

U.S. Economic Comment

- December FOMC meeting: easing of 25 basis points expected despite a divided Committee
- Risks remain to both sides of the dual mandate, although softening labor market more likely to prompt near-term policy action
- The December Statement and SEP: modest changes anticipated; chance of 2026 median expectation for the federal funds rate declining to 3.125 percent
- Balance sheet policy: little new information after recent end of QT; watch for additional official guidance in early 2026

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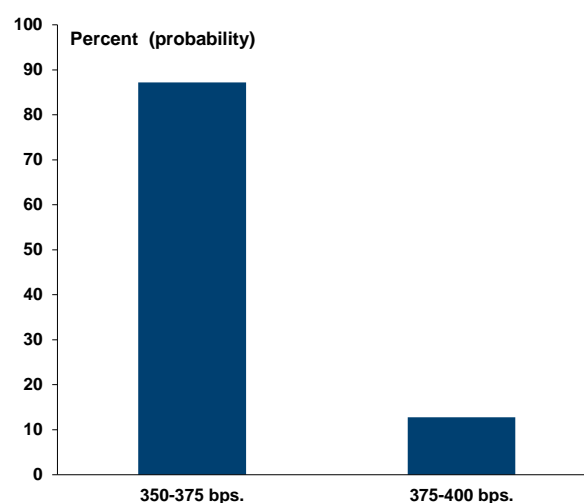
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A Cut Next Week

Although we declined in recent weeks to shift our call for a cut of 25 basis points at the December 9-10 meeting to 3-1/2 to 3-3/4 percent amid conflicting messages from Fed officials, we readily acknowledge that disagreement among policymakers is currently heightened given elevated risks to both sides of the central bank's mandate – and that the spillover from the robust debate about the proper path of monetary policy carrying well into next year having the potential to inject an extra dose of uncertainty into market expectations. With that said, comments by Fed Governor Chris Waller and John Williams, President of the Federal Reserve Bank of New York, ahead of the November 29 pre-meeting blackout period appear to have quelled uncertainty to a degree regarding the potential outcome of next Wednesday's announcement. Indeed, Williams' suggestion on November 21 that he observed "room for a further adjustment in the near term to the target range for the federal funds rate to move the stance of policy closer to the range of neutral," was augmented by Waller's assessment in an interview on November 24: "My concern is mainly labor market, in terms of our dual mandate. So I'm advocating for a rate cut at the next meeting..." Thus, in light of remarks by policymakers viewed by many as reflecting the opinions of the Fed Chair, the implied probability of a cut next week (as of writing) sits at just over 87 percent (chart). The move, if realized, does not necessarily open the door to further sequential reductions in early 2026, but it does suggest at least a small majority of Fed officials favor taking out additional insurance against downside risks to the labor market.

Federal Funds Target Rate Probabilities*



* The implied target range of the federal funds rate at the conclusion of the December 9-10 meeting based on futures pricing data as of December 5, 2025.
Source: CME Group, FedWatch tool

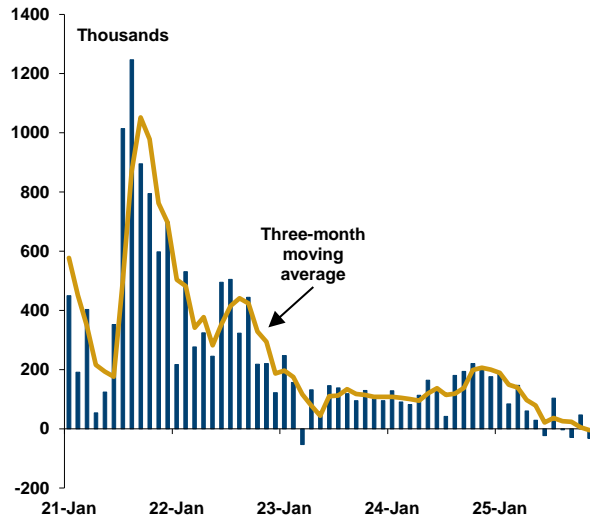
The Labor Market & Inflation

Despite not having available the October and November labor market data from the Bureau of Labor Statistics on account of the recently resolved government shutdown (a combined Employment Situation report will be published on December 16, and it will lack household survey inputs for October – i.e., the unemployment rate among other metrics), we view the available data as continuing to show softening in underlying conditions. Notably, the private-sector payroll data for November from ADP Research Institute and Stanford Digital Economy Lab (published December 3) revealed that hiring contracted by 32,000 – the fourth drop in the past six months. Moreover, the average paltry average in the latest three months (-4,700) trails by a wide margin the 2024-Q4 average of 200,300 and the still-respectable 139,000 in Q1 (chart, next page, left). The results still appear to conform to the low-hire, low-fire conditions identified by Chair Powell in recent months (a so-called "curious" balance), although we have monitored with interest the stirring in layoff announcements in Q4, which could portend a change in dynamic toward

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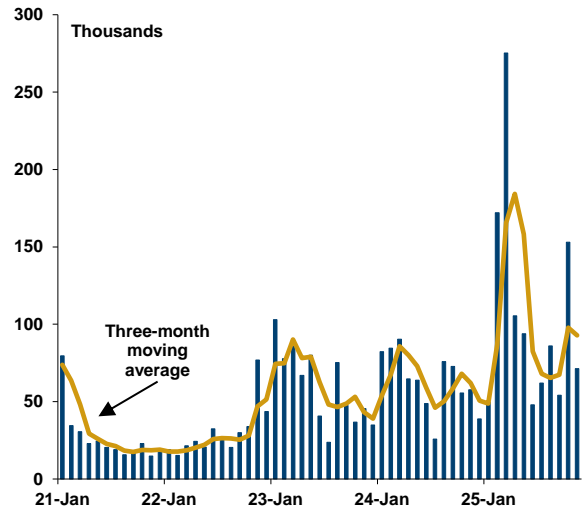
more aggressive headcount reductions (chart, below right; November data for the Challenger, Gray, and Christmas series was released on December 4). Job cut announcements eased to 71,321 in November from a brisk 153,047 in the prior month (which was the fastest pace since March), but the latest reading was still 23.5 percent above the year-ago level and the series has an upward tilt in the past few months (average of 92,820 in the three months ended November, exceeding that in the prior three-month period by more than 27,000 per month).

Change in Nonfarm Private Payrolls



Source: ADP Research, Stanford Digital Economy Lab via Haver Analytics

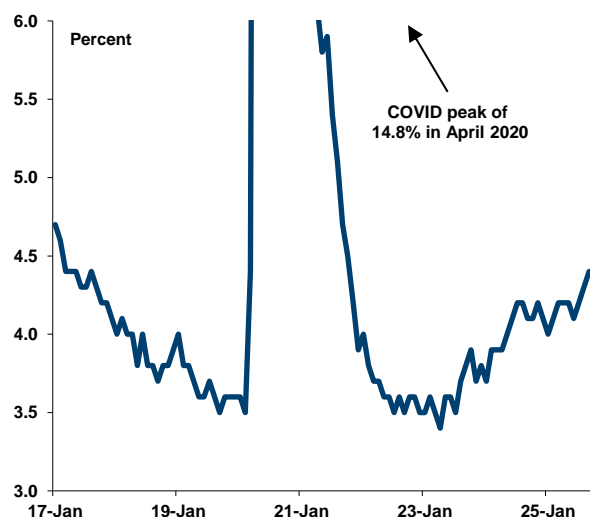
Announced Job Cuts



Source: Challenger, Gray & Christmas via Haver Analytics

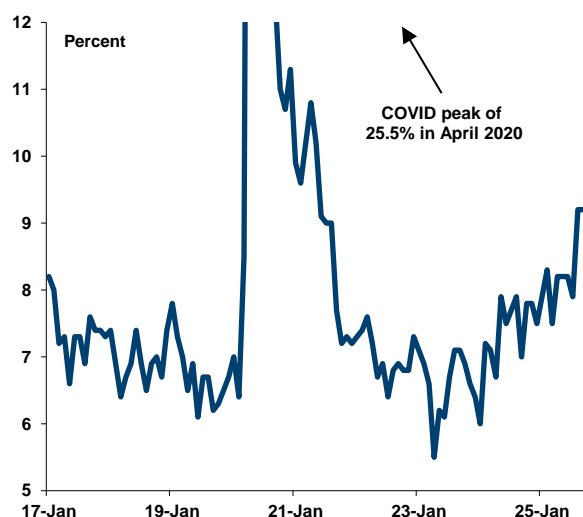
We also would draw attention to recent moves in the unemployment rate (data through September). When the data was published in November 20, the unemployment rate was shown to have increased by 0.1 percentage point to 4.4 percent (versus the 2025 low of 4.0 percent in January and the highest since October 2021; chart, below left). Additionally, the latest reading was above the long-run estimate of 4.2 percent by Fed officials in the September Summary of Economic Projections (which could be viewed as the full-employment unemployment rate) and only 0.1 percentage point below the 2025 median estimate of 4.5 percent; that is, slack still appears to be increasing in the labor market, jeopardizing the maximum employment objective. Drilling down further, we find interesting the recent surge in unemployment among young people aged 20-24, a demographic usually more susceptible to deterioration in underlying job-market conditions. Although steady in September at 9.2 percent, the unemployment rate in this demographic had surged from a 2025 low of 7.5 percent in March to 9.2 percent in August (again, the highest since 2021; chart, below right).

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Rate: 20-24 Years

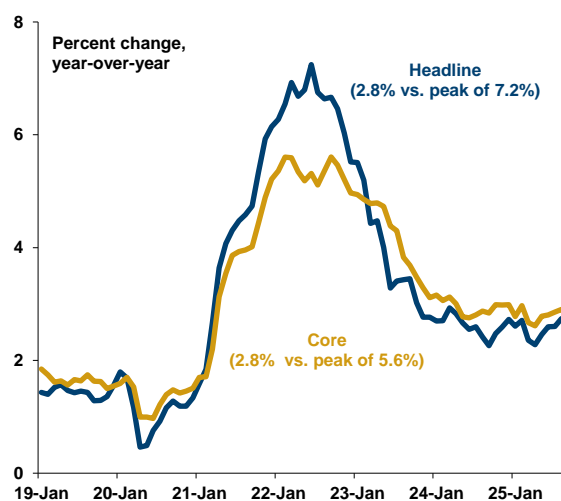


Source: Bureau of Labor Statistics via Haver Analytics

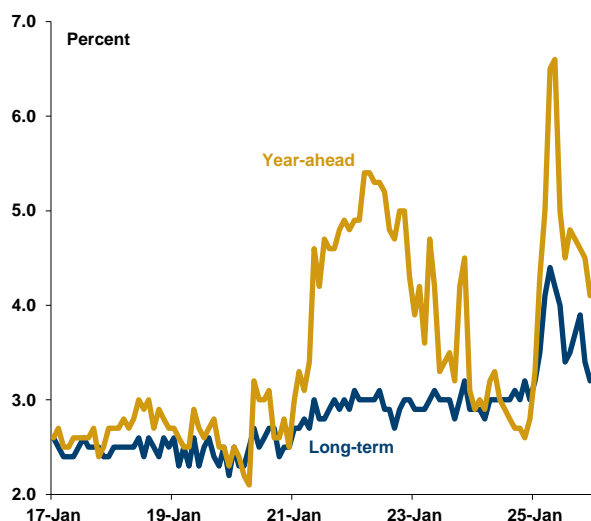
Inflation data since the last FOMC meeting have been somewhat limited, although we received today a September reading for the price index for personal consumption expenditures, the FOMC's preferred inflation metric. As suggested by inputs from the CPI and PPI, the headline price index rose 0.3 percent and the core measure 0.2 percent, both in line with expectations. On a year-over-year basis, the advance in the headline index accelerated to 2.8 percent from 2.7 percent in August while that for the core measure slipped 0.1 percentage point to 2.8 percent – both within recent ranges (chart).

While the inflation data may yet inch higher on account of pass-through from tariff-related costs, such pressure has been limited thus far. Moreover, acute cost pressure has been notably absent from the price metrics of various Fed and private-sector PMIs. Furthermore, inflation expectations – which are a key determinant in future inflation -- have shown encouraging signs. In the December iteration of the University of Michigan Survey of Consumers published earlier today, year-ahead inflation expectations fell 0.4 percentage point to 4.1 percent – well below the 2025 high of 6.6 percent in May. Additionally, the 5-to-10-year metric moderated to 3.2 percent from 3.4 percent previously, in line with readings in the past few years excluding a jump in the spring prompted by the Trump administration's "Liberation Day" tariff announcements (chart, below left). And, we note that market-based measures of inflation expectations are "anchored." That is, five-year, five-year-forward implied break evens at 2.20 percent at week end are almost 25 basis points below the recent high in the summer and consistent with actual inflation returning to 2 percent in the medium term. All this in mind, we view the labor market side of the Fed's dual mandate as demanding more immediate attention at this juncture, thus warranting easier policy.

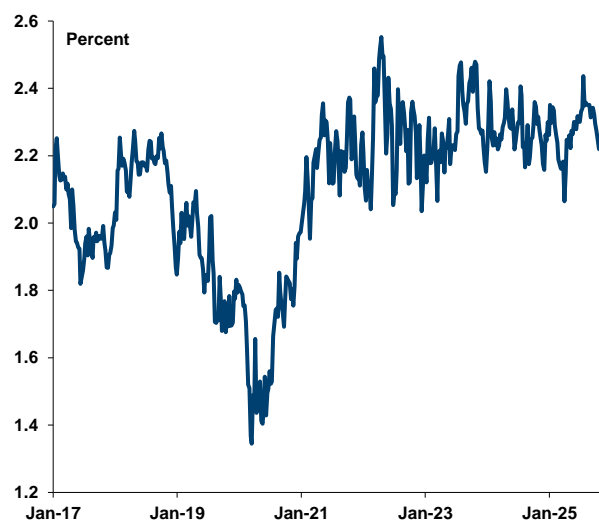
PCE Inflation



Consumer Inflation Expectations



Breakeven Inflation Rate: 5-Yr, 5-Yr Forward*



* A measure of expected inflation derived from nominal and inflation-linked bonds. The five-year, five-year forward rate shows expected inflation per year in the period beginning five years from now. Weekly data except for the latest observation which is a midday quote from December 5, 2025.

The December Statement and Summary of Economic Projections

Looking ahead to next week, we anticipate modest changes to both the Committee statement and the Summary of Economic Projections. Regarding the statement, we suspect that an adjustment could be made to the assessment of the labor market in the first paragraph. The previous iteration (October 29) indicated, "Job gains have slowed this

year, and the unemployment rate has edged up but remained low through August; more recent indicators are consistent with these developments.” However, given the recent uptick in the unemployment rate, we could foresee much of the assessment removed, save that noting that job gains have slowed. Beyond that, much of the language pertaining to upside risks to inflation and data dependence could be maintained in an effort to appease more hawkish members of the Committee and to minimize the prospect of dissents (although we view at least one in favor of no change in policy as highly likely, possibly again by Jeffery Schmid, President of the Kansas City Fed, who preferred no change in the target range for the federal funds rate at the last policy meeting; Governor Miran is again likely to dissent in the opposite direction, preferring a reduction of 50 basis points).

Regarding the Summary of Economic Projections, expectations for economic variables may be adjusted slightly for 2025. Given the likely strong performance of the economy in Q3, while also accounting for the constraining effects of the government shutdown in Q4, the median projection for GDP growth could increase by 0.1 to 0.2 percentage point from 1.6 percent previously. Similarly, given the recent rise in the unemployment rate to 4.4 percent, and likely further softening in underlying employment, the median expectation for unemployment could increase to 4.6

percent from 4.5 percent (although we view the odds of this change occurring as slightly less than 50 percent). With that said, given little new information on inflation, but also considering that upside risks remain, we see little chance of a revision to inflation projections that remain above target into 2027 (table). Moreover, we view GDP and unemployment projections beyond 2025 as consistent with ongoing Fed messaging and thus see little chance of a meaningful change to out-year forecasts for these variables.

With respect to the projected path of policy, current divisions on the Committee suggest that few will be inclined to adjust significantly current views. A neutral stance of policy is still the ultimate target, but at least several officials want to wait on inflation to slow before cutting further. Even so, only one official shifting views could nudge lower the 2026 dot form 3.375 percent to 3.125 percent. That is not our baseline expectation, but it is certainly within the realm of possible outcomes.

Balance Sheet Policy

The FOMC announced at its October meeting the end of quantitative tightening (QT) effective December 1. Reserves declined rapidly in recent months as the Treasury rebuilt its cash balance following an increase in the debt ceiling last July, and various measures now suggest that bank reserves have fully transitioned from “abundant” to “ample” (charts, next page) – a view corroborated by recently increased money market spreads to administered rates and increased usage of the Standing Repo Facility (chart, right).

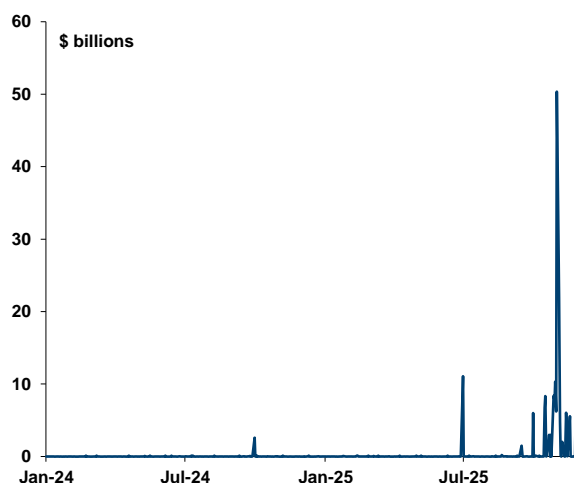
Economic Projections of the FOMC, September 2025*

	2025	2026	2027	2028	Longer Run
Change in Real GDP	1.6	1.8	1.9	1.8	1.8
Unemployment Rate	4.5	4.4	4.3	4.2	4.2
PCE Inflation	3.0	2.6	2.1	2.0	2.0
Core PCE Inflation	3.1	2.6	2.1	2.0	--
Federal Funds Rate	3.6	3.4	3.1	3.1	3.0

* Median projections

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

Standing Repo Facility Uptake*

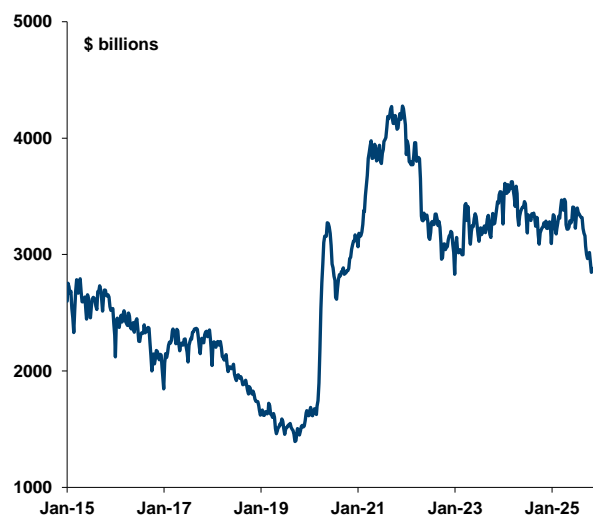


* Daily data

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

Thus, flowing from these developments is the likelihood that reserve management purchases could begin early next year (possibly in January, announced at the first FOMC meeting of the year). Importantly, when they do occur, these operations should not be viewed as renewed quantitative easing (QE), a form of monetary policy designed to buttress the economy, but rather a tool to preserve the ample reserves framework; as the nominal economy grows and non-reserve liabilities such as currency in circulation increase, so too must asset holdings. All this said, given that balance sheet policy is not an exact science, and that recent evidence has emerged of some tightness in money market conditions, we remain on the lookout for earlier intervention by the Fed to ensure smooth market function.

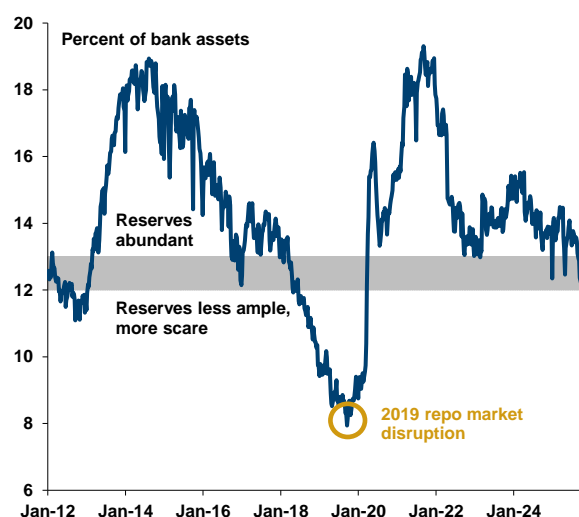
Bank Reserves*



* Average of week ending Wednesday

Source: H.4.1 Report, Federal Reserve Board via Haver Analytics

Reserve Balances as a Share of Bank Assets*



* All commercial banks, weekly end-of-period data. Shaded areas correspond to the threshold of 12-13% estimated by New York Fed staff.

Sources: Afonso, Gara et al. "Scarce, Abundant, or Ample? A Time-Varying Model of the Reserve Demand Curve," Federal Reserve Bank of New York, May 2025. https://www.newyorkfed.org/research/staff_reports/sr1019

Note to readers:

The final edition of the U.S. Economic Comment in 2025 will be posted on Friday, December 19th, which will be a longer-form 2026 outlook. Regular publication will resume early next year.

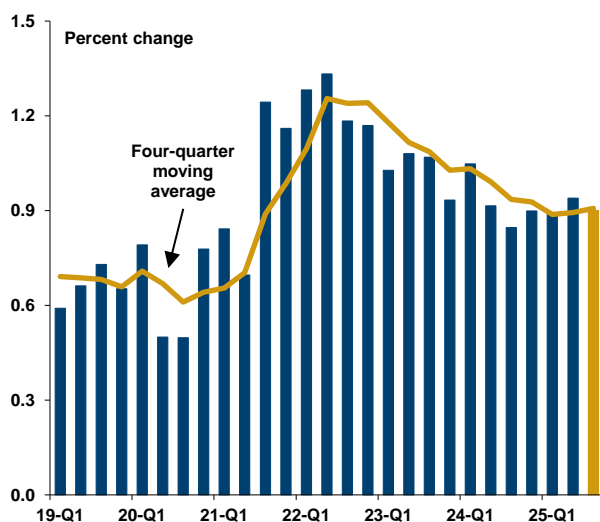
The Week Ahead

Employment Cost Index (25-Q3) (Wednesday)

Forecast: +0.9% Compensation, +0.9% Wages

Readings on average hourly earnings from the employment report suggest that compensation growth in Q3 was close to the 0.9 percent reads (not annualized) in the first two quarters of the year, which were in line with the 2024 average but slower than those in the preceding two years (+1.0 and +1.2 percent in 2023 and 2022, respectively). If the forecast is realized, year-over-year growth in the ECI would remain essentially unchanged at 3.6 percent – an observation well off the cycle peak of 5.1 percent in 2022-Q2. As such, we no longer view compensation growth as a key driver of inflationary pressure inconsistent with the Federal Reserve's 2 percent target.

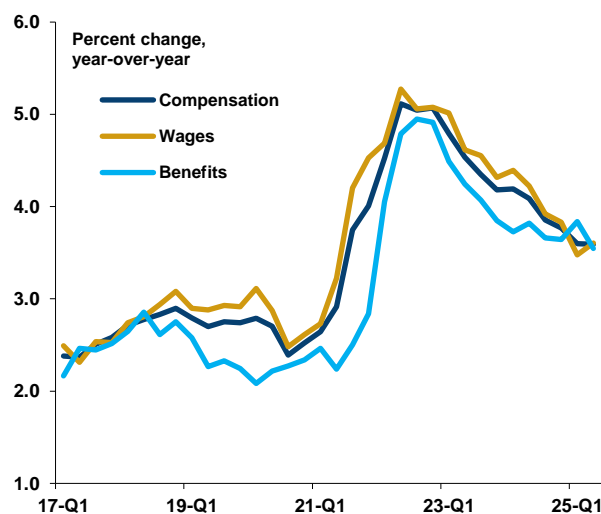
Employment Cost Index*



* The gold bar is a forecast for 2025-Q3.

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

Employment Cost Index



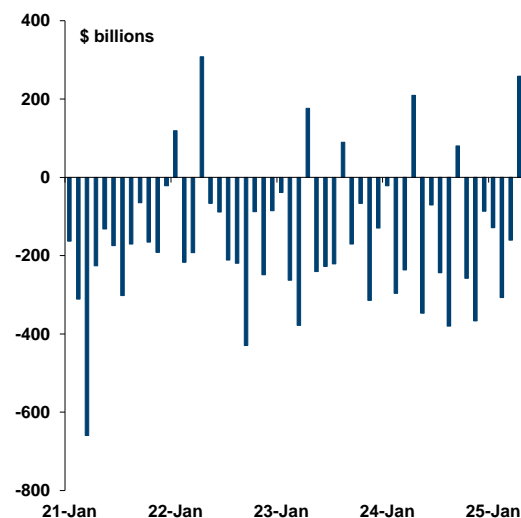
Source: Bureau of Labor Statistics via Haver Analytics

Federal Budget (November) (Wednesday)

Forecast: -\$135 Billion

Available data from the Daily Treasury Statement indicate that federal revenue growth was solid last month (up about 13 percent year-over-year by our estimate), but outlay growth remained on a firm trajectory as well, thus suggesting that a substantial monthly shortfall is again likely in November 2025. If the projection is actualized, the cumulative deficit in the first two months of FY2026 will total approximately \$419 billion (versus -\$624 billion in the same period of FY2025).

Federal Budget Surplus/Deficit*



* The gold bar is a forecast for November 2025.

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

Economic Indicators

December 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
ISM MFG. INDEX Index Prices Sep 49.1 61.9 Oct 48.7 58.0 Nov 48.2 58.5	VEHICLE SALES Sep 16.3 million Oct 15.3 million Nov 15.6 million	ADP EMPLOYMENT Private Payrolls Sep -29,000 Oct 47,000 Nov -32,000 IMPORT/EXPORT PRICES Non-Petrol Nonagri. Imports Exports July 0.1% 0.3% Aug 0.2% 0.1% Sep 0.2% 0.0% IP & CAP-U IP Cap.Util. July 0.2% 76.2% Aug -0.3% 75.9% Sep 0.1% 75.9% ISM SERVICES INDEX Index Prices Sep 50.0 69.4 Oct 52.4 70.0 Nov 52.6 65.4	UNEMPLOYMENT CLAIMS Initial Continuing (millions) Nov 8 0.228 1.953 Nov 15 0.222 1.943 Nov 22 0.218 1.939 Nov 29 0.191 N/A FACTORY ORDERS July -1.3% Aug 1.3% Sep 0.2%	PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX Inc. Cons. Core July 0.5% 0.5% 0.2% Aug 0.4% 0.5% 0.2% Sep 0.4% 0.3% 0.2% CONSUMER SENTIMENT Oct 53.6 Nov 51.0 Dec 53.3 CONSUMER CREDIT Aug \$4.3 billion Sep \$11.0 billion Oct \$9.2 billion
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX (6:00) Sep 98.8 Oct 98.2 Nov -- JOLTS DATA (10:00) Openings (000) Quit Rate Aug 7,227 1.9% Sep -- -- Oct -- -- FOMC MEETING (FIRST DAY)	EMPLOYMENT COST INDEX (8:30) Comp. Wages 25-Q1 0.9% 0.8% 25-Q2 0.9% 1.0% 25-Q3 0.9% 0.9% FOMC RATE DECISION (2:00) FEDERAL BUDGET (2:00) 2025 2024 Sep \$197.9B \$80.3B Oct -\$284.4B -\$257.5B Nov -\$135.0B -\$366.8B	UNEMP. CLAIMS (8:30) July -\$78.2 billion Aug -\$59.6 billion Sep -\$65.0 billion TRADE BALANCE (8:30) July -\$78.2 billion Aug -\$59.6 billion Sep -\$65.0 billion WHOLESALE TRADE (10:00) Inventories Sales July 0.1% 1.3% Aug 0.0% 0.1% Sep 0.1% 0.7%	
15	16	17	18	19
EMPIRE MFG NAHB HOUSING INDEX	EMPLOYMENT REPORT RETAIL SALES BUSINESS INVENTORIES		UNEMP. CLAIMS CPI PHILLY FED INDEX TIC FLOWS	REVISED CONSUMER SENTIMENT EXISTING HOME SALES
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX	Q3 GDP DURABLE GOODS ORDERS IP & CAP-U CONFERENCE BOARD CONSUMER CONFIDENCE	UNEMP. CLAIMS	CHRISTMAS DAY	

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

Treasury Financing

December 2025				
Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
AUCTION RESULTS: <div><div>RateCover</div><div>13-week bills3.725%2.82</div><div>26-week bills3.635%3.02</div></div> SETTLE: <div>\$16 billion 20-year bonds</div> <div>\$69 billion 2-year notes</div> <div>\$70 billion 5-year notes</div> <div>\$44 billion 7-year notes</div>	AUCTION RESULTS: <div><div>RateCover</div><div>6-week bills3.700%3.15</div></div> ANNOUNCE: <div>\$69 billion 17-week bills for auction on Dec 3</div> <div>\$90 billion 4-week bills for auction on Dec 4</div> <div>\$80 billion 8-week bills for auction on Dec 4</div> SETTLE: <div>\$69 billion 17-week bills</div> <div>\$100 billion 4-week bills</div> <div>\$85 billion 8-week bills</div>	AUCTION RESULTS: <div><div>RateCover</div><div>17-week bills3.620%3.17</div></div>	AUCTION RESULTS: <div><div>RateCover</div><div>4-week bills3.680%2.69</div><div>8-week bills3.620%2.98</div></div> ANNOUNCE: <div>\$163 billion 13-,26-week bills for auction on Dec 8</div> <div>\$75 billion 6-week bills for auction on Dec 9</div> <div>\$58 billion 3-year notes for auction on Dec 8</div> <div>\$39 billion 10-year notes for auction on Dec 9</div> <div>\$22 billion 30-year bonds for auction on Dec 11</div> SETTLE: <div>\$163 billion 13-,26-week bills</div> <div>\$75 billion 6-week bills</div>	
8	9	10	11	12
AUCTION: <div>\$163 billion 13-,26-week bills</div> <div>\$58 billion 3-year notes</div>	AUCTION: <div>\$75 billion 6-week bills</div> <div>\$39 billion 10-year notes</div> ANNOUNCE: <div>\$69 billion* 17-week bills for auction on Dec 10</div> <div>\$90 billion* 4-week bills for auction on Dec 11</div> <div>\$80 billion* 8-week bills for auction on Dec 11</div> SETTLE: <div>\$69 billion 17-week bills</div> <div>\$90 billion 4-week bills</div> <div>\$80 billion 8-week bills</div>	AUCTION: <div>\$69 billion* 17-week bills</div>	AUCTION: <div>\$90 billion* 4-week bills</div> <div>\$80 billion* 8-week bills</div> <div>\$22 billion 30-year bonds</div> ANNOUNCE: <div>\$163 billion* 13-,26-week bills for auction on Dec 15</div> <div>\$75 billion* 6-week bills for auction on Dec 16</div> <div>\$13 billion* 20-year bonds for auction on Dec 17</div> <div>\$24 billion* 5-year TIPS for auction on Dec 18</div> SETTLE: <div>\$163 billion* 13-,26-week bills</div> <div>\$75 billion* 6-week bills</div>	
15	16	17	18	19
AUCTION: <div>\$163 billion* 13-,26-week bills</div> SETTLE: <div>\$58 billion 3-year notes</div> <div>\$39 billion 10-year notes</div> <div>\$22 billion 30-year bonds</div>	AUCTION: <div>\$75 billion* 6-week bills</div> ANNOUNCE: <div>\$69 billion* 17-week bills for auction on Dec 17</div> <div>\$90 billion* 4-week bills for auction on Dec 18</div> <div>\$80 billion* 8-week bills for auction on Dec 18</div> SETTLE: <div>\$69 billion* 17-week bills</div> <div>\$90 billion* 4-week bills</div> <div>\$80 billion* 8-week bills</div>	AUCTION: <div>\$69 billion* 17-week bills</div> <div>\$13 billion* 20-year bonds</div>	AUCTION: <div>\$90 billion* 4-week bills</div> <div>\$80 billion* 8-week bills</div> <div>\$24 billion* 5-year TIPS</div> ANNOUNCE: <div>\$163 billion* 13-,26-week bills for auction on Dec 22</div> <div>\$75 billion* 6-week bills for auction on Dec 23</div> <div>\$50 billion* 52-week bills for auction on Dec 23</div> <div>\$69 billion* 2-year notes for auction on Dec 22</div> <div>\$70 billion* 5-year notes for auction on Dec 23</div> <div>\$44 billion* 7-year notes for auction on Dec 24</div> <div>\$28 billion* 2-year FRNs for auction on Dec 23</div> SETTLE: <div>\$163 billion* 13-,26-week bills</div> <div>\$75 billion* 6-week bills</div>	
22	23	24	25	26
AUCTION: <div>\$163 billion* 13-,26-week bills</div> <div>\$69 billion* 2-year notes</div>	AUCTION: <div>\$75 billion* 6-week bills</div> <div>\$50 billion* 52-week bills</div> <div>\$70 billion* 5-year notes</div> <div>\$28 billion* 2-year FRNs</div> ANNOUNCE: <div>\$69 billion* 17-week bills for auction on Dec 24</div> <div>\$90 billion* 4-week bills for auction on Dec 24</div> <div>\$80 billion* 8-week bills for auction on Dec 24</div> SETTLE: <div>\$69 billion* 17-week bills</div> <div>\$90 billion* 4-week bills</div> <div>\$80 billion* 8-week bills</div>	AUCTION: <div>\$69 billion* 17-week bills</div> <div>\$90 billion* 4-week bills</div> <div>\$80 billion* 8-week bills</div> <div>\$44 billion* 7-year notes</div> ANNOUNCE: <div>\$163 billion* 13-,26-week bills for auction on Dec 29</div> <div>\$75 billion* 6-week bills for auction on Dec 30</div>	CHRISTMAS DAY	SETTLE: <div>\$163 billion* 13-,26-week bills</div> <div>\$75 billion* 6-week bills</div> <div>\$50 billion* 52-week bills</div> <div>\$28 billion* 2-year FRNs</div>

*Estimate