

U.S. Economic Comment

- August inflation data: moderate advance in PCE price index; in line with expectations
- Q3 GDP update: data in hand suggest a solid performance, again underpinned by resilient households

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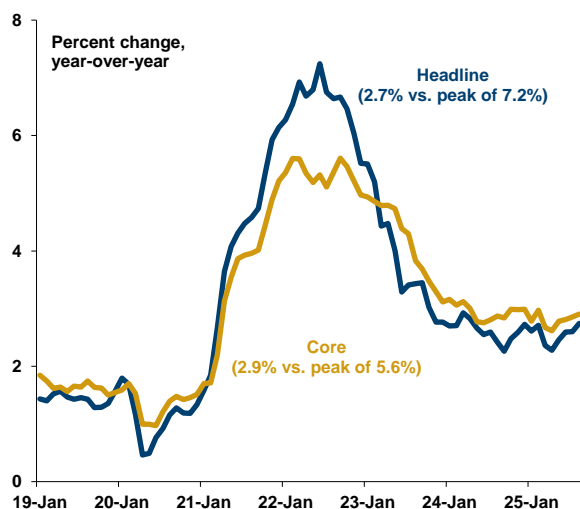
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Inflation Yet to Show Acute Tariff-Related Pressure

In his first remarks since the post-FOMC press conference, Chair Powell reiterated that the balance of risks has shifted, and that the Committee is leaning toward easier monetary policy in support of the labor market, but he remained noncommittal with respect to the timing and extent of further cuts – especially in light of above-target inflation and remaining risks from tariff-related price pressure. Indeed, he argued: “Near-term risks to inflation are tilted to the upside and risks to employment to the downside-- a challenging situation. Two-sided risks mean that there is no risk-free path.” Perhaps further complicating near-term decision making were various data this week (revised GDP and monthly consumer spending, among others) suggesting that the economy is in a steadier position now than anticipated after hitting an air pocket in Q1. Should policymakers ease too aggressively with the economy operating in proximity of potential, new inflationary pressures could emanate from sources beyond tariffs. Thus, the path ahead remains fraught with risks, contributing to the growing divide within the Committee.

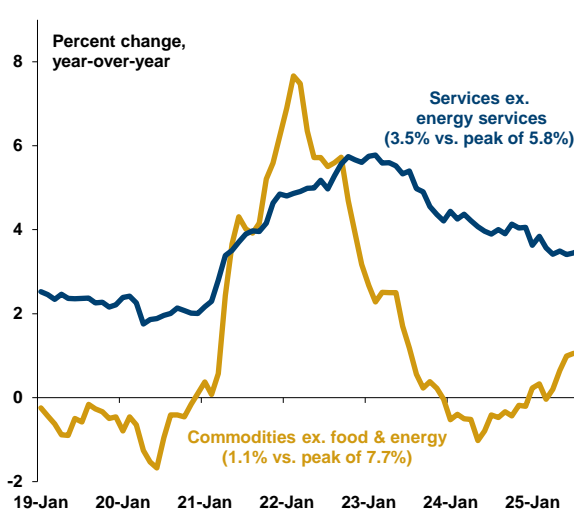
Although concerns about inflation persist, a point stressed by various other officials weighing in this week, the latest batch of data on the price index for personal consumption expenditures, the preferred inflation measure for Fed officials, was released earlier today were in line with projections after the publication of August CPI and PPI data earlier this month. The headline and core price indexes increased 0.3 percent and 0.2 percent, respectively, which translated to year over year advance of 2.7 percent for the headline measure, up from 2.6 percent in July, and 2.9 percent for the core (2.905 percent versus 2.853 percent in July; chart, below left). Both readings remain below the median expectation of Fed officials from the September Summary of Economic Projections of 3.0 percent for the headline and 3.1 percent for the core for year-end 2025 (both unchanged from June medians). The latest results do not suggest that inflation has peaked, which policymakers have emphasized is likely to happen later this year or in early 2026, but they do seem to push back against the worst-case scenarios advanced when tariffs were first announced in the spring. Since then, we have observed favorable developments in various components of inflation while also seeing only some evidence of pass through from tariffs to consumer prices.

PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

Decomposition of Core PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

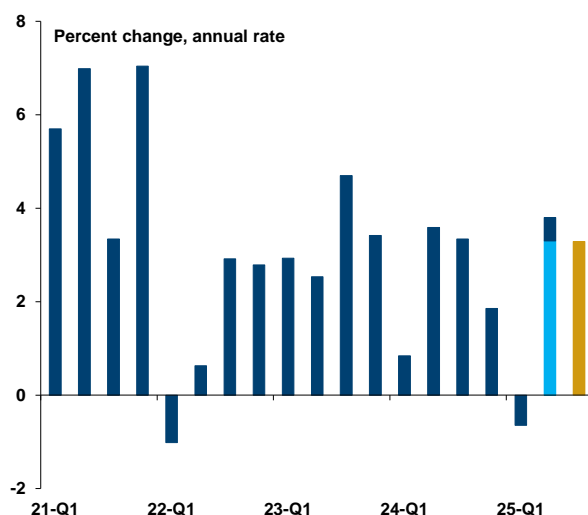
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Taking a more granular view of core, the good component dipped 0.1 percent August after registering essentially no change in the prior month. On a year-over-year basis, the metric rose 1.1 percent (1.077 percent versus 1.056 percent in July). Pockets of tariff-related pressure were again evident in the latest report (the price of jewelry and watches spiked 6.0 percent in the latest month, and those for photographic equipment rose jumped 1.8 percent after a brisk advance in July), but price changes in the aggregate were subdued, with some previous pressure points recording declines (e.g., prices of household appliances fell 0.8 percent, the second consecutive notable decline after three months of brisk price increases). Core services, in contrast, rose 0.3 percent for the second consecutive month (+3.5 percent year-over-year, up from +3.4 percent in July; chart, prior page, right). Despite the pickup, however, we remain guardedly optimistic about the trajectory of services prices in coming months. On the point, the rental of tenant-occupied nonfarm housing component rose 0.3 percent, while the imputed rent of owner-occupied nonfarm housing area rose 0.4 percent – both within recent ranges. Moreover, the year-over-year change in the former slowed marginally (3.495 percent versus 3.546 percent) and is in line with the favorable pre-pandemic trend, while the latter eased 0.1 percentage point to 4.0 percent and is approaching the pre-COVID growth rate. Additionally, rents are cooling further in many formerly hot housing markets, suggesting further slowing in the months ahead. Beyond the costs of shelter, we emphasize that a rapidly cooling labor market is likely to exert further downward pressure on wages, which will spill through to services prices. Furthermore, other drivers of services prices could be set to moderate. For instance, portfolio management fees rose 1.9 percent in August (and 9.7 percent cumulatively in the past three months) as the stock market has continued to climb, but a pause is inevitable at some point given stretched valuations. All told, we still anticipate that tariff-related price changes will be a one-off event (spanning the next few months), and inflation will return on a downward trajectory by mid-2026, thus allowing the Fed to continue with the second phase of its easing cycle.

Economic Growth Appears on Track in Q3

Data this week on economic activity mostly surprised to the upside, suggesting not only that prior underlying momentum was well maintained but also that the second half of 2025 is off to a solid start. The consumer sector was a focal point of the improved outlook, with results on real consumer spending in Q2 revised higher and monthly data for August pointing to a firm performance in Q3. Moreover, data on the business sector suggests that recent outlays could reflect more than just attempts to preempt price increase from import duties.

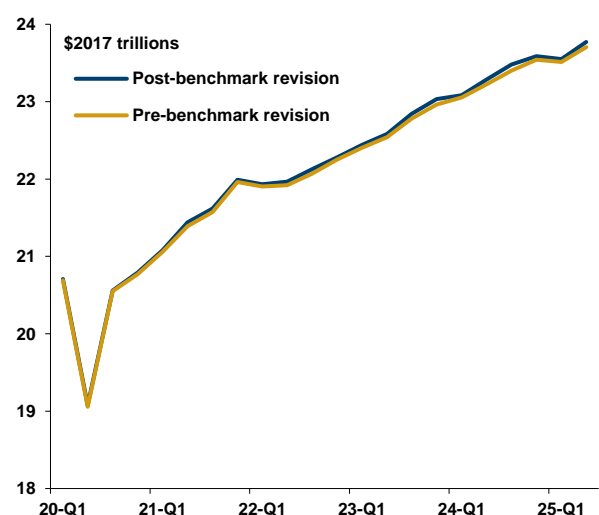
GDP Growth*



* The light blue bar shows the preliminary estimate 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

Real Gross Domestic Product



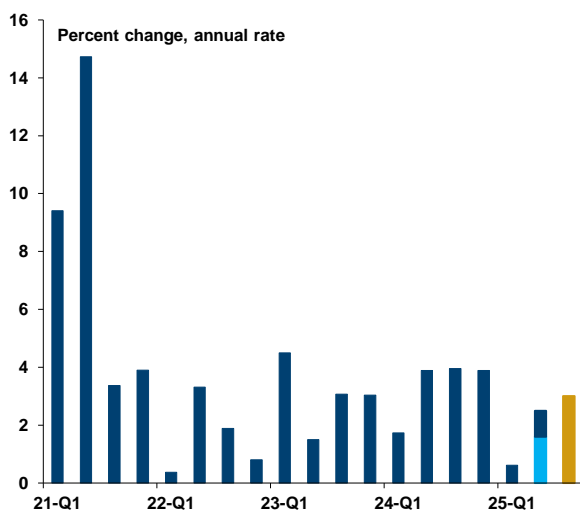
Source: Bureau of Economic Analysis via Haver Analytics

Turning first to backward-looking data, the third estimate of Q2 GDP published Thursday indicated growth of 3.8 percent, annual rate, versus 3.3 percent previously reported (chart, prior page, left). Notably, consumer spending was significantly more favorable than initially believed (growth of 2.5 percent versus 1.6 percent; a contribution of 1.68 rather than 1.07 percentage points to growth; chart, below). While outlays for goods were adjusted modestly lower, those for services were significantly stronger (growth of 2.6 percent versus 1.2 percent). Additionally, business fixed investment was revised upward (+7.3 percent, annual rate versus +5.7; contribution of 0.98 percentage point to growth versus 0.78 percentage point in the prior estimate). Outlays for structures remained soft (a contraction of 7.5 percent, annual rate, versus -8.9 percent previously), but outlays for equipment and intellectual property were stronger than already-reported firm performances (growth of 8.5 percent and 15.0 percent, respectively, versus +7.4 percent and +12.8 percent). Moreover, annual benchmark revisions indicated that growth from 2019 through 2024 averaged 2.4 percent (as previously published) – an above-potential performance even accounting for the COVID-related disruption (chart, prior page, right).

Momentum appears to have been sustained in Q3, with indications pointing to consumers again remaining active. Spending data from today's Personal Income and Outlays report showed that real consumer spending rose 0.4 percent for the second consecutive month. Moreover, even if outlays were flat, or down slightly in September, real spending would be on track to grow at an annualized three-percent clip in the current quarter – in line with the firm performance last year (chart, below left).

To be sure, risks to the outlook remain. The labor market has slowed significantly, and tariffs could still boost consumer prices, both of which suggest potential caution ahead for consumers. Similarly, data on core capital goods shipments from the durable goods report raise the possibility that equipment spending could ease from the prior quarter's pace – although our outlook for the business sector has brightened given the recent burst of intellectual property investment and an ongoing positive catalyst in AI development (chart, below right). Furthermore, while we view August data on international trade and inventory investment as making positive contributions in Q3, these areas have swung widely in recent quarters on account of firms trying to maneuver around tariffs. With that in mind, while we remain constructive on the U.S. economy, and pleasantly surprised by data this week, we acknowledge that caution with respect to the outlook is still warranted.

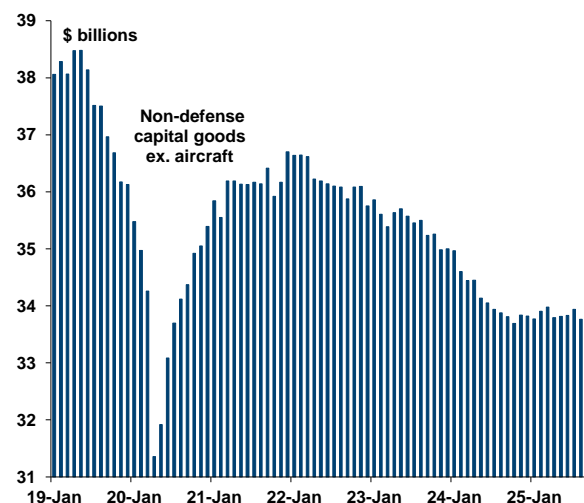
Real Consumer Spending Growth*



* The light blue bar shows the preliminary estimate 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

Real Durable Goods Shipments*



The Week Ahead

Consumer Confidence (September) (Tuesday) Forecast: 95.0 (-2.4 Index Pts. or -2.5%)

Emerging signs of softening in the labor market (e.g., elevated continuing unemployment claims, marked slowdown in nonfarm payroll growth, upward creep in the unemployment rate, etc.) are likely to weigh on consumer attitudes in September, a view supported by a drop of 5.3 percent in the University of Michigan's sentiment gauge. The projection, if realized, would leave the Conference Board's confidence index at the low end of the post-pandemic range, emphasizing that households remain concerned about the economic outlook.

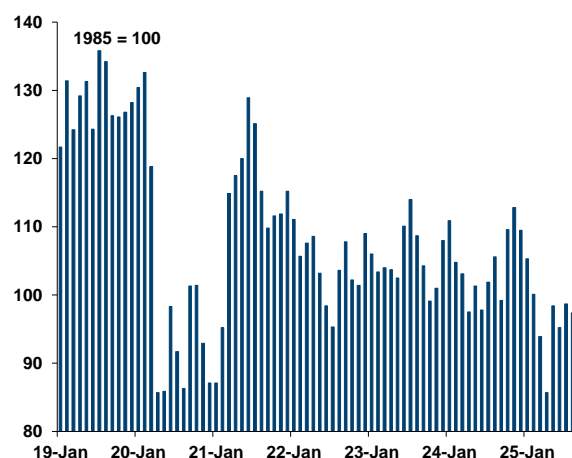
ISM Manufacturing (September) (Wednesday) Forecast: 49.0 (+0.3 Pct. Pt.)

A still modestly restrictive stance of monetary policy coupled with the Trump administration's trade agenda emphasizing a robust tariff program have generated significant ongoing headwinds for the factory sector. Specifically with respect to trade policy, comments in recent iterations of the ISM survey have been littered with mentions of "tariff" or "tariffs" as disruptive to orders, materials acquisitions, and overall business operations. Thus, with little hope of an immediate pivot by the administration away from current practices, the Institute for Supply Management's manufacturing index seems poised to remain in contraction for the seventh consecutive month in September.

Construction Spending (August) (Wednesday) Forecast: -0.2%

With housing starts having been rangebound over the past several months, private residential construction is likely to post another disappointing result in August, augmenting the downward trend in place since the spring of last year. Concurrently, while government-related building could continue to drift upward, business-related activity appears poised to remain on its downward trend as a previous boost from the Biden administration's initiatives (CHIPS Act and IRA) continue to fade and firms exhibit caution in an uncertain business climate. Thus, total construction activity could decline for the 10th time in the past 11 months.

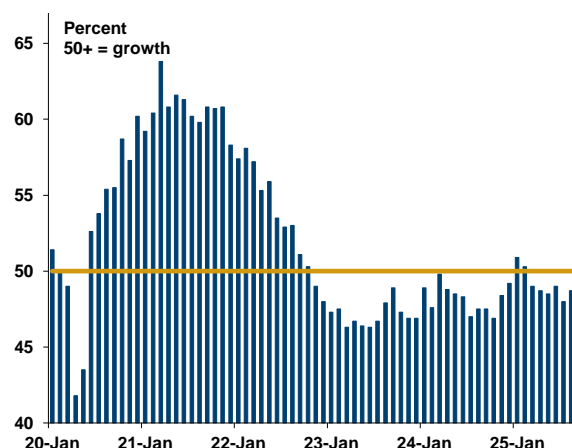
Consumer Confidence*



* The gold bar is a forecast for September 2025.

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

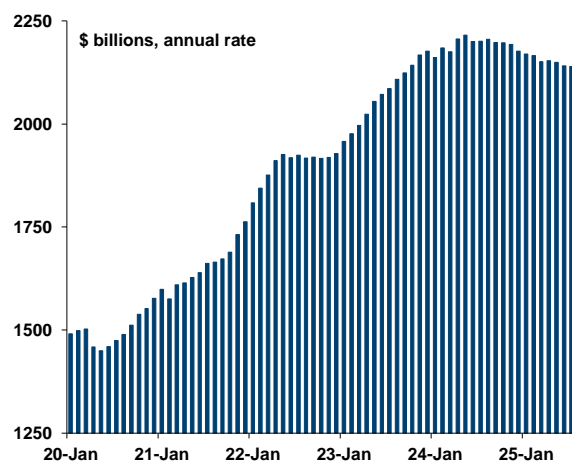
ISM Manufacturing Index*



* The gold bar is a forecast for September 2025.

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

Value of Construction Put in Place*



* The gold bar is a forecast for August 2025.

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

Factory Orders (August) (Thursday)

Forecast: +1.4%

Headline durable goods orders have swung widely in recent months, influenced significantly by volatility on aircraft orders. Those moves, including a gain of 2.9 percent in August, have left bookings below Q1 levels (off 1.3 percent from the March total) although still up 7.6 percent year-over-year. Orders excluding transportation have increased on balance in 2025, with the advance gaining steam since the spring (+2.9 percent year-to-date, including a pickup of 0.4 percent in August, and +3.6 percent year-over-year). Preliminary shipments data released with the Advance Report on Durable Goods on September 25 indicate an approximately flat reading for the nondurable area, which has augmented a sideways trend for more than two years (+0.3 percent year-over-year).

Payroll Employment (September) (Friday)

Forecast: 40,000

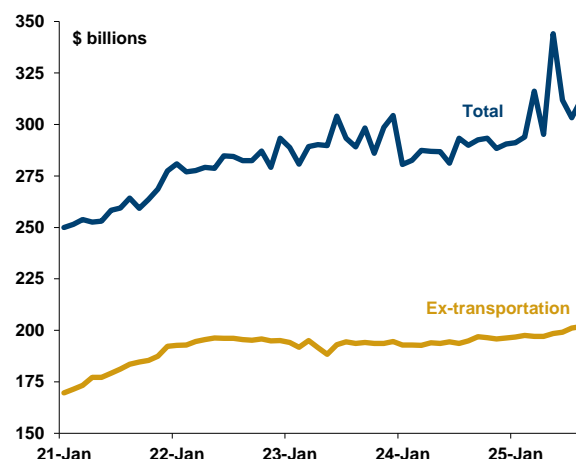
Labor market conditions have softened notably in recent months, a development that prompted Fed Chair Powell to remark that “downside risk is now a reality” in his post-FOMC meeting press conference. On the point, job growth averaged 123,000 per month in 2025 through April before slowing to 27,000 in the past four months (inclusive of a contraction of 13,000 in June; versus the average gain of 171,000 in the second half of 2024). Moreover, we suspect that the current underlying pace of job growth has slipped below the break-even rate necessary to hold the unemployment rate steady. In that regard, we look for an ongoing upward drift in the unemployment rate from the 2025 low of 4.0 percent in January (+0.1 percentage point to 4.4 percent projected for August). Wage growth has moderated with softening in underlying labor market conditions, and therefore we anticipate a pickup of 0.2 percent in average hourly earnings in August – a tick below the average of 0.3 percent in the past twelve months (associated with a year-over-year increase of 3.6 percent, down from 3.7 percent in July).

ISM Services (September) (Friday)

Forecast: 51.0 (-1.0 Pct. Pt.)

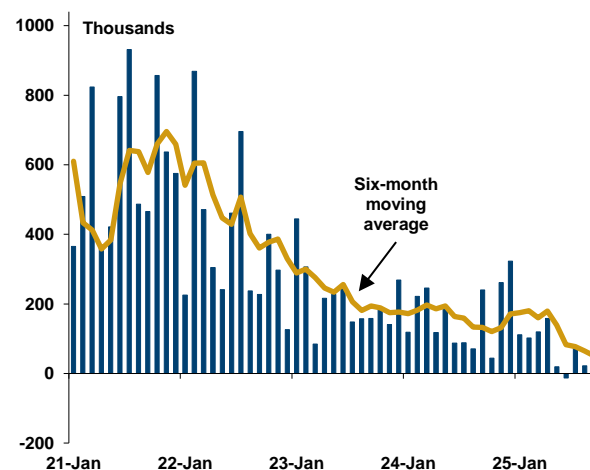
Despite headwinds generated by the Trump administration’s tariff agenda, service-providing firms have held up well thus far, with the ISM services index likely to remain modestly above the critical threshold of 50.0 percent in September, which would be its 14th read in expansion territory in the past 15 months. That said, we anticipate a dip in the headline measure led by cooling in the new orders component. That sub-index jumped 5.7 percentage points to 56.0 percent in August – well above the trailing six-month average of 50.5 percent – raising the prospect of some cooling in the latest month.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

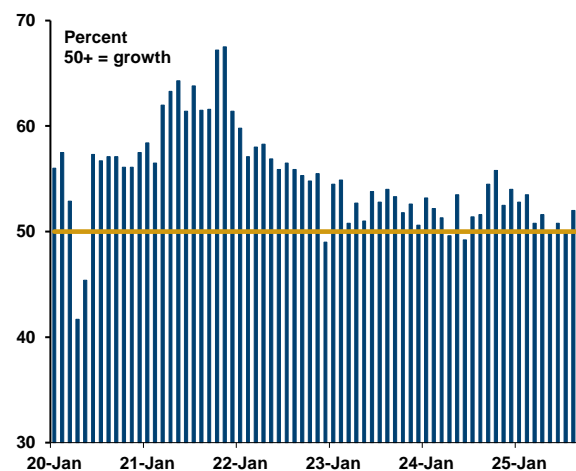
Change in Nonfarm Payrolls*



* The gold bar is a forecast for September 2025.

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

ISM Services Index*



* The gold bar is a forecast for September 2025.

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

Economic Indicators

September/October 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX Monthly 3-Mo. Avg. June -0.13 -0.24 July -0.28 -0.20 Aug -0.12 -0.18	CURRENT ACCOUNT 24-Q4 -\$312.0 bill. 25-Q1 -\$439.8 bill. 25-Q2 -\$251.3 bill.	NEW HOME SALES June 0.676 million July 0.664 million Aug 0.800 million	UNEMPLOYMENT CLAIMS Initial Continuing (millions) Aug 30 0.236 1.927 Sep 6 0.264 1.928 Sep 13 0.232 1.926 Sep 20 0.218 N/A GDP Chained Price GDP 25-Q1 -0.6% 3.6% 25-Q2(p) 3.3% 2.0% 25-Q2(r) 3.8% 2.1% DURABLE GOODS ORDERS June -9.4% July -2.7% Aug 2.9% INTERNATIONAL TRADE IN GOODS June -\$84.6 billion July -\$102.8 billion Aug -\$85.5 billion ADVANCE INVENTORIES Wholesale Retail June 0.2% 0.2% July 0.0% 0.1% Aug -0.2% 0.0% EXISTING HOME SALES June 3.930 million July 4.010 million Aug 4.000 million	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX Inc. Cons. Core June 0.3% 0.5% 0.3% July 0.4% 0.5% 0.2% Aug 0.4% 0.6% 0.2% REVISED CONSUMER SENTIMENT Aug 58.2 Sep(p) 55.4 Sep(r) 55.1
29	30	1	2	3
PENDING HOME SALES (10:00) June -0.8% July -0.4% Aug --	FHFA HOME PRICE INDEX (9:00) May -0.1% June -0.2% July -- S&P COTAILITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00) May -0.3% June -0.3% July -- MNI CHICAGO BUSINESS BAROMETER (9:45) July 47.1 Aug 41.5 Sep -- JOLTS DATA (10:00) Openings (000) Quit Rate June 7,357 2.0% July 7,181 2.0% Aug -- -- CONFERENCE BOARD CONSUMER CONFIDENCE (10:00) July 98.7 Aug 97.4 Sep 95.0	ADP EMPLOYMENT (8:15) Private Payrolls July 106,000 Aug 54,000 Sep -- ISM MFG. INDEX (10:00) Index Prices July 48.0 64.8 Aug 48.7 63.7 Sep 49.0 62.5 CONSTRUCTION (10:00) June -0.4% July -0.1% Aug -0.2% VEHICLE SALES July 16.5 million Aug 16.1 million Sep 16.2 million	UNEMP. CLAIMS (8:30) FACTORY ORDERS (10:00) June -4.8% July -1.3% Aug 1.4%	EMPLOYMENT REPORT (8:30) Payrolls Un. Rate July 79,000 4.2% Aug 22,000 4.3% Sep 40,000 4.4% ISM SERVICES INDEX (10:00) Index Prices July 50.1 69.9 Aug 52.0 69.2 Sep 51.0 68.0
6	7	8	9	10
	TRADE BALANCE CONSUMER CREDIT	FOMC MINUTES	UNEMP. CLAIMS WHOLESALE TRADE	CONSUMER SENTIMENT FEDERAL BUDGET
13	14	15	16	17
COLUMBUS DAY	NFIB SMALL BUSINESS OPTIMISM INDEX	CPI EMPIRE MFG BEIGE BOOK	UNEMP. CLAIMS PPI RETAIL SALES PHILLY FED INDEX NAHB HOUSING INDEX BUSINESS INVENTORIES	HOUSING STARTS IMPORT/EXPORT PRICES IP & CAP-U TIC FLOWS

Forecasts in bold. (p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)

Treasury Financing

September/October 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
22	23	24	25	26
AUCTION RESULTS: Rate Cover 13-week bills 3.860% 3.33 26-week bills 3.705% 3.01	AUCTION RESULTS: Rate Cover 6-week bills 4.010% 2.51 2-yr notes 3.571% 2.51 ANNOUNCE: \$65 billion 17-week bills for auction on Sep 24 \$100 billion 4-week bills for auction on Sep 25 \$85 billion 8-week bills for auction on Sep 25 SETTLE: \$65 billion 17-week bills \$100 billion 4-week bills \$85 billion 8-week bills	AUCTION RESULTS: Rate Cover 17-week bills 3.805% 2.93 5-yr notes 3.710% 2.34 Margin Cover 2-yr FRNs 0.200% 3.15	AUCTION RESULTS: Rate Cover 4-week bills 4.080% 2.61 8-week bills 4.000% 2.65 7-yr notes 3.953% 2.40 ANNOUNCE: \$155 billion 13-,26-week bills for auction on Sep 29 \$85 billion 6-week bills for auction on Sep 30 \$50 billion 52-week bills for auction on Sep 30 SETTLE: \$155 billion 13-,26-week bills \$85 billion 6-week bills	SETTLE: \$28 billion 2-year FRNs
29	30	1	2	3
AUCTION: \$155 billion 13-,26-week bills	AUCTION: \$85 billion 6-week bills \$50 billion 52-week bills ANNOUNCE: \$65 billion* 17-week bills for auction on Oct 1 \$100 billion* 4-week bills for auction on Oct 2 \$85 billion* 8-week bills for auction on Oct 2 SETTLE: \$65 billion 17-week bills \$100 billion 4-week bills \$85 billion 8-week bills \$13 billion 20-year bonds \$19 billion 10-year TIPS \$69 billion 2-year notes \$70 billion 5-year notes \$44 billion 7-year notes	AUCTION: \$65 billion* 17-week bills	AUCTION: \$100 billion* 4-week bills \$85 billion* 8-week bills ANNOUNCE: \$155 billion* 13-,26-week bills for auction on Oct 6 \$85 billion* 6-week bills for auction on Oct 7 \$58 billion* 3-year notes for auction on Oct 7 \$39 billion* 10-year notes for auction on Oct 8 \$22 billion* 30-year bonds for auction on Oct 9 SETTLE: \$155 billion 13-,26-week bills \$85 billion 6-week bills \$50 billion 52-week bills	
6	7	8	9	10
AUCTION: \$155 billion* 13-,26-week bills	AUCTION: \$85 billion* 6-week bills \$58 billion* 3-year notes ANNOUNCE: \$65 billion* 17-week bills for auction on Oct 8 \$100 billion* 4-week bills for auction on Oct 9 \$85 billion* 8-week bills for auction on Oct 9 SETTLE: \$65 billion* 17-week bills \$100 billion* 4-week bills \$85 billion* 8-week bills	AUCTION: \$65 billion* 17-week bills \$39 billion* 10-year notes	AUCTION: \$100 billion* 4-week bills \$85 billion* 8-week bills \$22 billion* 30-year bonds ANNOUNCE: \$155 billion* 13-,26-week bills for auction on Oct 14 \$85 billion* 6-week bills for auction on Oct 14 SETTLE: \$155 billion* 13-,26-week bills \$85 billion* 6-week bills	
13	14	15	16	17
COLUMBUS DAY	AUCTION: \$155 billion* 13-,26-week bills \$85 billion* 6-week bills ANNOUNCE: \$65 billion* 17-week bills for auction on Oct 15 \$100 billion* 4-week bills for auction on Oct 16 \$85 billion* 8-week bills for auction on Oct 16 SETTLE: \$65 billion* 17-week bills \$100 billion* 4-week bills \$85 billion* 8-week bills	AUCTION: \$65 billion* 17-week bills SETTLE: \$58 billion* 3-year notes \$39 billion* 10-year notes \$22 billion* 30-year bonds	AUCTION: \$100 billion* 4-week bills \$85 billion* 8-week bills ANNOUNCE: \$155 billion* 13-,26-week bills for auction on Oct 20 \$85 billion* 6-week bills for auction on Oct 21 \$13 billion* 20-year bonds for auction on Oct 22 \$26 billion* 5-year TIPS for auction on Oct 23 SETTLE: \$155 billion* 13-,26-week bills \$85 billion* 6-week bills	

*Estimate