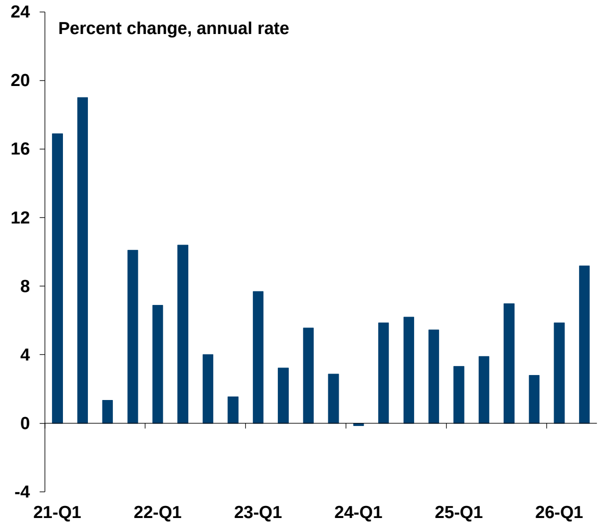
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Resilient Consumer Spending Boosts Q2 Tracking Estimate, but Some Caution Warranted

The household sector has withstood a multitude of challenges in recent years, with the latest emanating from the energy price shock linked to the Iran conflict. Indeed, consumers finally appeared to be buckling in Q1 amid the attendant jump in gasoline prices, with growth in real expenditures slipping to +0.5 percent (annual rate) after a firm advance of 2.6 percent in 2025. Encouragingly, however, data for Q2 thus far point to a solid rebound after the aforementioned lull. Augmenting favorable results on household expenditures in the first two months of the quarter, the retail sales report for June (published Thursday) registered a solid, if perhaps unspectacular, performance. Topline sales advanced only 0.2 percent (+6.7 percent year-over-year), but a drop of 5.3 percent in activity at gasoline stations -- predominately the result of lower prices tied to some easing of tensions in the Middle East -- accounted for much of the tepid month-to-month performance.

Turning to positive elements of the retail report, the auto component jumped a brisk 1.9 percent (+5.7 percent year-over-year) while sales excluding autos and gas rose 0.4 percent (+5.7 percent year-over-year). Activity at brick-and-mortar establishments was mixed, but a likely explanation was present in the data: substitution effects. Amazon Prime Day sales (June 23-26) and those of online competitors pulled shoppers into the space, as evidenced by a surge of 1.9 percent in nonstore sales (mostly online but also inclusive of fuel oil dealers) that augmented an already strong trend (+14.2 percent year-over-year). Distilling the data further, the retail control grouping – which excludes autos, building materials stores, and gasoline stations, and correlates with non-auto goods spending by consumers in the GDP accounts – rose 0.5 percent (+6.4 percent year-over-year). Moreover, the quarterly annual growth rate of 9.2 percent is among the strongest performances in recent years and suggests that aggregate real consumer spending for Q2 will again exceed two percent (charts, below). That performance, in our view, is likely to correspond with Q2 GDP growth in the vicinity of 1.5 percent, wherein we expect domestic demand to remain on solid footing but for net exports to shave approximately one percentage point from the projected performance.

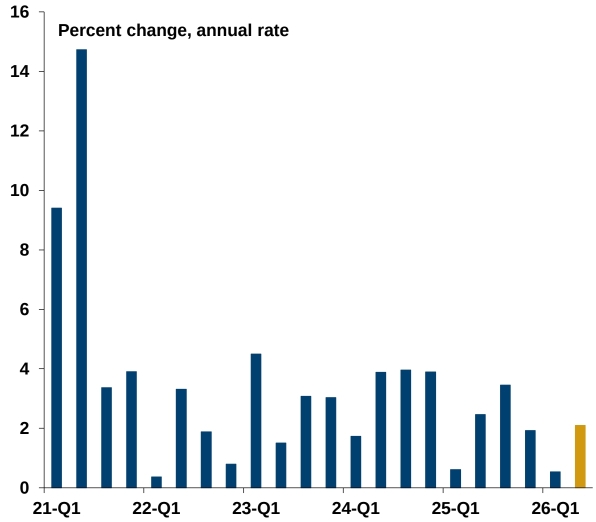
Retail Sales: Control Group*



** Retail sales excluding those from food services and drinking places; 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*

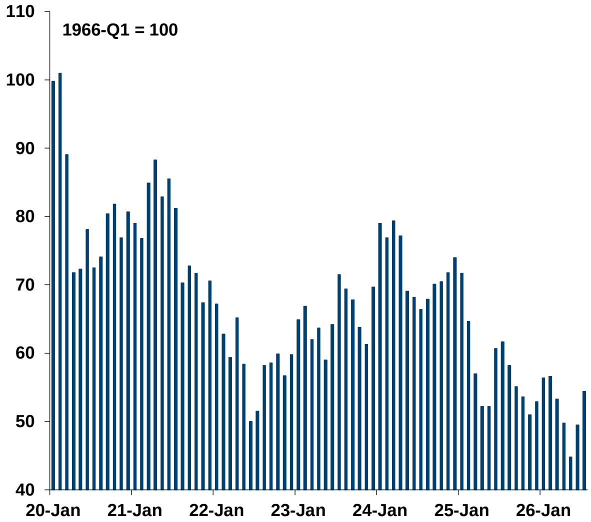


** The gold bar is a forecast for 2026-Q2.*

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

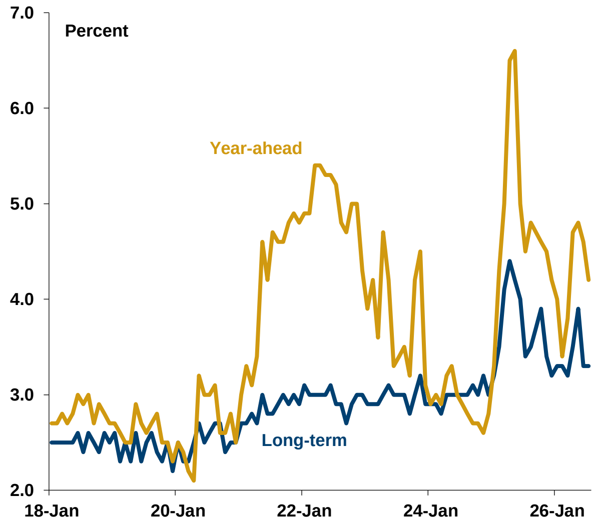
While households were active in Q2, we remain attuned to risks in the back half of the year, especially with respect to damaged consumer sentiment and diminished spending power on account of rapid inflation continuing to erode real incomes. With regard to sentiment, data for July released earlier today in the University of Michigan Survey of Consumers revealed a second consecutive increase (+4.9 index points or +9.9 percent to 54.4) after the measure fell to a record low of 44.8 in May amid Iran hostilities (chart, next page, left). Essential to an ongoing recovery in sentiment, and willingness to spend in 26-H2, will be a further easing in gas prices and a belief that inflation will return to a more sustainable pace over time. Offering insights on the inflation expectations front, responses collected in the survey indicated that year-ahead expectations slipped to 4.2 percent from 4.6 percent in June (and further from the 2026 high of 4.8 percent in May) while those for the next five years were unchanged at 3.3 percent (also off the 2026 high of 3.9 percent in May; chart, next page, right). Fed officials continue to characterize longer-term expectations as anchored, which they view as a necessary condition for returning actual inflation to the two-percent target over time, but regardless of those assessments, households may need to see further cooling in price pressure in the near-term if spending is to stay on course.

Consumer Sentiment



Source: University of Michigan via Haver Analytics

Consumer Inflation Expectations



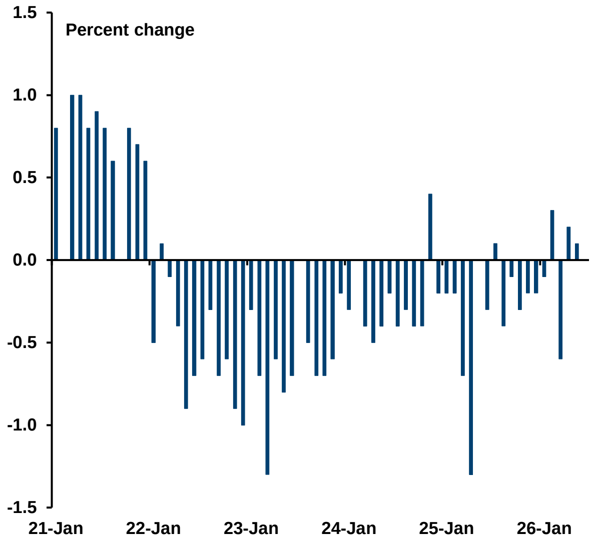
Source: University of Michigan via Haver Analytics

The Week Ahead

Leading Indicators (June) (Monday)
Forecast: 0.0%

Anticipated negative contributions from weekly unemployment claims and consumer expectations are likely to offset higher stock prices, indicative of the Conference Board's Leading Economic Index being little changed in June after declining in 44 of the past 53 months. If the projection is realized, the index would be 18.5 percent below the cycle peak of 121.9 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 in the face of heightened uncertainty.

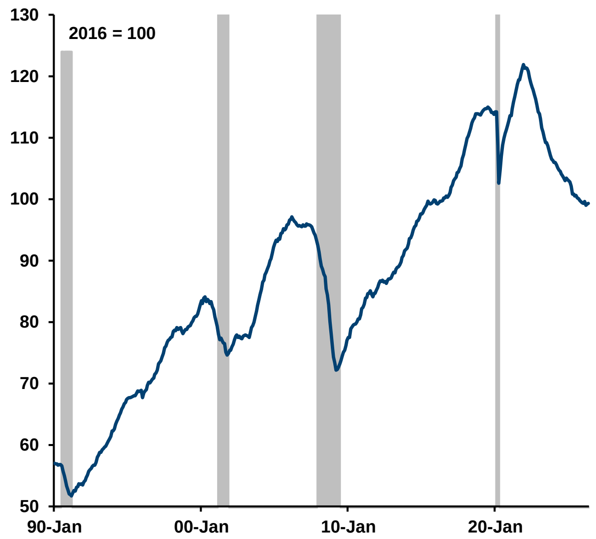
Index of Leading Economic Indicators*



** The observation for June 2026 is a forecast.*

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

Index of Leading Economic Indicators*



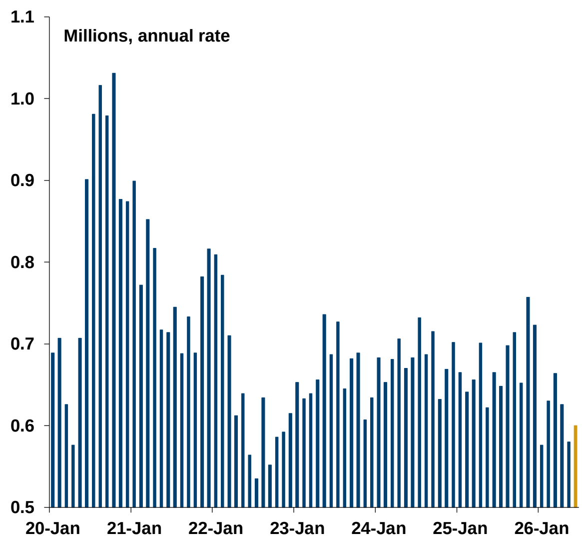
** The shaded areas indicate periods of recession in the United States.*

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

New Home Sales (June) (Friday)
Forecast: 0.600 million (+3.4%)

Following a net decrease of 12.7 percent over the prior two months to an annualized pace of 0.580 million units (versus the average pace of 0.623 million units in 26-Q1), we could envision a slight rebound pushing new home sales closer to 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 observation for June 2026 (gold bar) is a forecast.*

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

Economic Indicators

July/August 2026

Monday	Tuesday	Wednesday	Thursday	Friday
13	14	15	16	17

Monday 13

FEDERAL BUDGET

	2026	2025
Apr	$215.0B	$258.4B
May	-$292.6B	-$315.7B
June	-$120.3B	$27.0B

Tuesday 14

NFIB SMALL BUSINESS OPTIMISM INDEX

Apr	95.9
May	95.3
June	97.4

CPI

	Total	Core
Apr	0.6%	0.4%
May	0.5%	0.2%
June	-0.4%	0.0%

CHAIR WARSH'S SEMI-ANNUAL MONETARY POLICY TESTIMONY (HOUSE)

TIC FLOWS

	Long-Term	Total
Mar	$80.2B	$147.8B
Apr	$104.8B	$76.6B
May	$232.7B	$132.2B

Wednesday 15

PPI

	Final Demand	Ex. Food & Energy
Apr	1.1%	0.7%
May	0.6%	0.1%
June	-0.3%	0.2%

EMPIRE MFG

May	19.6
June	5.7
July	15.6

CHAIR WARSH'S SEMI-ANNUAL MONETARY POLICY TESTIMONY (SENATE)

BEIGE BOOK

July 2026:
"Economic activity increased at a slight to moderate pace in eleven of twelve Federal Reserve Districts in late May and June, while one District reported no change."

Thursday 16

UNEMPLOYMENT CLAIMS

	Initial (millions)	Continuing (millions)
June 20	0.216	1.806
June 27	0.217	1.821
July 4	0.216	1.805
July 11	0.208	N/A

RETAIL SALES

	Total	Ex.Autos
Apr	0.7%	0.9%
May	1.0%	1.0%
June	0.2%	-0.2%

PHILADELPHIA FED MFG BUSINESS OUTLOOK

May	-0.4
June	10.3
July	41.4

PENDING HOME SALES

Apr	0.3%
May	3.5%
June	-5.4%

NAHB HOUSING INDEX

May	37
June	36
July	34

BUSINESS INVENTORIES

	Inventories	Sales
Mar	1.0%	2.2%
Apr	0.6%	1.4%
May	0.3%	2.1%

Friday 17

HOUSING STARTS

Apr	1.414 million
May	1.199 million
June	1.427 million

IMPORT/EXPORT PRICES

	Non-Petrol Imports	Nonagri. Exports
Apr	0.5%	3.7%
May	0.7%	1.2%
June	0.5%	-0.7%

IP & CAP-U

	IP	Cap.Util.
Apr	0.8%	76.1%
May	0.1%	76.1%
June	0.1%	76.1%

CONSUMER SENTIMENT

May	44.8
June	49.5
July	54.4

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24

Monday 20

LEADING INDICATORS (10:00)

Apr	0.2%
May	0.1%
June	**0.0%**

Tuesday 21

Wednesday 22

Thursday 23

UNEMP. CLAIMS (8:30)

CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)

	Monthly	3-Mo. Avg.
Apr	0.19	0.07
May	-0.10	-0.03
June	--	--

Friday 24

NEW HOME SALES (10:00)

Apr	0.626 million
May	0.580 million
June	**0.600 million**

Monday	Tuesday	Wednesday	Thursday	Friday
27	28	29	30	31
DURABLE GOODS ORDERS	INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES FHFA HOUSE PRICE INDEX S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX CONFERENCE BOARD CONSUMER CONFIDENCE FOMC MEETING (FIRST DAY)	FOMC RATE DECISION	UNEMP. CLAIMS Q2 GDP PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX	EMPLOYMENT COST INDEX MNI CHICAGO BUSINESS BAROMETER REVISED CONSUMER SENTIMENT
3	4	5	6	7
ISM MFG. INDEX CONSTRUCTION VEHICLE SALES	TRADE BALANCE FACTORY ORDERS JOLTS DATA	ISM SERVICES INDEX	UNEMP. CLAIMS PRODUCTIVITY & COSTS WHOLESALE TRADE	EMPLOYMENT REPORT CONSUMER CREDIT

Forecasts in bold.

Treasury Financing

July/August 2026

Monday	Tuesday	Wednesday	Thursday	Friday
13	14	15	16	17
AUCTION RESULTS: Rate / Cover 13-week bills 3.760% 2.84 26-week bills 3.860% 3.11	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.640% 2.84 **ANNOUNCE:** $72 billion 17-week bills for auction on July 15 $110 billion 4-week bills for auction on July 16 $100 billion 8-week bills for auction on July 16 **SETTLE:** $72 billion 17-week bills $100 billion 4-week bills $95 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.745% 3.35 **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.660% 2.57 8-week bills 3.650% 2.84 **ANNOUNCE:** $171 billion 13-,26-week bills for auction on July 20 $95 billion 6-week bills for auction on July 21 $13 billion 20-year bonds for auction on July 22 $21 billion 10-year TIPS for auction on July 23 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	
20	21	22	23	24
AUCTION: $171 billion 13-,26-week bills	**AUCTION:** $95 billion 6-week bills **ANNOUNCE:** $72 billion* 17-week bills for auction on July 22 $110 billion* 4-week bills for auction on July 23 $100 billion* 8-week bills for auction on July 23 **SETTLE:** $72 billion 17-week bills $110 billion 4-week bills $100 billion 8-week bills	**AUCTION:** $72 billion* 17-week bills $13 billion 20-year bonds	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills $21 billion 10-year TIPS **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on July 27 $95 billion* 6-week bills for auction on July 28 $69 billion* 2-year notes for auction on July 27 $70 billion* 5-year notes for auction on July 27 $44 billion* 7-year notes for auction on July 28 $30 billion* 2-year FRNs for auction on July 29 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	**SETTLE:** $13 billion 20-year bonds
27	28	29	30	31
AUCTION: $171 billion* 13-,26-week bills $69 billion* 2-year notes $70 billion* 5-year notes	**AUCTION:** $95 billion* 6-week bills $44 billion* 7-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on July 29 $110 billion* 4-week bills for auction on July 30 $100 billion* 8-week bills for auction on July 30 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills $30 billion* 2-year FRNs	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 3 $95 billion* 6-week bills for auction on Aug 4 $52 billion* 52-week bills for auction on Aug 4 **SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills	**SETTLE:** $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
3	4	5	6	7
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $95 billion* 6-week bills $52 billion* 52-week bills **ANNOUNCE:** $72 billion* 17-week bills for auction on Aug 5 $110 billion* 4-week bills for auction on Aug 6 $100 billion* 8-week bills for auction on Aug 6 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Aug 11 $42 billion* 10-year notes for auction on Aug 12 $25 billion* 30-year bonds for auction on Aug 13	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 10 $95 billion* 6-week bills for auction on Aug 11 **SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills $52 billion* 52-week bills	

**Estimate*