

# U.S. Economic Comment

- Consumer spending: holding up in early Q3 despite depressed sentiment
- Inflation: tariff-related pass-through to consumer prices contained thus far; core PCE to round to +0.3 percent in July
- Industrial production: sluggish underlying trend

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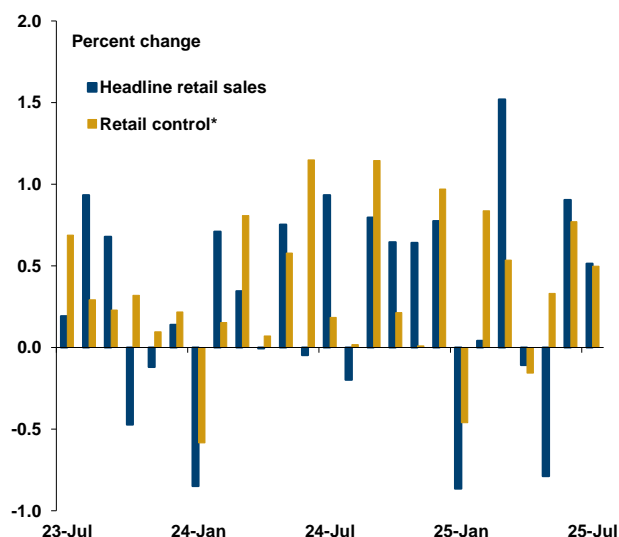
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## Households Active in July Despite Ongoing Challenges

Providing initial insights for Q3 consumer spending, the retail sales report for July released earlier today suggests that household spending on goods occurred at a solid clip, with expenditures in the prior two months firmer than previously reported. Indeed, total activity increased 0.5 percent month-over-month in July (+3.9 percent year-over-year), with nine of 13 categories recording gains, and the retail control – a subset which correlates with goods outlays in the GDP report – showing a same-sized monthly change (+4.8 percent year-over-year; chart, below left). In context, the results raise the possibility of real consumer spending growth exceeding 1.0 percent, annual rate, in Q3 (consistent with a GDP tracking estimate of +1.2 percent; chart on quarterly real consumer spending, below, right), along with growth of 1.4 percent in Q2 being adjusted higher – which, all else equal, points to a modest upward revision to GDP growth of 3.0 percent.

Although we interpret the results in the latest retail report favorably, we hesitate to draw broad conclusions from the data. Importantly, today's report represents only a sliver of the data for Q3, and a host of influences on households (softening labor market conditions, price increases tied to tariffs, resumption of student loan repayments after the pandemic-related pause, etc.) may impact spending patterns in the months ahead. Additionally, data in the monthly retail sales survey are not adjusted for inflation, with price effects likely boosting the nominal performances in several areas. In that regard, a jump of 0.7 percent (seasonally adjusted) in the household furnishing and supplies component of the CPI suggests that approximately half of the 1.4 percent advance in sales at furniture stores reflected higher prices (possibly associated with tariffs). Similarly, an advance of 0.4 percent in the sporting goods subcategory of the CPI implies a smaller real increase in outlays at sporting goods, hobby, book, and music stores than the reported 0.8 percent jump in activity. That said, not all price effects were negative. A pickup of 0.1 percent in the apparel component of the CPI did little to dampen the firm advance in reported transactions at clothing

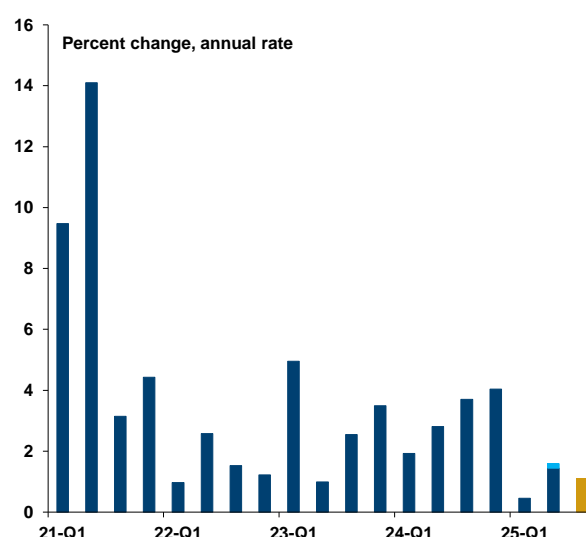
### Retail Sales



\* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

Source: U.S. Census Bureau via Haver Analytics

### Real Consumer Spending Growth\*



\* The light blue bar is the projected upward revision for 2025-Q2 while the gold bar is a forecast for 2025-Q3.

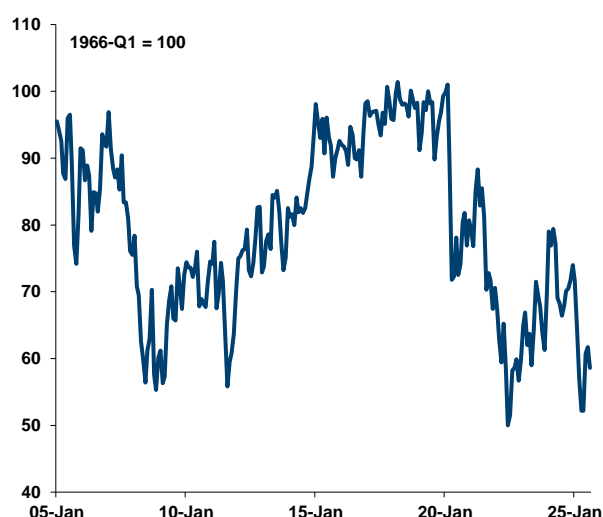
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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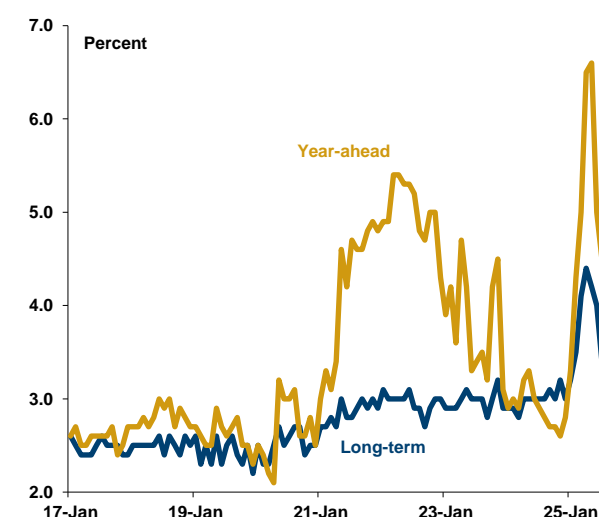
stores, and the drop of 2.2 percent in the gasoline component of the CPI indicated that an increase of 0.7 percent in sales at gasoline stations was closer to a jump of 2.9 percent in real activity – indicative of consumers having wherewithal to make excursions, go on vacation, etc. Thus, for now, households are still contributing to an ongoing economic expansion.

Circling back to concerns noted above, the early-August results for the University of Michigan consumer sentiment index underscored why caution is warranted in discussing prospects for households. The measure dropped on the 3.1 index points (5.0 percent), reversing a portion of gains in the previous two months and maintaining the index in the low end of the range of the current expansion (chart, below left). Likely influencing the deterioration was a stirring in inflation expectations, which at least by this measure, remain elevated. In that regard, the expectation for inflation over the next year rose to 4.9 percent from 4.5 percent in July, and longer-term expectations increased to 3.9 percent per year from 3.4 percent previously (chart, below, right). That said, consumer sentiment and consumer spending have not been well correlated in the current expansion, as spending has remained resilient despite a host of challenges. However, another bout of inflation (even if transient) and a jump in unemployment (far from assured at this point) could at this juncture ratify dour moods and finally lead to a notably more cautious approach by households. Again, this isn't necessarily our baseline, but risks currently remain elevated.

### Consumer Sentiment



### Consumer Inflation Expectations



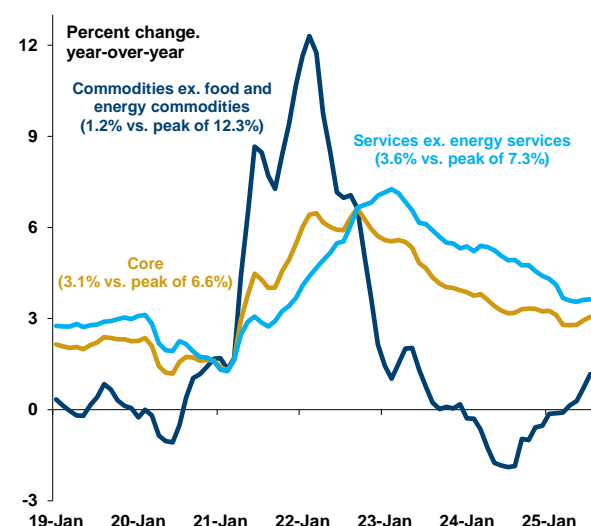
### Recent Inflation Data

Various price measures this week reiterated that inflation has recalibrated significantly after restrictive monetary policy aided in correcting pandemic-related imbalances, but the latest results also served as a stark reminder that the Federal Reserve still faces challenges in reaching the 2 percent inflation target, not the least of which is the still-evolving trade policy of the Trump administration.

The CPI rose 0.2 percent in July, with the year-over-year advance of 2.7 percent essentially unchanged from the result in the prior month but up from the 2025 low of 2.3 percent in April. The core measure came in hotter, rounding down to 0.3 percent (+0.322 percent versus a 12-month trailing average of +0.239 percent). Moreover, the year-over-year advance increased to 3.1 percent from 2.9 percent previously. The latest data showed little further progress in core services inflation toward the pre-pandemic trend, with the year-over-year change rounding to 3.6 percent for the fourth consecutive month, while the year-over-year change in core goods inflation accelerated to 1.2 percent from 0.7 percent in the prior month – the fastest increase since mid-2023 after a period of modest deflation (chart, next page, left). The latest data on goods prices showed several pockets of pressure tied to tariffs that are not currently acute, although they suggest that the stirring in core inflation tied to import duties has yet to peak (which we do not foresee occurring until the fourth quarter, with the core CPI topping out at an annualized growth rate of approximately 3.5 percent in 25-Q4 and the core PCE price index recording a quarterly advance in the area of 3.1 to 3.3 percent, annualized). Furthermore, supporting the view that prices have not yet peaked, the PPI surged in July, with the

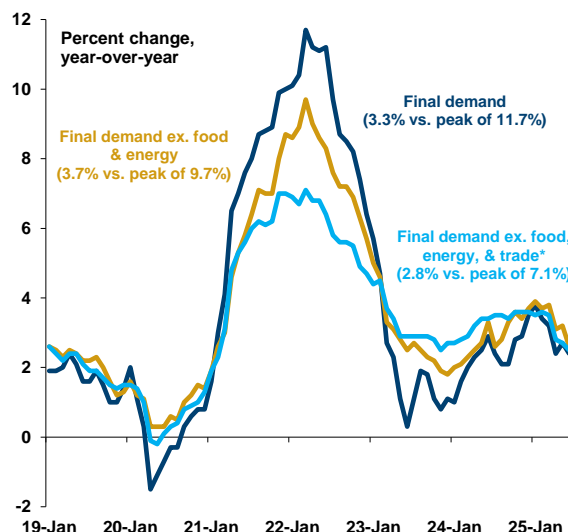
headline and prices excluding food and energy jumping 0.9 percent higher and prices excluding food, energy, and trade services (i.e., core) advancing 0.6 percent. Moreover, the year-over-year increases of 3.3 percent, 3.7 percent, and 2.8 percent rose sharply from observations of 2.4 percent, 2.6 percent, and 2.5 percent, respectively, in June (chart, below right).

### Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

### PPI



Source: Bureau of Labor Statistics via Haver Analytics

In reviewing the CPI and PPI and assessing their implications for the price index for personal consumption expenditures, the Federal Reserve's preferred inflation gauge, we look for a firm print when the data is published on August 29 but one unlikely to shock as the latest PPI did (as only several subcomponents of that measure feed through to the PCE metric). We expect the headline PCE price index to advance 0.20 percent – leaving the year-over-year rate rounding to 2.6 percent – and the core to increase 0.28 percent, prompting an acceleration in the year-over-year advance of 0.1 percentage point to 2.9 percent. Again, previous prognostications of a significant reacceleration in inflation on account of import duties are unlikely to be realized, but previous patience by Fed officials was warranted, as evidence suggests the latest wave of price pressure has yet to crest. That aside, recent developments in the labor market may still prompt a cut of 25 basis points in September (and one to two additional reductions more in 2025) despite inflation developments. On this front, we may receive guidance from Chair Powell during his remarks at the Jackson Hole Economic Policy Symposium, which are scheduled for August 22 at 10:00am.

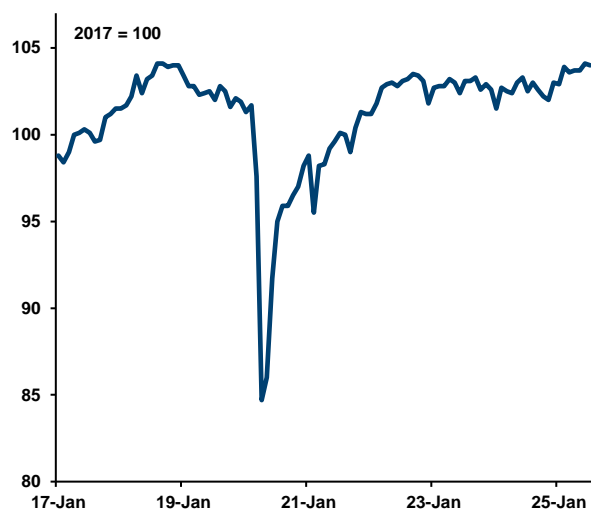
### Other Friday Data: Industrial Production Indicates Tepid Factory Sector

Among data released on Friday was the Federal Reserve's report on industrial production, which provides insights on the cyclically sensitive manufacturing sector (among others) and helps guide views on the broader business sector. In the latest month, the measure dipped 0.1 percent following an upwardly revised advance of 0.4 percent in the prior month (+1.4 percent year-over-year; chart, next page, left).

Looking at the internals of the report, the manufacturing component, the key area furnishing insights on the economy and business cycle, was unchanged in the latest month (+1.4 percent year-over-year; chart, next page, right), leaving in place the essentially sideways trend that remains at risk on account of the administration's disruptive trade policy (already evident in higher input costs and disrupted order books reported, for instance, with the ISM survey). July's lackluster result was influenced, in part, by a decrease of 0.3 percent in auto production (+8.3 percent year-over-year). Excluding motor vehicles and parts, manufacturing output eased 0.1 percent, with 11 of 19 non-auto manufacturing industries registering declines in production. Beyond the factory sector, mining output fell 0.4 percent (+1.9 percent year-over-year). This area had mounted a notable recovery from the COVID-related trough through early 2023, but that progress has since stalled at a pace approximately in line with levels seen in the period immediately preceding the onset of the pandemic (current index level of 120.9 versus the 2019 average of 120.8). Utility output also softened in the latest month, decreasing 0.2 percent (+0.8 percent year-over-year). Keep in mind

that this area is volatile on a month-to-month basis (range of -8.2 percent to +4.1 percent in the past six months), with shifts often reflecting variation in the weather rather than underlying economic fundamentals.

### Industrial Production: Headline



Source: Federal Reserve Board via Haver Analytics

### Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Broadly speaking, the trend in IP is disappointing and downside risks remain. We have yet to see any significant evidence of a rush of firms to onshore manufacturing in response to tariffs, nor have we seen a surge in oil and minerals extraction despite regulatory roll-backs and Trump's mantra of "drill baby drill." Instead, mercurial trade policy coupled with cooling demand – and subdued prices for petroleum -- have contributed to a challenging environment for American firms.

### Note to readers:

The next issue of the U.S. Economic Comment will be published on August 29, 2025.

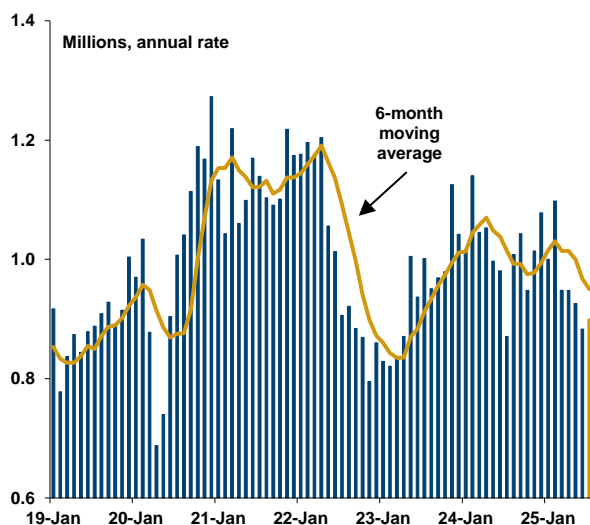
## The Week Ahead

### Housing Starts (July) (Tuesday)

**Forecast: 1.285 Million (-2.7%)**

The recent pattern of permit issuance, which includes declines in each of the past three months, is indicative of housing starts coming in softer in July. Mortgage rates hovering near seven-percent along with elevated inventories of unsold new homes suggest that builders will exercise caution in initiating new single-family housing projects, though we could envision a bit of payback after June's decline of 4.6 percent to 0.883 million units, annual rate, left the series near its two-year low. Multi-family starts, on the other hand, could see a correction after the prior month's increase of 30.0 percent to 0.438 million units – a reading above the trailing six-month average of 0.397 million.

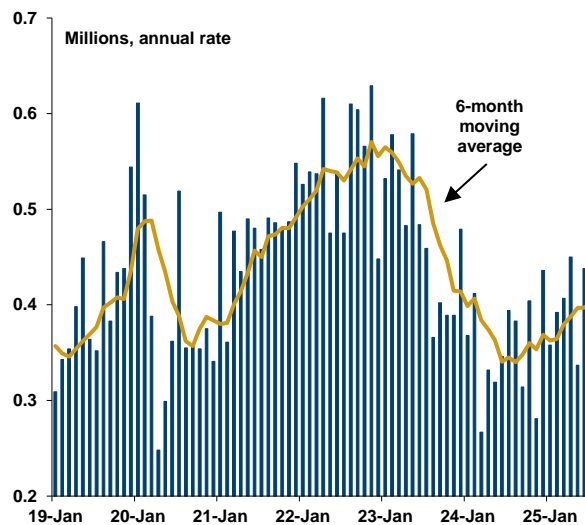
#### Single-Family Housing Starts\*



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

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

#### Multi-Family Housing Starts\*



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

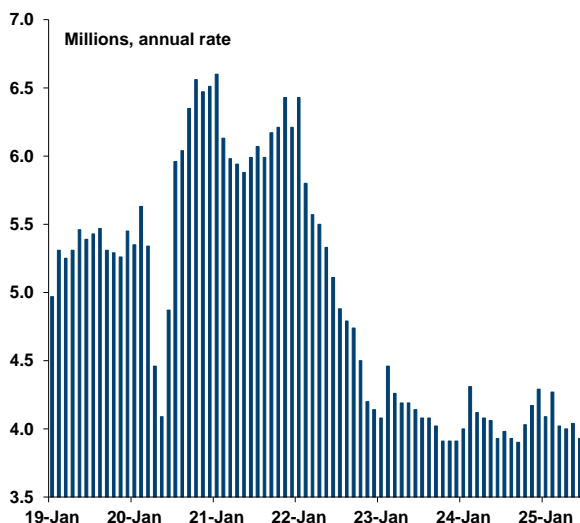
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

### Existing Home Sales (July) (Thursday)

**Forecast: 3.85 Million (-2.0%)**

While the index for pending home sales has been choppy in recent months (range of -6.3 percent to +1.8 percent in the April-to-June period), it is still only marginally above the record low registered last January, suggestive of existing home sales remaining rangebound at a low level in July (note that pending home sales, which measures contract signings, typically lead existing home sales, which measures closings, by one to three months). Broadly speaking, prevailing conditions in the housing market are still mostly unfavorable. Tight inventories, though improved in recent months, coupled with elevated financing costs have contributed to the current environment of reduced affordability, thus leaving the current pace of activity near the bottom of the long-term range.

#### Existing Home Sales\*



\* The gold bar is a forecast for July 2025

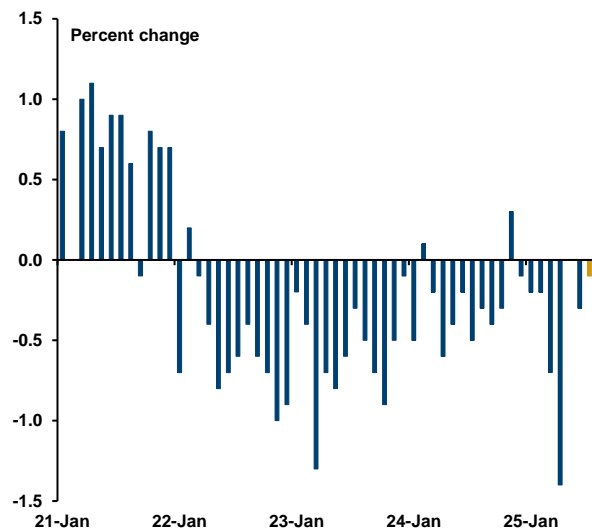
Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

## Leading Indicators (July) (Thursday)

Forecast: -0.1%

Anticipated negative contributions from ISM new orders and consumer expectations are likely to offset higher stock prices, pointing to a contraction in the Conference Board's Leading Economic Index for the 38th time in the past 41 months. If the forecast is realized, the index would be approximately 17.9 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 (though growth has been lackluster in 2025 thus far amid heightened economic uncertainty).

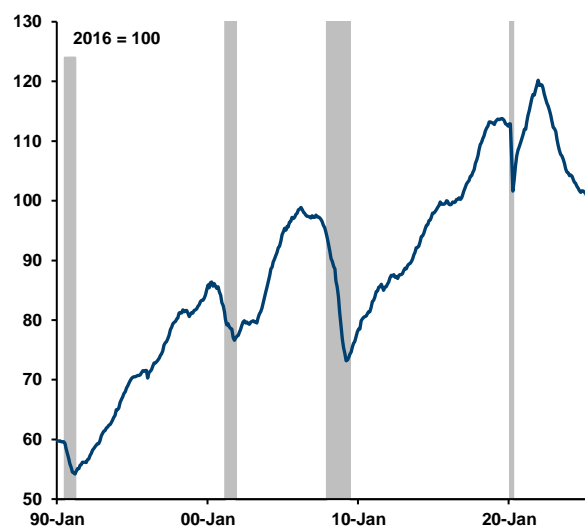
### Index of Leading Economic Indicators\*



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

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 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
11	12	13	14	15
	<div>NFIB SMALL BUSINESS OPTIMISM INDEX<div>May98.8</div><div>June98.6</div><div>July100.3</div></div> <div>CPI<div><div></div><div>Total</div><div>Core</div></div><div>May0.1%0.1%</div><div>June0.3%0.2%</div><div>July0.2%0.3%</div></div> <div>FEDERAL BUDGET<div><div>FY2025</div><div>FY2024</div></div><div>May-\$315.7B-\$347.1B</div><div>June-\$27.0B-\$71.0B</div><div>July-\$291.1B-\$243.7B</div></div>		<div>UNEMPLOYMENT CLAIMS<div><div>Initial</div><div>Continuing</div><div>(millions)</div></div><div>July 190.2171.936</div><div>July 260.2191.968</div><div>Aug 20.2271.953</div><div>Aug 90.224N/A</div></div> <div>PPI<div><div></div><div>Final Demand</div><div>Ex. Food &amp; Energy</div></div><div>May0.4%0.4%</div><div>June0.0%0.0%</div><div>July0.9%0.9%</div></div>	<div>RETAIL SALES<div><div>Total</div><div>Ex.Autos</div></div><div>May-0.8%-0.1%</div><div>June0.9%0.8%</div><div>July0.5%0.3%</div></div> <div>EMPIRE MFG<div>June-16.0</div><div>July5.5</div><div>Aug11.9</div></div> <div>IMPORT/EXPORT PRICES<div><div>Non-Petrol Imports</div><div>Nonagri. Exports</div></div><div>May-0.1%-0.8%</div><div>June-0.2%0.5%</div><div>July0.3%0.1%</div></div> <div>IP &amp; CAP-U<div><div>IP</div><div>Cap.Util.</div></div><div>May0.1%77.5%</div><div>June0.4%77.7%</div><div>July-0.1%77.5%</div></div> <div>CONSUMER SENTIMENT<div>June60.7</div><div>July61.7</div><div>Aug58.6</div></div> <div>BUSINESS INVENTORIES<div><div>Inventories</div><div>Sales</div></div><div>Apr0.0%-0.2%</div><div>May0.0%-0.4%</div><div>June0.2%0.5%</div></div> <div>TIC FLOWS<div><div>Long-Term</div><div>Total</div></div><div>Apr-\$7.7B-\$13.9B</div><div>May\$266.8B\$318.1B</div><div>June\$150.8B\$77.8B</div></div>
18	19	20	21	22
<div>NAHB HOUSING INDEX (10:00)<div>June32</div><div>July33</div><div>Aug--</div></div>	<div>HOUSING STARTS (8:30)<div>May1.263 million</div><div>June1.321 million</div><div>July1.285 million</div></div>	<div>FOMC MINUTES (2:00)</div>	<div>UNEMP. CLAIMS (8:30)</div> <div>PHILADELPHIA FED MFG</div> <div>BUSINESS OUTLOOK (8:30)<div>June-4.0</div><div>July15.9</div><div>Aug--</div></div> <div>EXISTING HOME SALES (10:00)<div>May4.040 million</div><div>June3.930 million</div><div>July3.850 million</div></div> <div>LEADING INDICATORS (10:00)<div>May0.0%</div><div>June-0.3%</div><div>July-0.1%</div></div>	<div>CHAIR POWELL'S JACKSON HOLE ADDRESS (10:00)</div>
25	26	27	28	29
<div>CHICAGO FED NATIONAL ACTIVITY INDEX</div> <div>NEW HOME SALES</div>	<div>DURABLE GOODS ORDERS</div> <div>FHFA HOME PRICE INDEX</div> <div>S&amp;P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX</div> <div>CONFERENCE BOARD CONSUMER CONFIDENCE</div>		<div>UNEMP. CLAIMS</div> <div>REVISED Q2 GDP</div> <div>PENDING HOME SALES</div>	<div>PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX</div> <div>INTERNATIONAL TRADE IN GOODS</div> <div>ADVANCE INVENTORIES</div> <div>MNI CHICAGO BUSINESS BAROMETER</div> <div>REVISED CONSUMER SENTIMENT</div>
1	2	3	4	5
<div>LABOR DAY</div>	<div>ISM MFG. INDEX</div> <div>CONSTRUCTION</div>	<div>FACTORY ORDERS</div> <div>JOLTS DATA</div> <div>BEIGE BOOK</div> <div>VEHICLE SALES</div>	<div>ADP EMPLOYMENT</div> <div>UNEMP. CLAIMS</div> <div>TRADE BALANCE</div> <div>REVISED PRODUCTIVITY &amp; COSTS</div> <div>ISM SERVICES INDEX</div>	<div>EMPLOYMENT REPORT</div>

Forecasts in bold.



## Treasury Financing

August/September 2025																								
Monday	Tuesday	Wednesday	Thursday	Friday																				
11	12	13	14	15																				
<b>AUCTION RESULTS:</b> <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>13-week bills 4.150%</td><td>2.64</td></tr><tr><td>26-week bills 3.970%</td><td>3.21</td></tr></table>	Rate	Cover	13-week bills 4.150%	2.64	26-week bills 3.970%	3.21	<b>AUCTION RESULTS:</b> <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>6-week bills 4.265%</td><td>2.40</td></tr></table> <b>ANNOUNCE:</b> \$65 billion 17-week bills for auction on Aug 13 \$100 billion 4-week bills for auction on Aug 14 \$85 billion 8-week bills for auction on Aug 14 <b>SETTLE:</b> \$65 billion 17-week bills \$100 billion 4-week bills \$85 billion 8-week bills	Rate	Cover	6-week bills 4.265%	2.40	<b>AUCTION RESULTS:</b> <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>17-week bills 4.050%</td><td>3.50</td></tr></table>	Rate	Cover	17-week bills 4.050%	3.50	<b>AUCTION RESULTS:</b> <table><tr><td>Rate</td><td>Cover</td></tr><tr><td>4-week bills 4.280%</td><td>2.67</td></tr><tr><td>8-week bills 4.185%</td><td>2.72</td></tr></table> <b>ANNOUNCE:</b> \$155 billion 13-,26-week bills for auction on Aug 18 \$85 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	Rate	Cover	4-week bills 4.280%	2.67	8-week bills 4.185%	2.72	<b>SETTLE:</b> \$58 billion 3-year notes \$42 billion 10-year notes \$25 billion 30-year bonds  <b>SETTLE:</b> \$155 billion 13-,26-week bills \$85 billion 6-week bills
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<b>AUCTION:</b> \$155 billion* 13-,26-week bills	<b>AUCTION:</b> \$85 billion* 6-week bills \$69 billion* 2-year notes <b>ANNOUNCE:</b> \$65 billion* 17-week bills for auction on Aug 27 \$100 billion* 4-week bills for auction on Aug 28 \$85 billion* 8-week bills for auction on Aug 28 <b>SETTLE:</b> \$65 billion* 17-week bills \$100 billion* 4-week bills \$85 billion* 8-week bills	<b>AUCTION:</b> \$65 billion* 17-week bills \$70 billion* 5-year notes \$28 billion* 2-year FRNs	<b>AUCTION:</b> \$100 billion* 4-week bills \$85 billion* 8-week bills \$44 billion* 7-year notes <b>ANNOUNCE:</b> \$155 billion* 13-,26-week bills for auction on Sep 2 \$85 billion* 6-week bills for auction on Sep 2 \$50 billion* 52-week bills for auction on Sep 2 <b>SETTLE:</b> \$155 billion* 13-,26-week bills \$85 billion* 6-week bills	<b>SETTLE:</b> \$8 billion 30-year TIPS \$28 billion* 2-year FRNs																				
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\*Estimate