U.S. Economic Comment

- FOMC: on hold next week; reserve management purchases to continue
- The U.S. flash PMI: indicative of the U.S. remaining on a growth trajectory, although January prints below consensus expectations

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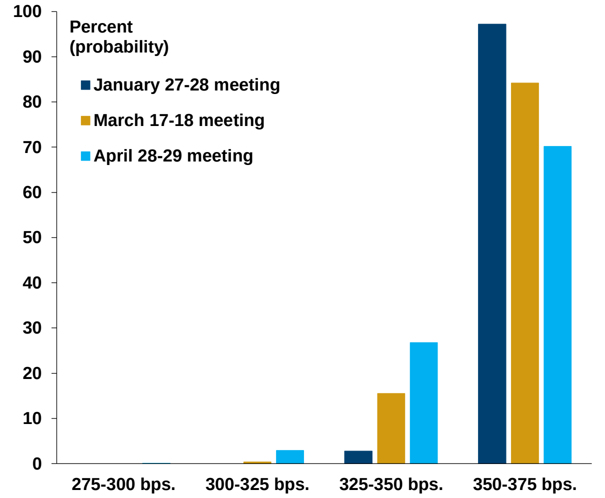
Little Impetus to Cut in January

The FOMC eased monetary policy in its final gathering of 2025, cutting the target range for the federal funds rate by 25 basis points to a range of 3-1/2 to 3-3/4 percent, although the move was approved amid substantial debate. Three policymakers dissented at that meeting – the most since September 2019 – with two favoring no change and the other arguing for a 50-basis-point reduction. Moreover, language noting the "extent and timing" of additional adjustments was reinserted into the policy statement, with the verbiage previously used a year earlier to signal what was ultimately a nine-month period of steady rates after 100 basis points in reduction between September and December 2024. When questioned about the shift, Chair Powell noted: "That new language points out that we'll carefully evaluate that incoming data. And, also, I would note that having reduced our policy rate by 75 basis points since September and 175 basis points since last September, the fed funds rate is now within a broad range of estimates of its neutral value, and we are well positioned to wait to see how the economy evolves." Furthermore, given that he indicated that there was no "risk-free path for policy" henceforth, as upside risks to inflation and downside risks to the labor market were still present and addressing either required tradeoffs, it stood to reason policymakers would be circumspect in their appraisals of incoming data. On the point, data released since the start of 2026, a good bit of which was delayed on account of the government shutdown, has been broadly interpreted by market participants as definitively ruling out a rate cut next week – and possibly precluding an additional move through the spring (chart).

Federal Funds Target Rate Probabilities*



** The implied target range for the federal funds rate based on futures pricing data as of January 23, 2026.*

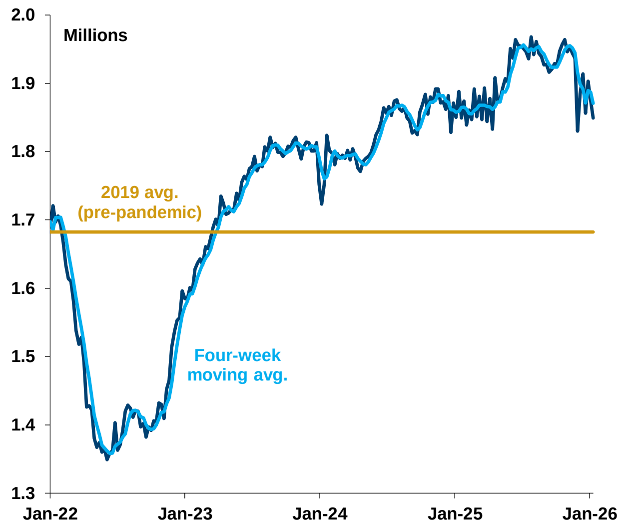
Source: CME Group, FedWatch tool

The Labor Market

Although hiring has been paltry in recent months, as evidenced by private-sector job growth averaging 29,000 per month in 2025-Q4 versus 177,000 in the same period in 2024 and likely downward adjustments to those totals when benchmark revisions are released alongside the January 2026 employment data, many Fed officials have expressed a reticence to cut interest rates further absent a noticeable jump in layoffs. In other words, the current low-hire, low-fire paradigm recently described by Chair Powell need not be addressed immediately by easing monetary policy further into neutral territory.

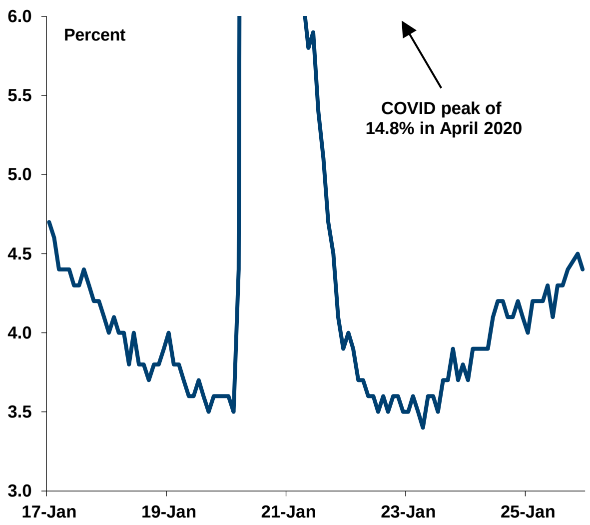
While we anticipate further cooling in the labor market in the first half of 2026, along with an increase in the unemployment rate above 4-1/2 percent during that period, recent data have failed to raised immediate alarm. To the contrary, initial claims for unemployment insurance averaged 201,500 in the past four weeks (including a reading of 200,000 in the week ended January 17), an observation near the bottom of the range of the past two years. Additionally, continuing claims for the week ended January 10 fell 26,000 from the prior week's reading and at 1.849 million also are in the lower end of the range of the past year. Indeed, the sideways trend in the series suggests stability rather than acting as a warning sign of further deterioration (chart, next page, left). Similarly, the unemployment rate dipped 0.1 percent in December to 4.4 percent – a tick below the 2025 median estimate of Fed officials (chart, below right). All this to say, the likely high bar for a rate reduction in January was almost certainly not reached.

Continuing Claims for Unemployment Insurance



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

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

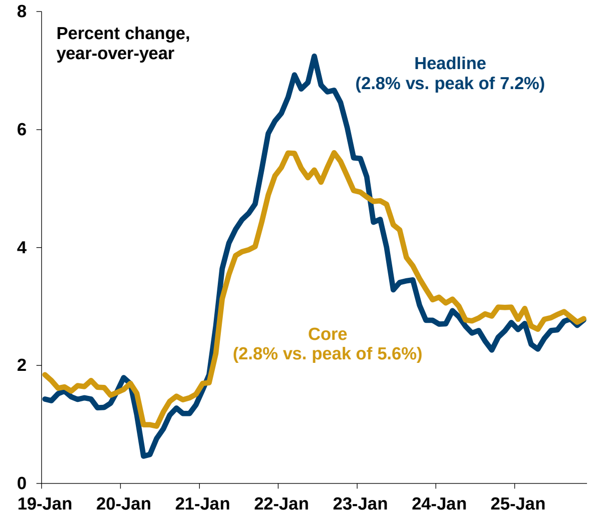
Inflation

Turning to the second component of the Federal Reserve's dual mandate, assessments of inflation had been hindered significantly by the previous disruption to data collection efforts. Results for the price index for personal consumption expenditures for October and November were only published on January 22, and they revealed an ongoing sideways trend above target (+2.8 percent, year-over-year, for both the headline and core indexes; chart, next page, left). Furthermore, December data for the CPI released January 13 – where the headline rose 0.3 percent and the core 0.2 percent (+2.7 percent and +2.6 percent, respectively, year-over-year) – point to the PCE index maintaining its sideways trend for the month. Thus, inflation developments that elicited concern from more hawkish members of the Committee (i.e., lack of further progress toward 2 percent) persisted into year-end 2025.

Beyond actual inflation, inflation expectations also play a critical role for Fed officials in assessing the outlook for prices. And, in light of persistent discussion in the financial and popular press about households' ongoing concerns about the affordability of essentials such as groceries and utilities, monitoring various metrics is especially important. Relatedly, the inflation expectations measure from the New York Fed's Survey of Consumer Expectations (data through December 2025) likely affirms the recent assessment by Chair Powell that longer-term inflation expectations remain "anchored." On the point, note the sideways movement in the three- and five-year-ahead measures on next page's chart (right). With that said, the median year-ahead expectation at 3.42 percent deteriorated from observations in the back half of 2024 and early 2025. The movement was not overly concerning in that expectations remain well below those at the peak of the recent inflationary episode, but policymakers will be vigilant for signs that near-term expectations could start to influence views on the longer-term trajectory of prices – which becomes more likely to occur if current above-target inflation becomes entrenched.

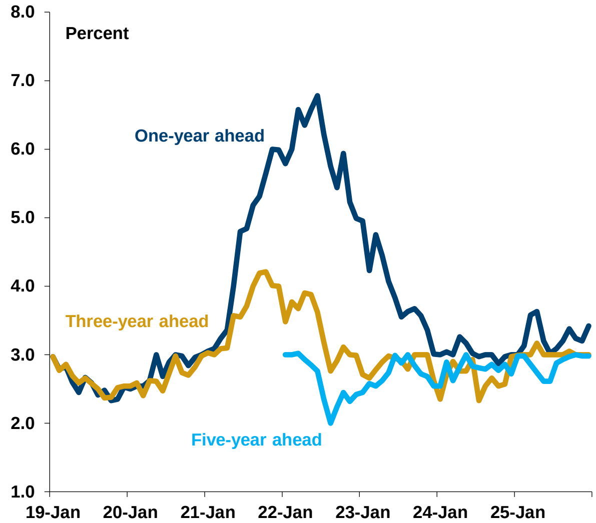
Ultimately, while we view current conditions in the labor market and developments with respect to inflation as setting up Fed officials to hold the target range for the federal funds rate at 3-1/2 to 3-3/4 percent in January, we do anticipate further reductions later this year – with our current baseline being that the Committee cuts by 25 basis points at both the March and June meetings. Even so, the outlook remains highly uncertain. Recent evidence suggests that global economic activity may be picking up, which could have knock-on effects on the U.S. while stoking inflationary pressures. Furthermore, political pressure on the central bank to cuts rates could intensify further, all while President Trump continues to mull over possible replacements for Chair Powell ahead of the expiration of his term in May. All told, look for no change next week but remain vigilant regarding the path of interest rates.

Personal Consumption Expenditures Price Index



Source: Bureau of Economic Analysis via Haver Analytics

Consumer Inflation Expectations*



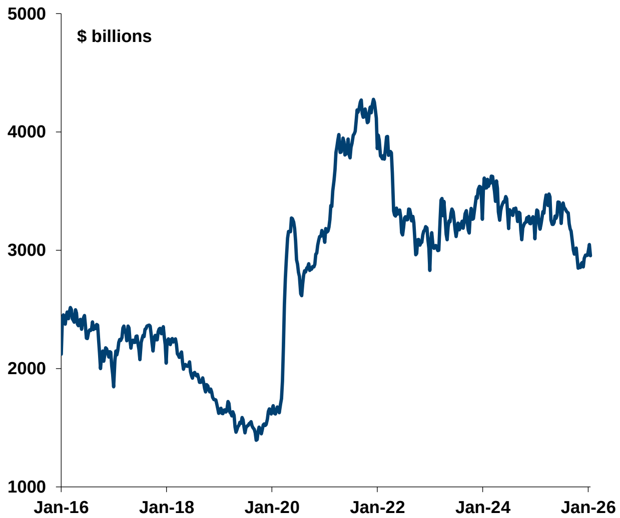
** Results for inflation expectations five years hence are only available from January 2022 onwards.*

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

The Balance Sheet

First announced at the October 2025 policy meeting, the end of QT effective December 1 marked the completion of the Federal Reserve's transition from an abundant to ample-reserves regime (chart, below left). Given the imprecise exercise of assessing reserve ampleness versus scarcity, and the drain on reserves precipitated by a jump in T-bill issuance, the program was scheduled to end ahead of market expectations that had targeted 2026. Maturing agency mortgage-backed securities would be reinvested in T-bills via secondary market purchases and maturing Treasury securities would be rolled via auction add-ons. The plan was on track but amended further at the conclusion of the December 9-10 FOMC meeting amid hints of pressure in short-term funding markets (chart, below right).

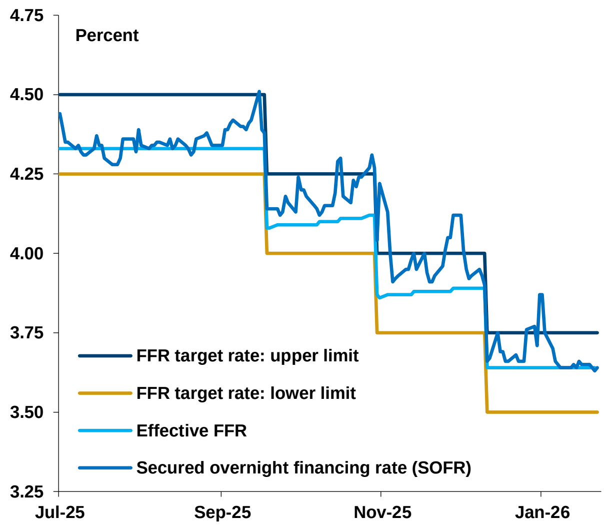
Reserve Balances with Federal Reserve Banks*



** Average of the week ending Wednesday*

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

Money Market Rates & the Target Range*

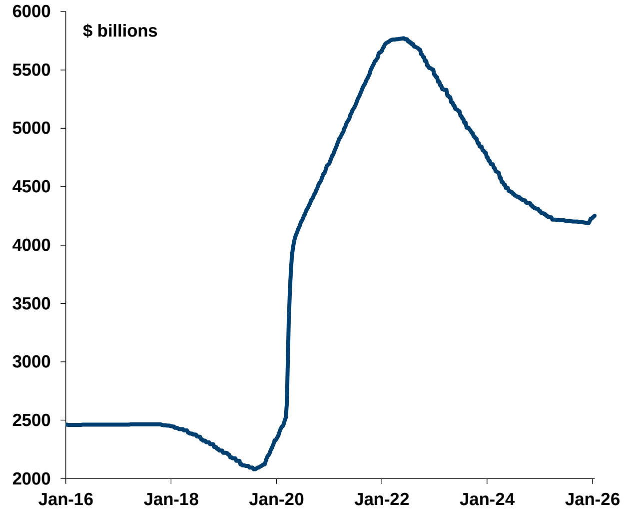


** Daily data*

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

In response to that development, the FOMC announced reserve management purchases (RMPs) beginning on December 12 totaling approximately $40 billion between then and mid-January, with new rounds of purchases continuing through at least mid-April (aligning with a potential reserve drain associated with the payment of final 2025 tax obligations). RMPs, along with the reinvestment of maturing MBS in T-bills (and as needed in other Treasuries with remaining maturities of three years or less, which could also be deployed for RMPs), arrested the runoff of the Fed's portfolio and led to a stabilization in funding market conditions (charts, above and below).

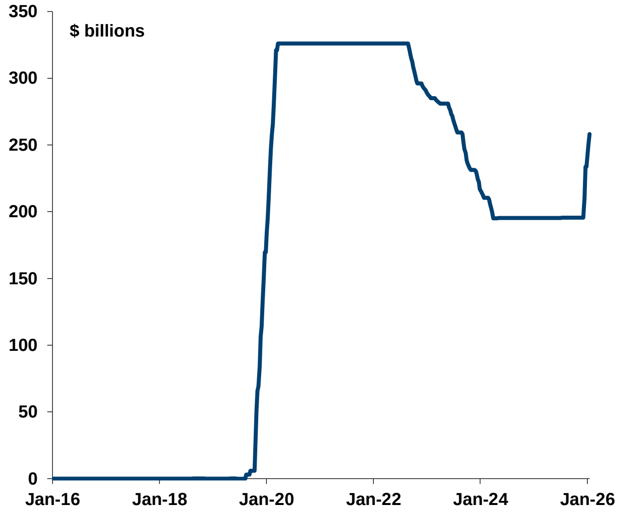
Fed Portfolio: Treasury Holdings*



** Weekly end-of-period data*

Source: System Open Market Account, Federal Reserve Bank of New York via Haver Analytics

Fed Portfolio: Treasury Bill Holdings*



** Weekly end-of-period data*

Source: System Open Market Account, Federal Reserve Bank of New York via Haver Analytics

The program is ongoing, with a new round of RMPs announced on January 14, along with plans to reinvest the proceeds from $15.4 billion in maturing agency MBS. Given the success of the program thus far in calming pressure in funding markets, and absent guidance ahead of the pre-meeting blackout period, we anticipate that the program will be unaltered next week.

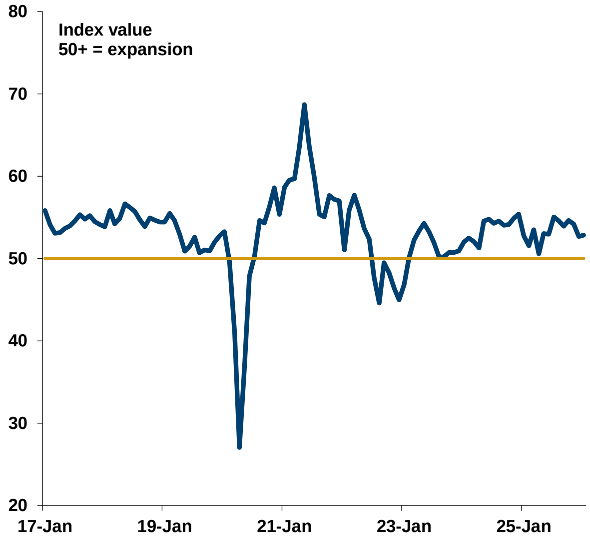
(For further reading, please refer to: "Statement Regarding Reserve Management Purchases Operations," Federal Reserve Bank of New York, December 10, 2025.
https://www.newyorkfed.org/markets/opolicy/operating_policy_251210a)

Friday Data: S&P PMIs Indicate Ongoing Economic Expansion

Among today's batch of economic data were January "flash" estimates for S&P Global's manufacturing and services PMIs, with the metrics indicating that the U.S. economy remained on an expansionary track in the first month of 2026 – although shifts for both were modest and suggested moderate rather than brisk growth. The manufacturing index, for instance, marginally rose 0.1 point to 51.9 – its sixth consecutive expansionary read (and 12th in the past 13). The services index, meanwhile, was essentially flat at 52.5 in January 2026 – the 36th straight month indicating expansion. Consequently, the composite measure inched up 0.1 point to 52.8. As noted by Chris Williamson, Chief Business Economist at S&P Global Market Intelligence, "the flash PMI brought news of sustained economic growth at the start of the year, but there are further signs that the rate of expansion has cooled over the turn of the new year compared to the hotter pace indicated back in the fall."

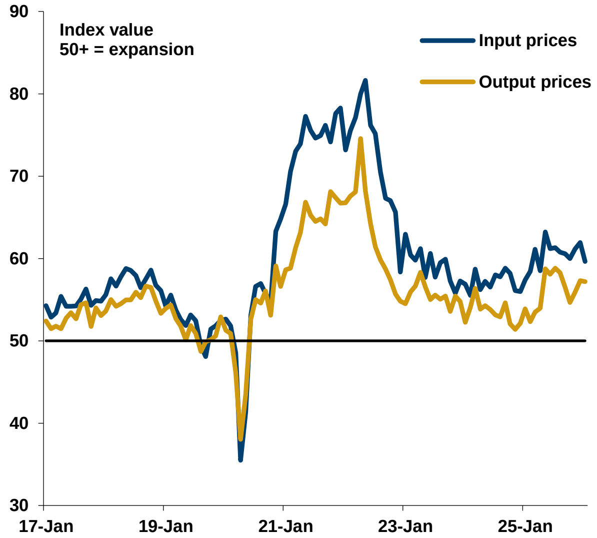
Among the subcomponents of the composite, new orders led the way with a 1.4-point advance to 52.2 in January, though it remained only somewhat above the 20-month low of 50.8 recorded in December. Employment continued to be unimpressive. After posting a decline of 1.7 points in the prior month, this metric rose only 0.2 point to 50.5 – aligning with most other labor market indicators that suggest a loss of momentum in hiring. As indicated by survey respondents, an "environment of uncertainty, weak demand, and high costs" is causing firms to exhibit caution with respect to managing headcounts. On the point of costs, the input price index fell 2.3 points to 59.7, its lowest reading since April 2025, while the output price index eased 0.1 point to 57.2. While both metrics are below levels seen in the immediate aftermath of the announcement of the Trump administration's "Liberation Day" tariff agenda, they are still above those that prevailed in early 2025 and most of 2024. While we have seemingly avoided the worse-case scenario with respect to levies, inflation and affordability remain chief concerns for businesses in both the manufacturing services sectors –with at least a portion of higher costs thus far being passed along to customers (charts, below).

US PMI: Composite



Source: S&P Global via Haver Analytics

US PMI: Composite Prices



Source: S&P Global via Haver Analytics

Broadly speaking, the "hard" data is still indicative of an economy on a growth track, but a continued weakening in the labor market (and the associated knock-on effect to consumer spending) and prevailing tariff policy introduce risk to momentum being carried into 2026 –views ratified by today's release.

Note to readers:

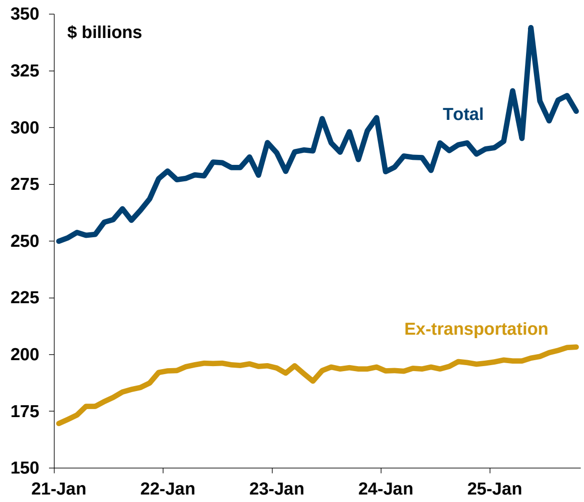
The next issue of the U.S. Economic Comment will be published on February 6, 2026.

The Week Ahead

Durable Goods Orders (November) (Monday)
Forecast: +5.5%

The transportation category has introduced significant volatility to headline durable goods orders over much of the past few years, influenced primarily by wide shifts in civilian aircraft bookings (a subset of total transportation; range of -52.7 percent to +231.6 percent in the past six months). That trend is expected to continue in November, with data from Boeing indicating a substantial increase in aircraft bookings (164 versus just 15 in October). Averaging through the noise, however, leaves a moderate upward tilt to the headline series – a performance a bit better than that of orders ex. transportation. Please note that this report was originally scheduled to release on December 24, 2025 but was delayed due to the prior government shutdown.

New Orders for Durable Goods

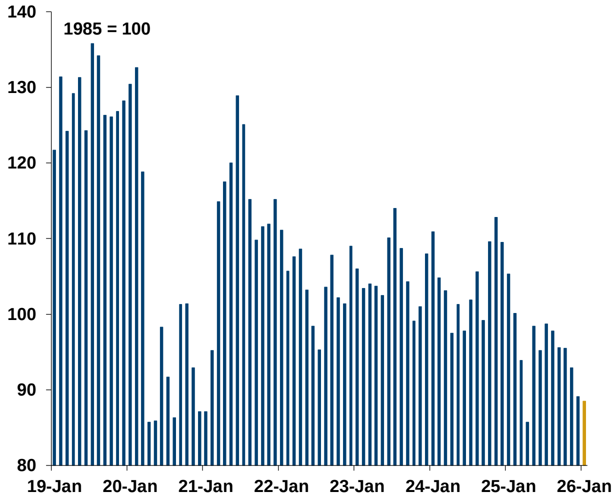


Source: U.S. Census Bureau via Haver Analytics

Consumer Confidence (January) (Tuesday)
Forecast: 88.5 (-0.7% or -0.6 pct. pt.)

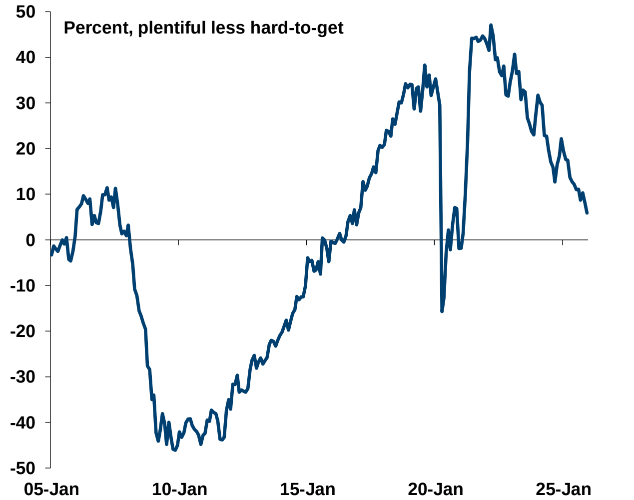
We suspect that worries over a softening labor market as well as lingering concerns about the affordability of household essentials will weigh on consumer attitudes in the opening month of 2026. The forecast, if realized, would leave the Conference Board's confidence index in the low end of the post-pandemic range. On the point of jobs, we'll again be paying close attention to the updated read of the labor market differential released alongside the headline number. This metric, which provides insight into underlying views on job market strength by subtracting the share of survey respondents who say that positions are "plentiful" by those who say they are "hard-to-get," eased 2.2 percentage points to 5.9 percent in December 2025 – the lowest value observed since February 2021.

Consumer Confidence*



** The gold bar is a forecast for January 2026.*
Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Labor Market Differential*

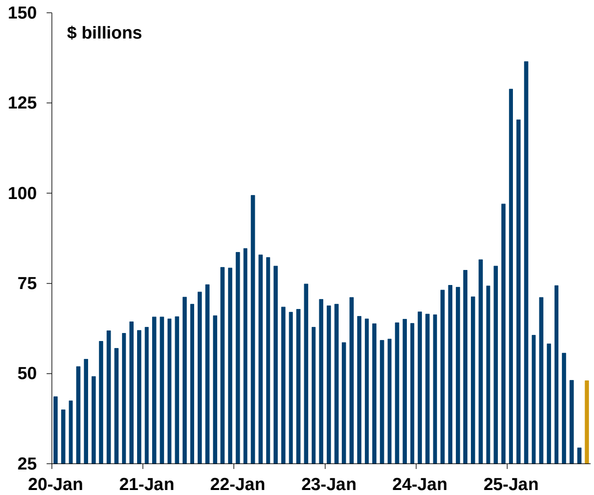


** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*
Source: The Conference Board via Haver Analytics

Trade Balance (November) (Thursday)
Forecast: -$48.0 billion ($18.7 billion wider deficit)

The absence of November data for the goods trade deficit (a result of last year's government shutdown) complicates projecting the total trade shortfall. However, even without guidance from the preliminary report, we anticipate a widening in the trade deficit in November reflecting some reversion in both exports and imports of goods after the former surged to a record in October and the latter slumped. Trade flows have been volatile on balance for much of 2025 – in part influenced by the ever-evolving tariff program of the Trump administration. In the latest quarter (25-Q3) net exports contributed approximately 1.6 percentage points to GDP growth, reflecting a sizable gain in exports and a contraction in imports.

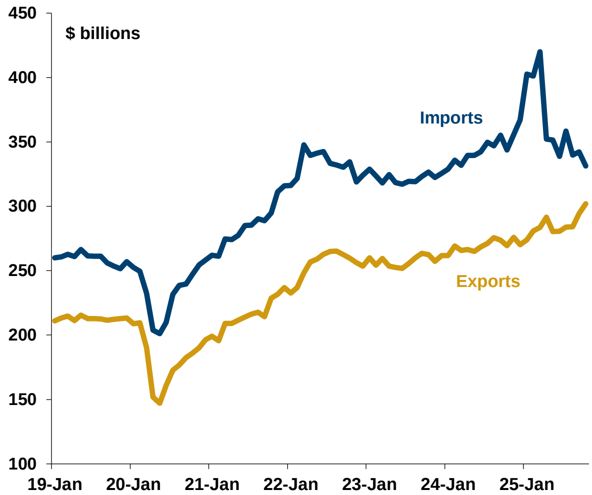
Trade Deficit in Goods & Services*



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

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

Imports & Exports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Factory Orders (November) (Thursday)
Forecast: +2.6%

Similarly, the absence of November data from the advance report on durable goods (also a result of last year's lapse in federal appropriations) complicates projecting orders for all manufacturing industries. Nonetheless, similar to durable goods, shifts in total factory orders have reflected volatility in the often-erratic transportation category (average change of +0.2 percent over the past 12 months). Excluding transportation, orders have been a bit more muted (12-month average change of +0.1 percent). The nondurable area, meanwhile, has been essentially flat on balance over the past year (average change of 0.0 percent in the last 12 months).

PPI (December) (Friday)
Forecast: +0.2% final demand, +0.2% ex. food & energy

Following a jump of 3.6 percent in the prior month, available quotes suggest that wholesale energy prices could ease in December. Concurrently, food prices at the producer level seem poised to post an increase in line with the trailing 12-month average of 0.2 percent. Goods prices excluding food and energy have advanced 0.3 percent on average in the 12-month period ending November 2024, a touch faster than the 0.2 percent average for the broad services category. The construction area has posted an average gain of 0.2 percent in the prior 12 months, though that number is inclusive of the outsized increase of 1.6 percent last October. Please note that this report was originally scheduled to publish on January 14 but was delayed due to the prior government shutdown.

Economic Indicators

January/February 2026

Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21	22	23
MARTIN LUTHER KING JR. DAY		**CONSTRUCTION** Aug 0.4% Sep -0.6% Oct 0.5% **PENDING HOME SALES** Oct 2.4% Nov 3.3% Dec -9.3%	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Dec 27 0.200 1.903 Jan 3 0.207 1.875 Jan 10 0.199 1.849 Jan 17 0.200 N/A **GDP** GDP / Chained Price 25-Q2 3.8% 2.1% 25-Q3(p) 4.3% 3.8% 25-Q3(r) 4.4% 3.8% **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Sep 0.4% 0.4% 0.2% Oct 0.1% 0.5% 0.2% Nov 0.3% 0.5% 0.2%	**REVISED CONSUMER SENTIMENT** Dec 52.9 Jan(p) 54.0 Jan(r) 56.4 **LEADING INDICATORS** Sep -0.2% Oct -0.1% Nov -0.3%
26	27	28	29	30
DURABLE GOODS ORDERS (8:30) Sep 0.6% Oct -2.2% **Nov 5.5%** **CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)** Monthly / 3-Mo. Avg. Sep -0.21 -0.21 Oct -- -- Nov -- --	**FHFA HOUSE PRICE INDEX (9:00)** Sep -0.1% Oct 0.4% Nov -- **S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** Sep 0.2% Oct 0.3% Nov -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Nov 92.9 Dec 89.1 **Jan 88.5** **FOMC MEETING (FIRST DAY)**	**FOMC RATE DECISION (2:00)**	**UNEMP. CLAIMS (8:30)** **TRADE BALANCE (8:30)** Sep -$48.1 billion Oct -$29.4 billion **Nov -$48.0 billion** **PRODUCTIVITY & COSTS (8:30)** Productivity / Unit Labor Costs 25-Q2 4.1% -2.9% 25-Q3(p) 4.9% -1.9% **25-Q3(r) 4.9% -1.9%** **FACTORY ORDERS (10:00)** Sep 0.2% Oct -1.3% **Nov 2.6%** **WHOLESALE TRADE (10:00)** Inventories / Sales Sep 0.5% -0.2% Oct 0.2% -0.4% **Nov 0.2% -0.3%**	**PPI (8:30)** Final Demand / Ex. Food & Energy Oct 0.1% 0.3% Nov 0.2% 0.0% **Dec 0.2% 0.2%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** Nov 36.3 Dec 43.5 Jan --
2	3	4	5	6
ISM MFG. INDEX	**JOLTS DATA** **VEHICLE SALES**	**ADP EMPLOYMENT** **ISM SERVICES INDEX**	**UNEMP. CLAIMS**	**EMPLOYMENT REPORT** **CONSUMER SENTIMENT** **CONSUMER CREDIT**
9	10	11	12	13
WHOLESALE TRADE	**NFIB SMALL BUSINESS OPTIMISM INDEX** **EMPLOYMENT COST INDEX** **IMPORT/EXPORT PRICES**	**CPI** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **EXISTING HOME SALES**	

(p) = preliminary, (r) = revised

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

January/February 2026

Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21	22	23
MARTIN LUTHER KING JR. DAY	**AUCTION RESULTS:** Rate / Cover 13-week bills 3.590% 2.70 26-week bills 3.520% 2.95 6-week bills 3.630% 2.42 52-week bills 3.390% 3.42 **ANNOUNCE:** $69 billion 17-week bills for auction on Jan 21 $105 billion 4-week bills for auction on Jan 22 $95 billion 8-week bills for auction on Jan 22 **SETTLE:** $69 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.580% 2.99 20-yr bonds 4.846% 2.86	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.630% 2.86 8-week bills 3.630% 2.84 10-yr TIPS 1.940% 2.38 **ANNOUNCE:** $166 billion 13-,26-week bills for auction on Jan 26 $90 billion 6-week bills for auction on Jan 27 $69 billion 2-year notes for auction on Jan 26 $70 billion 5-year notes for auction on Jan 27 $44 billion 7-year notes for auction on Jan 29 $30 billion 2-year FRNs for auction on Jan 28	**SETTLE:** $166 billion 13-,26-week bills $85 billion 6-week bills $50 billion 52-week bills
26	27	28	29	30
AUCTION: $166 billion 13-,26-week bills $69 billion 2-year notes	**AUCTION:** $90 billion 6-week bills $70 billion 5-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on Jan 28 $105 billion* 4-week bills for auction on Jan 29 $95 billion* 8-week bills for auction on Jan 29 **SETTLE:** $69 billion 17-week bills $105 billion 4-week bills $95 billion 8-week bills	**AUCTION:** $69 billion* 17-week bills $30 billion 2-year FRNs	**AUCTION:** $105 billion* 4-week bills $95 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Feb 2 $90 billion* 6-week bills for auction on Feb 3 **SETTLE:** $166 billion 13-,26-week bills $90 billion 6-week bills	**SETTLE:** $21 billion 10-year TIPS
2	3	4	5	6
AUCTION: $166 billion* 13-,26-week bills **SETTLE:** $13 billion 20-year bonds $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes $30 billion 2-year FRNs	**AUCTION:** $90 billion* 6-week bills **ANNOUNCE:** $69 billion* 17-week bills for auction on Feb 4 $105 billion* 4-week bills for auction on Feb 5 $95 billion* 8-week bills for auction on Feb 5 **SETTLE:** $69 billion* 17-week bills $105 billion* 4-week bills $95 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on Feb 10 $42 billion* 10-year notes for auction on Feb 11 $25 billion* 30-year bonds for auction on Feb 12	**AUCTION:** $105 billion* 4-week bills $95 billion* 8-week bills **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Feb 9 $90 billion* 6-week bills for auction on Feb 10 **SETTLE:** $166 billion* 13-,26-week bills $90 billion* 6-week bills	
9	10	11	12	13
AUCTION: $166 billion* 13-,26-week bills	**AUCTION:** $90 billion* 6-week bills $58 billion* 3-year notes **ANNOUNCE:** $69 billion* 17-week bills for auction on Feb 11 $105 billion* 4-week bills for auction on Feb 12 $95 billion* 8-week bills for auction on Feb 12 **SETTLE:** $69 billion* 17-week bills $105 billion* 4-week bills $95 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills $42 billion* 10-year notes	**AUCTION:** $105 billion* 4-week bills $95 billion* 8-week bills $25 billion* 30-year bonds **ANNOUNCE:** $166 billion* 13-,26-week bills for auction on Feb 17 $90 billion* 6-week bills for auction on Feb 17 $50 billion* 52-week bills for auction on Feb 17 $16 billion* 20-year bonds for auction on Feb 18 $9 billion* 30-year TIPS for auction on Feb 19 **SETTLE:** $166 billion* 13-,26-week bills $90 billion* 6-week bills	

**Estimate*