U.S. Economic Comment

- FOMC preview: with rates likely on hold, the new SEP & Powell press conference take center stage
- Middle East tensions: further contributing to global economic uncertainty

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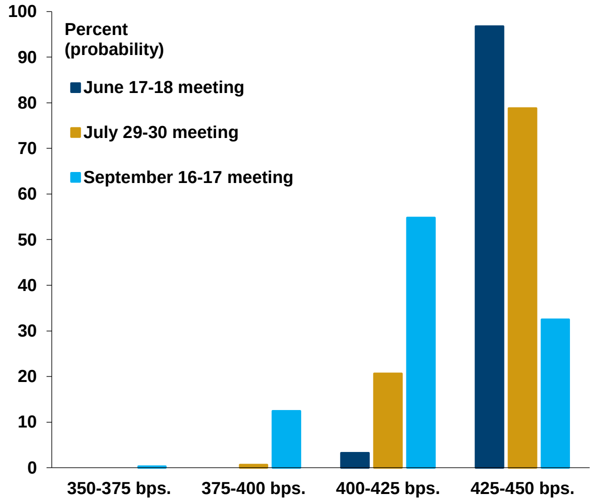
FOMC: Patience to Prevail at Next Week's Gathering

Messaging by Fed officials since the previous FOMC meeting on May 6-7 has broadly aligned with that expressed by Chair Powell at his post-meeting press conference, where he indicated that the U.S. economy had "been resilient and is in good shape, and our policy is…modestly or moderately restrictive." Therefore, he argued, "We think we can be patient…The data may move quickly or slowly, but we do think we're in a good position…to let things evolve and become clearer in terms of what should be the monetary policy response." Thus, views of market participants have coalesced around the expectation that the FOMC will likely be on hold next week (June 17-18) and at the July 29-30 gathering (chart). Market pricing currently indicates that the FOMC could again ease policy in September, as the Committee may gain clarity by that point on the feedback effects of tariffs on inflation and also could be nudged to move on account of further cooling in the labor market (see below).

Federal Funds Target Rate Probabilities*

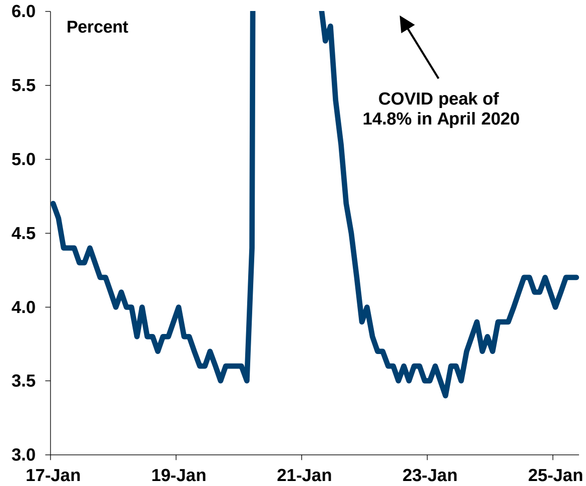


** The implied target range for the federal funds rate based on futures pricing data as of June 13, 2025.*
Source: CME Group, FedWatch Tool

Recent Labor Market Developments

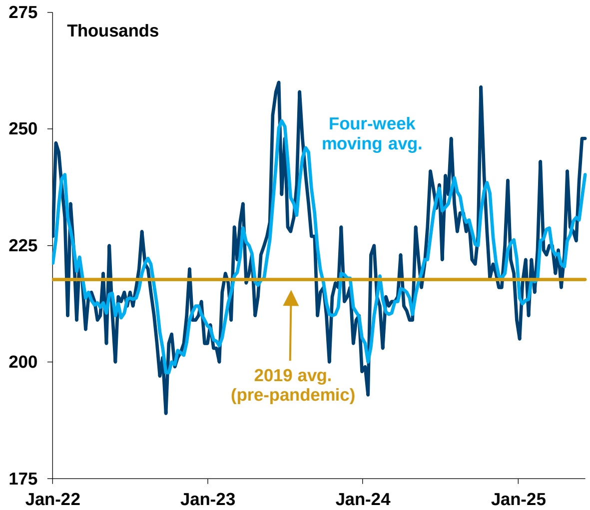
On face, the May employment report (published June 6) was solid. Payrolls rose 139,000, faster than the 120,000 average in the first four months of 2025, and the unemployment remained low at 4.2 percent (chart) – a reading matching the longer-term median view of Fed officials from the prior Summary of Economic Projections. However, the report did contain several elements that gave us pause. Combined revisions of -95,000 in the March/April period were fairly notable. Moreover, data from the household survey suggested that the low unemployment rate papered over deterioration below the surface. On the point, the employment measure from the aforementioned survey fell 696,000 in the latest month, a result that was joined by a contraction of 625,000 in the labor force; both metrics can be volatile, but regardless, the results suggest weakening in the employment picture. Additionally, the latest data on unemployment claims raise the possibility that layoffs could be picking up. Initial claims registered 248,000 in the week ended June 7, matching the tally in the previous week, with the 4-week average of 240,250 the highest since August 2023 and well above the 2019 average of 218,000 (which was maintained in what was viewed by Fed officials as a highly favorable labor market). Similarly, continuing claims rose by 54,000 to 1.956 million in the week ended May 31 –

Civilian Unemployment Rate



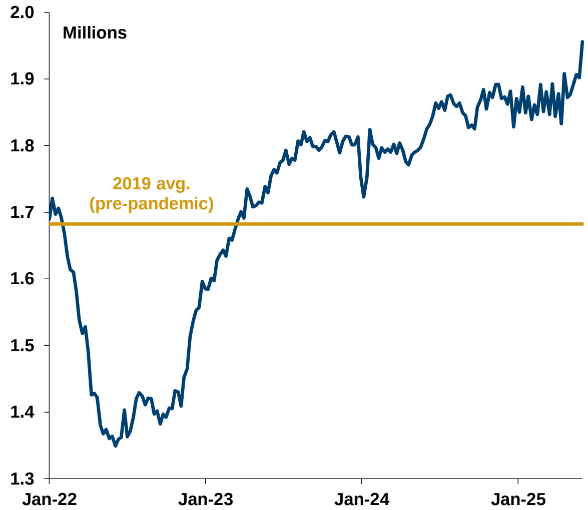
Source: Bureau of Labor Statistics via Haver Analytics the highest observation since November 2021 (charts, below). Recent deterioration has led to the resumption of an upward drift in this series, with current readings far exceeding the 2019 average of 1.682 million. The results do not suggest an immediate shift in the labor market to recession-like conditions requiring policy intervention, but they give credence to our call that a rise in the unemployment rate (expected to hit 4.6 percent by year-end) could spur further rate reductions later this year.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance

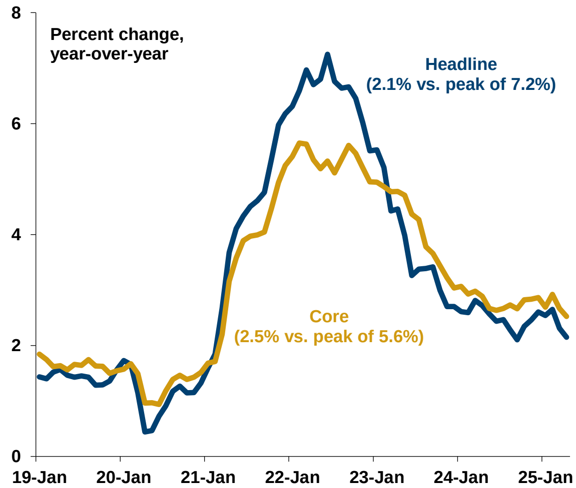


Source: U.S. Department of Labor via Haver Analytics

Inflation and Inflation Expectations

Recent readings on inflation have been favorable, with restrained increases in the CPI and PPI for May raising the prospect of both the headline and core price index for personal consumption expenditures advancing 0.1 percent (results released June 27). If realized, the results would mark the second consecutive change of 0.1 percent for the headline, following a March result that rounded down to 0.0 percent, and the third consecutive advance of 0.1 percent in the core measure. We project that the changes would equate to a year-over-year increase in the headline index of 2.3 percent and 2.5 percent in the core (versus 2.1 percent and 2.5 percent, respectively in April; chart). Recent readings, and the anticipated results for May, are encouraging, but tariffs have had little impact on consumer inflation thus far and could come into play more forcefully in Q3. Hence, patience on assessing the trajectory of inflation is required and will be adhered to by Fed officials.

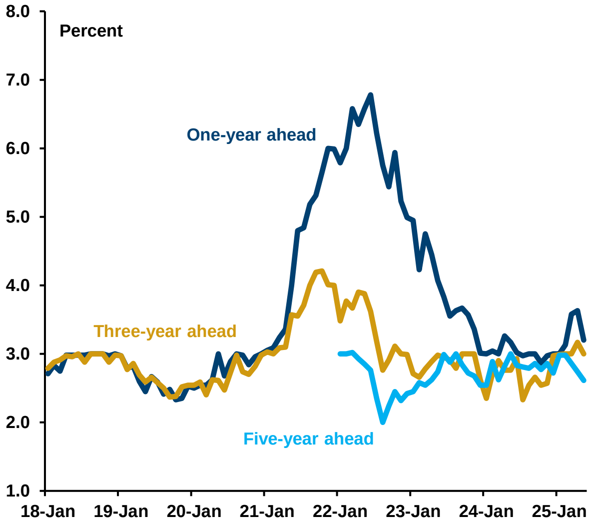
PCE Price Index*



PCE = personal consumption expenditures. Results through April 2025.
Source: Bureau of Economic Analysis via Haver Analytics

Inflation expectations will also be a key determinant in the path of policy, with longer-term assessments remaining "anchored" a key precondition to the resumption of further rate cuts. To date, longer-term views appear to more-or-less meet this objective. The May iteration of the Federal Reserve Bank of New York's Survey of Consumer Expectations released Monday indicated that the median three-year ahead expected inflation rate eased to 3.00 percent from 3.17 percent previously, and the five-year-ahead measure slowed to 2.61 percent from 2.74 percent (chart, next page, left). Furthermore, market-based measures of inflation expectations tell a similar story. The five-year, five-year forward inflation breakeven rate (average inflation per year in years six through 10 of a 10-year horizon) have remained within the range of the past several years (chart, next page, right).

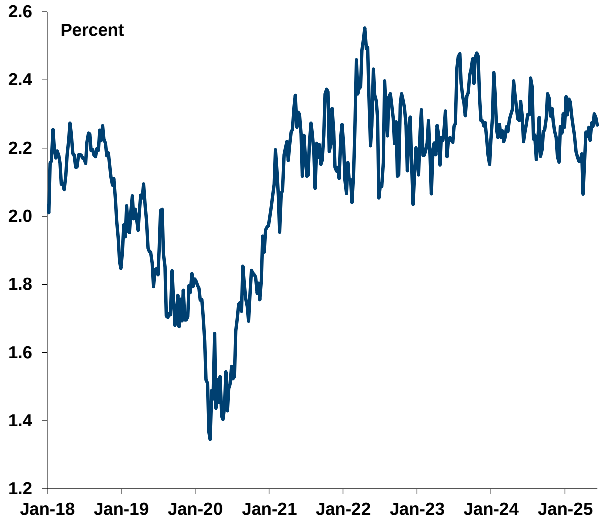
Consumer Inflation Expectations*



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

Source: Survey of Consumer Expectations, Federal Reserve Bank of New York via Haver Analytics

5-Year, 5-Year Forward Breakeven Rate*



** A breakeven rate is the rate of inflation at which TIPS and nominal Treasury securities with identical maturities will yield the same return. The five-year, five-year forward rate shows the rate in years six through 10 of a 10-year horizon. Weekly data except for the latest observation which is a midday quote from June 13, 2025*

Source: Bloomberg

Interestingly, Fed Governor Adriana Kugler in recent remarks emphasized the ongoing need for vigilance both with respect to the anticipated trajectory of inflation and the anchoring of inflation expectations (both short-term and over a longer-term horizon). She highlighted the point by speaking to various channels through which tariffs could have a more persistent influence on inflation than simply a one-time price-level shift, and how shorter-term inflation expectations could also play a role in contributing to such a scenario. Referencing her recent appearances, she noted, “as I have mentioned in some previous speeches, while it is true that short-run inflation expectations are influenced by short-term economic shocks, I value them because they often represent the horizon of decisionmaking for businesses and consumers. The increase in short-run inflation expectations that I previously mentioned may give businesses more leeway to raise prices, thus increasing the persistence of inflation.” Furthermore, she suggested that “opportunistic pricing by firms” (e.g., when firms raised prices on clothes dryers when previous tariffs during the first Trump administration increased costs of washing machines) could also contribute to second-round inflation pressures, as could tariffs on intermediate goods. All this to say, policymakers understand the necessity of patience (at least for a time) to better assess the impacts of tariffs – the dominant inflation risk currently – on achieving the objective of 2.0 percent inflation within the context of the price stability mandate.

(For further reading, please see: Kugler, Adriana D. “The Economic Outlook and Appropriate Monetary Policy,” Federal Reserve Board, June 5, 2025. https://www.federalreserve.gov/newsevents/speech/kugler20250605a.htm)

Brief Thoughts on the New Summary of Economic Projections

Given the current environment of heightened uncertainty, and sensitivity of officials to the challenges of forecasting in this context, we suspect that the dot plot is unlikely to undergo a radical shift. In a sense, moving the 2025 median to 4.125 percent from 3.875 percent in March would be a fairly low bar to clear, with only two officials having to change their forecasts to anticipate only one cut in the target range for the federal funds rate. However, considering the recent data, this shift may be more difficult to achieve. Inflation measured by the price index for personal consumption expenditures is likely to be subdued for the third consecutive month and layoffs may be picking up. Moreover, these developments have occurred in tandem with anecdotal evidence that trade deals may be progressing, which may ultimately limit potential tariff effects on consumer inflation. In essence, why signal a more hawkish posture now?

Beyond expectations for trajectory of the federal funds rate, we could foresee a downward adjustment to the median expectation for growth in 2025 – possibly to somewhere in the vicinity of 1.5 percent – and an upward shift in projections for the unemployment rate at year-end, potentially to 4.5 or 4.6 percent (which could open the door to an upward nudge for 2026 as well, perhaps to 4.4 percent; see table for previous forecasts). Given recent favorable inflation readings, we foresee little change to inflation forecasts as of March, particularly since they already incorporated a stirring in price pressure in the back half of this year. All told, we expect the Committee to leave the target range for the federal funds rate unchanged in a range of 4.25 to 4.50 percent and for the median of policymakers' views to shift modestly from the previous iteration of the SEP from March. Looking forward, we still anticipate 50 basis points of total easing in 2025, with two cuts of 25 basis points each occurring at the September and December meetings.

Economic Projections of the FOMC, March 2025*

	2025	2026	2027	Longer Run
Change in Real GDP	1.7	1.8	1.8	1.8
Dec. projection	2.1	2.0	1.9	1.8
Unemployment Rate	4.4	4.3	4.3	4.2
Dec. projection	4.3	4.3	4.3	4.2
PCE Inflation	2.7	2.2	2.0	2.0
Dec. projection	2.5	2.1	2.0	2.0
Core PCE Inflation	2.8	2.2	2.0	--
Dec. projection	2.5	2.2	2.0	--
Federal Funds Rate	3.9	3.4	3.1	3.0
Dec. projection	3.9	3.4	3.1	3.0

** Median projections*

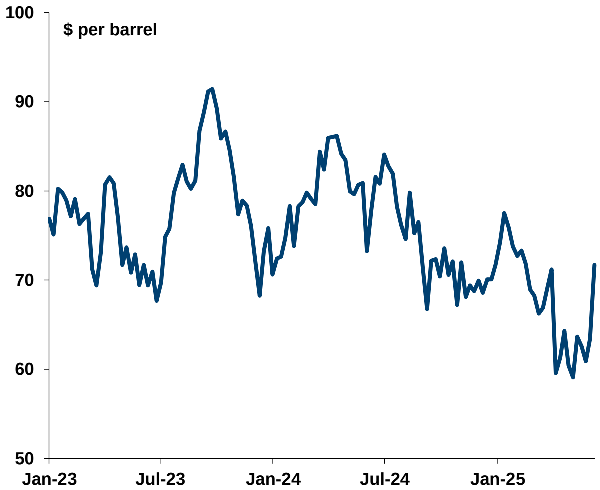
Source: Federal Open Market Committee, Summary of Economic Projections, March 2025

Heightened Tensions in the Middle East

Long simmering tensions boiled over last night, as the Israeli military launched attacks on the Islamic Republic of Iran with the stated purpose of degrading the latter's nuclear infrastructure. The move likely ended ongoing negotiations between the United States and Iran, which had aimed to deescalate potential conflict and provide assurance to regional neighbors, and significantly raises the prospect of a more widespread conflict. Further military escalation has thus far been limited, although indications from both sides suggest additional exchange of fire is probable (as of writing this comment, there have been reports of Iran launching retaliatory missiles at Tel Aviv).

The impact on the global economy will most immediately be felt in the form of higher energy prices, although ultimately its magnitude will be determined by disruptions (if any) to oil output and maritime shipping. Thus, while the price of crude oil has surged more than seven percent since yesterday (as of mid-afternoon; chart), we will – for the time being – refrain from broad revisions to our views on U.S. economic growth (modest in 2025, with Q4/Q4 activity clocking in at 0.9 percent, annual rate, before accelerating to 1.7 in 2026, a reading closer to the economy's potential growth rate) and inflation – which we see moderating after tariff-related pressure in Q3 (see prior story). With that said, the latest developments have only served to intensify already significant downside risks to both the U.S. and global outlooks.

Crude Oil Spot Price: WTI*



** WTI = West Texas Intermediate. Weekly data except for the latest observation which is a midday quote from June 13, 2025.*

Sources: U.S. Energy Information Administration, Chicago Mercantile Exchange via Haver Analytics; Bloomberg

Note to readers:

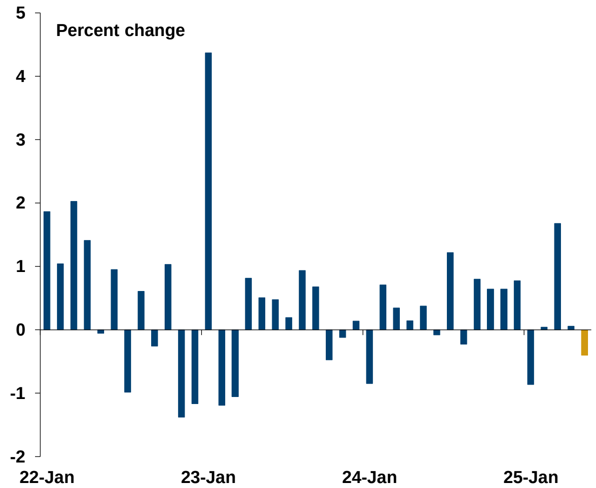
On account of the Juneteenth holiday, the next U.S. economic comment will be published on Wednesday, June 18, 2025.

The Week Ahead

Retail Sales (May) (Tuesday)
Forecast: -0.4% Total, +0.2% Ex. Autos, +0.3% Ex. Autos & Gas

A marked decline in new vehicle sales could drag the motor vehicle category lower again in May – a development likely reflective of the reversal of prior tariff front running. Moreover, a decrease in prices at the pump raise the possibility of the gasoline category easing for the fourth consecutive month, which suggests a soft reading for headline retail sales. Excluding autos and gas, sales could post an increase close to the trailing six-month average of 0.4 percent, although we anticipate spending in discretionary areas to be dialed back in coming months on account of the uncertain outlook.

Retail Sales*



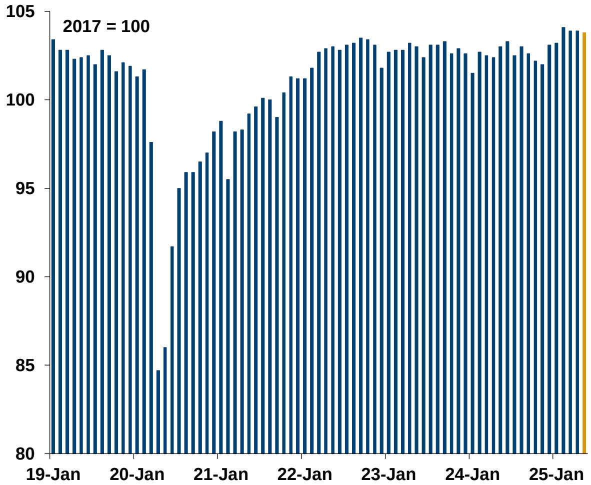
** The gold bar is a forecast for May 2025.*

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

Industrial Production (May) (Tuesday)
Forecast: -0.1% Total, +0.2% Manufacturing, 77.5% Cap-U

An uptick in the average factory workweek and increase in aggregate hours raises the possibility of a pickup in the manufacturing component of industrial production, although it would likely do little to alter the prevailing unimpressive trend. Contrastingly, a dip in the rotary ring count coupled with a decrease in headcounts indicates another soft performance in the mining area. A mean reversion to trend amid normal seasonal temperatures could cause utility output to soften in May. Keep in mind, however, that this component has swung widely in recent months (range of -6.2 percent to +4.5 percent in 2025 thus far), with changes often representing shifts in the weather rather than underlying economic fundamentals.

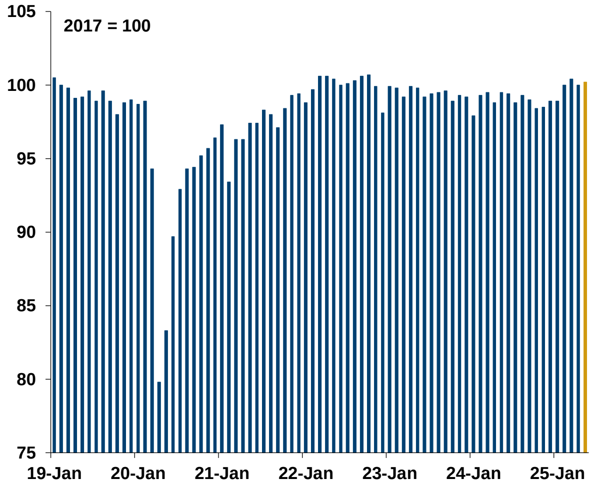
Industrial Production: Headline*



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

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

Industrial Production: Manufacturing*



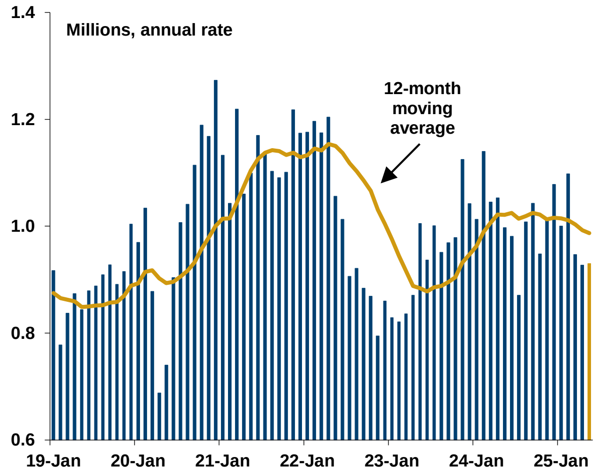
** The gold bar is a forecast for May 2025.*

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

Housing Starts (May) (Wednesday)
Forecast: 1.340 Million (+0.3%)

Elevated inventories of unsold new homes along with an uptick in mortgage rates suggest that builders will exercise caution in initiating new single-family housing projects in May, although we could envision a marginal statistical reversion following back-to-back declines in March and April. Multi-family starts, on the other hand, could ease a bit following the outsized increase of 10.7 percent to 0.434 million units, annual rate, in the prior month. Given the recent pattern of permit issuance, which includes declines in four of the past six months, a pullback is anticipated in May – albeit one that would leave starts within the recent range of observations (0.392 to 0.434 million units in the past three months).

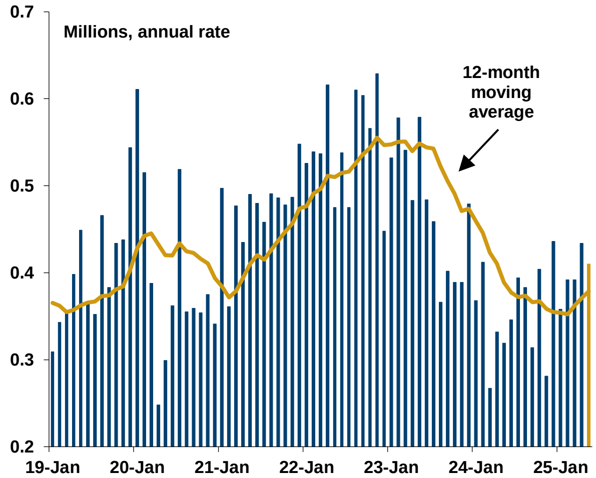
Single-Family Housing Starts*



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

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

Multi-Family Housing Starts*



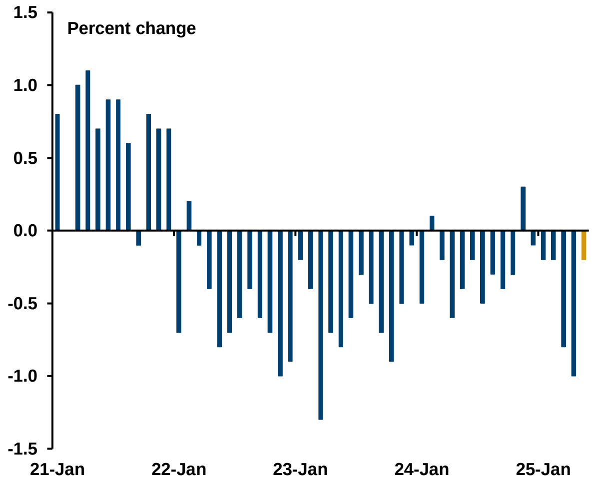
** The gold bar is a forecast for May 2025.*

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

Leading Indicators (May) (Friday)
Forecast: -0.2%

Anticipated negative contributions from consumer expectations, ISM new orders, and weekly unemployment claims are likely to offset a positive contribution from stock prices, thus raising the possibility of a contraction in the Conference Board's Leading Economic Index for the 37th time in the past 39 months. If the forecast is realized, the index would be approximately 17.5 percent below the cycle peak of 120.2 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 (albeit occurring in an environment of slowing growth).

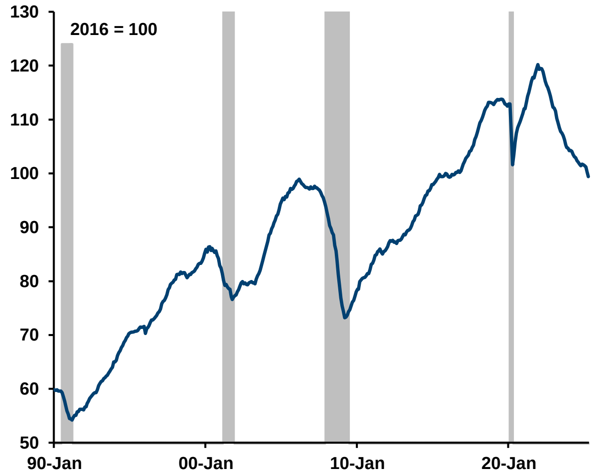
Index of Leading Economic Indicators*



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

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markers 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

June/July 2025

Monday	Tuesday	Wednesday	Thursday	Friday
9	10	11	12	13
WHOLESALE TRADE Inventories Sales Feb 0.5% 2.0% Mar 0.3% 0.8% Apr 0.2% 0.1%	**NFIB SMALL BUSINESS OPTIMISM INDEX** Mar 97.4 Apr 95.8 May 98.8	**CPI** Total Core Mar -0.1% 0.1% Apr 0.2% 0.2% May 0.1% 0.1% **FEDERAL BUDGET** FY2025 FY2024 Mar -$160.5B -$236.6B Apr $258.4B $209.5B May -$316.0B -$347.1B	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) May 17 0.226 1.907 May 24 0.239 1.902 May 31 0.248 1.956 June 7 0.248 N/A **PPI** Final Demand Ex. Food & Energy Mar -0.1% 0.3% Apr -0.2% -0.2% May 0.1% 0.1%	**CONSUMER SENTIMENT** Apr 52.2 May 52.2 June 60.5
16	17	18	19	20
EMPIRE MFG (8:30) Apr -8.1 May -9.2 June --	**RETAIL SALES (8:30)** Total Ex.Autos Mar 1.7% 0.8% Apr 0.1% 0.1% **May -0.4% 0.2%** **IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports Nonagri. Exports Mar -0.2% 0.1% Apr 0.4% 0.1% May -- -- **IP & CAP-U (9:15)** IP Cap.Util. Mar -0.3% 77.8% Apr 0.0% 77.7% **May -0.1%% 77.5%** **NAHB HOUSING INDEX (10:00)** Apr 40 May 34 June -- **BUSINESS INVENTORIES (10:00)** Inventories Sales Feb 0.2% 1.0% Mar 0.1% 0.7% **Apr 0.0% -0.1%** **FOMC MEETING (FIRST DAY)**	**UNEMP. CLAIMS (8:30)** **HOUSING STARTS (8:30)** Mar 1.339 million Apr 1.361 million **May 1.340 million** **FOMC RATE DECISION (2:00)** **TIC FLOWS (4:00)** Long-Term Total Feb $112.9B $248.9B Mar $161.8B $254.3B Apr -- --	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** Apr -26.4 May -4.0 June -- **LEADING INDICATORS (10:00)** Mar -0.8% Apr -1.0% **May -0.2%**
23	24	25	26	27
EXISTING HOME SALES	**CURRENT ACCOUNT** **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**NEW HOME SALES**	**UNEMP. CLAIMS** **REVISED Q1 GDP** **DURABLE GOODS ORDERS** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **CHICAGO FED NATIONAL ACTIVITY INDEX** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **REVISED CONSUMER SENTIMENT**
30	1	2	3	4
MNI CHICAGO BUSINESS BAROMETER	**ISM MFG. INDEX** **CONSTRUCTION** **JOLTS DATA** **VEHICLE SALES**	**ADP EMPLOYMENT**	**UNEMP. CLAIMS** **EMPLOYMENT REPORT** **TRADE BALANCE** **FACTORY ORDERS** **ISM SERVICES INDEX**	***INDEPENDENCE DAY***

Forecasts in bold.

Treasury Financing

June/July 2025

Monday	Tuesday	Wednesday	Thursday	Friday
9	10	11	12	13
AUCTION RESULTS: Rate / Cover 13-week bills 4.250% 2.69 26-week bills 4.150% 2.74	**AUCTION RESULTS:** Rate / Cover 6-week bills 4.195% 3.32 52-week bills 3.940% 3.22 3-yr notes 3.972% 2.52 **ANNOUNCE:** $60 billion 17-week bills for auction on June 11 $65 billion 4-week bills for auction on June 12 $55 billion 8-week bills for auction on June 12 **SETTLE:** $60 billion 17-week bills $65 billion 4-week bills $55 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.220% 2.96 10-yr notes 4.421% 2.52	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.080% 3.22 8-week bills 4.380% 2.67 30-yr bonds 4.844% 2.43 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on June 16 $55 billion 6-week bills for auction on June 17 $13 billion 20-year bonds for auction on June 16 $23 billion 5-year TIPS for auction on June 17 **SETTLE:** $144 billion 13-,26-week bills $55 billion 6-week bills $48 billion 52-week bills	
16	17	18	19	20
AUCTION: $144 billion 13-,26-week bills $13 billion 20-year bonds **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $55 billion 6-week bills $23 billion 5-year TIPS **ANNOUNCE:** $60 billion* 17-week bills for auction on June 18 $65 billion* 4-week bills for auction on June 18 $55 billion* 8-week bills for auction on June 18 **SETTLE:** $60 billion 17-week bills $65 billion 4-week bills $55 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 23 $55 billion* 6-week bills for auction on June 24 $69 billion* 2-year notes for auction on June 24 $70 billion* 5-year notes for auction on June 25 $44 billion* 7-year notes for auction on June 26 $28 billion* 2-year FRNs for auction on June 25	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**SETTLE:** $144 billion 13-,26-week bills $55 billion 6-week bills
23	24	25	26	27
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $55 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on June 25 $65 billion* 4-week bills for auction on June 26 $55 billion* 8-week bills for auction on June 26 **SETTLE:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $65 billion* 4-week bills $55 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 30 $55 billion* 6-week bills for auction on July 1 **SETTLE:** $144 billion* 13-,26-week bills $55 billion* 6-week bills	**SETTLE:** $28 billion* 2-year FRNs
30	1	2	3	4
AUCTION: $144 billion* 13-,26-week bills **SETTLE:** $13 billion 20-year bonds $23 billion 5-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $55 billion* 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on July 2 $65 billion* 4-week bills for auction on July 3 $55 billion* 8-week bills for auction on July 3 **SETTLE:** $60 billion* 17-week bills $65 billion* 4-week bills $55 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $65 billion* 4-week bills $55 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on July 7 $55 billion* 6-week bills for auction on July 8 $48 billion* 52-week bills for auction on July 8 $58 billion* 3-year notes for auction on July 8 $39 billion* 10-year notes for auction on July 9 $22 billion* 30-year bonds for auction on July 10 **SETTLE:** $144 billion* 13-,26-week bills $55 billion* 6-week bills	***INDEPENDENCE DAY***

**Estimate*