

U.S. Economic Comment

- FOMC minutes & Waller comments: insights on the September policy meeting and the “signaling option” for forward guidance
- Inflation expectations: the latest survey data suggest that consumers’ longer-term views remain anchored, although gasoline prices contributed to the erosion of near-term assessments

Lawrence Werther

lawrence.werther@us.daiwacm.com
1-212-612-6393

Brendan Stuart

Brendan.Stuart@us.daiwacm.com
1-212-612-6172

The “Signaling Role” of FOMC Forecasts

In a light week for U.S. economic data, Fed communications filled the gap by further shaping expectations for the path of policy in coming months. The latest publications – the September FOMC minutes and comments yesterday by Governor Christopher Waller – reinforced our expectation that the Committee will refrain from sequential rate hikes into year-end while also providing helpful context for utilizing the quarterly Summary of Economic Projections. We found the latter discussion especially useful, as it reiterated the importance of the SEP (and more importantly how to interpret it) at a time when the new Fed Chairman is refraining from providing his own forecasts and simultaneously discouraging the use of forward guidance.

Turning first to the minutes, the recounting of the Committee’s discussion on the September policy action yielded little in the way of genuine surprises – although it did affirm a fairly unified shift by policymakers to a somewhat more hawkish posture (“all participants viewed a higher target for the federal funds rate as appropriate”) and provided context for the broadly adopted bias. Specifically, after adopting language consistent with recent comments by various officials – noting that “inflation risks were tilted to the upside” and those “to the labor market had diminished and were now broadly balanced” – the text further indicated: “Many participants emphasized that a higher path for the target range would be prudent on risk-management grounds, providing insurance against inflation remaining persistently above target due to stronger-than-expected demand or further adverse supply shocks.” Thus, aligned with the SEP, the majority of officials (12 who telegraphed the need for one more hike in 2026, along with 2 who saw no need for further adjustment) interpreted the realized increase of 25 basis points, along with further anticipated moves, in the context of hedging against inflationary pressures that are still expected to retreat in coming years versus plotting a course designed to meaningfully constrain aggregate demand.

Perhaps more important with respect to new information, Fed Governor Waller – who we view as a highly influential member of the FOMC – discussed why he transitioned from supporting rate cuts in the closing months of last year to voting for a hike at the September meeting while offering his views on current forces complicating the inflation outlook. Further, he provided a useful context for evaluating Fed forecasts and messaging in a paradigm that specifically rejects explicit forward guidance. On the earlier point, he indicated at the time policymakers observed “significant evidence of a weakening labor market” and therefore viewed rate reductions “as insurance against an economic slowdown.” However, that view, over time, evolved to supporting removal of accommodation on account of three factors generating undesirable price pressure: 1. The protracted nature of the conflict in the Middle East and potential for an extended period of elevated oil prices, 2. Cost pressures associated with the AI buildout, and 3. Ongoing trade conflicts and tariffs. Moreover, he emphasized that these factors and other observed developments – “a preponderance of evidence over several months” – alerted him that risks “had shifted” and price pressure required action. Thus, support of a hike was not dictated by a single (August) inflation print. And, importantly, given recent data on the economy, Governor Waller was “not greatly concerned that tighter monetary policy threatens a damaging slowdown in the economy.” However, he was increasingly concerned that persistently elevated inflation “will lead consumers, investors, and price-setting businesses to revise up their expectations for future inflation.”

Returning to the second key element of Waller’s remarks, he addressed several ways that officials could communicate (or not) to market participants about the trajectory of monetary policy. First, he noted that they “could choose to say nothing,” which “could surprise markets and create volatility” while having an undesired effect on financial conditions if too few or too many adjustments were priced in. Secondly, they could rely on a “strong form of.

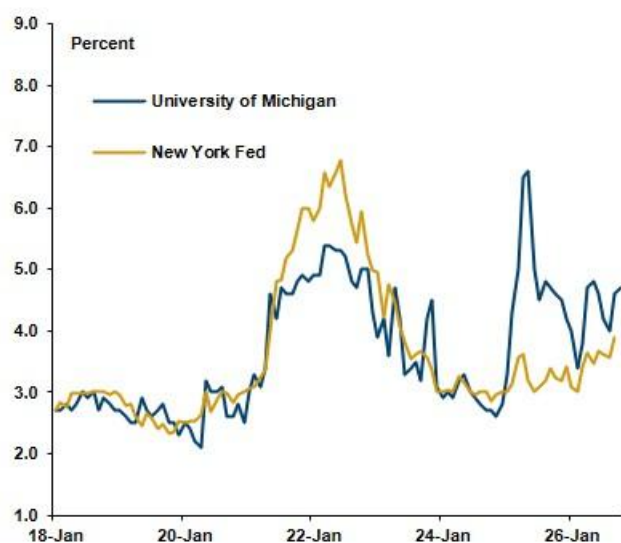
forward guidance" (i.e., explicit directions) about the path of monetary policy – which we see as most appropriate when the policy rate is close to the zero lower bound. Finally, he indicated that public remarks and the SEP could be taken together to operate in a "signaling role" for markets – not an explicit target, but rather a collection of assessments and numerical forecasts that allow observers to make inferences about the path of policy while providing policymakers flexibility to revise evaluations based on incoming information.

Regarding current applications of what was evidently his preferred framework for interpretation of Fed communications, he noted that markets project as likely 50 basis points in increases in coming months with traders pricing an 85% chance of at least 25 basis points hike by the end of the December FOMC meeting – and "nearly an 80 percent chance of at least two hikes" by March 2027. Waller refrained from ratifying that view, but he did conclude: "If the economic data continue to come in as expected, I anticipate additional hikes to support a timelier return of inflation to our 2 percent goal." Additionally, he emphasized that "The hikes do not need to come at consecutive meetings," which we view as the maintenance of a hawkish bias, but one aligned with those of other key policymakers (New York Fed President John Williams and Fed Vice Chairman Philip Jefferson) who have recently voiced support for holding the current target range at this month's FOMC meeting.

Longer-Term Inflation Expectations Remain Contained

With inflation expectations a key variable in discerning the potential path of monetary policy, we viewed with keen interest two data sets from the Federal Reserve Bank of New York and the University of Michigan released this week. Both September data from the FRBNY Survey of Consumer Expectations and early October results for the U. Michigan Survey of Consumers told similar stories. Near-term outlooks have deteriorated, most likely on account of elevated gasoline prices, but longer-term expectations remain anchored (charts, below).

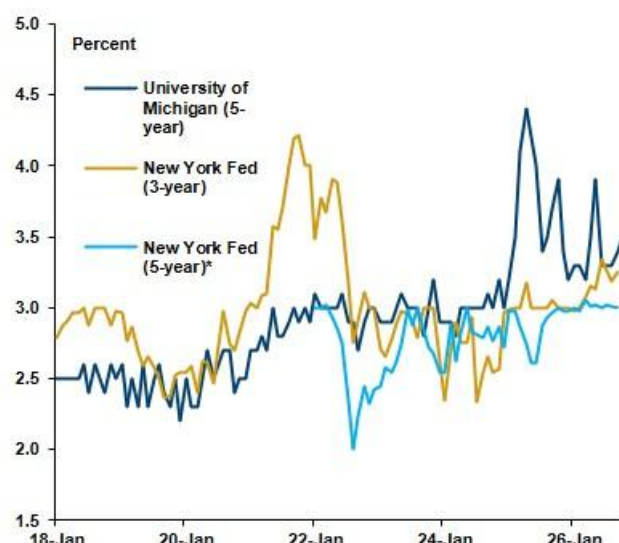
Consumer Inflation Expectations: Next Year*



* Readings from the New York Fed are median estimates.

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

Consumer Inflation Expectations: Long Term



* Results for inflation expectations five years hence are only available from January 2022 onwards.

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

Specifically, median one-year ahead expectations for September rose to 3.90 percent from 3.58 percent in the prior month, the highest observation from the FRBNY survey since the summer of 2023. The October reading for the Michigan survey rose to 4.7 percent after jumping by 60 basis points to 4.6 percent in the previous month – elevated readings but within the recent range. That said, changes at other time horizons were relatively modest. The 3-year median for the NY Fed survey increased to 3.25 percent from 3.19 percent in the prior month, while the 5-year ahead metric was essentially unchanged at 3.00 percent (a tight range of 3.00 to 3.02 percent since April 2026). The Michigan measure for annual inflation five years hence increased by 0.1 percentage point for the second consecutive month (3.5 percent in October), but it was still off the recent high of 3.9 percent in May. All told, policymakers must act

to return inflation to two percent, but data for consumer surveys are relatively reassuring. In context, price pressure is currently viewed as a near-term phenomenon tied to the cost of gasoline rather than broader, more persistent factors. As such, trend inflation, barring any additional unforeseen shock, is expected to moderate over a longer horizon.

Note to readers:

The next issue of the U.S. Economic Comment will be published on October 23, 2026.

The Week Ahead

Existing Home Sales (September) (Tuesday)

Forecast: 3.85 million (-3.3%)

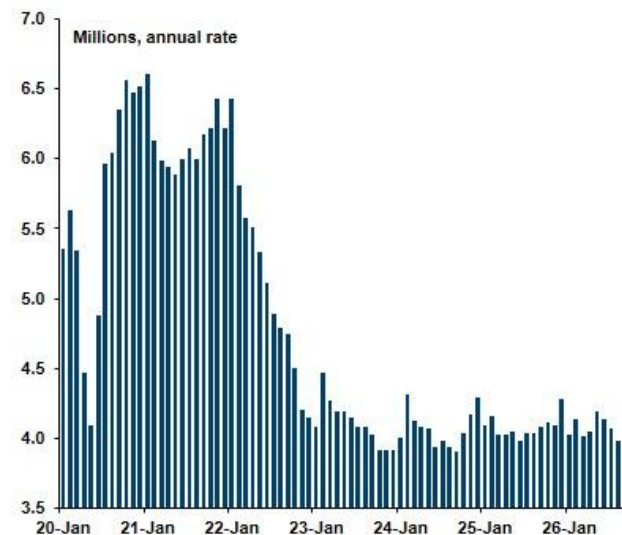
The recent performance in the index of pending home sales (a cumulative drop of 2.3 percent in the June-to-August period) is suggestive of a fourth consecutive decline in the pace of existing home sales in September (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by about one to two months). The anticipated downshift, if realized, would leave this measure in the low end of the longer-run range – reflective of ongoing affordability challenges weighing on activity.

Federal Budget (September) (Tuesday; tentative)

CBO Forecast: -\$28 billion

This week the Congressional Budget Office released its projection for September budget results. The CBO estimate, which is usually close to the official tally by Treasury, indicated that the federal government realized a budget deficit of \$28 billion in September, versus a surplus of \$198 billion in the same month last year. Turning to the organization's projections for FY2026, federal revenues were estimated to have increased 3 percent for the 12-month period. Correspondingly, individual income and payroll taxes were firmer than those in FY2025, although corporate tax collections and payments of customs duties eased. Outlays for the full fiscal year were forecast to rise at a faster clip (+6 percent), with increased spending on social assistance programs, national defense, and education (e.g., student loan programs) all contributing importantly to the anticipated increase. Thus, the cumulative shortfall in FY2026 is on track to total \$2.0 trillion (versus \$1.8 trillion in FY2025), a performance in line with that in other recent years and indicative of ongoing acute budgetary challenges faced by the U.S. government. Please note that budget results for the final month of the fiscal year are often delayed from the anticipated release date due to year-end reporting requirements.

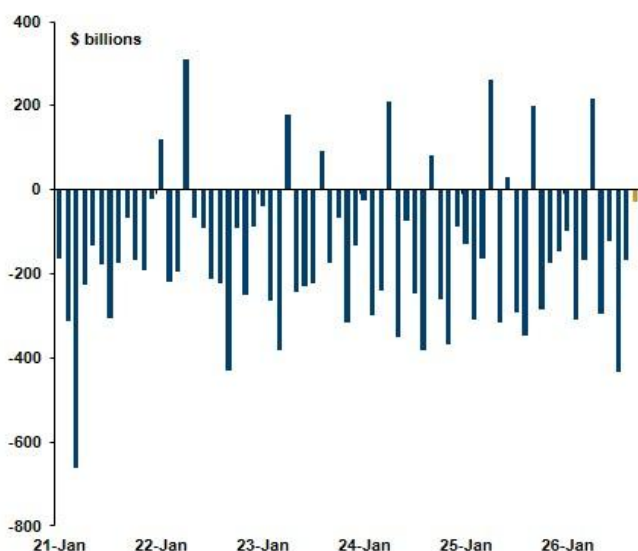
Existing Home Sales*



* The gold bar is a forecast for September 2026.

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

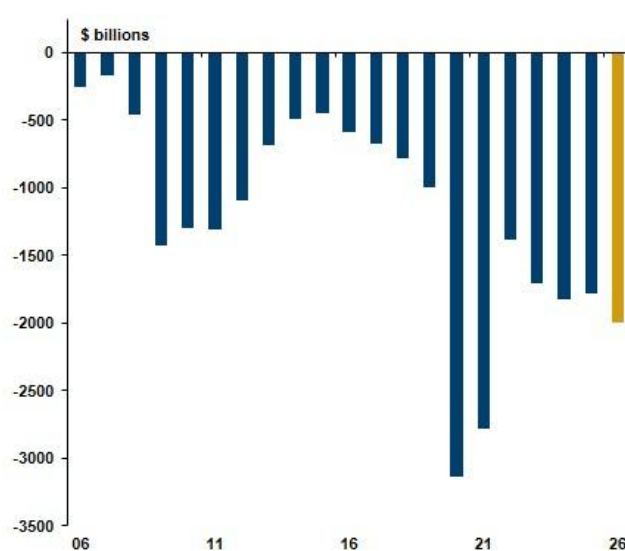
Federal Budget Surplus/Deficit*



* The gold bar is the CBO forecast for September 2026.

Sources: U.S. Treasury via Haver Analytics; Congressional Budget Office

Federal Budget Surplus/Deficit*



* Fiscal year basis. The gold bar is the CBO forecast for FY2026.

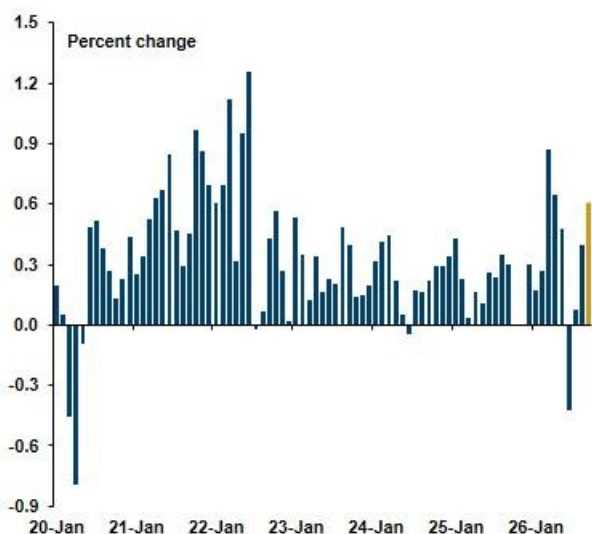
Sources: U.S. Treasury via Haver Analytics; Congressional Budget Office

CPI (September) (Wednesday)

Forecast: +0.6% headline, +0.2% core

Available quotes (e.g., those for gasoline) suggest that higher prices boosted the energy component of the CPI again in September. Concurrently, food prices appear poised to post an increase in line with the average monthly gain of 0.2 percent in 2026 thus far. With respect to core, while some pockets of tariff-related pressure remain, recent growth in goods prices has been benign even amid newly ignited trade tensions with foreign partners (average shift rounding down to 0.0 percent in the January-to-August period; +0.7 percent year-over-year as of August). Core service inflation, meanwhile, has registered steady gains (+0.3 percent, on average, in the first eight months of the year; +3.0 percent year-over-year as of August).

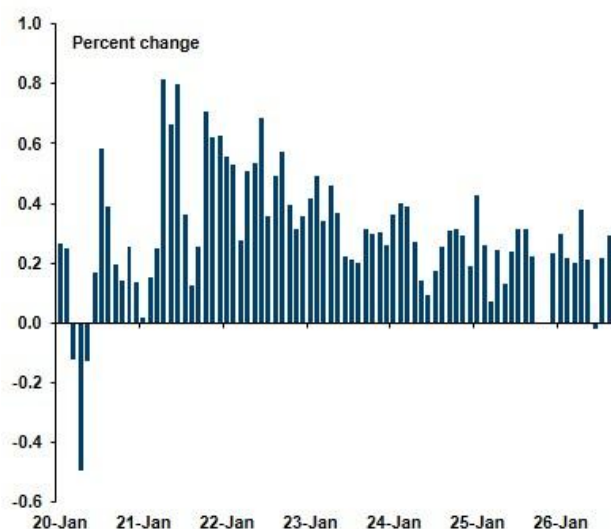
Headline CPI*



* The gold bar is a forecast for September 2026.

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

Core CPI*



* The gold bar is a forecast for September 2026.

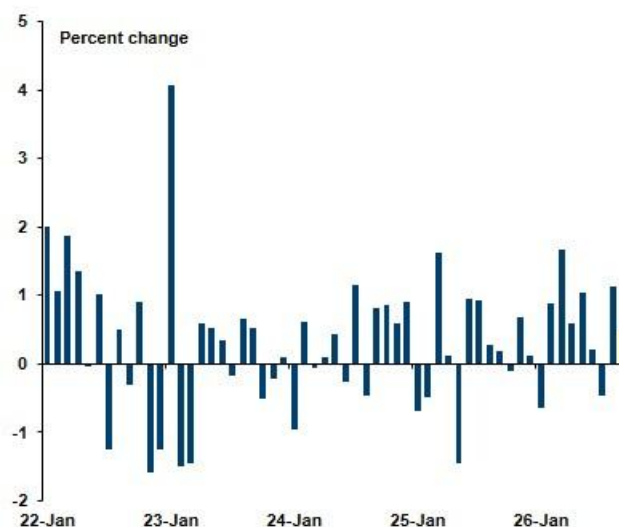
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Retail Sales (September) (Thursday)

Forecast: +0.5% total, +0.9% ex. autos, +0.4% ex. autos & gas

A decrease in automotive sales in September is suggestive of softening for the motor vehicle and parts component of retail sales. Conversely, with higher prices at the pump, the gasoline stations component could provide a boost to total activity. While transactions excluding autos and gas posted the strongest one-month gain in almost two years in August, we expect a deceleration closer to the January-July average of +0.4 percent – a still-solid performance from households despite being battered by elevated underlying inflation.

Retail Sales*



* The gold bar is a forecast for September 2026.

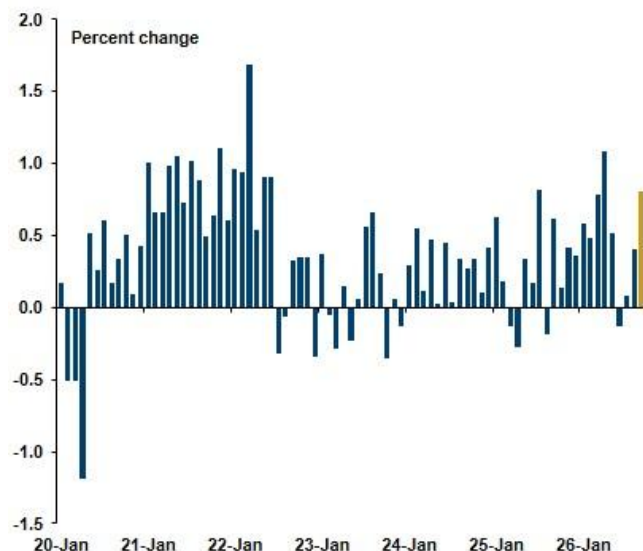
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

PPI (September) (Thursday)

Forecast: +0.8% final demand, +0.4% ex. food & energy

Similar to the CPI, available quotes suggest that the energy component of the PPI could pick up for the second straight month in September. Meanwhile, food prices at the producer level, which can be a bit volatile on a month-to-month basis, could post a shift in line with the recent muted trend (trailing 12-month average change of 0.0 percent). Concurrently, goods prices excluding food and energy have advanced 0.4 percent on average in the 12-month period ended August 2026 – approximately in line with the performance of the broad services category. Over that identical timeframe, the construction area recorded a same-sized average monthly gain of 0.4 percent.

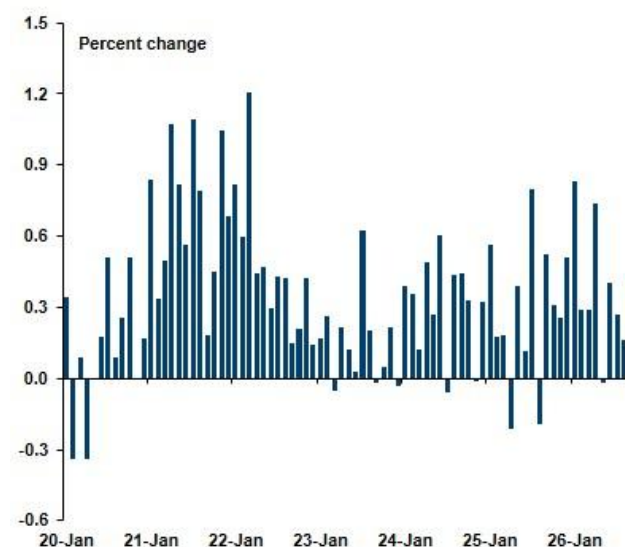
PPI: Final Demand*



* The gold bar is a forecast for September 2026.

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

PPI Ex. Food & Energy*



* The gold bar is a forecast for September 2026.

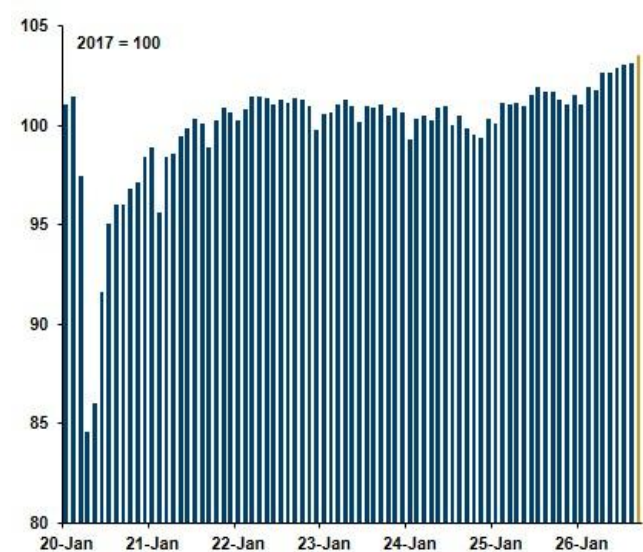
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Industrial Production (September) (Friday)

Forecast: +0.4%

An increase in factory headcounts 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 eighth time in the past nine months, a result which would augment the ongoing upward drift in this series since early 2025 (note that January's shift rounded down to no change). Mining activity, however, could be more muted as a small decline in payrolls was matched with an increase in the rotary rig count. 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 -1.9 to +1.8 percent in the past six months), influenced by swings in weather rather than economic fundamentals.

Industrial Production*



* The gold bar is a forecast for September 2026.

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

Economic Indicators

October 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
5	6	7	8	9
ISM SERVICES INDEX Index Prices July 54.1 70.3 Aug 55.4 72.6 Sep 54.9 74.0	TRADE BALANCE June -\$71.2 billion July -\$92.8 billion Aug -\$105.6 billion	FOMC MINUTES CONSUMER CREDIT June \$15.3 billion July \$17.7 billion Aug \$8.3 billion	UNEMPLOYMENT CLAIMS Initial Continuing (millions) Sep 12 0.198 1.712 Sep 19 0.198 1.699 Sep 26 0.199 1.716 Oct 3 0.197 N/A WHOLESALE TRADE Inventories Sales June 0.4% -2.9% July 1.4% 1.0% Aug 0.5% 1.8%	CONSUMER SENTIMENT Aug 51.7 Sep 48.1 Oct 46.3
12	13	14	15	16
COLUMBUS DAY	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) July 99.8 Aug 98.7 Sep -- EXISTING HOME SALES (10:00) July 4.060 million Aug 3.980 million Sep 3.850 million FEDERAL BUDGET (2:00) 2026 2025 July -\$432.3B -\$291.1B Aug -\$166.8B -\$344.8B Sep -\$28.0B \$197.9B	CPI (8:30) Total Core July 0.1% 0.2% Aug 0.4% 0.3% Sep 0.6% 0.2% BEIGE BOOK (2:00) August 2026: "Economic activity increased modestly since early July. Ten of the twelve Federal Reserve Districts reported growth in the slight to moderate range; two Districts reported no change."	UNEMP. CLAIMS (8:30) RETAIL SALES (8:30) Total Ex. Autos July -0.5% -0.2% Aug 1.1% 1.3% Sep 0.5% 0.9% PPI (8:30) Final Demand Ex. Food & Energy July 0.1% 0.3% Aug 0.4% 0.2% Sep 0.8% 0.4% EMPIRE MFG (8:30) Aug 20.6 Sep 7.6 Oct -- PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30) Aug 47.4 Sep 37.8 Oct -- BUSINESS INVENTORIES (10:00) Inventories Sales June 0.1% -1.1% July 0.8% 0.5% Aug 0.4% 1.0%	IMPORT/EXPORT PRICES (8:30) Non-Petrol Imports Nonagri. Exports July 0.3% -1.6% Aug 0.8% 0.7% Sep -- -- IP & CAP-U (9:15) IP Cap.Util. July 0.2% 76.3% Aug 0.0% 76.3% Sep 0.4% 76.4% TIC FLOWS (4:00) Long-Term Total June \$174.4B \$135.5B July -\$27.9B \$83.7B Aug -- --
19	20	21	22	23
NAHB HOUSING INDEX	HOUSING STARTS PENDING HOME SALES		UNEMP. CLAIMS LEADING INDICATORS	REVISED CONSUMER SENTIMENT
26	27	28	29	30
CHICAGO FED NATIONAL ACTIVITY INDEX	DURABLE GOODS ORDERS FHFA HOUSE PRICE INDEX S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX CONFERENCE BOARD CONSUMER CONFIDENCE NEW HOME SALES FOMC MEETING (FIRST DAY)	INTERNATIONAL TRADE IN GOODS ADVANCE INVENTORIES FOMC RATE DECISION	UNEMP. CLAIMS Q3 GDP PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX	EMPLOYMENT COST INDEX MNI CHICAGO BUSINESS BAROMETER

Forecasts in bold (except for the federal budget balance which is a projection from the Congressional Budget Office).

Treasury Financing

October 2026				
Monday	Tuesday	Wednesday	Thursday	Friday
5	6	7	8	9
AUCTION RESULTS: Rate Cover 13-week bills 4.050% 2.51 26-week bills 4.165% 2.79	AUCTION RESULTS: Rate Cover 6-week bills 3.945% 2.78 3-yr notes 4.932% 2.62 ANNOUNCE: \$75 billion 17-week bills for auction on Oct 7 \$110 billion 4-week bills for auction on Oct 8 \$105 billion 8-week bills for auction on Oct 8 SETTLE: \$75 billion 17-week bills \$100 billion 4-week bills \$95 billion 8-week bills	AUCTION RESULTS: Rate Cover 17-week bills 4.105% 3.10 10-yr notes 5.300% 2.77	AUCTION RESULTS: Rate Cover 4-week bills 3.980% 2.40 8-week bills 3.980% 2.77 30-yr bonds 5.618% 2.54 ANNOUNCE: \$177 billion 13-,26-week bills for auction on Oct 13 \$95 billion 6-week bills for auction on Oct 13 SETTLE: \$177 billion 13-,26-week bills \$95 billion 6-week bills	
12	13	14	15	16
COLUMBUS DAY	AUCTION: \$177 billion 13-,26-week bills \$95 billion 6-week bills ANNOUNCE: \$75 billion* 17-week bills for auction on Oct 14 \$110 billion* 4-week bills for auction on Oct 15 \$105 billion* 8-week bills for auction on Oct 15 SETTLE: \$75 billion 17-week bills \$110 billion 4-week bills \$105 billion 8-week bills	AUCTION: \$75 billion* 17-week bills	AUCTION: \$110 billion* 4-week bills \$105 billion* 8-week bills ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Oct 19 \$95 billion* 6-week bills for auction on Oct 20 \$13 billion* 20-year bonds for auction on Oct 21 \$26 billion* 5-year TIPS for auction on Oct 22 SETTLE: \$177 billion 13-,26-week bills \$95 billion 6-week bills	SETTLE (CONT.): \$58 billion 3-year notes \$39 billion 10-year notes \$22 billion 30-year bonds
19	20	21	22	23
AUCTION: \$177 billion* 13-,26-week bills	AUCTION: \$95 billion* 6-week bills ANNOUNCE: \$75 billion* 17-week bills for auction on Oct 21 \$110 billion* 4-week bills for auction on Oct 22 \$105 billion* 8-week bills for auction on Oct 22 SETTLE: \$75 billion* 17-week bills \$110 billion* 4-week bills \$105 billion* 8-week bills	AUCTION: \$75 billion* 17-week bills \$13 billion* 20-year bonds	AUCTION: \$110 billion* 4-week bills \$105 billion* 8-week bills \$26 billion* 5-year TIPS ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Oct 26 \$95 billion* 6-week bills for auction on Oct 27 \$54 billion* 52-week bills for auction on Oct 27 \$69 billion* 2-year notes for auction on Oct 26 \$70 billion* 5-year notes for auction on Oct 27 \$44 billion* 7-year notes for auction on Oct 29 \$30 billion* 2-year FRNs for auction on Oct 28	SETTLE: \$13 billion* 20-year bonds SETTLE: \$177 billion* 13-,26-week bills \$95 billion* 6-week bills
26	27	28	29	30
AUCTION: \$177 billion* 13-,26-week bills \$69 billion* 2-year notes	AUCTION: \$95 billion* 6-week bills \$54 billion* 52-week bills \$70 billion* 5-year notes ANNOUNCE: \$75 billion* 17-week bills for auction on Oct 28 \$110 billion* 4-week bills for auction on Oct 29 \$105 billion* 8-week bills for auction on Oct 29 SETTLE: \$75 billion* 17-week bills \$110 billion* 4-week bills \$105 billion* 8-week bills	AUCTION: \$75 billion* 17-week bills \$30 billion* 2-year FRNs	AUCTION: \$110 billion* 4-week bills \$105 billion* 8-week bills \$44 billion* 7-year notes ANNOUNCE: \$177 billion* 13-,26-week bills for auction on Nov 2 \$95 billion* 6-week bills for auction on Nov 3 SETTLE: \$177 billion* 13-,26-week bills \$95 billion* 6-week bills \$54 billion* 52-week bills	SETTLE: \$26 billion* 5-year TIPS

*Estimate