U.S. Economic Comment

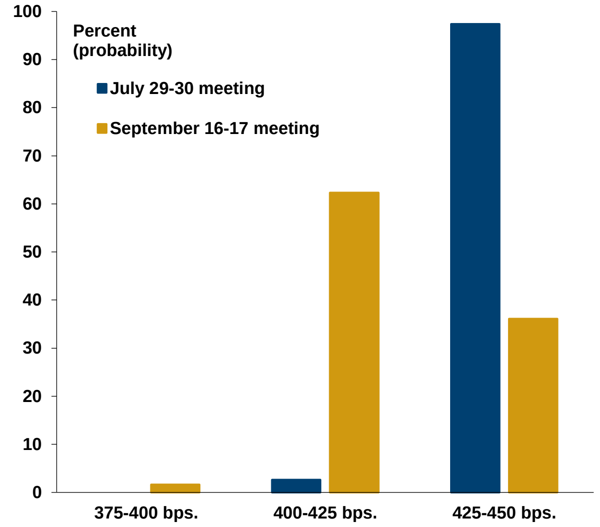
- FOMC preview: little chance of a move next week, but Powell could signal cuts later this year
- Q2 GDP preview: solid, if unspectacular, performance with significant volatility in net exports and inventories

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

FOMC: Waiting on Inflation

The U.S. economy has remained resilient thus far in 2025 despite heightened risk from the Trump administration's recalibration of trade policy and associated fears about a rekindling of domestic inflation on account of the robust application of tariffs. Hiring has slowed (including private-sector hiring of only 74,000 in June versus an average of 114,000 in the first five months of 2025), but the job market has held up reasonably well, thus allowing Fed officials to remain patient in assessing the yet-realized burst of inflation anticipated on account of cost pass-through from import duties. Against this backdrop, we are aligned with views expressed by futures pricing indicating essentially zero chance of a rate cut on July 30 (i.e., the maintenance of the target range for the federal funds rate at 4.25 to 4.50 percent) despite incessant lobbying by the president for aggressive reductions in the policy rate (e.g., his impromptu tour of the Federal Reserve headquarters yesterday). With that said, we are monitoring closely conditions in the labor market and maintain the view that the FOMC could ease later this year – beginning in September – in an effort to prevent an upward creep in the unemployment rate, also likely a concern reflected in the approximate 65 percent probability of a rate cut at the September policy meeting (chart).

Federal Funds Target Rate Probabilities*



** The implied target range for the federal funds rate based on futures pricing data as of July 25, 2025.*

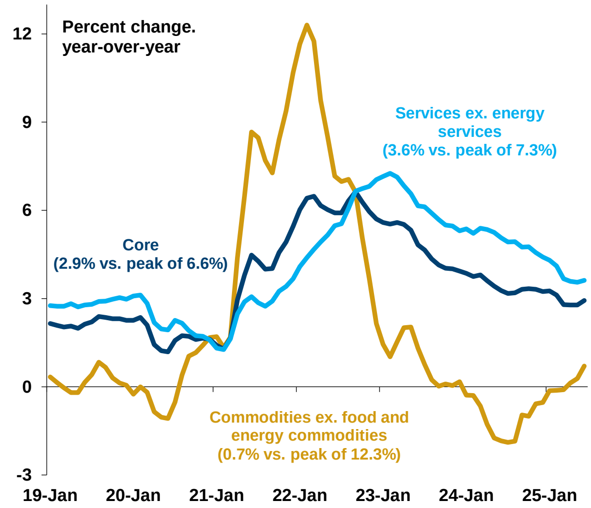
Source: CME Group, FedWatch Tool

The June Price Data

Inflation data in recent months have been benign despite warnings that tariffs will, at least for a time, derail further progress towards the Federal Reserve's 2 percent inflation objective. The headline price index for personal consumption expenditures rounded down to no change in March and recorded increases of 0.1 percent in the subsequent two months. Similarly, after pressure early in 2025, the core PCE index rose 0.1 percent per month in March and April before an advance of 0.2 percent the following month. In essence, projected increases in consumer inflation resulting from tariffs had yet to materialize in any meaningful way while other components of inflation (rents, for example) have evolved favorably (for the most part) and in a manner consistent with policymakers' prior guidance.

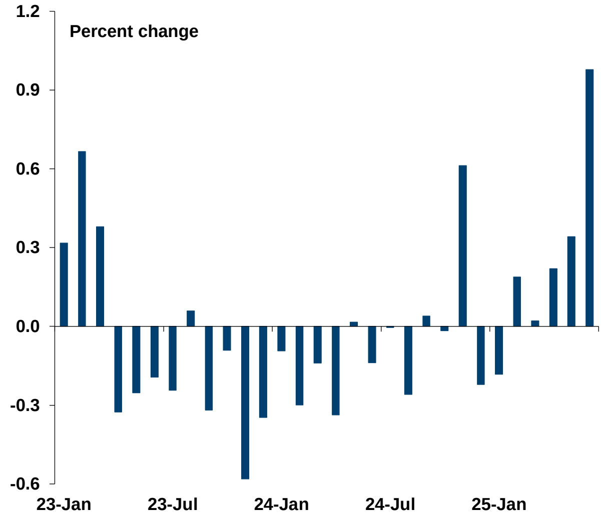
The dynamic has started to shift, as evidenced by elements of the June Consumer Price Index (data on the PCE index will be published on July 31). The latest monthly advances of 0.3 percent for the headline CPI and 0.2 percent for the core were far from alarming, but the year-over-year increase in the headline index accelerated to 2.7 percent from 2.4 percent in May while that for the core picked up by 0.1 percentage point to 2.9 percent. Within core, the commodities excluding food and energy component increased 0.2 percent (+0.7 percent year-over-year, up from +0.3 percent previously; chart, next page, left). Driving the (admittedly modest) pickup were sharp increases in broad categories like household furnishings and supplies (+1.0 percent month-over-month; chart, next page, right) that reflects price changes in goods that are, in many cases, imported (e.g., appliances and miscellaneous household items). Again, the changes were not pronounced, but with tariff rates on various trade agreements settling in the range of 10-to-15 percent, increases are likely to continue in coming months before leveling off early in 2026. At the same time, base effects in both the CPI and PCE will be unfavorable through year-end, which will contribute to year-over-year core inflation possibly breaching 3.0 percent sometime in late Q3 or early Q4 before settling again closer to target. At the very least, cutting rates while inflation is still rising would be bad optics after the FOMC was previously caught offsides by characterizing early pandemic-related inflation as transitory – unless the cuts were accompanied by clear guidance on the anticipated path of inflation and expectations for labor market softening.

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Household Furnishing & Supplies

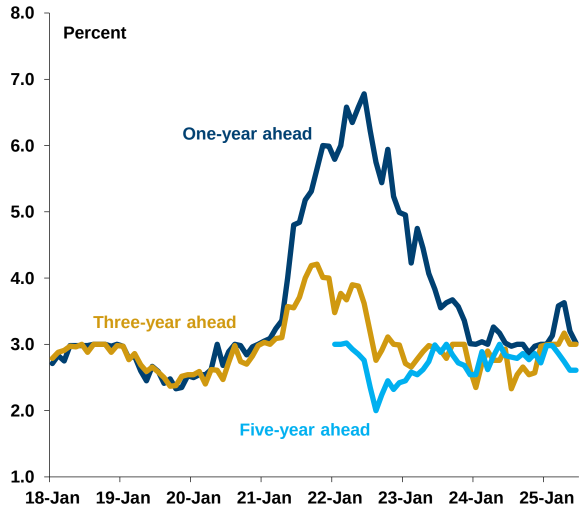


Source: Bureau of Labor Statistics via Haver Analytics

A Case for Upcoming Policy Easing (and Signals of Possible Dissents Next Week)

Fed Governor Waller provided a case for upcoming reductions in the target range for the federal funds rate even amid current uncertainty regarding the near-term path of inflation. Notably, he argued that tariffs often manifest as one-time shifts in the price level rather than a more persistent bout of inflation. Thus, "Standard central banking practice is to 'look through' such price-level effects as long as inflation expectations are anchored, which they are." We agree with this characterization of inflation expectations, with survey-based measures of consumers supporting the assessment (chart). Moreover, he noted slowing in GDP, reflecting substantial cooling in consumer spending, and recent sluggish private-sector payroll growth. And, given lags in the transmission of policy, prudence suggests that these developments – and expectations for a less robust performance in the economy through year end – call for cuts sooner rather than later. (For additional reading, see: Waller, Christopher J. "The Case for Cutting Now," Federal Reserve Board, July 17, 2025. https://www.federalreserve.gov/newsevents/speech/waller20250717a.htm).

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

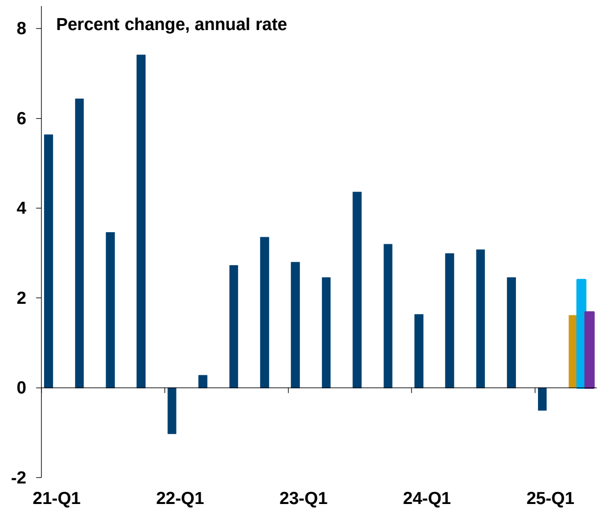
Governor Waller's address, along with recent comments by Governor Michelle Bowman, emphasize that both Trump appointees are amenable to reducing the federal funds rate next week. Other members of the Committee appear less inclined to act, especially amid the Trump team's pressure campaign and concerns about Fed independence, which sets the stage for possibly two dissents to the likely outcome of a hold at next week's meeting.

We're sympathetic to the views articulated by Governor Waller, but we also see little harm in gathering additional data ahead of policy easing. Thus, we maintain our current call for reductions in the federal funds rate of 25 basis points at the September and December policy meetings ahead for further easing of 50 basis points in the first half of 2025. Given our expectation that the labor market will show further signs of deterioration later this year, with the unemployment rate peaking in the vicinity of 4.5 percent, and inflation charting a course that tracks below the tariff-related worst-case scenario, we view a shift toward a neutral stance of policy by mid-2026 as the correct course of action.

Q2 GDP: Back on Track Following a Contraction in Q1

GDP in Q2 is poised to swing back into growth territory after a contraction of 0.5 percent, annual rate, in the opening quarter of the year. Our calculations suggest that GDP rose at a 1.6 percent annualized pace, trailing to varying degrees the projections of various Fed models (Atlanta Fed GDPNow at 2.4 percent and the Federal Reserve Bank of New York's Nowcast at 1.68 percent; chart, below left) but a solid performance given policy uncertainty generated by the Trump administration and relative to policymakers' projections of the longer-term growth rate of the economy (median of 1.8 percent in the June 2025 Summary of Economic Projections – a good proxy for an estimate of the economy's potential growth rate). A key driver of activity in Q2 will be real consumer spending, which available data suggest advanced 1.5 percent versus the tepid 0.5 percent pace in Q1 (chart, below right). Consumer sentiment remains mired in a slump, which has curtailed discretionary spending, and elevated interest rates have presented challenges for financing big-ticket items, but we were heartened by the rebound in June retail sales that points to a firm close to the quarter with respect to households. Contrastingly, we anticipate that business investment will record a modest contraction (-0.7 percent, annual rate), with both investment in structures and equipment falling. Equipment spending had posted a robust gain in Q1 (+23.7 percent, annual rate) as firms rushed to front-run tariffs, but a murky demand outlook suggests a far less impressive performance in Q2.

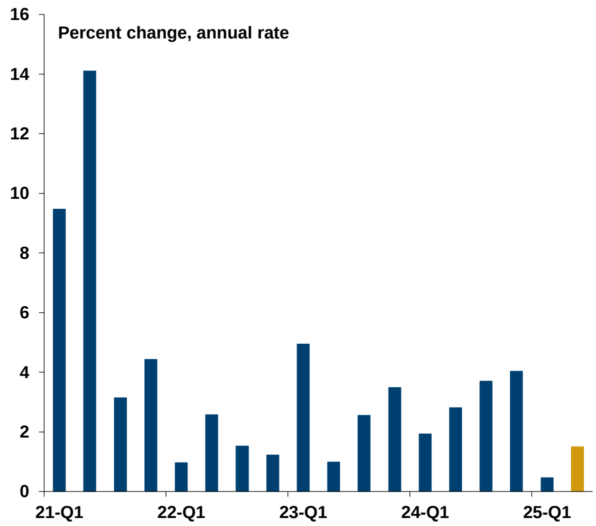
GDP Growth*



** The gold, light blue, and purple bars are forecasts for 2025-Q2 from DCMA, the Atlanta Fed's GDPNow model, and the New York Fed's Nowcast, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America; Federal Reserve Banks of Atlanta & New York

Real Consumer Spending Growth*

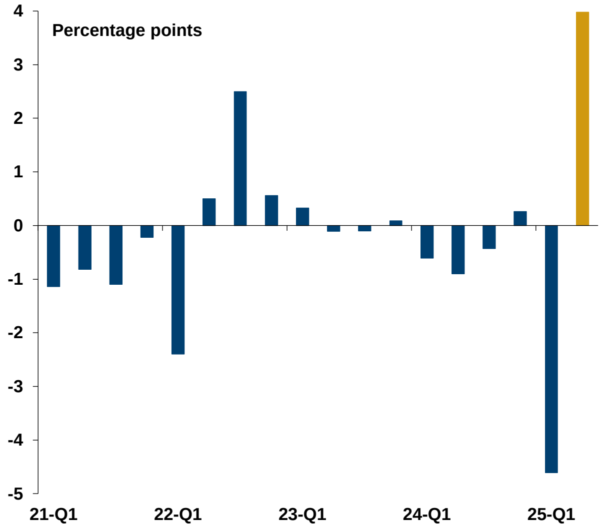


** The gold bar is a forecast for 2025-Q2.*

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

Beyond consumer spending and business investment, international trade and inventories are again likely to record large changes in Q2. Net exports subtracted 4.6 percentage points from growth in Q1, as firms rushed to import goods into the U.S. ahead of tariffs, but we have built in a positive contribution of 4.0 percentage points to growth in Q2 amid the beginnings of normalization in trade flows. Similarly, inventory investment added 2.6 percentage points to growth previously, as a portion of imports bolstered stocks, but this too could reverse in Q2 (we're projecting a drag of 3.2 percentage points from inventory investment; charts, below). With all that said, we view the U.S. economy as continuing to push forward. Policy uncertainty has generated significant risks, and therefore we expect only modest to moderate growth over the balance of 2025, but we could easily foresee a reacceleration next year on account of tailwinds from a monetary policy setting closer to neutral and from a boost to the consumer and business sectors from tax certainty (inclusive of further cuts and deductions) in the One Big Beautiful Bill Act.

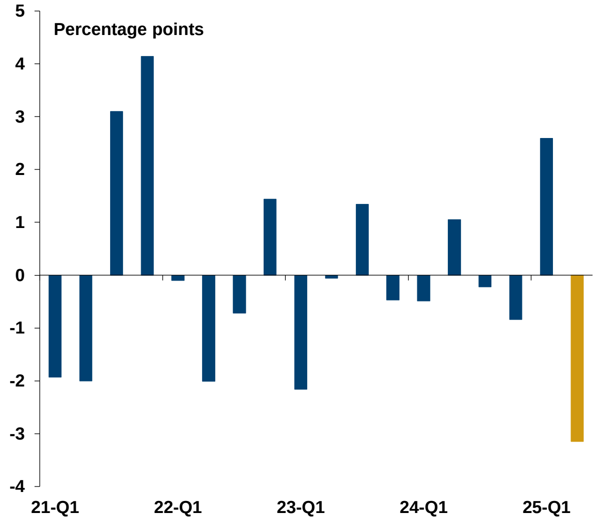
Net Exports of Goods & Services*



** Contribution to real percent change in GDP. The gold bar is a forecast for 2025-Q2.*

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

Change in Private Inventories*



** Contribution to real percent change in GDP. The gold bar is a forecast for 2025-Q2.*

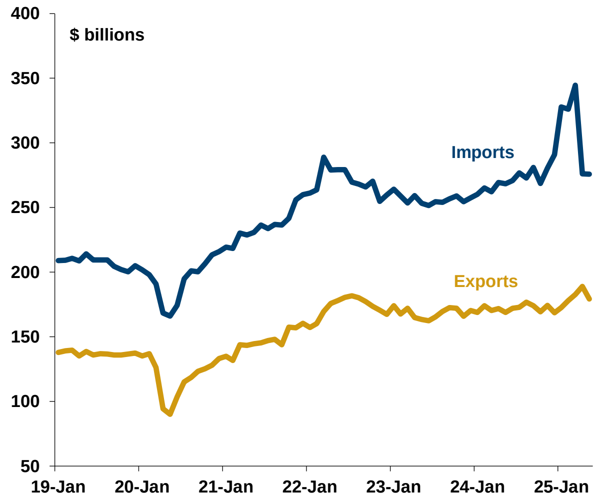
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

The Week Ahead

International Trade in Goods (June) (Tuesday)
Forecast: -$100.0 Billion ($3.4 Billion Wider Deficit)

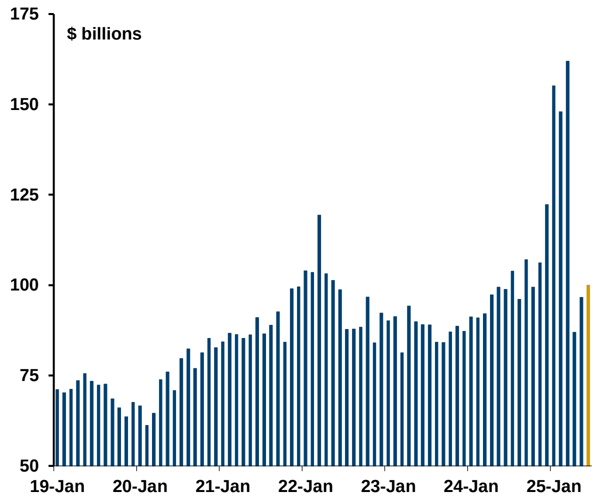
Trade flows have been highly volatile on account of brisk imports into U.S. in Q1 – an attempt by firms to front run incoming tariffs. While they have subsequently shown signs of normalizing, unpredictable moves in various components are still likely in the next few months. With that said, we do expect cooling in both U.S. exports and imports of goods in June, with the larger drop in exports contributing to a wider monthly deficit.

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



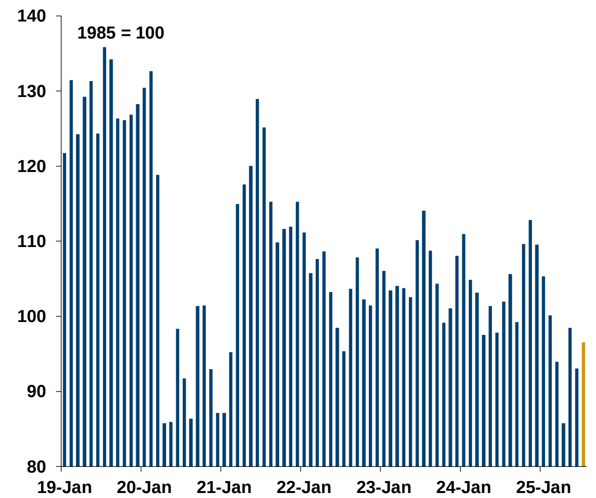
** The gold bar is a forecast for June 2025.*

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

Consumer Confidence (July) (Tuesday)
Forecast: 96.5 (+3.5 Index Pts.)

Tax certainty provided by the passing of the OBBBA and news of further progress in international trade negotiations could boost consumer attitudes in July. Moreover, associated easing in near-term inflation expectations could also serve as a positive catalyst, although some signs of softening in the labor market (e.g., upward drift in continuing unemployment claims, downward tilt in the labor-market differential, etc.) could contain the anticipated advance and leave confidence in the lower end of the post-pandemic range.

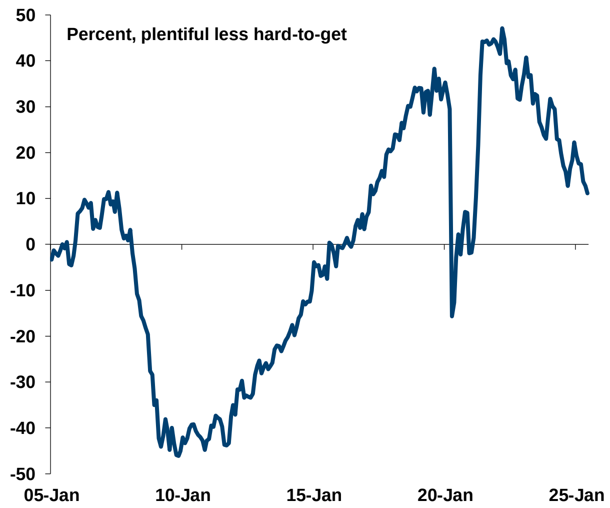
Consumer Confidence*



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

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

Labor Market Differential*



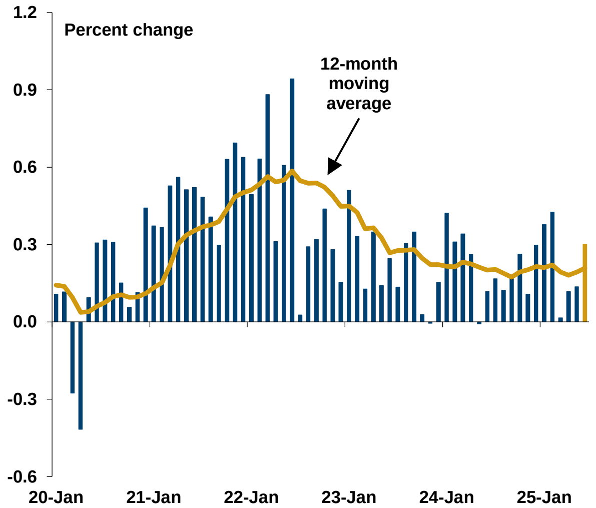
** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*

Source: The Conference Board via Haver Analytics

Personal Income, Consumption, Price Indexes (June) (Thursday)
Forecast: +0.2% Income, +0.3% Consumption, +0.3% Headline, +0.3% Core

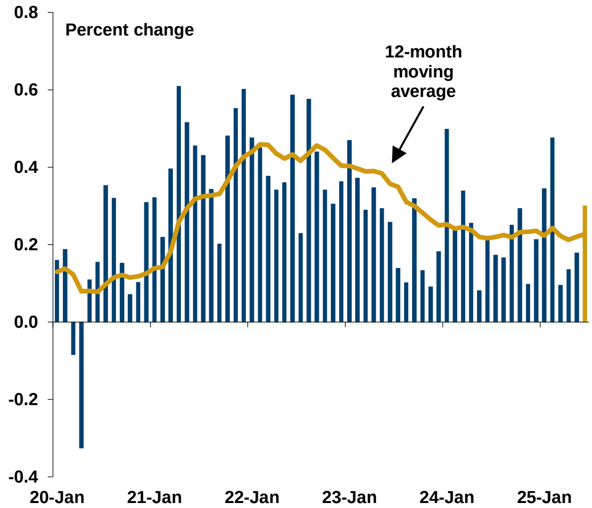
A decline in aggregate hours coupled with a below-average pickup of 0.2 percent in average hourly earnings suggests only a modest pickup in the wages and salaries component of personal income, although other components (e.g., rental income) could contribute positively as well. With respect to consumption, results from the latest retail sales report suggests solid outlays on nondurable items while a dip in vehicle sales points to a restrained performance for durables. Spending on services has remained on a favorable trend in 2025 thus far, although it has been a bit sluggish over the past two months. Data from the latest CPI and PPI reports suggest month-to-month changes of 0.3 percent for both the headline and core PCE price indexes. The projected readings would translate to year-over-year advances of 2.5 percent for the headline (versus 2.3 percent in May) and 2.7 percent for the core (essentially unchanged from the prior month; note that we assume the monthly change in core will be in the vicinity of 0.25 to 0.27 percent – rounding up to 0.3 percent).

Headline PCE Price Index*



** The gold bar is a forecast for June 2025.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Core PCE Price Index*

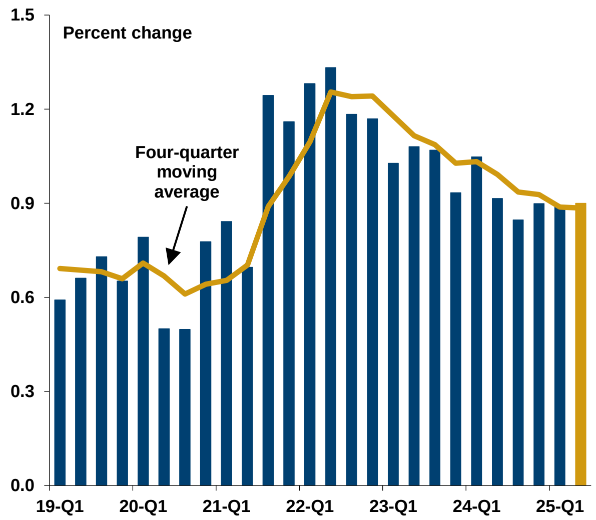


** The gold bar is a forecast for June 2025.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Employment Cost Index (2025-Q2) (Thursday)
Forecast: +0.9%

Readings on average hourly earnings from the employment report suggest that compensation growth in Q2 was roughly equal to the read of 0.9 percent (not annualized) in Q1 – readings in line with the 2024 average but slower than those in the preceding two years (2023 and 2022 averages of 1.0 and 1.2 percent, respectively). If the forecast is realized, year-over-year growth in the ECI would remain essentially unchanged at 3.6 percent – an observation well below the cycle peak of 5.1 percent in 2022-Q2. By and large, current wage growth is no longer a source of inflationary pressure inconsistent with the Federal Reserve's 2 percent inflation target.

Employment Cost Index*

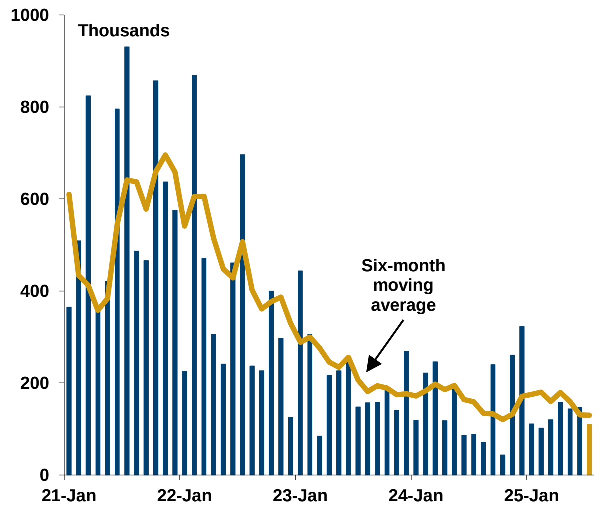


** The gold bar is a forecast for 2025-Q2.*
Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Payroll Employment (July) (Friday)
Forecast: 110,000

Payroll growth of 147,000 in June was only modestly slower than the trailing six-month average of approximately 160,000 -- evidence of ongoing softening in the labor market but solid on balance. That being said, the June gain was influenced importantly by a jump in education-related hiring in state and local government (perhaps due to seasonal residuality), with results from the private sector lagging noticeably (+74,000 in June versus a trailing six-month average of +143,000) – possibly a signal that firms are hiring cautiously amid uncertainty generated by trade policy. Moreover, if uncertainty is indeed constraining private-sector hiring, we suspect that the unemployment rate could rise 0.2 percentage points to 4.3 percent following last month's dip to 4.1 percent. Growth of average hourly earnings could remain close to the trailing twelve-month average of 0.3 percent (associated with a year-over-year advance of 3.8 percent, one tick faster than the prior month).

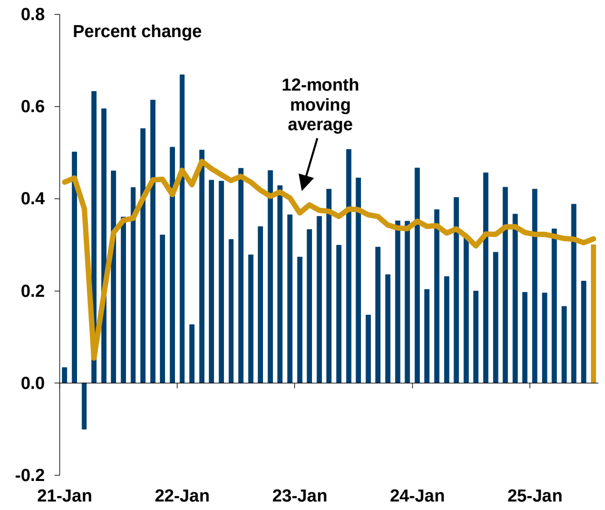
Change in Nonfarm Payrolls*



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

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

Average Hourly Earnings*



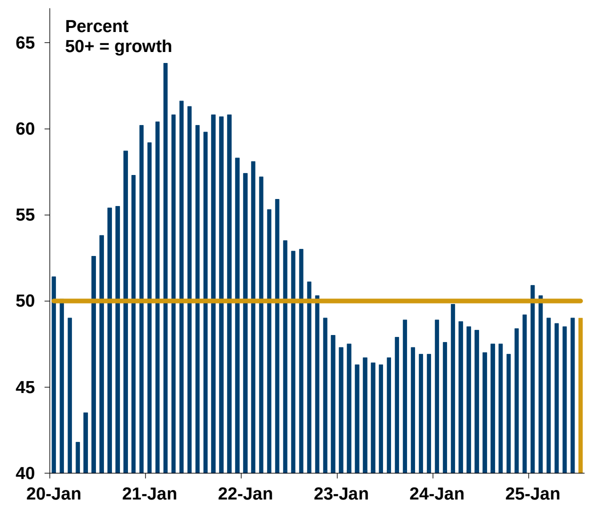
** The gold bar is a forecast for July 2025.*

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

ISM Manufacturing Index (July) (Friday)
Forecast: 49.0% (Unchanged)

The factory sector has little traction currently, with firms surveyed by the Institute for Supply Management seemingly in a holding pattern as they continue to wait for the potential fallout of the Trump Administration's tariff agenda. Thus, the ISM manufacturing index appears poised to remain in contraction for the fifth consecutive month. Additionally, following the outsized 4.9 percentage point advance to 50.3 percent in the production subindex, we could envision a slight reversion back below 50.0 percent for this category, thus pushing the composite index lower.

ISM Manufacturing Index*



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

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Construction Spending (June) (Friday)
Forecast: -0.2%

Housing starts (specifically in the single-family sector) have been stuck in neutral in recent months, indicative of another disappointing read for private residential construction. While government-sponsored spending could nudge higher, business-related activity has tilted lower since the fall of 2023 after a previous surge earlier in the expansion spurred by the CHIPS and Inflation Reduction Acts, potentially causing total construction activity to tilt lower for the tenth consecutive month in June.

Economic Indicators

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
LEADING INDICATORS Apr -1.4% May 0.0% June -0.3%		**EXISTING HOME SALES** Apr 4.000 million May 4.040 million June 3.930 million	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) June 28 0.232 1.954 July 5 0.228 1.951 July 12 0.221 1.955 July 19 0.217 N/A **CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly / 3-Mo. Avg. Apr -0.41 0.04 May -0.16 -0.14 June -0.10 -0.22 **NEW HOME SALES** Apr 0.705 million May 0.623 million June 0.627 million	**DURABLE GOODS ORDERS** Apr -6.6% May 16.5% June -9.3%
28	29	30	31	1
	INTERNATIONAL TRADE IN GOODS (8:30) Apr -\$85.9 billion May -\$96.4 billion **June -\$100.0 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail Apr 0.1% 0.0% May -0.3% 0.3% June -- -- **FHFA HOME PRICE INDEX (9:00)** Mar 0.0% Apr -0.4% May -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** Mar -0.2% Apr -0.3% May -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** May 98.4 June 93.0 **July 96.5** **JOLTS DATA (10:00)** Openings (000) / Quit Rate Apr 7,395 2.0% May 7,769 2.1% June -- -- **FOMC MEETING (FIRST DAY)**	**ADP EMPLOYMENT (8:15)** Private Payrolls May 29,000 June -33,000 July -- **GDP (8:30)** GDP / Chained Price 24-Q4 2.4% 2.3% 25-Q1 -0.5% 3.8% **25-Q2(a) 1.6% 2.7%** **PENDING HOME SALES (10:00)** Apr -6.3% May 1.8% June -- **FOMC RATE DECISION (2:00)**	**UNEMP. CLAIMS (8:30)** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core Apr 0.7% 0.2% 0.1% May -0.4% -0.1% 0.2% **June 0.2% 0.3% 0.3%** **EMPLOYMENT COST INDEX (8:30)** Comp. / Wages 24-Q4 0.9% 1.0% 25-Q1 0.9% 0.8% **25-Q2 0.9% 0.8%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** May 40.5 June 40.4 July --	**EMPLOYMENT REPORT (8:30)** Payrolls / Un. Rate May 144,000 4.2% June 147,000 4.1% **July 110,000 4.3%** **ISM MFG. INDEX (10:00)** Index / Prices May 48.5 69.4 June 49.0 69.7 **July 49.0 70.0** **REVISED CONSUMER SENTIMENT (10:00)** May 52.2 June 60.7 July(p) 61.8 **CONSTRUCTION (10:00)** Apr -0.2% May -0.3% **June -0.2%** **VEHICLE SALES** May 15.6 million June 15.3 million **July 15.5 million**
4	5	6	7	8
FACTORY ORDERS	**TRADE BALANCE** **ISM SERVICES INDEX**		**UNEMP. CLAIMS** **PRODUCTIVITY & COSTS** **WHOLESALE TRADE** **CONSUMER CREDIT**	
11	12	13	14	15
	NFIB SMALL BUSINESS OPTIMISM INDEX **CPI** **FEDERAL BUDGET**		**UNEMP. CLAIMS** **PPI**	**RETAIL SALES** **EMPIRE MFG** **IMPORT/EXPORT PRICES** **IP & CAP-U** **CONSUMER SENTIMENT** **BUSINESS INVENTORIES** **TIC FLOWS**

Forecasts in bold. (a) = advance (1st estimate of GDP), (p) = preliminary

Daiwa Capital Markets

Treasury Financing

July/August 2025

Monday	Tuesday	Wednesday	Thursday	Friday
21	22	23	24	25
AUCTION RESULTS: Rate Cover 13-week bills 4.240% 2.98 26-week bills 4.115% 3.06	**AUCTION RESULTS:** Rate Cover 6-week bills 4.260% 2.85 **ANNOUNCE:** $65 billion 17-week bills for auction on July 23 $95 billion 4-week bills for auction on July 24 $85 billion 8-week bills for auction on July 24 **SETTLE:** $65 billion 17-week bills $90 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 4.225% 3.55 20-yr bonds 4.935% 2.79	**AUCTION RESULTS:** Rate Cover 4-week bills 4.245% 2.69 8-week bills 4.265% 2.63 10-yr TIPS 1.985% 2.41 **ANNOUNCE:** $155 billion 13-,26-week bills for auction on July 28 $80 billion 6-week bills for auction on July 29 $69 billion 2-year notes for auction on July 28 $70 billion 5-year notes for auction on July 28 $44 billion 7-year notes for auction on July 29 $30 billion 2-year FRNs for auction on July 29	**SETTLE:** $155 billion 13-,26-week bills $80 billion 6-week bills
28	29	30	31	1
AUCTION: $155 billion 13-,26-week bills $69 billion 2-year notes $70 billion 5-year notes	**AUCTION:** $80 billion 6-week bills $44 billion 7-year notes $30 billion 2-year FRNs **ANNOUNCE:** $65 billion* 17-week bills for auction on July 30 $95 billion* 4-week bills for auction on July 31 $85 billion* 8-week bills for auction on July 31 **SETTLE:** $65 billion 17-week bills $95 billion 4-week bills $85 billion 8-week bills	**AUCTION:** $65 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Aug 5 $39 billion* 10-year notes for auction on Aug 6 $22 billion* 30-year bonds for auction on Aug 7	**AUCTION:** $95 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 4 $80 billion* 6-week bills for auction on Aug 5 $50 billion* 52-week bills for auction on Aug 5 **SETTLE:** $155 billion 13-,26-week bills $80 billion 6-week bill $13 billion 20-year bonds $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	
4	5	6	7	8
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $80 billion* 6-week bills $50 billion* 52-week bills $58 billion* 3-year notes **ANNOUNCE:** $65 billion* 17-week bills for auction on Aug 6 $95 billion* 4-week bills for auction on Aug 7 $85 billion* 8-week bills for auction on Aug 7 **SETTLE:** $65 billion* 17-week bills $95 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $95 billion* 4-week bills $85 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 11 $80 billion* 6-week bills for auction on Aug 12 **SETTLE:** $155 billion* 13-,26-week bills $80 billion* 6-week bill $50 billion* 52-week bills	
11	12	13	14	15
AUCTION: $155 billion* 13-,26-week bills	**AUCTION:** $80 billion* 6-week bills **ANNOUNCE:** $65 billion* 17-week bills for auction on Aug 13 $95 billion* 4-week bills for auction on Aug 14 $85 billion* 8-week bills for auction on Aug 14 **SETTLE:** $65 billion* 17-week bills $95 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $65 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $155 billion* 13-,26-week bills for auction on Aug 18 $80 billion* 6-week bills for auction on Aug 19 $16 billion* 20-year bonds for auction on Aug 20 $8 billion* 30-year TIPS for auction on Aug 21 **SETTLE:** $155 billion* 13-,26-week bills $80 billion* 6-week bill	**SETTLE:** $58 billion* 3-year notes $39 billion* 10-year notes $22 billion* 30-year bonds

**Estimate*