U.S. Economic Comment

- August price data: inflation reports for July suggest a tame increase in the PCE price index, which could allow the FOMC to leave interest rates unchanged in September amid possible softening in other data
- Retail sales and consumer sentiment: disappointing

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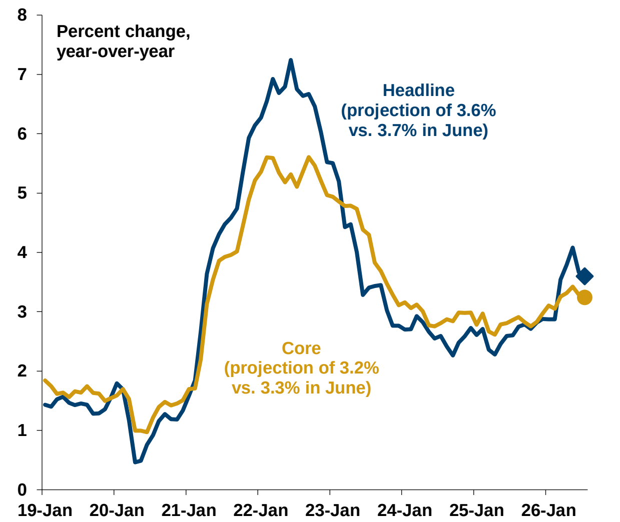
Subdued Inflation in July Buys Time for Chairman Warsh

Results this week for data critical to shaping our expectations for the monthly change in the Price Index for Personal Consumption Expenditures were fairly favorable, with the headline Consumer Price Index (the key measure informing our calculations) increasing 0.1 percent in July after falling 0.4 percent previously, and the core measure advancing 0.2 percent after rounding to no change in the prior month. Correspondingly, the year-over-year change in the headline index moderated to +3.4 percent from +3.5 percent in June (and a 2026 high of +4.2 percent in May), while the advance in the core eased by 0.1 percentage point to +2.5 percent – which also marked substantial improvement from the +2.9 percent pace in May. In a similar vein, the final demand measure (i.e., headline) of the Producer Price Index was unchanged in July after easing 0.1 percent in June (+4.7 percent year-over-year versus +5.5 percent in June), and prices excluding food and energy rose 0.2 percent (+4.2 percent year-over-year versus +4.7 percent previously). A good bit of the recent easing in price pressure is tied to prior de-escalation in the Iran conflict and the development's effects on oil prices (e.g., the energy component of the CPI declined 1.5 percent in July after a plunge of 5.7 percent in the previous month, with much of the cooling tied to falling gasoline prices) – but the abating impact of tariffs and likely some cooling in domestic demand also could be playing roles.

Taking a more granular view of the underlying data across the reports, we expect the headline PCE price index to advance 0.1 percent In July after a same-sized decline in June, while we look for the core to increase 0.2 percent after a pickup of 0.1 percent previously (results published in the Bureau of Economic Analysis' Personal Income and Outlays report for July scheduled for release on August 26). The projections, if realized, would translate to further incremental easing in 12-month inflation rates after that for the headline slowed to +3.7 percent in June from +4.1 percent previously and that for the core dipped by 0.1 percentage point to +3.3 percent (chart, next page, left). To be sure, the projection would still leave inflation uncomfortably high relative to the Federal Reserve's 2 percent target, but it does appear to give Chairman Warsh and colleagues on the FOMC some further breathing room to maintain a wait-and-see approach with respect to setting interest rates – especially as the Committee awaits recommendations from recently convened policy task forces while also acclimating the market to new messaging defined by the absence of forward guidance. (Recall that the Committee previously left unchanged the target range for the federal funds rate at 3-1/2 to 3-3/4 percent at Mr. Warsh's first two meetings despite vocal support from various corners of the market – and ultimately from three Fed officials in July in the form of dissents – for rate hikes.)

Importantly, the price data this week appears to have convinced fixed income markets of the prudence of the FOMC's approach – at least in the near term (and pending August inflation and employment data ahead of the next meeting). On the point, the two-year yield retreated from 4.28 percent on July 31 (and a recent high of 4.37 percent on July 23) to 4.14 percent as of writing. Furthermore, odds of a rate hike of 25 basis points at the September 15-16 FOMC gathering have transitioned to the expectation of a "hold" (chart, next page, right). The shift in expectations is critical in that it diminishes concern that the new Chairman is already behind the curve as an inflation fighter and gives policymakers more time to gather information. We would add that observing further data is critical at this juncture. Beyond the inflation metrics, we view the past two Employment Situation reports as showing cracks in the labor market despite an aggregate easing in the unemployment rate to 4.1 percent, and today's retail sales and consumer sentiment series were decidedly soft – possibly hearkening a H2 slowing in demand (see below). Thus, deferring potential rate hikes, which are often sequential and work with lags, could prove prescient at a time when monetary policy has previously been assessed by various Fed officials as modestly restrictive and when risks to both sides of the dual mandate are present. (As an aside, we do not expect the FOMC to tighten policy this year. Further, we look for additional easing in inflation in 2026-H2 and additional softening in underlying labor market conditions to pave the way to additional modest easing in early 2027 – currently one reduction of 25 basis points in March, with a year-end 2027 target range for the federal funds rate of 3-1/4 to 3-1/2 percent, which is within our estimate of the possible range of neutral.)

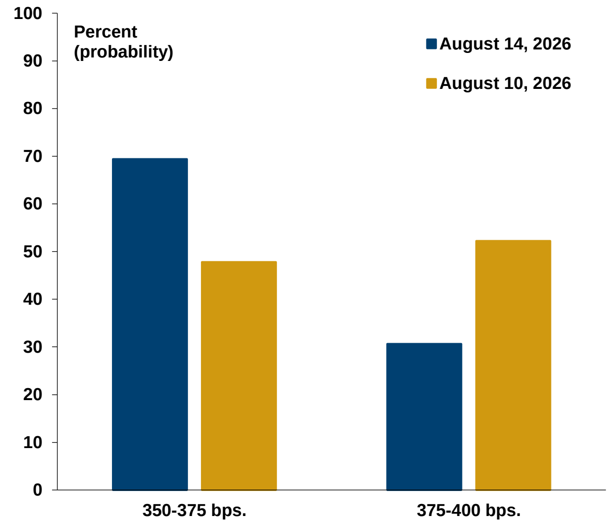
PCE Price Index*



** Based on the latest CPI and PPI data, we project one-month increases of 0.1 percent for the headline and 0.2 percent for the core in July 2026 (associated with year-over-year advances of 3.6 and 3.2 percent, respectively).*

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

Federal Funds Target Rate Probabilities*



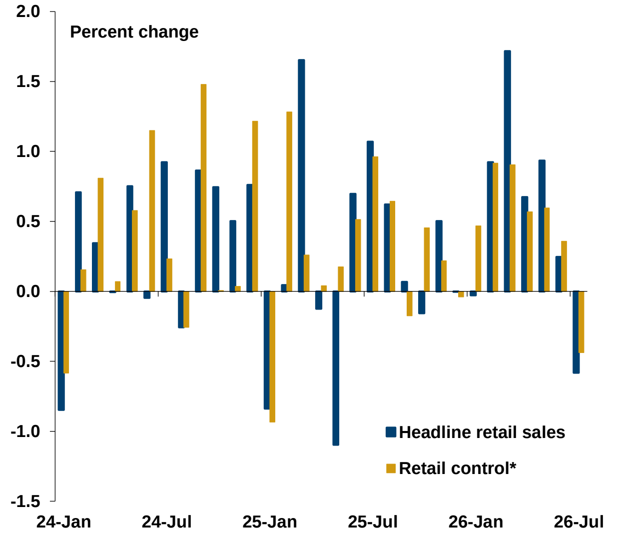
** The implied target range for the federal funds rate at the conclusion of the September FOMC meeting based on futures pricing data.*

Source: CME Group, FedWatch tool

Sluggish Consumer Spending in July

We anticipate that the U.S. will remain on a solid growth trajectory in the back half of 2026, especially as robust AI-related capex has contributed to firm ongoing business investment, but new information on households – another key engine of growth – merits close attention after real consumer outlays grew 3.2 percent, annual rate, in Q2 but raised concern in July. On the point, retail sales (published Friday) dropped 0.6 percent – a significant miss versus the Bloomberg median expectation of only a tepid increase of 0.1 percent. Analysts likely incorporated into their projections expectations of lower gasoline prices constraining the value of sales at service stations (which was realized with a decline of 0.9 percent in the gasoline stations component), along with a cooling in online activity after Amazon Prime Day sales in June may have pulled forward some sales (activity at nonstore rose 0.9 percent in June), but broad-based weakness exceeded most forecasts. Indeed, the retail control (sales excluding autos, gasoline stations, and building materials outlets) – which correlates with non-auto goods outlays in the GDP accounts -- fell 0.4 percent (versus the median expectation of +0.3 percent; chart, right), including a plunge of 2.2 percent in the nonstore area (which also includes fuel oil dealers, and thus lower prices may have had some effect) and a decline of 0.5 percent at electronic and appliance stores. Other areas posted better results (e.g., activity at clothing stores jumped 1.9 percent), but results in the aggregate were indicative of caution by households.

Retail Sales

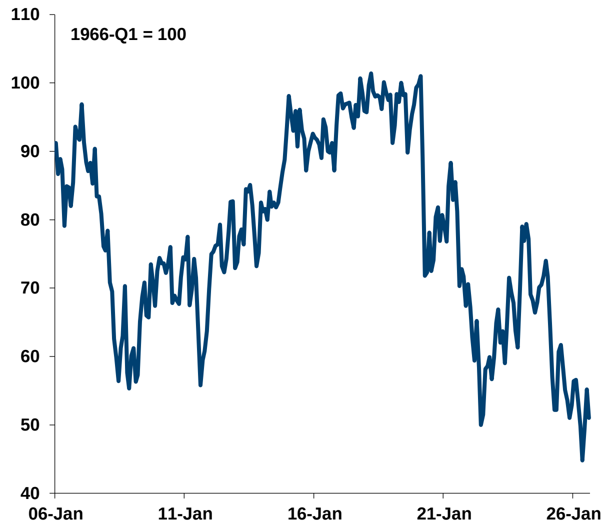


** Retail sales excluding those from food services and drinking places; motor vehicle dealers; gasoline stations; and building materials, garden equipment, and supply dealers.*

Source: U.S. Census Bureau via Haver Analytics

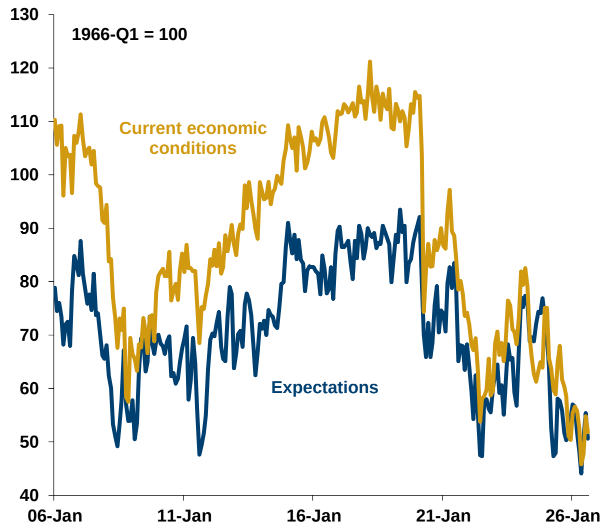
Corroborating the retail data was the preliminary August estimate of consumer sentiment. The University of Michigan's metric dropped 4.2 points (-7.6 percent) to 51.0, a weaker result than the median expectation of a slight downshift to 55.0 from the Bloomberg economist survey and only 6.2 points off the record low of 44.8 registered last May. Taking a closer look, the internals of the report indicate that the latest deterioration was broad based, with the current economic conditions subindex declining by 3.0 points (-5.5 percent) to 51.8 and consumer expectations decreasing 4.8 points (-8.7 percent) to 50.6 (charts, below). In essence, many households hold a dim view of current conditions and are apprehensive about the future.

Consumer Sentiment



Source: University of Michigan via Haver Analytics

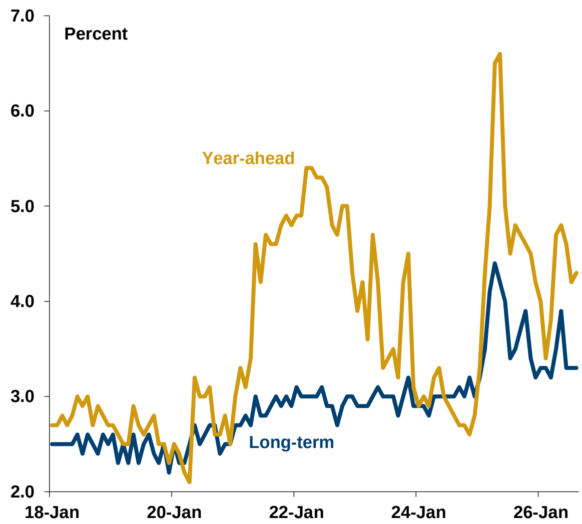
Consumer Sentiment Breakdown



Source: University of Michigan via Haver Analytics

Critical to the dour assessments were persistent concerns about the corrosive effects of inflation on budgets and spending – especially among more vulnerable groups. On the point, the survey noted that, "Although the early-month weakening in sentiment was pervasive across various demographic groups, notably large reductions were seen among older consumers, lower-income consumers, and those without a college degree. These groups are all particularly vulnerable to any erosion of purchasing power stemming from inflation." Underpinning the view, year-ahead inflation expectations ticked up 0.1 percentage point to 4.3 percent in August, an observation below the immediate post-war high of 4.8 percent but still elevated compared to early 2025. Meanwhile, the average expected inflation rate over the next five years held steady at 3.3 percent for the third consecutive month (chart, right). The relative stability in longer-term expectations is encouraging in that it may allow the FOMC to avoid rate hikes, but near-term views illustrate that many households are still unsettled by currently high prices and perceived rising costs which are likely eclipsing wage growth (average hourly earnings rose 3.2 percent year-over-year in July) and depleting savings (the personal saving rate of 2.7 percent in June was well below levels in the five-to-six percent range pre-COVID).

Consumer Inflation Expectations

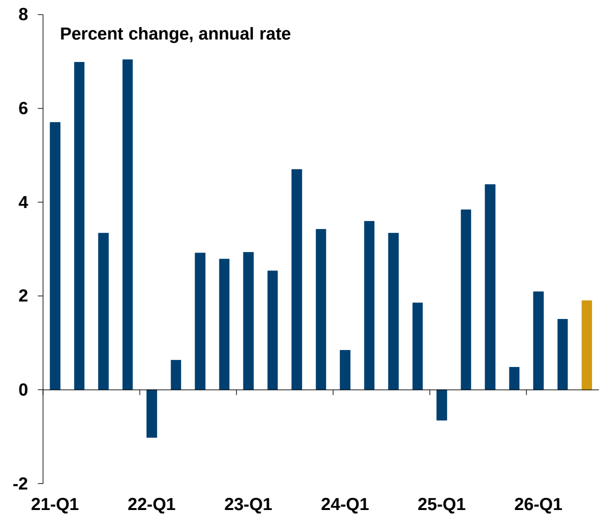


Source: University of Michigan via Haver Analytics

Thus, while we hesitate to extrapolate trend from one month's worth of unimpressive retail data – especially after a firm performance in real household spending in Q2 – we do think there is some reason for concern. Inflation, despite recent improved performances, is still brisk, the labor market may be softening, and sentiment is depressed.

Acknowledging those realities and incorporating the latest available data into our GDP tracking estimate for Q3, we currently look for real consumer spending growth of approximately 1.5 percent, consistent with GDP growth a tick below two percent (charts, below). With that said, data are somewhat limited as of now and our view will certainly evolve further over the next few months.

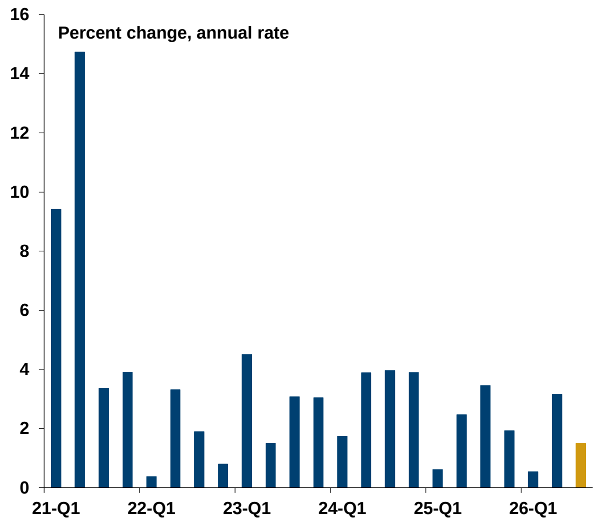
GDP Growth*



** The gold bar is a forecast for 2026-Q3.*

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

Real Consumer Spending Growth*



** The gold bar is a forecast for 2026-Q3.*

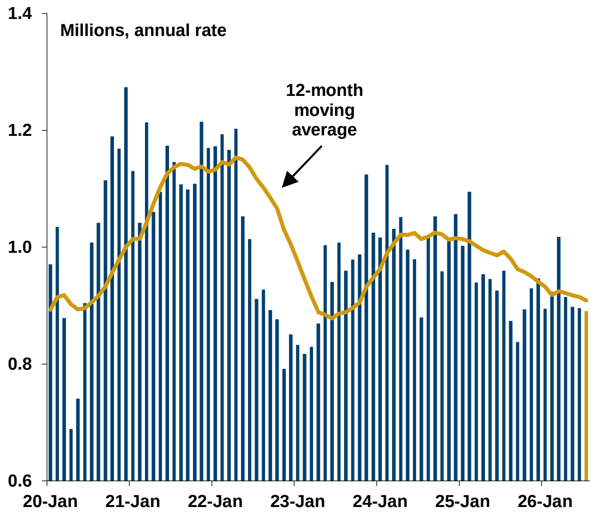
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

The Week Ahead

Housing Starts (July) (Tuesday)
Forecast: 1.330 million (-6.8%)

Elevated inventories of unsold new homes suggest that builders will continue to exercise caution in initiating new single-family projects in July – a notion supported by the recent pattern of permit issuance, which includes a decline of 2.2 percent in June. Multi-family starts typically exhibit marked volatility on a month-to-month basis, evidenced by the 76.2 percent surge to 0.532 million units, annual rate, in June. That in mind, we could envision some reversion closer to the trailing 12-month average of 0.438 million in the latest report.

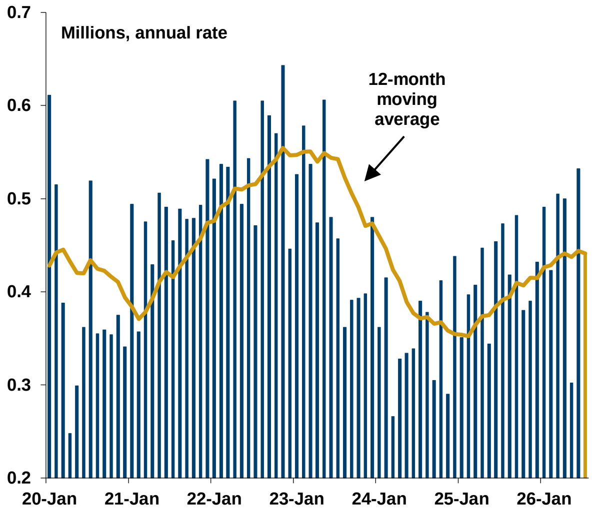
Single-Family Housing Starts*



** The gold bar is a forecast for July 2026.*

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

Multi-Family Housing Starts*



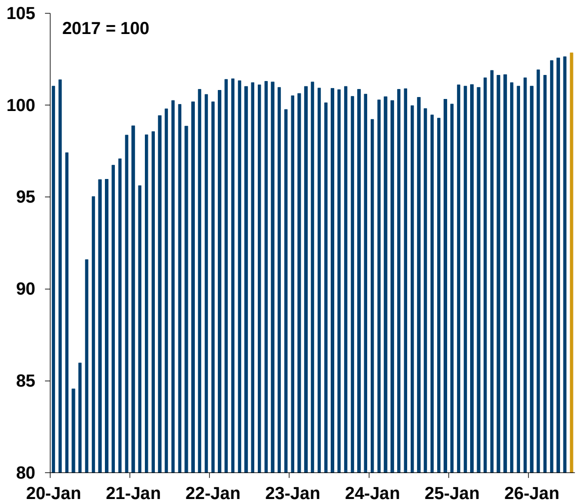
** The gold bar is a forecast for July 2026.*

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

Industrial Production (July) (Tuesday)
Forecast: +0.4%

An increase in factory headcounts in July and the maintenance of worktimes in the upper end of the recent range suggest an advance in the manufacturing component of industrial production for the sixth time in the past seven months, a result which would augment the ongoing upward drift in this series since early 2025 (recall that January's shift rounded down to no change: +0.012 percent). Moreover, mining activity could also perform favorably – a notion supported by increases in the rotary rig count and the average workweek of mining, quarrying and oil/gas extraction workers. Meanwhile, warmer-than-average temperatures suggest above-average home cooling usage, raising the possibility of a gain in utility output. Keep in mind, however, this component is often volatile (range of -3.5 to +0.8 percent in the past six months), influenced by swings in weather rather than economic fundamentals.

Industrial Production*



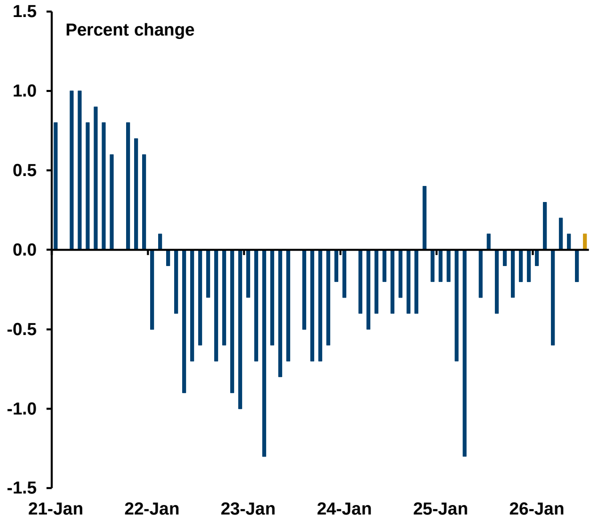
** The gold bar is a forecast for July 2026.*

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

Leading Indicators (July) (Thursday)
Forecast: +0.1%

Anticipated positive contributions from unemployment claims and the slope of the yield curve are likely to offset negative consumer expectations, suggestive of the Conference Board's Leading Economic Index increasing modestly in July after declining in 45 of the past 54 months. If the projection is realized, the index would still be 18.6 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.

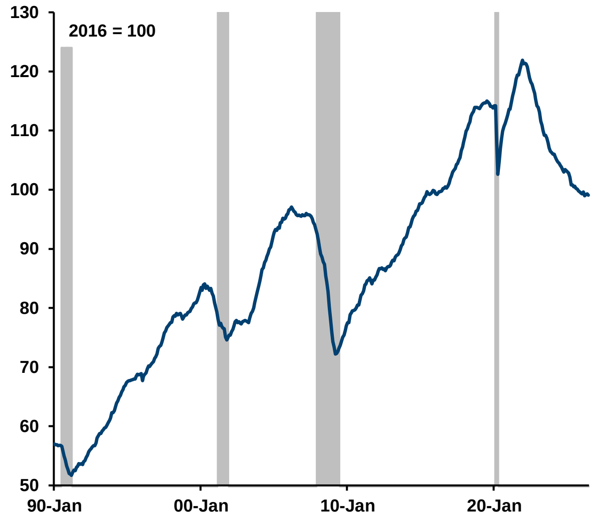
Index of Leading Economic Indicators*



** The gold bar is a forecast for July 2026.*

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

Economic Indicators

August/September 2026

Monday 10

Tuesday 11

NFIB SMALL BUSINESS OPTIMISM INDEX

May	95.3
June	97.4
July	99.8

EXISTING HOME SALES

May	4.190 million
June	4.130 million
July	4.060 million

Wednesday 12

CPI

	Total	Core
May	0.5%	0.2%
June	-0.4%	0.0%
July	0.1%	0.2%

FEDERAL BUDGET

	2026	2025
May	-$292.6B	-$315.7B
June	-$120.3B	$27.0B
July	-$432.3B	-$291.1B

Thursday 13

UNEMPLOYMENT CLAIMS

	Initial (millions)	Continuing (millions)
July 18	0.189	1.777
July 25	0.198	1.799
Aug 1	0.200	1.777
Aug 8	0.209	N/A

PPI

	Final Demand	Ex. Food & Energy
May	0.5%	-0.1%
June	-0.1%	0.4%
July	0.0%	0.2%

Friday 14

RETAIL SALES

	Total	Ex.Autos
May	0.9%	0.9%
June	0.2%	-0.2%
July	-0.6%	-0.3%

CONSUMER SENTIMENT

June	49.5
July	55.2
Aug	51.0

BUSINESS INVENTORIES

	Inventories	Sales
Apr	0.6%	1.4%
May	0.4%	2.1%
June	0.0%	-1.1%

Monday 17

EMPIRE MFG (8:30)

June	5.7
July	15.6
Aug	--

NAHB HOUSING INDEX (10:00)

June	36
July	34
Aug	--

TIC FLOWS (4:00)

	Long-Term	Total
Apr	$104.8B	$76.6B
May	$232.7B	$132.2B
June	--	--

Tuesday 18

HOUSING STARTS (8:30)

May	1.199 million
June	1.427 million
July	**1.330 million**

IMPORT/EXPORT PRICES (8:30)

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

IP & CAP-U (9:15)

	IP	Cap.Util.
May	0.1%	76.1%
June	0.1%	76.1%
July	**0.4%**	**76.2%**

PENDING HOME SALES (10:00)

May	3.5%
June	-5.4%
July	--

Wednesday 19

FOMC MINUTES (2:00)

Thursday 20

UNEMP. CLAIMS (8:30)

PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)

June	10.3
July	41.4
Aug	--

LEADING INDICATORS (10:00)

May	0.1%
June	-0.2%
July	**0.1%**

Friday 21

Monday 24

CHICAGO FED NATIONAL ACTIVITY INDEX

Tuesday 25

FHFA HOUSE PRICE INDEX

S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX

NEW HOME SALES

CONFERENCE BOARD CONSUMER CONFIDENCE

Wednesday 26

REVISED Q2 GDP

PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX

DURABLE GOODS ORDERS

Thursday 27

UNEMP. CLAIMS

INTERNATIONAL TRADE IN GOODS

ADVANCE INVENTORIES

Friday 28

MNI CHICAGO BUSINESS BAROMETER

REVISED CONSUMER SENTIMENT

Monday 31

Tuesday 1

ISM MFG. INDEX

CONSTRUCTION

JOLTS DATA

VEHICLE SALES

Wednesday 2

ADP EMPLOYMENT

FACTORY ORDERS

BEIGE BOOK

Thursday 3

UNEMP. CLAIMS

TRADE BALANCE

REVISED PRODUCTIVITY & COSTS

ISM SERVICES INDEX

Friday 4

EMPLOYMENT REPORT

Forecasts in bold.

Treasury Financing

August/September 2026

Monday	Tuesday	Wednesday	Thursday	Friday
10	11	12	13	14
AUCTION RESULTS: Rate / Cover 13-week bills 3.735% 2.88 26-week bills 3.830% 2.85	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.670% 2.93 3-yr notes 4.291% 2.71 **ANNOUNCE:** $72 billion 17-week bills for auction on Aug 12 $110 billion 4-week bills for auction on Aug 13 $100 billion 8-week bills for auction on Aug 13 **SETTLE:** $72 billion 17-week bills $110 billion 4-week bills $100 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.755% 3.16 10-yr notes 4.683% 2.53	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.625% 2.77 8-week bills 3.665% 2.85 30-yr bonds 5.216% 2.39 **ANNOUNCE:** $171 billion 13-,26-week bills for auction on Aug 17 $95 billion 6-week bills for auction on Aug 18 $16 billion 20-year bonds for auction on Aug 19 $8 billion 30-year TIPS for auction on Aug 20 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	
17	18	19	20	21
AUCTION: $171 billion 13-,26-week bills **SETTLE:** $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds	**AUCTION:** $95 billion 6-week bills **ANNOUNCE:** $72 billion* 17-week bills for auction on Aug 19 $110 billion* 4-week bills for auction on Aug 20 $100 billion* 8-week bills for auction on Aug 20 **SETTLE:** $72 billion 17-week bills $110 billion 4-week bills $100 billion 8-week bills	**AUCTION:** $72 billion* 17-week bills $16 billion 20-year bonds	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills $8 billion 30-year TIPS **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 24 $95 billion* 6-week bills for auction on Aug 25 $69 billion* 2-year notes for auction on Aug 25 $70 billion* 5-year notes for auction on Aug 26 $44 billion* 7-year notes for auction on Aug 27 $28 billion* 2-year FRNs for auction on Aug 26 **SETTLE:** $171 billion 13-,26-week bills $95 billion 6-week bills	
24	25	26	27	28
AUCTION: $171 billion* 13-,26-week bills	**AUCTION:** $95 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $72 billion* 17-week bills for auction on Aug 26 $110 billion* 4-week bills for auction on Aug 27 $100 billion* 8-week bills for auction on Aug 27 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Aug 31 $95 billion* 6-week bills for auction on Sep 1 $52 billion* 52-week bills for auction on Sep 1 **SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs
31	1	2	3	4
AUCTION: $171 billion* 13-,26-week bills **SETTLE:** $16 billion 20-year bonds $8 billion 30-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $95 billion* 6-week bills $52 billion* 52-week bills **ANNOUNCE:** $72 billion* 17-week bills for auction on Sep 2 $110 billion* 4-week bills for auction on Sep 3 $100 billion* 8-week bills for auction on Sep 3 **SETTLE:** $72 billion* 17-week bills $110 billion* 4-week bills $100 billion* 8-week bills	**AUCTION:** $72 billion* 17-week bills	**AUCTION:** $110 billion* 4-week bills $100 billion* 8-week bills **ANNOUNCE:** $171 billion* 13-,26-week bills for auction on Sep 8 $95 billion* 6-week bills for auction on Sep 8 $58 billion* 3-year notes for auction on Sep 8 $39 billion* 10-year notes for auction on Sep 9 $22 billion* 30-year bonds for auction on Sep 10	**SETTLE:** $171 billion* 13-,26-week bills $95 billion* 6-week bills $52 billion* 52-week bills

*Estimate