mni

All Signal, No Noise

MARKET ANALYSIS

MNI Fed Preview: June 2025

Contents

MNI's separate preview of sell-side analyst summaries to follow on Monday Jun 16

Meeting Dates: Tue-Wed, Jun 17-18
Decision/Statement/Econ Projections: Wed Jun 18 at 1400ET / 1900UK
Press Conference/Q&A: Wed Jun 18 at 1430ET / 1930UK
Minutes: Wed Jul 9

Links (likely URLs based on previous meetings):
Statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20250618a.htm
Summ. Econ. Proj./Dot Plot: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250618.htm
Implement. note: https://www.federalreserve.gov/newsevents/pressreleases/monetary20250618a1.htm
Press Conference: https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250618.htm
MNI Review of Previous FOMC (May - link)

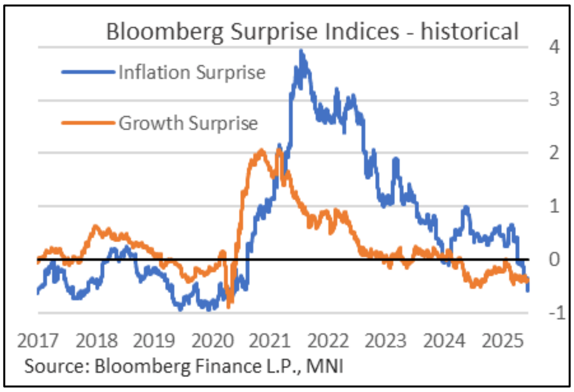
MNI POV (Point Of View): Holding In Anticipation

By Tim Cooper
Jun 13, 2025

- The FOMC will hold rates for a 4th consecutive meeting in June, and continue to convey a patient stance on future rate cut decisions amid elevated government policy-related uncertainty.
- The new quarterly projections will still signal the resumption of rate cuts later this year, but likely only one 25bp reduction instead of the two cuts envisaged at the March meeting.
- While risks to both the Fed's inflation and employment mandates remain elevated, with the new 2025 forecasts looking increasingly reflective of stagflation, the Committee should still signal rate cuts through end-2026 of a similar magnitude to its previous set of projections.
- But in the meantime, the bar to action is very high, with the majority of the FOMC not fully convinced that tariff-related inflation will be transitory, while also not yet seeing a compelling enough deterioration in hard data to warrant easing.
- The first "live" meeting for a cut won't be until September, and even then it will be very much dependent on inflation remaining relatively tame over the summer and labor market activity continuing to cool. A next cut looks more likely in Q4, by which point there is likely to be much more clarity over the tariff fallout and the broader outlook.
- The Statement and Chair Powell press conference should again reflect the Committee's "wait and see" approach, with limited changes to May's language.

Markets and analysts are unanimous in looking for the Fed to hold the funds rate at 4.25-4.50% at the June meeting, and we would likewise be very surprised if any of the 19 participants around the FOMC table make an argument for a cut at this point.

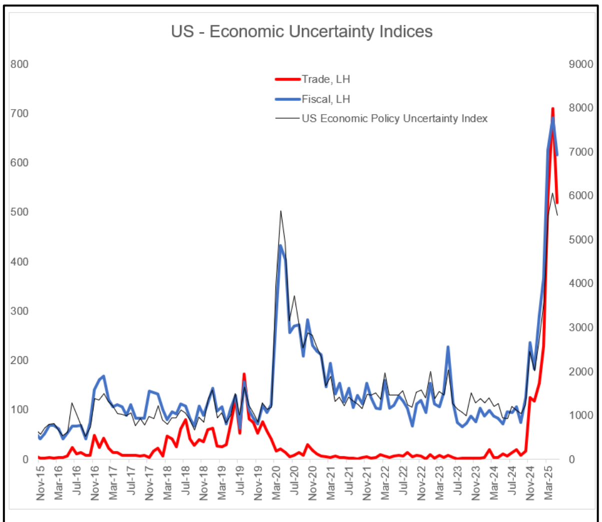
- Fed commentary has been overwhelmingly and almost universally cautious since the last decision in May, with the extent of the impact of announced and potential tariffs a subject of significant uncertainty. FOMC members have fretted that they could soon find their dual mandate objectives of full employment and price stability to be in "tension".
- Perhaps summing it up best is one of the FOMC's most dovish members (and 2025 voter), Chicago Fed President Goolsbee, who said in mid-May that while he still saw fairly significant easing by the end of next year, "the bar for action has to be high when there's so much uncertainty". While an easing bias ostensibly remains, we couldn't help but notice hints from officials like Philly Fed's Harker that the 'direction of travel' for policy is also a consideration amid significant uncertainty. This is not, in Chair Powell's words, a Fed that is "in a hurry" to cut rates.



- Looking solely at incoming data the last few months, the conditions to consider the removal of restriction are arguably there. Inflation surprises are running at the most negative (ie misses to the low side) since at least 2020, with some incipient signs that shelter prices are finally seeing their long-awaited softening. The labor market has been remarkably well-behaved and overall indicators look "solid", but cracks are starting to emerge (see **Macro Developments Since Previous FOMC Meeting** for full analysis on the latest data).
- Since May's meeting, uncertainty has arguably diminished. While April's tariff announcements were a shock, they may prove the high watermark for tariff rates and thus their likely impact. Surveys suggest the May 12 Geneva agreement between the US and China – tentatively reinforced in further negotiations a month later – has helped relieve uncertainty, and has seen near-term inflation expectations begin to subside alongside a rebound in confidence.

Transitory Debate: The stage may be set for cuts later this year or next but in the meantime the overall risks to inflation remain very elevated and, at least, warrant caution. The main reason of course being tariffs, which few on the FOMC appear to be fully convinced will have a transitory impact. (For full analysis of inter-meeting commentary, see **Key FOMC Communications**).

- Chair Powell said at the May meeting re tariffs that "the effects on inflation could be short lived, reflecting a one-time shift in the price level. It is also possible that the inflationary effects could instead be more persistent."
- The May meeting minutes implied limited support for the transitory theory, and since that meeting FOMC members have unanimously cited the need to monitor medium/long-term inflation expectations and keep them well-anchored. Even Gov Waller, the FOMC member who appears to see the “transitory” story as most likely, suggested that it would be several months at least until there was sufficient clarity in the data to decide on the next cut. Indeed, while an easing bias ostensibly remains, we couldn’t help but notice hints from some officials like Philadelphia’s Harker and Gov Cook that even future tightening couldn’t be ruled out.

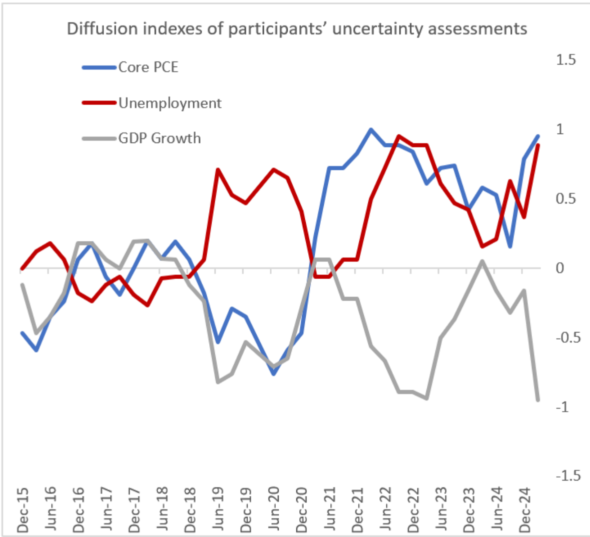


Proxies economic policy uncertainty via news coverage frequency. Source: Baker, Bloom, Davis

- While the data so far have been ambiguous, FOMC members appeared to agree that the full impact of tariffs will soon be seen, particularly on the inflation front.
- The latest Beige Book suggested that alongside softening activity and flat employment, there were rising tariff-related inflationary pressures, with all 12 Fed Districts indicating that higher tariff rates were putting upward pressure on both input and output prices. “There were widespread reports of contacts expecting costs and prices to rise at a faster rate going forward...Contacts that plan to pass along tariff-related costs expect to do so within three months." This would be roughly consistent with the 2018 episode with Chinese tariffs, which took about 3 months to filter through into CPI.
- In other words, the Fed is bracing for tariff impact through the summer, and that’s before the other areas of policy uncertainty previously cited by Powell (“trade, immigration, fiscal policy, and regulation”) can be assessed with much clarity. So with data remaining relatively ambiguous, it’s hardly the time to make any major policy decisions.

SEP To Show Patience: We expect that the June meeting communications will reflect an increasingly patient attitude since May and certainly since March’s projections. With the Statement in need of only mark-to-market edits, and Chair Powell’s commentary unlikely to be much different from May’s press conference, this patience will be mostly reflected in the new SEP (see **Dot Plot/Econ Projections** section below for full details).

- There is a fairly low bar to the 2025 rate median to shift up to show 1 cut instead of March’ 2, and that seems like the most likely outcome.
- Overall despite its patience, the FOMC’s easing bias remains, perhaps aided to some extent by recent inflation data coming in softer than feared. This will be reflected in the 2026-27 dots which will show that the destination remains more or less the same, just with a delay.
- This may mean an awkward message alongside the new economic forecasts, which are likely to show a significant upward revision in near-term inflation which doesn’t quite subside to target by end-2026, alongside an unemployment rate that doesn’t rise significantly.



Source: Federal Reserve SEP, MNI

- Squaring the circle there is the likelihood that participants’ risk assessments for growth and inflation will remain elevated and could even increase further from March’s extremes.
- Put another way, the situation is fluid. In the meantime, the FOMC sees policy as being in a position to react according to developing circumstances.

Two Cuts Priced This Year: Market pricing is reflective of the FOMC's messaging: the next cut is only fully priced by the October FOMC meeting, with September seeing a roughly 80% implied probability of bringing the next 25bp reduction. Exactly 50bp of cuts are priced through end-2025, implying two Q4 cuts. That's a shift from just after the May meeting, after which the next cut was fully priced by September, and there were closer to three cuts priced for the rest of the year.

Meeting	Current FF Implieds (%), LH	Cumulative Change From Current Rate (bp)	Incremental Chg (bp)	Post-May FOMC (May 08)
Jun 18 2025	4.32	-0.6	-0.6	4.28
Jul 30 2025	4.27	-5.7	-5.1	4.15
Sep 17 2025	4.12	-21.1	-15.4	3.97
Oct 29 2025	3.99	-34.5	-13.4	3.81
Dec 10 2025	3.83	-50.1	-15.6	3.64
Jan 28 2026	3.74	-58.7	-8.6	3.54
Mar 18 2026	3.62	-70.6	-11.9	3.42

Source: MNI, Bloomberg Finance L.P.

UPCOMING MNI FEDERAL RESERVE EVENTS

INVITATION: Livestream MNI Connect with Fed Bostic On June 30

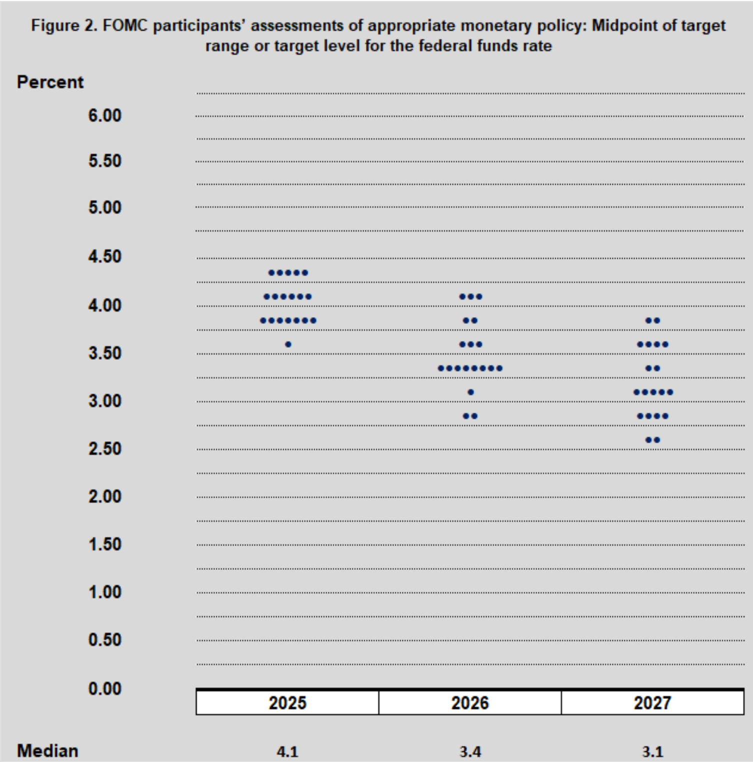
- Speaker: **Atlanta Fed President Raphael Bostic**. Topic of discussion: **'The US Economic Outlook'**
- **DATE: Mon, 30 Jun 2025**
- **TIME: 10:00 am-11:00 am ET; 3:00pm-4:00pm London**
- This event is on the record and will run as a Zoom Webinar
- To register please go to: MNI Webcast Registration

INVITATION: Livestream MNI Connect with Fed Daly On July 10

- **San Francisco Fed President Mary Daly** joins us to discuss the '**The US Economic Outlook and Challenges for Policymakers'**
- **DATE: Thursday, 10 July 2025**
- **TIME: 2:30 pm - 4 pm ET; 11:30am - 1pm PT; 7:30pm - 9pm London**
- This event will be run as a Zoom Webinar and is a public, on-the-record event.
- To register please go to: MNI Webcast Registration

Summary Of Economic Projections: Slightly More Patient

(Link to May 2025 FOMC Projections)



Tgt Range	2025	Mar SEP	2026	Mar SEP	2027	Mar SEP
5.75-6.00						
5.50-5.75						
5.25-5.50						
5.00-5.25						
4.75-5.00						
4.50-4.75						
4.25-4.50	5	4				
4.00-4.25	**6**	4	3	3		
3.75-4.00	7	**9**	2	1	2	2
3.50-3.75	1	2	3	2	4	4
3.25-3.50			**8**	**9**	2	2
3.00-3.25			1	1	**5**	6
2.75-3.00			2	3	4	3
2.50-2.75					2	2
2.25-2.50						
2.00-2.25						
1.75-2.00						
1.50-1.75						
1.25-1.50						
1.00-1.25						
0.75-1.00						
0.50-0.75						
0.25-0.50						
0.00-0.25						
MEDIAN	**4.1**	3.9	**3.4**	3.4	**3.1**	3.1
Participants	**19**	19	**19**	19	**19**	19

Source: Federal Reserve, MNI expectations

- **2025:** Developments since the March projections point to a slight drift higher in the 2025 Fed funds rate projection, which are likely to push up the median to 4.125% (one 25bp cut) from 3.875% (two 25bp cuts).
- The split in March was fairly close: 8 of 19 participants saw rates ending the year at 4.125% or 4.375%, with 9 at 3.875% and 2 at 3.625%. This means that only 2 of the 11 lower-rate participants have to shift up their dots to 4.175% or above, and we think that threshold will be met, if only barely.
- We know that a few participants haven't changed their minds since March (SF's Daly still sees 2 cuts, Atlanta's Bostic still sees 1), but overall FOMC participants have sounded increasingly cautious on the outlook due largely to April's larger-than-expected tariff announcements, and certainly, none have sounded more dovish as a result.
- We think that the top 8 dots will stay more or less where they are, possibly with some upward drift toward a full-year "hold", while June's bottom dot may prove lonesome at 3.625% (possibly Waller if he still sees potential for three cuts this year).
- Our Instant Answers will be watching the distribution of the dots, while also eyeing the somewhat remote possibility that a hawkish FOMC participant pencils in a 2025 rate hike.

- **2026-27:** A higher 2025 median doesn't necessarily mean the 2026-2027 dots will shift higher in tandem.
- The 3.375% 2027 median in the March projections was quite solid: 13 of 19 members were there or below.
- A few dots may drift up, but it's likely that the core of the Committee still has an easing bias, and that the decision to be more patient on cuts in 2025 doesn't mean that the longer-run path needs to change dramatically.
- If combined with a 25bp rise in the 2025 median, an unchanged 2026 median would imply 75bp of cuts next year, and probably perceived dovishly as it would suggest that the Committee still sees the near-term inflation impact of tariff inflation as being "transitory".
- Regardless of the 2025-26 dots, we would expect the 2027 median to near the longer-run dot as usual for an outer-year projection. As such, 3.1% is likely to be the median again.

- **Longer-Run:** We don't expect an upward shift in the longer-run dot at this meeting. This median shifted up in each quarterly projection between the start of 2024 and end of 2025, but was on hold in March at 3.00%.
- It would take 3 of 11 participants to shift their dots higher, hardly an insurmountable bar: there are currently 3 dots on 3.00%, with 4 just below that at 2.875% and a further 4 at 2.50-2.625%. However given broader uncertainty it's likely that participants will wait for another quarterly meeting to move this higher again.
- The next increase would bring the longer-run rate back above 3.00% for the first time since March 2016, and would be up from the trough of 2.40% in 2022.

The MNI Markets Team's expectations for the updated Economic Projections are below.

- As of the May meeting, the Federal Reserve staff – whose outlook tends to be broadly shared by the median Committee member – revised their forecasts for growth weaker in 2025 and 2026, "as announced trade policies implied a larger drag on real activity relative to the policies that the staff had assumed in their previous forecast. Trade policies were also expected to lead to slower productivity growth and therefore to reduce potential GDP growth over the next few years. With the drag on demand expected to start earlier and to be larger than the supply response, the output gap was projected to widen significantly over the forecast period. The labor market was expected to weaken substantially, with the unemployment rate forecast moving above the staff's estimate of its natural rate by the end of this year and remaining above the natural rate through 2027."

- On inflation, "The staff's inflation projection was higher than the one prepared for the March meeting. Tariffs were expected to boost inflation markedly this year and to provide a smaller boost in 2026; after that, inflation was projected to decline to 2 percent by 2027."

- Our expectations for these changes fall somewhere in between those projections and the March SEP – a slightly higher unemployment rate, substantially higher inflation in 2025 but to a lesser extent in 2026, and weaker GDP growth this year. Longer-run variables should be unchanged.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, June 2025

Percent

Variable	2025	2026	2027	Longer Run
Change in real GDP	**1.4**	**1.8**	**1.8**	**1.8**
Mar projection	1.7	1.8	1.8	1.8
Unemployment rate	**4.5**	**4.4**	**4.3**	**4.2**
Mar projection	4.4	4.3	4.3	4.2
PCE inflation	**3.1**	**2.4**	**2.0**	**2.0**
Mar projection	2.7	2.2	2.0	2.0
Core PCE inflation	**3.2**	**2.4**	**2.0**	-
Mar projection	2.8	2.2	2.0	-
Federal funds rate	**4.1**	**3.4**	**3.1**	**3.0**
Mar projection	3.9	3.4	3.1	3.0

Source: MNI Markets Team Expectations

Statement: Uncertainty Still Elevated

(Link to May FOMC statement)

Going paragraph by paragraph through the previous (May) statement in italics:

Although swings in net exports have affected the data, recent indicators suggest that economic activity has continued to expand at a solid pace. The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid. Inflation remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook has increased further. The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen.

- The opening paragraph of the Statement may as usual be marked-to-market, but the previous edition's description of the economy largely still stands. We would be surprised if the Fed described labor market conditions as anything but "solid", or inflation as anything but "somewhat elevated".
- A change to either would almost certainly lean to the dovish side, with recent inflation data surprising to the downside and broad labor market indicators cooling, but it's unlikely the FOMC would want to send such a signal this month.
- There probably hasn't been enough evidence in the "hard" data to refer to economic activity as running at anything but a "solid" pace, though a tweak here to something like "moderate" is possible and probably not impactful. There may also be an adjustment of the language on "swings in net exports", though this continues to be useful given the inventory/net export swings between Q1 and Q2.
- With a tentative US-China trade deal in place, it's likely that the second paragraph will remove references to uncertainty and risks having risen, merely saying perhaps that they are/remain elevated.
- The Fed could at some point alter its assessment of the balance of risks to suggest that they are concerned that one of the dual mandate goals needs to be addressed at the potential expense of the other, but that would require much clearer evidence in the data.

In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

- For an FOMC that is waiting to see the impact of tariffs and other policy shifts, even as it maintains its overall easing bias, a shift in forward rate guidance ("in considering the extent and timing of additional adjustments…") looks unlikely at this juncture.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

- **No dissents are expected. In the Implementation Note,** no changes to the administered rates are expected.

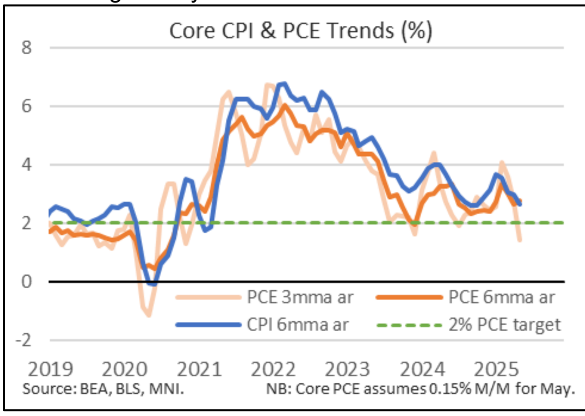
Macro Developments Since The May 6-7 FOMC Decision

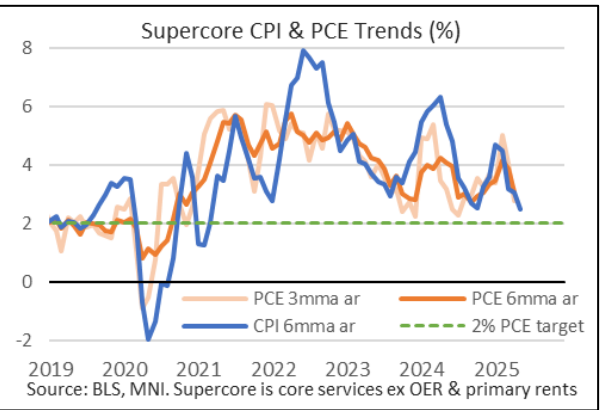
By Chris Harrison

The de-escalation in US-China trade tensions on May 12th after weekend talks in Geneva helped boost some confidence measures although tensions have fluctuated in the interim. It's generally still a case of hard data not aligning with surveys and broader expectations, more so for a relatively resilient consumer being supported by strong income growth. Payrolls growth is reasonable but alternate measures point to softer trends and continuing claims have recently increased stepped higher in signs of potential early cracks emerging in the labor market.

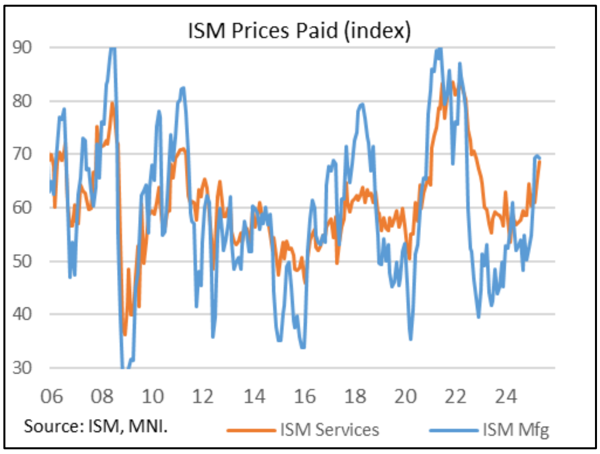
Surprise Softening In Realized Inflation But Increases Expected Ahead

The two CPI reports since the May FOMC meeting surprised lower, the first for April heavily exaggered by rounding (0.24% M/M vs unrounded consensus of 0.26%) before a large miss for May (0.13% M/M vs 0.27%). May's report started to show some signs of tariff impact across a range of core goods – we estimate the highest median across 56 items since early 2023 – but they were offset by weakness in some heavily weighted items such as new & used cars plus, more surprisingly, apparel. What's more, core services also surprised softer across both key housing and non-housing components. The two PPI reports meanwhile have seen largely benign trends even if trade margins bounced back in May. The PCE-relevant components of PPI were largely neutral on the month in May after a heavy drag in April. That profile has been heavily influenced by portfolio management & investment advice fluctuating on swings in equity markets following US trade policy announcements with near-term strength likely ahead.

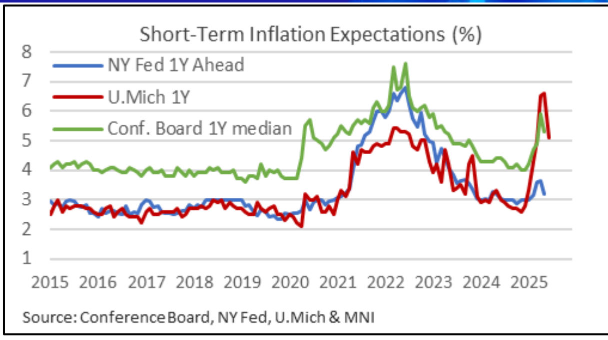


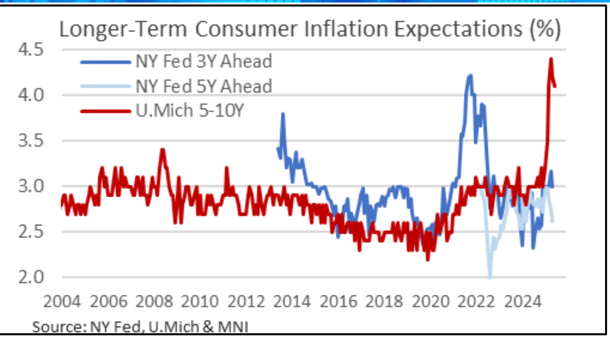


We're left with core PCE estimates at circa 0.15% M/M for May (released June 27th), which if realized and without revisions would follow 0.12% in April and 0.09% in March. That's three particularly subdued months, averaging 1.4% annualized, although it would follow what was a worryingly strong 4.1% in the prior three months. The Fed will be vary of this volatility in the data whilst acknowledging a still stubbornly high core PCE Y/Y rate of 2.6% currently expected for May, along with strong increases in market-based services PCE inflation at 3.2% Y/Y back in April. Further increases in core PCE are expected as greater tariff-driven inflation shows in the summer months although after May's surprise weakness, questions could start to be asked if there isn't a stronger increase in next month's June data.



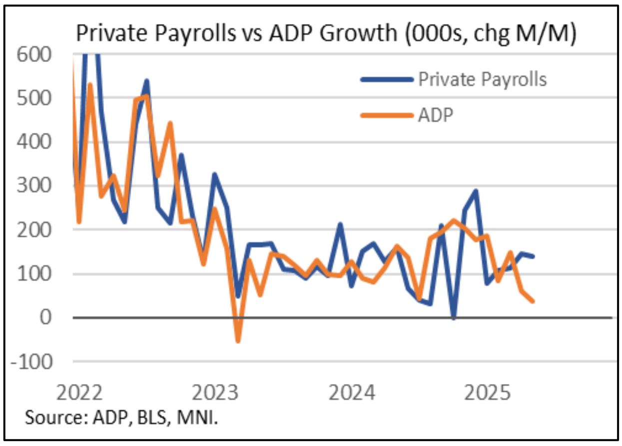
Surveys are indeed pointing to sharp increases in both cost pressures and selling price inflation. Business measures have continued to push strongly higher. The ISM services report for May saw prices paid rise further to 68.7 for its highest since Nov 2022, clearly at the expense of new orders which slid to their lowest since Dec 2022. This price backdrop was echoed by the S&P Global US services PMI for May reporting that "rising backlogs in part reflected delays in the delivery of ordered equipment due to tariffs, which also drove up cost inflation to its highest in nearly two years. Increased costs were passed on to clients via the steepest increase in output charges since August 2022." Further, the Fed's Beige Book published June 4th revealed that respondents in all districts indicated higher tariff rates were putting upward pressure on costs and prices and that those that plan to pass tariff-related costs on expect to do so within three months. Consumer surveys of inflation expectations meanwhile are off April or May highs although there is a wide range to them. The University of Michigan inflation metrics remain historically elevated despite the 1Y surprisingly cooling in the preliminary June survey, the Conference Board 1Y equivalent is still on the high side whilst the NY Fed's metrics are far less elevated.



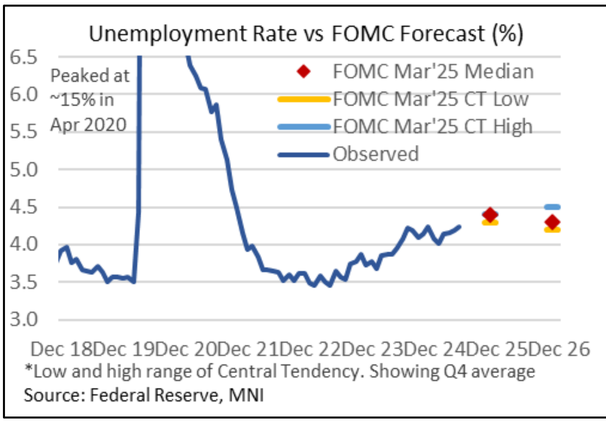


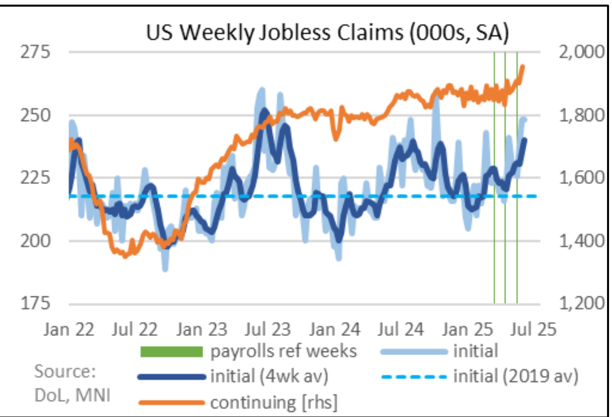
Relatively Solid Payrolls Report But Some Cracks Emerging

We characterized the single payrolls report since the last FOMC meeting as being "good enough to keep the Fed patient". Nonfarm paryolls growth modestly beat expectations in May with 139k (cons 126k) although was marred by a 95k two-month downward revision. It left a three-month average of 135k, which is still reasonable considering heavy restrictions in immigration policies see long-term breakeven estimates of 100k start to be a more realistic comparison. Private sector job creation has driven that almost entirely, with a three-month average of 133k, although the separate ADP report points to a more modest trend with a three-month average of 81k including just 37k in May.



The unemployment rate continued a slow upward trajectory as it increased from 4.187% to 4.244%, a fourth consecutive monthly increases. Whilst it has only increased a combined 0.11pp in the latest three months, it has nevertheless inched above November's recent high of 4.23% for technically the highest since Oct 2021. On its own, and ahead of fresh projections to be formed at this meeting, it's unlikely to trouble the median FOMC projection for an unemployment rate of 4.4% in 4Q25 from the March SEP (projections of course made ahead of reciprocal tariff announcements). However, whilst the initial resilience to policy changes under the second Trump administration might tempt some on the FOMC to leave their forecasts unchanged, the past two weeks of jobless claims data have provided a warning shot with signs of more pronounced deterioration.





On the flip side, wage growth has also started to come in hotter. We wouldn't put too much weight on the surprisingly strong 0.42% M/M increase in average hourly earnings in May in isolation but it followed a strong 6.6% annualized increase in unit labor costs in Q1 (strongest since 1Q24 and before that 3Q22). Productivity growth played a role here, falling -1.5% annualized for its first decline since 2Q22 after a period of some particularly strong gains, but the underlying wage growth series was still strong. Whilst Powell has previously said he doesn't expect inflationary pressures to come from the labor market, wage growth is starting to warrant closer inspection.

Less Of A Gap Between Resilient Hard Activity Data And Weak Surveys

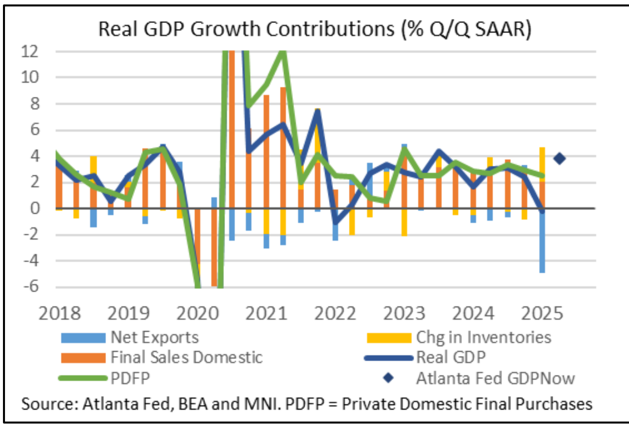
Whilst now particularly stale, we start with latest estimates of Q1 national accounts as the revisions in the second update made on May 29 only partly played out as Fed Chair Powell had suggested at the May press conference. Real GDP growth was near enough unrevised at -0.24% annualized (vs an initial -0.27%) in Q1 to confirm a sidelining in GDP after 2.4% in Q4 and 3.1% in

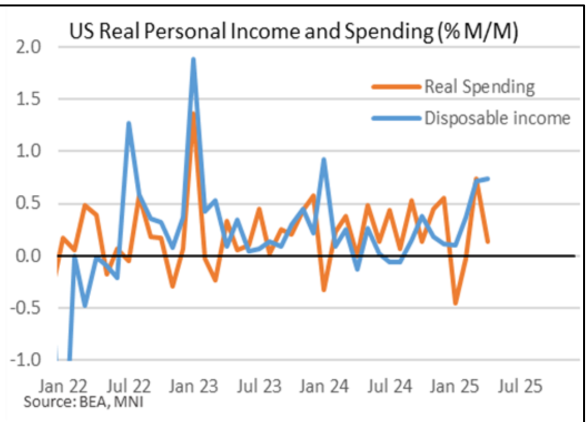
Q3. There were large offseting revisions though; personal consumption was surprisingly cut from 1.8% to 1.2% annualized, dragging 0.4pp from GDP growth in the process, but fully offset by an even larger boost from inventories on tariff front-running. It left inventories adding 2.6pps to GDP growth compared to the huge -4.9pp drag from net exports. Powell had said that it's "very likely you'll have restatements of the first quarter. It'll turn out that consumer spending was higher. It will turn out that inventories were higher. And so you'll see -you'll see those data revised up. It may actually go into the third quarter, too. And so I think it's going-this whole process is going to, a little bit, make it harder to make a clean assessment of U.S. demand."

One takeaway that can we make though is that private domestic final purchases - a category Powell has previously focued on – is now estimated to have increased 2.5% annualized in Q1 vs the 3.0% referenced by Powell at the last meeting for what at the time had impressively looked like no moderation from the 3.0% averaged through 2024. New data also reveal that gross domestic income contracted -0.2% annualized in Q1, the weakest in nine quarters for a sharp reversal from Q4's twelve-quarter best of 5.2%, in signs of broader economic weakness that can't just be attributed to lower net exports.

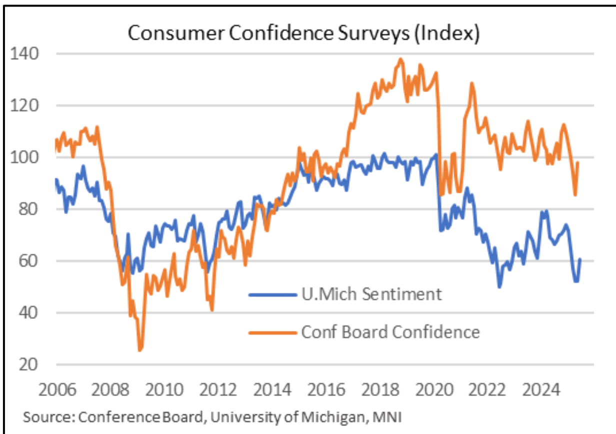
More timely hard data meanwhile have shown resilience in consumer spending and especially incomes, although softer business activity. Specifically, real consumer spending was a little better than expected and still managed to increase 0.1% M/M in April after a strong 0.7% M/M in March, whilst real personal disposable incomes surprisingly increased a second consecutive 0.7% M/M. While there were some worrying signs in terms of latest consumer momentum, particularly in services purchases, the employee income growth which has driven much of the economic expansion has not shown any signs of abating going into Q2. The May retail sales report lands on day one of the two-day FOMC meeting.

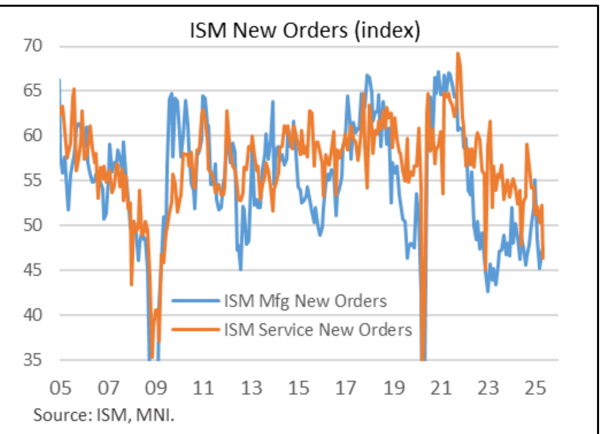
On the capital goods side, core shipments saw a modest pullback with -0.1% M/M in April after two strong months that match tariff front-running more broadly. However, core orders point to more notable weakness ahead in production with -1.5% M/M for the single weakest month since early 2023. Add in a larger than expected correction lower in imports in April after Q1's surge and the Atlanta Fed's GDPNow currently projects real GDP growth rebounding with 3.8% annualized in Q2.





Compared with the approach to the May meeting, surveys again look weaker than the hard data but the gap has narrowed in places. That's more so for the consumer, where sentiment has seen a lift since the de-esclation in US-China trade tensions on May 12. Business sentiment has deteriorated further though, at least when looking at the ISM surveys. The manufacturing index inched another 0.2pts lower to 48.5 in May (lowest since Oct 2024) whilst the ISM non-manufacturing index fell a more notable 1.7pts to 49.9 (first sub-50 reading since Jun 2024). New orders stood out in the latter, sliding 5.9pts to 46.4 for their lowest since Dec 2022 at levels not sustainably seen outside of the pandemic depths or 2008-09.





MNI Instant Answers:

The questions that we have selected for this meeting are:

- Federal Funds Rate Range Maximum
- Number of dissenters on size of rate move
- Median Projection of Fed Funds Rate at End of 2025
- Median Projection of Fed Funds Rate at End of 2026
- Median Longer Run Projection of Fed Funds Rate
- Number of 2025 Dots > 4.375%
- Number of 2025 Dots > 4.125%
- Number of 2025 Dots > 3.875%
- Number of 2025 Dots < 3.875%

The markets team has selected a subsection of questions we think could be most market moving and will publish the answer to all of these questions within a few seconds of the Fed statement being released.

Central Bank Watch - FED

MNI FED Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	2.4	2.8	↓	2.7	↓					-1.43
PCE Deflator	% y/y	2.1	2.5	↓	2.3	↓					-1.34
UoM 1-Yr Inflation Exp	% y/y	5.1	5.0	↑	2.8	↑					0.37
Inflation Swap 5y/5y	%	2.44	2.43	↑	2.44	↑					-0.14
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	48.5	50.3	↓	48.4	↑					0.26
Industrial Production	% m/m	-0.01	0.14	↓	-0.37	↑					-0.20
Factory Orders	% m/m	-3.7	0.3	↓	0.0	↓					-1.99
Housing Starts	K	1361	1358	↑	1352	↑					-0.29
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Corporate Spreads BBB/Baa	bps	1.12	1.15	↓	1.08	↑					-0.67
Chicago Fed Financial Con	Index	-0.51	-0.48	↓	-0.47	↓					-0.78
Consumer Credit Net Chg	$bn	17.9	9.0	↑	10.4	↑					0.89
New Home Sales	K	743	662	↑	621	↑					1.50
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	0.1	-0.9	↑	0.6	↓					-0.36
Consumer Confidence	Index	98.0	100.1	↓	112.8	↓					-0.42
Nonfarm Payrolls Net Chg	K	139	102	↑	261	↓					-0.19
Average Hourly Earnings	% y/y	3.9	3.9	→	4.2	↓					-0.64
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	5988	5955	↑	6032	↓					1.11
US 10-Year Yield	%	4.41	4.21	↑	4.17	↑					0.50
US Yield Curve (2s-10s)	bps	45.5	21.9	↑	1.8	↑					1.11
USD TWI	Index	121.52	128.07	↓	126.53	↓					-1.53

Source: MNI, Bloomberg

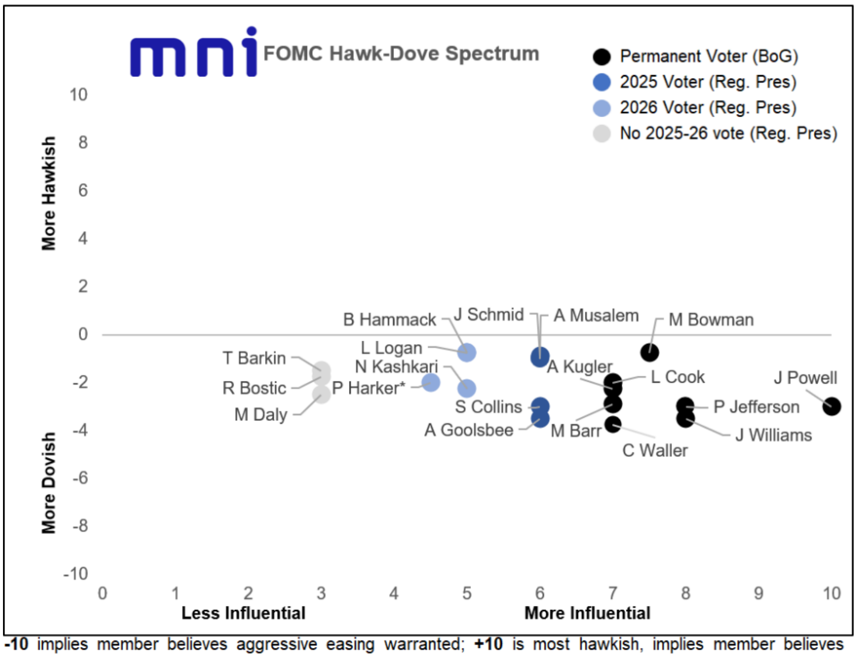
(*Updated Jun 13, 2025*)

Key Inter-Meeting Fed Speak – Jun 2025

By Tim Cooper
Jun 11, 2025

While Chair Powell didn't make any commentary on current monetary policy in the inter-meeting period, his FOMC colleagues provided plenty. And almost all repeated the same language to varying degrees to make the point that the Committee could and should be patient in its upcoming rate decisions:

- **Identifying inflation as the more salient dual-mandate risk** in the current environment, with underlying economic activity and the labor market remaining solid in the "hard" data, but the impact of tariffs likely to be seen over the course of the summer in inflation reports (thereby downplaying recent encouraging disinflation, including, likely, the May CPI report). While longer-run inflation expectations were seen as still being anchored, almost all FOMC participants expressed concerns that this could change.
- **Describing current policy as "in a good place",** and "restrictive" at some level, ie "slightly" / "modestly", echoing Powell's previous commentary.
- **Highlighting policy uncertainty, particularly on tariffs, as a reason to wait** until later in the year before deciding on any policy moves. Multiple Committee members (eg Waller, Williams) suggested that it would be several months at least until there was sufficient clarity to decide.
- **Maintaining the overall easing bias**, though with some (eg Harker, Cook) hinting that potentially the "direction" of policy was uncertain given the elevated degree of uncertainty. Hammack said in an interview didn't rule out rate hikes in the event inflation / expectations were to pick up sharply.
- **Reiterating the March rate Dot Plot –** at least for those whose preferences were clearly stated (Daly still sees 2 cuts in 2025 as in March; Bostic 1). Others appeared to be pushing back their rate cut views from pre-Liberation Day, including Goolsbee.
- **Debating the "transitory" nature of tariffs.** Gov Waller – the Committee's biggest dove at this point – argued that tariffs would have a one-off impact on inflation and if so, rate cuts could resume later in the year. Others were much more cautious on this point, including 2025 voters Goolsbee (dove) and Schmid (a hawk who said: "While theory might suggest that monetary policy should look through a one-time increase in prices, I would be uncomfortable staking the Fed's reputation and credibility on theory.") We note that the May Minutes showed hawkishly that "Almost all participants commented on the risk that inflation could prove to be more persistent than expected".



-10 implies member believes aggressive easing warranted; **+10** is most hawkish, implies member believes aggressive tightening warranted. Scores around -2 to +2 considered relatively neutral.
Influence: The x-axis runs from **0** ('least influential') to **10** ('most influential'). Voters in the current year receive a minimum score of 6; the Chair receives a 10 and Board of Governors members receive at least 7. Those who are not voters in the current year are limited to a score of 5; among them, those due to vote next year receive higher influence scores (rising towards end of current year), and vice-versa. *Harker retires in June 2025, but his successor Anna Paulson will vote in 2026. **Updated Jun 11, 2025**

- **Indicating that the May 12 US-China trade de-escalation had only a slightly positive bearing** on inflation and growth outlooks, with the overall tariff regime considered to be much more onerous than had been expected at the March FOMC (the most recent projection meeting).

Member	Role	Voter		Monetary Policy Commentary Since May FOMC
		‘25	‘26	
J Powell	BOG, Chair	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting**
J Williams	NY Fed, VChair	**X**	**X**	- **On the rate outlook:** Williams has called policy “modestly restrictive” (May 9) and "slightly restrictive" (May 19). “One of the things we definitely see in the market pricing is the modal forecast is a relatively gradual decline in rates, reflecting the economy doing reasonably well. But market participants also are thinking about what happens if the economy weakens more and that would call for more cuts. Right now, we can be focused on what we're doing today and really think through all the different scenarios so we're ready as we get more data to know how to interpret it and eventually what we may need to do.” **– May 9** - **On when the Fed would have sufficient clarity to decide on rates:** "It's not going to be that in June, we're going to understand what's happening, or July... it's going to be a process of collecting data, getting a better picture, and watching those things develop." **– May 19** - **On inflation:** “The thing you want to avoid is allowing inflation to become highly persistent, because highly persistent can kind of become permanent.”**- May 28**
P Jefferson	BOG, VChair	**X**	**X**	- **On the rate outlook:** Jefferson says policy is in a "very good place" (May 19). "Over the past several meetings, the rate has been held at what I view as a moderately restrictive level. I view the current stance of policy as well positioned to respond to developments that may arise." **- May 14** - "I believe it's important that monetary policy make sure that any increase in the price level is not converted into a sustained increase in inflation...We're going to keep our policy in a position to keep expectations anchored, and we're going to wait and see the eventual impact of the totality of policies... given the level of uncertainty that we're facing right now, I believe that it is appropriate that we wait and see how the policies evolve over time and their impact." **– May 19** - **On the economic outlook:** "I have adjusted down my expectations for economic growth this year, but I see the U.S. economy as continuing to expand...labor market [] conditions continue to be solid...Looking ahead, I am watching for signs that the labor market could cool as tariff increases begin to weigh on economic activity…various measures of consumer and business sentiment have declined sharply this year, and I will be watching very carefully for signs of weakening economic activity in hard data.” **-May 19** - **On inflation:** “Whether tariffs create persistent upward pressure on inflation will depend on how trade policy is implemented, the pass-through to consumer prices, the reaction of supply chains, and the performance of the economy. Short-term inflation expectations have increased in both survey- and market-based measures, but I think it is notable that most measures of longer-run inflation expectations have been largely stable." **-May 14** - **On dual mandate risks:** "increased risks to both sides of our mandate… I remain focused on the aggregate effect from the totality of different government policy changes, including trade, immigration, regulatory, and fiscal policies, as well as their net effects on the economy. This net effect will likely remain uncertain for some time." **-May 14**
M Bowman	BOG, VChair	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting.**
L Cook	BOG	**X**	**X**	- **On the rate outlook:** "The current stance of monetary policy is well positioned to respond to a range of potential developments. Trade policy changes and the response of financial markets, firms, and consumers suggest risks to both sides of our dual mandate. As I consider the appropriate path of monetary policy, I will carefully consider how to balance our dual mandate, and I will take into account the fact that price stability is essential for achieving long periods of strong labor market conditions." **– Jun 3** - "We have to be open to all possibilities. We don't know how tariffs are going to play out. One could imagine those scenarios - cutting, staying or hiking, happening." **– Jun 3** - **On the economic outlook:** "Administration's policies...appear to be increasing the likelihood of both higher inflation and labor-market cooling... In this environment, monetary policy will need to carefully balance our dual-mandate goals of price stability and maximum employment." The labor market "has remained resilient" and though inflation "remains somewhat above target", "most measures of longer-term inflation expectations have moved less significantly" than one-year expectations.” **– Jun 3**
A Kugler	BOG	**X**	**X**	- **On the rate outlook:** "I view our current stance of monetary policy as well-positioned for any changes in the macroeconomic environment.” **-Jun 5** “I still view our policy stance as somewhat restrictive.” **– May 12** - "my basic outlook in some sense may have changed [since the US-China truce] in terms of the extent to which we need to use our tools - the magnitude - but not in the direction." **– May 12** - **On the economic outlook:** “with inflation and employment potentially moving in opposite directions down the road, I will closely monitor developments as I consider the future path of policy” **– May 9** - She sees "greater upside risks to inflation at this juncture" combined with "potential downside risks to employment and output growth down the road", and this "this leads me to continue to support maintaining the FOMC's policy rate at its current setting if upside risks to inflation remain." On growth, "in the context of hard data that has lately been providing a less-than-clear view of the economy...Nontraditional data indicators of real activity suggest that the economy might be starting to slow." - On tariff impacts on inflation: "the pass-through of tariffs into prices is relatively quick, and, second, should elevated tariffs persist, even just in the short run, larger effects may be coming soon. The import surge I mentioned earlier, ahead of sharp tariff increases, has delayed the price effects associated with those tariffs, and the reversal in that surge that I expect in the next few months will likely signal larger price increases." **-Jun 5**
C Waller	BOG	**X**	**X**	- **On the rate outlook:** "If we can get the tariffs down closer to 10% and then that's all sealed, done - and delivered somewhere by July. Then we're in good shape for the second half of the year, and then we're in a good position then to kind of move with rate cuts through the second half of the year…"we're going to wait and see what these trade deals do. And we're going to have to wait and see what happens with the April 2 tariffs that were postponed until July? We want to see whether those are actually going to be

Member	Role	Voter '25	Voter '26	Monetary Policy Commentary Since May FOMC
				reimposed or not. If they are, they're going to have much bigger impacts on inflation and put more of a handcuff on us in the short term." **- May 22** - He said he was "much more optimistic now than there was a month ago", suggesting he is eyeing what he previously called a "good news" rate cut scenario with tariff inflation proving transitory, as opposed to a recessionary "bad news" scenario. **- May 22**
M Barr	BOG	**X**	**X**	- **No commentary on current monetary policy since last FOMC meeting**
A Goolsbee	Chic. Fed	**X**		- **On the rate outlook:** "As we went into April 2nd...I thought, over the next 12-18 months, rates could come down a fair amount toward where the Dot Plot said they would settle". Goolsbee now says that timeline is "10-16 months" - implying that his view that rates would drop to near neutral by late 2026 hasn't really changed." **– May 23** - "The bar for action has to be high when there's so much uncertainty." **– May 13** - **On the economic outlook:** "If you only looked at official data you'd be behind the curve. So far we've - had the last two months, excellent inflation reports but when we're out talking to people they're like just wait, just wait, we haven't seen it yet but the tariffs are coming. So we've got to have a little bit of anticipation…I would say surprisingly little direct impact so far in the data that's coming out. We don't know if that will remain true for the next month or two… I think these last months of inflation look pretty good to me. They're why I thought underneath this thing was looking decent on dual mandate grounds." - "The more sophisticated thing that we've got to decide is if something raised prices, one time and stopped raising them [], econ 101 would say it's a one-time impact. If you think that's a transitory shock to inflation, there is a sense in which you should just ignore it when setting monetary policy. [But] We learned the last time around this thing hit the supply chain. [] I'm a little gun shy about making that argument again." **-Jun 2**
S Collins	Bos. Fed	**X**		- **No commentary on current monetary policy since last FOMC meeting**
J Schmid	K.C. Fed	**X**		- **On the rate outlook:** "Policy will need to remain nimble as the FOMC balances the two sides of its mandate. While the tariffs are likely to push up prices, the extent of the increase is not certain, and likely will not be fully apparent for some time. Likewise, the extent of the drag on growth and employment is also unclear..as the FOMC balances its mandate, I intend to remain focused on the importance of maintaining credibility on inflation". **– Jun 5** - **On the economic outlook:** "While theory might suggest that monetary policy should look through a one-time increase in prices, I would be uncomfortable staking the Fed's reputation and credibility on theory. " **– Jun 5**
A Musalem	St. Louis Fed	**X**		- **On the rate outlook:** Musalem appears to suggest he could support either an easing bias; a "balanced" approach, or holding rates indefinitely. In the meantime, policy "is currently well positioned." "Should tension between our dual mandate goals arise, I believe a balanced response to both inflation and employment is feasible- provided the public continues to expect inflation will return to 2%." **– May 20** - **On the economic outlook:** "The range of possible economic outcomes for the next few quarters is wide. Economic policy uncertainty is unusually high", and "announced tariffs are higher, have been more broadly applied and have prompted stronger retaliation than I and many others had expected ["even after the de-escalation of May 12" re China-US]... if a cycle of high tariffs and retaliation is sustained, economic activity and employment are likely to moderate meaningfully over the next few quarters, and inflation is likely to rise." He notes that while economic activity has "moderated", and survey data suggest it could "slow appreciably", the economy "continues to exhibit underlying strength" with the labor market "at or near full employment. On inflation, while inflation has resumed progress toward 2%, "price pressures appear to be building". "while one survey of long term inflation expectations has risen [referring to UMichigan], other measures of longer-term inflation expectations have remained stable". **– May 20**
B Hammack	Clev. Fed		**X**	- **On the rate outlook:** "I would rather wait and move quickly to play catch-up if I really don't know what the right next move is… and right now, I really don't know what the right next move is based on all of the information and policies that we're responding to….given that the most likely outcome, in my opinion, is that both sides of our mandate could be challenged, it's not a good time to be preemptive… because there is so much uncertainty about how the economy could play out depending on what the policies end up being, it makes me more nervous to operate just off the forecast." **- Jun 6** "We can and have been responsive and move very quickly when we need to." **- Jun 6** - **On the economic outlook:** "There are a number of other policies that are still yet to be implemented that could have offsetting effects [on trade policy]...we don't want to overreact to trade - that's certainly the topic of conversation right now - because there are other policies that are coming into play…I'm grateful that I have four weeks to work on coming up with a modal case [for the June SEP], because right now I haven't really been operating with a base case [] I've been operating in a couple different scenarios…to come up with a modal case that you have a lot of confidence in, I think at this particular moment is going to be really challenging." **- May 20**

Member	Role	Voter		Monetary Policy Commentary Since May FOMC
		'25	'26	
P Harker	Phil Fed		**X**	- **On the rate outlook:** "It is far from certain, but it is entirely possible that the Committee will be facing both upward pressures on prices and rising unemployment. Once there is a trade-off between our mandates, the direction of travel is in question. That is quite different from, say, the last tightening cycle.... Whenever price stability and maximum employment are at odds, a mistake could send policy the wrong way. To go the right way, we need to know more about the magnitude and persistence of the effects on inflation and employment. Which, effectively, means we have to wait and see… disinflation has proceeded only slowly, and that in itself has been reason enough to hold steady". **– Jun 5**
N Kashkari	Minn. Fed		**X**	- **On the economic outlook:** "At the Federal Reserve there is a healthy debate among policymakers about whether to "look through" the inflationary effects of the new tariffs. The look-through arguments view tariffs as creating a one-time change in the price level-a transitory inflation shock. This view prioritizes support for economic activity by lowering the policy rate while the economy transitions to its new equilibrium, at which point inflation will have returned to a 2 percent rate, albeit at a higher overall price level. Arguments against looking through tariff-induced inflation focus on the fact that the trade negotiations are unlikely to be resolved quickly. It may take months or years for negotiations to fully conclude, and there could be tit-for-tat tariff increases as trading partners respond to one other. In addition, some tariffs apply to intermediate goods, and it will take time for the full effects of those price increases to pass through to final prices. In the U.S., inflation has also been running well in excess of our 2 percent target for four years. How many years of elevated inflation can occur before long-run inflation expectations lose their anchor?" - **On the rate outlook:** "These arguments support a stance of maintaining the policy rate, which is likely only modestly restrictive now, until there is more clarity on the path for tariffs and their impact on prices and economic activity. Personally, I find these arguments more compelling given the paramount importance I place on defending long-run inflation expectations."**- May 27**
L Logan	Dall. Fed		**X**	- **On the rate outlook:** "For now, with the labor market holding strong, inflation trending gradually back to target, and risks to the FOMC's objectives roughly balanced, I believe monetary policy is in a good place…It could take quite some time to know whether the balance of risks is shifting in one direction or another." **- May 29** - **On the economic outlook:** "We're seeing risks on both sides of our dual mandate that appear fairly balanced…that leaves us well positioned to wait for the data, to be patient and, if we get significant information that really changes the outlook on the balance of risks, we'll be prepared to respond."**- Jun 2** - "When I look ahead, I see a balance of risks. Tariffs could push up inflation, at least temporarily. And if expectations of higher inflation became entrenched, inflationary pressures could persist and become very costly to reverse. Stimulative federal fiscal policy or changes in regulations could also boost investment and consumer demand. On the other hand, economic uncertainty and financial market volatility could prompt consumers and businesses to pull back, slowing the economy." **-May 29**
T Barkin	Rich. Fed			- **On the economic outlook:** ""[Businesses] do think there's a light at the end of the tunnel, that there will be some certainty, whether it's the tax bill or some of the trade terms, but I think they're just waiting it out…Nothing I'm seeing in the real time spending data suggests that [consumer][spending is dropping." **- May 27** - "What I'm hearing from retailers is that consumers are about tapped out…And that means that it's nice to say you're going to pass [tariffs] on, but it's not as easy to pass it on as you might think.. my sense is the core of when it gets disinflationary is when demand drops significantly…but we'll see. This is not a situation we've been in a lot of times…Declaring that one risk is more significant than the other right now feels almost like guessing… This is not a kind of policy change that has a one-month impact in prices and then goes away. I think it's going to take some time, and it'll roll out across multiple categories over time." **– May 9**
R Bostic	Atl. Fed			- **On the rate outlook:** Bostic reiterated his view expressed in the March Dot Plot that he expects one rate cut later this year - "I don't have any reason to think that my outlook is going to change radically... a lot of it will depend on how the uncertainty resolves itself. I'm going to stay diligent and take things on as they happen."**- Jun 3** "I think we'll have to wait three to six months to start to see where this settles out." **– May 19** - **On the economic outlook:** "there's still a ways to go in terms of the progress we're going to need to see [in inflation]… As of April, we had not yet seen clear signs of tariffs boosting inflation, though research suggests we might see upward pressure on prices over the coming weeks…fiscal, tax, and regulatory policy are all likely to see big changes in the coming months as Congress works through its budget processes and the Trump Administration continues to implement its agenda. In each area, one could generate a list of questions as long as the set I just offered about trade. For now, neither I nor anyone has clear answers for any of these questions." **– Jun 3** - When asked if the trade truce between the US and China had changed his outlook, Bostic replied, "a little." "Our policy is going to have to anticipate - and to some extent - potentially push against those inflationary forces to the extent that we see them, so that will put a limit on where our current policy stance is". **– May 16**
M Daly	S.F. Fed			- **On the rate outlook:** Daly said policy is in a "good place". **"**We want to keep the policy rate modestly restrictive for now until we are sure that inflation is going to hit that 2% targe…so I'm still comfortable with the Summary of Economic projections, which we put up in December and in March, that said two rate cuts seem like a good forecast." **– May 30** - **On the economic outlook:** "The net net is businesses are still waiting to see, and as they wait to see, we wait to see, because we have policy in a good place for the economy we have…we have plenty of opportunity then in time to make decisions as the economy evolves." **– May 29**

Member	Role	Voter		Monetary Policy Commentary Since May FOMC
		'25	'26	
				- Daly said she "can't guarantee" the Fed will get inflation down to 2% this year. "That's not necessarily my forecast…we might not get there this year, but we are making progress, and importantly, we remain resilient to get the job done." **– May 29**

Beige Book: Activity Declining, Increasing Price Pressures, Downbeat On Labor Market Conditions

The June 4 Beige Book reported that "economic activity has declined slightly since the previous report". Uncertainty was a key theme, with manufacturing activity and household consumption showing signs of weakness. Overall the outlook remained "slightly pessimistic and uncertain". Note responses were collected up to May 23, so it's unclear the degree to which this reflects developments such as the US-China trade war de-escalation on May 12. Among the 12 Fed districts:

- 3 reported flat/little change in activity since the previous report in April (Cleveland, St Louis, Dallas), vs 3 in April
- 3 reported slight/mild growth (Atlanta, Chicago, Richmond), vs 5 in April
- 6 reported slight/modest/moderate slowdowns/declines in activity (Boston, NY, Philadelphia, Minneapolis, Kansas City, San Francisco), vs 4 in April
- **From the Beige Book summary:** "All Districts reported elevated levels of economic and policy uncertainty, which have led to hesitancy and a cautious approach to business and household decisions. Manufacturing activity declined slightly. Consumer spending reports were mixed, with most Districts reporting slight declines or no change; however, some Districts reported increases in spending on items expected to be affected by tariffs. Residential real estate sales were little changed, and most District reports on new home construction indicate flat or slowing construction activity. Reports on bank loan demand and capital spending plans were mixed. Activity at ports was robust, while reports on transportation and warehouse activity in other areas were mixed. On balance, the outlook remains slightly pessimistic and uncertain, unchanged relative to the previous report. However, a few District reports indicate the outlook has deteriorated while a few others indicate the outlook has improved."

The Beige Book suggested rising tariff-related inflationary pressures, with all 12 Fed Districts indicating that higher tariff rates were putting upward pressure on both input and output prices. Additionally, contacts appeared to suggest future price increases could be "substantial". Overall, "Prices have increased at a moderate pace since the previous report."

- 8 of 12 Fed banks reported prices increases were "moderate" (two more than in April), with the remaining 4 mixed (Boston "slightly", Chicago and SF "modestly", Dallas "steady").
- **From the Beige Book summary:** "There were widespread reports of contacts expecting costs and prices to rise at a faster rate going forward. A few Districts described these expected cost increases as strong, significant, or substantial. All District reports indicated that higher tariff rates were putting upward pressure on costs and prices. However, contacts' responses to these higher costs varied, including increasing prices on affected items, increasing prices on all items, reducing profit margins, and adding temporary fees or surcharges. Contacts that plan to pass along tariff-related costs expect to do so within three months."

Inflation - Nature of reported price increases plus passthrough & tariff considerations:

	Distribution of price increases: Moderate	Distribution of price increases: Modest	Passthrough	Tariffs
Oct 23, 2024		Slight or modest in most (as inflation continued to moderate)	Many districts noted increasing price sensitivity among consumers	
Dec 4, 2024		Only modest	Greater difficulty passing costs to both consumers and businesses	Several districts indicated tariffs pose significant upside risk to inflation
Jan 15, 2025		Modestly overall, from flat to moderate		Some noted potential for higher tariffs to contribute to 2025 price increases
Mar 5, 2025	Moderately in most districts but several reported uptick in pace vs previous		Multiple districts noted difficulty passing input costs on to customers...	... but most expected tariffs to raise future prices. Isolated reports of pre-emptive increases
Apr 23, 2025	Six characterized as moderate	Six characterized as modest (on net similar to March)	Most businesses expect to pass through additional costs but reports of margin compression with tepid demand in some sectors	Adding tariff surcharges or shortening pricing horizons amidst trade policy uncertainty
Jun 4, 2025	Eight characterized as moderate	Two characterized as modest, one steady, one slightly	Contacts that plan to pass along tariff-related costs expect to do so within three months	All District reports indicated that higher tariff rates were putting upward pressure on costs and prices

Source: Federal Reserve, MNI

On the labor market front, the Beige Book reports "Employment has been little changed since the previous report", though the overall tone was downbeat, with some signs of easing wage pressures.

- 7 of 12 districts saw flat/stable/steady employment changes (up from 4 prior). 3 saw modest/slight increases (5 prior), with 2 seeing headcounts decrease (3 prior).
- **From the Beige Book summary:** "Many Districts reported lower employee turnover rates and more applicants for open positions. Comments about uncertainty delaying hiring were widespread. All Districts described lower labor demand, citing declining hours worked and overtime, hiring pauses, and staff reduction plans. Some Districts reported layoffs in certain sectors, but these layoffs were not pervasive. Two Districts noted that, for many of their contacts, hiring plans had not changed since the start of the year. Wages continued to grow at a modest pace, although many Districts reported a general easing in wage pressures. A few Districts indicated that higher costs of living continued to put upward pressure on wages."

Labor market - The distribution of Districts reporting increases, no change or decreases in headcount:

	Increase	No Change	Decrease
Jul 17, 2024	Most saw flat or up slightly, a few saw modest growth		
Sep 4, 2024	5 (slight or modest)	Generally flat or up slightly	
Oct 23, 2024	More than half reported slight or modest	The remainder reported little or no change	
Dec 4, 2024	Employment levels were flat or up only slightly across Districts		
Jan 15, 2025	6 (slight)	6	
Mar 5, 2025	4 (slight)	7	1 (slight)
Apr 23, 2025	1 (modest), 4 (slight)	4	3 (slight)
Jun 4, 2025	1 (modest), 2 (slight)	7	2 (slight)

Source: Federal Reserve, MNI

MNI Policy Team Insights

Selected Policy Insights From Pre-FOMC Blackout Period – For Latest Articles, See Marketnews.com

MNI INTERVIEW: Inflation Expectations Troubling - Gorodnichenko

By Pedro Nicolaci da Costa (Jun 6, 2025)

LONDON - U.S. inflation expectations are not well anchored despite official assurances to the contrary, elevating the risk that shocks like a trade war could lead to more persistent price pressures and perhaps even warrant interest rate hikes, Berkeley economist and San Francisco Fed adviser Yuriy Gorodnichenko told MNI.

“Policymakers keep saying inflation expectations are anchored. Whether you look at survey evidence, especially for households and firms, it’s not clear at all that those expectations are very anchored,” he said in the latest episode of The FedSpeak Podcast.

The post-Covid inflation experience has left consumers and businesses especially sensitive to price changes in a way that could quickly reignite inflation, which even before tariffs was still significantly above the Federal Reserve’s 2% target, said Gorodnichenko, who presented his research on the issue last month at the Fed Board's 2nd Thomas Laubach Conference.

This sensitivity is evident from just how quickly the expectations of households and businesses have ratcheted higher on fears of higher prices from U.S. tariff policies, he said, pointing to the four percentage-point spike in one-year inflation views from the University of Michigan’s Survey of Consumers to 6.5%. “This all happened in a matter of a few months. That’s not consistent with anchored inflation expectations." (See MNI INTERVIEW: Inflation Expectations Worrisome For Fed-Umich)

DON'T RULE OUT HIKES

While he sees risks of both slower economic growth and higher prices from tariffs, he thinks inflation could rise significantly in coming months.

“I wouldn’t be surprised if inflation goes above 4%, this year,” said Gorodnichenko. “If we look at the expectations of households and firms. This suggests to me that we may have an inflation problem regardless of what happens” with the trade war.

That would leave the Fed in an unenviable position if the economy is slowing, and might even force policymakers to put the idea of monetary tightening back on the table.

“At a minimum they should not be doing cuts, they should maintain the current interest rate, and then, depending on circumstances, even raise interest rates to send a signal that they are serious about inflation and they don’t want to have another surge of inflation,” he said. (See MNI POLICY: Fed Cut Impetus Fades Alongisde Recession Fears)

LISTEN TO SURVEYS

Part of the problem for policymakers is identifying the right measure of inflation expectations. The FOMC consensus is that long-term inflation expectations are well-anchored, in part because financial market measures indicate as much.

But Gorodnichenko warned that his research showed consumer and business surveys were better predictors of the post-covid inflation jump than professional forecasters. In addition, he noted that in the Great Inflation of the 1970s bond investors took a long time to internalize the idea that price pressures were not fleeting.

“When you look at the inflation dynamic in the 1970s, you see that the bond market didn’t expect inflation to be very persistent in the mid-70s or even towards the end of the 70s,” he said. “So it doesn’t mean that if professional forecasters don’t predict inflation we’re not going to have any inflation.”

The Fed’s Beige Book report this week noted “widespread reports of contacts expecting costs and prices to rise at a faster rate going forward."

Fed officials have outlined two broad scenarios regarding tariff-related price increases, one in which they are simply a one-time hit and a second where price pressures become more embedded.

“It’s not a crazy proposition that we should look through one-time shocks,” said Gorodnichenko. “But if you have unanchored inflation expectations then this proposition is much less clear.”

MNI INTERVIEW: Tariffs To Lift Service Costs Further, ISM Says

By Jean Yung (Jun 4, 2025)

WASHINGTON - Cost increases faced by U.S. service providers picked up in May to levels unseen since November 2022 and the trend has room to run with President Donald Trump raising aluminum and steel tariffs this week, Institute of Supply Management survey chief Steve Miller told MNI.

The ISM prices paid index climbed 3.6pp to 68.7 last month, the highest since pandemic-era supply chain disruptions when CPI stood at 7%, and is likely to rise further amid trade uncertainty, Miller said. The two-month increase in the services price index over April and May is the largest since early 2021, he said.

"It has room to run. If the tariff uncertainty goes out another three months, causing supply constraints, we’ll see the same thing that we saw at the beginning of the pandemic," Miller said in an interview Wednesday.

Trump's doubling of aluminum and steel tariffs to 50% will hit utilities and construction Miller said. "Much of what utilities order overseas are capital assets that take a long time to make," he said. Firms are getting hit with higher import duties on orders from a year or two ago, Miller said.

JOB GAINS RETURN

The supply-chain squeeze will worsen the longer uncertainty continues, he said. "We'll be in a real problem if we get into the fall without things getting resolved," he said. (See: MNI INTERVIEW: Trump Has Options To Keep Tariffs -Eissenstat)

Miller reckons the impact on U.S. inflation this time may be more limited as half of purchasing managers surveyed last month told ISM they won't pass through cost increases until they persist for six months.

"What will constrain inflation is the lack of money supply," he said. "We're not sending thousand-dollar checks out to Americans."

Price hikes will also be less than the previous cycle because the employment index returned to expansion territory after two months of contraction, Miller said. That's even as the headline index dipped below 50 and new orders moved into contraction territory for the first time in nearly a year.

MAJORITY OF FIRMS GROWING

The May services PMI fell to 49.9 from a 12-month average of 52.3 and new orders fell 5.9pp to 46.4, but the employment index rose 1.7pp to 50.7.

"There's still confidence that the tariff impacts will be worked out," Miller said. "The commentary didn't talk about massive expansion, but it did talk about replacing attrition as well as staffing to hit both seasonal activity as well as increases in project activity."

Industries representing 57% of U.S. GDP say they're in expansion territory, higher than in April and March. Gains are led by accommodation and food services and entertainment and recreation.

"The 49.9 headline number was primarily driven by reduction of expansion in the two industries rather than significant increase in contractionary

MNI INTERVIEW: Trump Has Options To Keep Tariffs - Eissenstat

By Jean Yung (Jun 3, 2025)

WASHINGTON - President Trump has multiple options to maintain tariffs even if courts ultimately decide that the legal foundation for his April 2 reciprocal tariffs is invalid, and meanwhile the rulings last week are adding to uncertainties facing businesses, Everett Eissenstat, a top White House economic and trade adviser in the first Trump administration, told MNI.

"There are a lot of tariffs in place that are not vulnerable legally that are pretty significant, and there are other statutes the administration can use to put tariffs on," Eissenstat said in an interview.

"Many countries are still going to negotiate, which is wise. So in some ways it changes a lot and in some ways it doesn't change much." (See MNI INTERVIEW: Fed Will Face 'Tough Calls' In H2-Holtz-Eakin)

Whether Trump will launch import duties under authorities other than the International Emergency Economic Powers Act, or IEEPA, while the cases are pending is unclear, Eissenstat said. "If he has confidence he'll win, it might not make sense to use other tools," especially as the tariffs are in effect while the appeals process goes on for several more months, if not longer, he said.

OTHER AUTHORITIES

Trump could begin additional investigations on trading partners under Section 301 of the Trade Act of 1974 to target the top eight largest bilateral deficits, or impose temporary tariffs of up to 15% for a maximum of 150 days to address "large and serious United States balance-of-payments deficits" under Section 122, said Eissenstat, formerly lead negotiator for the U.S. at the G7, G20 and APEC summits.

Section 338 also authorizes Trump to impose duties of up to 50% if a country discriminates against U.S. goods, he added.

"At the end of the day we are talking about what statutory tool he used, not whether he can impose tariffs. He can and there are a lot of other instruments to do that," he said.

"That still brings home some of the fundamentals of what he wants to achieve: reshoring, rebalancing unfair trade practices. Those issues are still going to be on the table."

CHINA RELATIONSHIP 'ROCKY'

For companies, the court cases have made the business environment even more uncertain, Eissenstat said.

"The question now is do we pay tariffs and maybe hope to get them back? There's just no real clarity, and if anything the court cases have made things even more murky."

A contentious past few days, with Beijing and Washington both accusing the other of violating the terms of a 90-day trade truce underscores that the relationship continues to be "rocky," Eissenstat said.

"I had thought the negotiations would continue in earnest," he said. "But there doesn’t seem to be any real impetus to provide a settlement on either side any time soon."

MNI INTERVIEW: Fed Will Face ‘Tough Calls’ In H2 - Holtz-Eakin

By Pedro Nicolaci da Costa (Jun 2, 2025)

LONDON - Federal Reserve officials will face a difficult choice on interest rates later this year as a significant reprieve on tariffs remains unlikely, so inflation will rise at the same time as economic growth falters, former White House economist Douglas Holtz-Eakin told MNI.

Wall Street is too sanguine about the notion that the worst is over on the trade war front simply because U.S. President Donald Trump has temporarily paused some tariffs while facing legal setbacks on others, Holtz-Eakin said in an interview

“The notion that we’ll end the year with no tariffs strikes me as naive,” he said. “There are other authorities he has, section 232, section 301, that that he's already used could be used more extensively. There are other routes do the kinds of things he wants to do and I would expect that to happen.”

“They have the luxury of waiting for another meeting but after that they start having some real tough calls,” he said.

NO REPRIEVE

Holtz-Eakin, president of the American Action Forum, said the uncertainty and policy volatility surrounding tariffs had already dented GDP growth to the tune of a full percentage point. The hit could be worse if larger tariffs now on hold are reimposed, he said.

“If we got back to the level of tariffs on Liberation Day, I think the economy deteriorates substantially in the second half, and they cut to save the employment mandate,” he said. “They were suspended for 90 days. This president would do it. The courts might stop him.”

At the same time, inflation could rise as high as 4-4.5% in coming months, which would put the Fed in a serious bind, he said.

In terms of timing, he sees the jump in inflation happening in the next couple of months while the hit to growth will show up in the third quarter and beyond. Meanwhile, the on-again off-again nature of the policies will make it hard to get a clean read on the data.

“There's no way they'll move preemptively to cut, since the inflation will hit first. And in the second half of this year, I think the Fed earns its money, because it's going to be tough,” Holtz-Eakin said. (See MNI POLICY: Fed Cut Impetus Fades Alongside Recession Fears)

“The Fed correctly recognizes that this is not a genuinely inflation event, it's a price level event. But the question is whether the public will appreciate that nuance or not exactly, and we've already seen Michigan-survey-style inflation expectations bounce way up.”

FISCAL PRESSURES

Holtz-Eakin, also former director of the Congressional Budget Office, said the recent spike in long-term Treasury yields is related to a deteriorating fiscal outlook that has recently become more salient for global investors.

“The U.S. fiscal trajectory is unsustainable, so that's not news. The Moody's downgrade was important in that the previous downgrades explicitly cited political difficulty in managing our finances as a primary concern,” he said.

“Moody's didn't say a word about that. It just said, you have too much debt, you have too much interest. So that means that the problem is the problem, not the process. That's a significant change. And the reconciliation bill, as it came out of the House, doesn't improve it at all, it makes it worse.”

MNI INTERVIEW: Fed Facing Stagflation Risk- Ex-NY Fed Adviser

By Pedro Nicolaci da Costa (May 20, 2025)

WASHINGTON - Rising goods inflation due to tariffs will soon put the Federal Reserve in the uncomfortable position of having to hold rates steady despite weaker economic growth, former NY Fed policy adviser John McGowan told MNI.

“I am really concerned about cost-push inflation,” McGowan said in an interview. “I really hope they lean toward lower future inflation, take the economic medicine now, focusing on the stable price mandate. What I fear the most is a little bit of a pre-emptive rate cut amid rising inflation – that would stoke inflationary expectations.”

McGowan said those expectations are still fairly well contained despite recent spikes in the short-term inflation views of consumers in key sentiment surveys.

“I don’t think they are unanchored. But we’re not far from it,” he said.

While he does not have a specific forecast as to how much of an inflation resurgence will take place because of tariffs, McGowan expects it will be significant.

“The equilibrium is going to be higher prices and lower quantities. This is going to happen in two months, maybe six weeks," he added.

Fed officials have said they are keeping the federal funds rate on hold for now at 4.25-4.5% as they wait for greater clarity on whether the bigger effect of the White House trade and immigration policies will be a boost to inflation or a hit to growth. (See MNI INTERVIEW: Fed Cuts Start In Q4 As Tariffs Weigh -Crandall)

“I’m worried about the prospect of stagflation, and I think we need to tolerate that for a period of time, let’s say two or three quarters, assuming the goods inflation materializes. And how could it not?” he said, adding that it will be important to watch wage growth for signs of inflation persistence.

“That's sort of the definition of cost-push inflation. The cost of everything goes up and it's not a one-time bid because the wages now start tracking.”

RESERVE CURRENCY

McGowan worries the Trump administration appears to resent rather than appreciate the value of the dollar’s reserve currency, which he said bring countless benefits to the American economy ranging from lower interest rates to flight-to-safety bids in times of stress. (See MNI INTERVIEW: FX Deal, Treasury Fee Not On Trump Agenda-Miran)

“The president of the United States underappreciates the value of having the world’s receive currency. He's going out of his way to lessen the market’s perception that the dollar is the world's reserve currency,” he said.

“It’s very concerning. There’s a lot of implicit benefit that the country gets from being the reserve currency, it helps with interest rates and it helps with foreign exchange.”

STAYING AMPLE

McGowan, who spent 24 years at the New York Fed and did a lot of work on the Fed's operating framework, said the benefits of an ample reserves regime – including ensuring a repeat of the 2019 repo freeze does not happen – outweigh any costs associated with a larger balance sheet.

"Sure, it's a little inefficient to have the balance sheet to be larger than it should be and sure there's a cost to that, because it's losing money right now," he said. "But in terms of the efficiency of the framework, there isn't much of a cost."

He does not believe the Fed will go back to a scarce reserves framework despite what he called some nostalgia for the old days.

"This framework is just different. It's just not going to happen," he said.

MNI INTERVIEW: Fed Cuts Start In Q4 As Tariffs Weigh -Crandall

By Jean Yung (May 20, 2025)

AMELIA ISLAND, FLA. - President Trump's tariffs will likely take enough of a toll on the U.S. economy by the fourth quarter to necessitate a couple rate cuts by the Federal Reserve around year-end, Lou Crandall, chief economist at research firm Wrightson ICAP, told MNI on the sidelines of an Atlanta Fed conference in Amelia Island, Fla.

The longer the White House vacillates between imposing and pausing tariffs, the longer the Fed will have to extend its wait-and-see stance, he said. Trump's "reciprocal" tariffs on dozens of trading partners are paused until early July to allow for trade deal negotiations and a 145% duty on Chinese imports has been temporarily reduced to 30% until August.

"It's probably reasonable to think we will have had enough accumulated economic deterioration by the fourth quarter to get a cut, and I doubt the Fed will move unless they're pretty sure they'll go at least twice. My baseline is a couple cuts bracketing year-end. Second one possibly out in the first quarter of 2026," said Crandall, who started his career at the New York Fed.

"The latest 90-day pause on tariffs meant the administration is just kicking the tariff can down the road, but in doing so, they kicked the fed rate cut can 90 days down the road too, because they're just extending the uncertainty the Fed has cited as the primary obstacle to an early rate cut," he said.

"The longer the administration spins this out, in the absence of real persuasive economic data, we're not going to get any change in Fed policy or Fed guidance – because it's just all to be determined." (See: MNI INTERVIEW: Fed On Hold Until At Least December - Lacker)

PAYBACK PHASE

The U.S. economy was in a "frontrunning phase" at least through March and businesses and consumers ramped up purchases ahead of tariffs. As it transitions into a "payback phase," the economic data are set to weaken, Crandall said.

The April retail sales data remained robust without reversing earlier gains, and the jobs report was stronger than expected. But the Chicago Fed National Activity Index, a monthly index designed to gauge overall economic activity and related inflationary pressure using big data, turned slightly negative in March and could sink further in April. That data is due Thursday.

Any macro impact from tax cuts and the budget bill won't be a major factor until they manifest in the real economy, and that's not in the near term, he said. A spending bill is coming up for a full House vote by the end of the week that would extend tax cuts.

So far the main metrics aren't pointing to any imminent demise for economic growth, but that could change fairly quickly, Crandall said.

"Another truce means another short-term spurt in demand, so we'll still have to wait and see," he said. "But in the end tariffs are very destructive for economic activity, so I would be very surprised by an outcome that would lead to hikes."

MNI INTERVIEW: Fed On Hold Until At Least December - Lacker

By Pedro Nicolaci da Costa (May 15, 2025)

WASHINGTON - The Federal Reserve is likely to keep rates for much of 2025 as the Trump administration's on-again off-again trade war makes it difficult for central bankers to weigh tariffs' inflationary effects versus their drag on growth, former Richmond Fed President Jeffrey Lacker told MNI.

"I don't see anything before the very end of the year, like the last meeting or so. I think in September the situation will probably still be murky and they'll be on hold there too," Lacker said in the latest episode of MNI's FedSpeak Podcast.

That's because the volatile nature of ongoing trade negotiations means their economic effects will be uneven, and take many months for policymakers to untangle, Lacker said.

"The choppiness is going to be evident. With China, you saw exports surge to get ahead of the tariff, plummet when it looked like the tariff was going into effect. Now they're going to surge but there's a 90-day horizon – they're going to do same thing all over," he said. (See MNI INTERVIEW: Fed Could Hold Rates For Some Time-Kaplan)

HIKES POSSIBLE

The presumption that the next move in rates is downward is premature, said Lacker, who thinks that really depends on the inflationary effect from tariffs, which could be significant even after a recent de-escalation of tensions.

"A 10% tariff is going to leave a trace on inflation and those dynamics are going to be difficult to manage," he said. "If it gets to December and inflation is 4% at an annual rate, they should raise rates, even if unemployment is rising."

That's because inflation was already hovering well above the central bank's 2% target even before the trade war.

"The true gauge of the stance of monetary policy is the real federal funds rate. If inflation bumps up and inflation expectations go with it – and inflation expectations have risen by many measures – that makes policy easier.

So if you just keep the nominal fed funds rate constant, you're easing policy as inflation surges," said Lacker. "They have to keep that in mind as well."

SUBSTANTIAL BURDEN

Lacker said the U.S.-China trade reprieve this week does appear to take the worst-case scenario off the table for now. But he said uncertainty is still high and the remaining tariffs are still sufficient to throw sand in the gears of economic activity.

"I am pleasantly surprised that the threshold for just how much face saving the White House needed to take the off ramp was pretty low, and so that bodes well for the whole sequence of these reciprocal tariff negotiations they have going on for the next couple of months," Lacker said.

“But it looks like the path we're on is towards something with 10% tariffs and maybe some extra in some other cases. That's still a substantial burden, it’s still nothing to sneeze at.”

The attrition is likely to put upward pressure on inflation and downward pressure on economic growth in ways that are difficult to predict, and will thus prevent businesses from making long-term decisions.

“Fits and starts like that, it chews up senior management bandwidth at small companies especially,” he said.

Likewise, it will keep Fed policymakers on the sidelines for the foreseeable future.

“In the case of a supply shock it’s not clear that the optimal policy is to cut rates," said Lacker. "If manufacturing investments are taking time, if people are buying less imports, if those adjustments are taking time, the Fed can’t speed that up. It’s not obvious that an unemployment rate increase requires a rate cut.”

MNI INTERVIEW: Fed Could Hold Rates For Some Time-Kaplan

By Pedro Nicolaci da Costa (May 13, 2025)

WASHINGTON - Federal Reserve officials appear likely to await further clarity on an economic outlook muddled by evolving trade tensions before cutting interest rates further, former Dallas Fed President Robert Kaplan told MNI.

He expects the economy to soften but not buckle under the threat from rising tariffs and trade tensions, which this week got a reprieve in the form of a 90-day pause in trade hostilities between the United States and China.

“If we see slowing, but not severe slowing, prices could remain sticky, and the unemployment rate may inch up but not spike up. In that scenario the Fed might be inclined to do nothing for some period until there is more clarity on the impacts of the structural changes that are currently underway,” Kaplan, now vice chairman of Goldman Sachs said in an interview. He spoke before the U.S.-China tariff pause was announced Monday.

Kaplan is not surprised that the job market appears to be holding up despite the prospect of a weaker economy, he said, citing a shrinking pool of available workers due to rising immigration restrictions. The economy generated a larger-than-expected 177,000 new jobs last month while the jobless rate held steady at 4.2%.

“Businesses are less inclined to conduct layoffs right now, because the labor force appears to be tight. The lack of immigration flows and the deportation – and encouraged self-deportation – of undocumented immigrants is likely having some tightening effect on the labor force. As a result, it is possible that you could have slower growth without unemployment spiking,” he said.

“If the unemployment rate stays stable and the labor market remains tight, it will likely have a moderating impact on the odds of a recession. Given that services are approximately 77% of the U.S. economy, it is possible that consumers could shift their buying behavior to services away from goods." (See: MNI POLICY: Fed Sees Jobs On Shakier Ground Amid Tariff Shocks)

At the same time, Kaplan does not foresee a great degree of pass-through of higher input costs to consumers at this juncture.

“Companies will price where they can depending on how distinctive their product or service is in the market. If it’s very distinctive, companies will have some pricing power, and if it’s not distinctive they are likely going to struggle, and you could see these companies are more likely to take more of a margin hit,” he said.