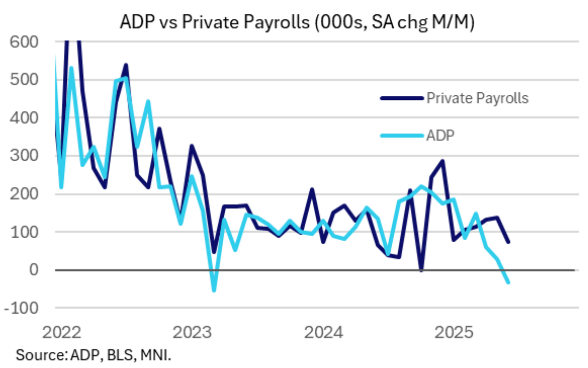
The following offers a succinct look at the main macroeconomic developments across inflation, the labor market and activity indicators since the last FOMC meeting on June 17-18. It's part of the full MNI US Fed Preview (here).

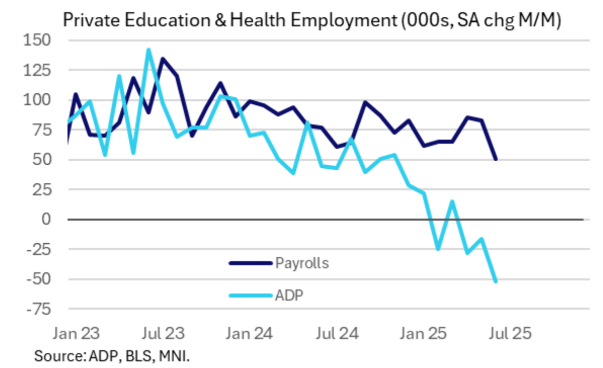
Macro Developments Since The June 17-18 FOMC Decision

There has only been one round of nonfarm payrolls and CPI/PPI reports since the last meeting, with a surprisingly resilient payrolls report for June before a mixed but net hawkish set of inflation data for June. Q2 GDP growth tracking has shifted from 3-4% annualized at the time of the last meeting to 2.4% heading into next week's advance release on the day of the FOMC decision. With the next payrolls report landing just two days after the upcoming FOMC decision, there will be two payrolls and inflation reports for the Fed to analyze ahead of its refreshed SEP with the September FOMC meeting.

A Solid Payrolls Report Albeit With Private Sector Sluggishness, Surprisingly Low U/E Rate

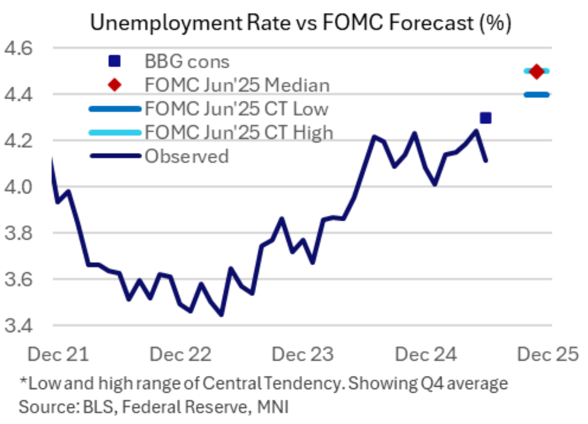
The payrolls report for June beat expectations for a second month running and was further boosted by small upward revisions after a string of large downward revisions. The 147k seasonally adjusted increase in June may be modest by standards of recent years but it was an impressive reading against a backdrop of heavily reduced immigration flows – long-run breakeven estimates are around the 100k mark. It was far from an unanimously strong report though as private payrolls growth underwhelmed at 74k along with a small downward revision. The gap between the two came as government job creation surprisingly surged by its most since March 2024 led by state & local education roles. We suspect this is a seasonal adjustment quirk but won't have confirmation until next month. Private sector payrolls growth meanwhile remains heavily reliant on the large, and cyclically insensitive, health & social assistance category, adding 59k of the 74k in June. Looking on a more granular basis, roughly as many of the 250 private industries saw an increase in payrolls in June as those that saw decreases – it was last materially weaker early in the pandemic or 2008-10. It's also worth noting that alternate private sector measures of employment such as the ADP report are tracking weaker, with a rare outright decline in June. There remains a hard-to-explain wedge between education & health employment metrics within the BLS nonfarm payrolls and ADP surveys.



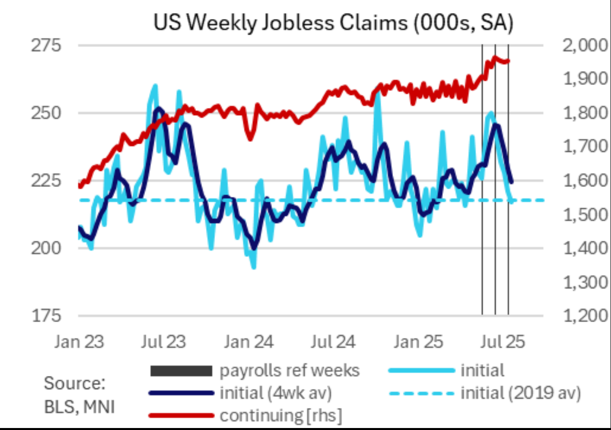


The household survey was healthier than expected on most fronts, with the key exception being a continued decline in the size of the labor force and participation suggesting diminishing labor supply. Most notably, the unemployment rate surprised lower at 4.12% (cons 4.3) in June after 4.24% in May and four consecutive increases. In doing so, it continued what has largely been a stabilization in the unemployment rate within a 4.0-4.25% range since July 2024 after what had been a quick increase in 1H24. It suggests a faster-than-expected deterioration will be required for the final 6 months of the year to reach the FOMC's June Q4 median projection of 4.5%, projection that was marked a tenth higher. The participation rate fell to a 31-month low of 62.28% whilst the employment-to-population ratio fell to a 41-month low of 59.71%. However, downard pressure on the labor force is coming from retirements and 16-24 year olds, with prime age participation increasing.

As for higher frequency labor indicators, weekly jobless claims data have also improved recently and taken the string out of what had started to be a more worrying increase in May and June. In particular, the four-week average of initial claims has eased back to 225k from a recent high of 246k whilst the latest single week is back at its 2019 average. Continuing claims meanwhile haven't seen a recovery but at least have consolidated rather than extended a recent increase to fresh highs since late 2021. The combination of these claims data continue to point to a 'low firing, low hiring" labor market although we think further close attention on continuing claims is warranted.



*Low and high range of Central Tendency. Showing Q4 average
Source: BLS, Federal Reserve, MNI



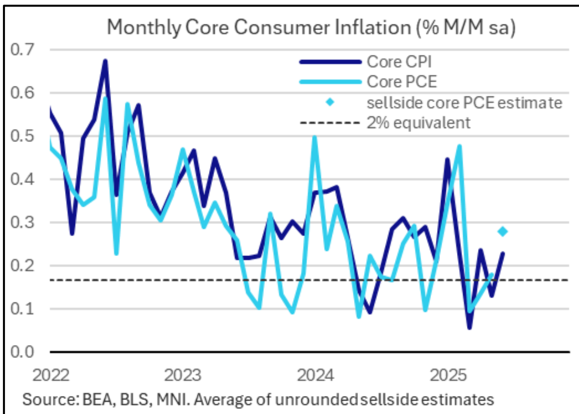
Source: BLS, MNI

Tariffs Starting To Show In Consumer Prices Although Producer Prices Surprisingly Soft

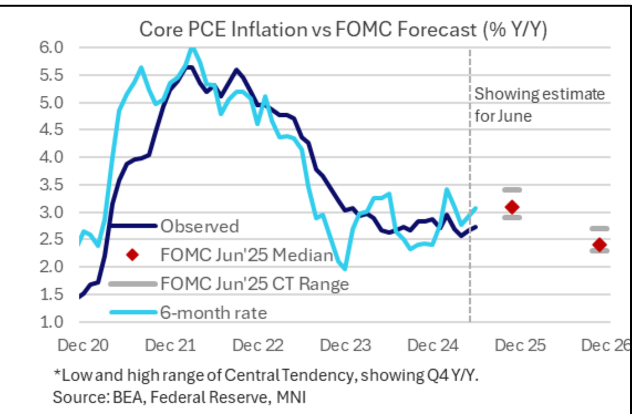
The June CPI report was mixed but ultimately showed signs of tariffs starting to have a larger impact on underlying details. Core CPI was marginally softer than expected at 0.23% M/M (the median of unrounded estimates we'd seen ahead of the release was 0.24) whilst headline CPI was stronger at 0.29% M/M (median 0.25). Core goods inflation was about as expected at 0.20% M/M (vs 0.19% MNI median) as it accelerated after a weak -0.04% M/M in May whilst core services was slightly on the light side (0.25% M/M vs 0.27% MNI median). Core goods items have been receiving greater than usual focus as markets assess the speed and magnitude of tariff passthrough to consumer prices. On this front, we found it notable that our calculation of the median of 56 core goods items accelerated further to 0.44% M/M in June after 0.29% in May for its fastest since Aug 2022. For context, this median averaged 0.32% in 2021 and 0.39% in 2022 and peaked at 0.84% in Jan 2022, so there has been a marked acceleration in underlying core goods prices. Going against this on the month were some sizeable declines in heavily-weighted components such as used cars (-0.67% M/M) and new cars (-0.3% M/M). Looking more broadly, Regional Fed banks' estimates of sticky/median Y/Y CPI rates appear to have bottomed in the spring, at least for now, at levels above pre-pandemic averages.

The June PPI report followed a day later and was roundly softer than expected - and certainly than feared given the context of rising tariffs - despite some upward revisions to prior. While core goods prices did indeed advance, and there continued to be problematic readings in categories such as durable goods, the rise was consistent with the increases seen over the last 6 months rather than a sudden surge. As for specific readthrough to core PCE, our rough proxy of key components pointed to a roughly neutral contribution, or very slightly more positive than in May if you squint along with a mild upward revision to May.

Putting these together, tracking of average analysts estimate for core PCE shifted from roughly 0.25% M/M ahead of CPI to 0.31% M/M after CPI, 0.29% M/M after PPI and perhaps 0.28% M/M after import prices judging by limited estimates. That tracking was borne out in the market reaction across the releases, with a modestly net hawkish change in the Fed rate path. A 0.28% M/M increase in June after 0.18% M/M in May (not showing a possible 1-2bp upward revision here) would see a second monthly increase to 2.74% Y/Y whilst the six-month rate would firm to 3.1% annualized for a six consecutive month above the Y/Y. As the chart below shows, core PCE inflation has stabilized around the 2.6-2.8% Y/Y rate for over year now, including a recent low of 2.58% in April, as it has struggled to fully return to the 2% inflation target. The expected six-month run rate for June happens to match the 3.1% Y/Y that the median FOMC member now forecasts for 4Q25, having revised higher from 2.8% in the March round.



Source: BEA, BLS, MNI. Average of unrounded sellside estimates



*Low and high range of Central Tendency, showing Q4 Y/Y.
Source: BEA, Federal Reserve, MNI

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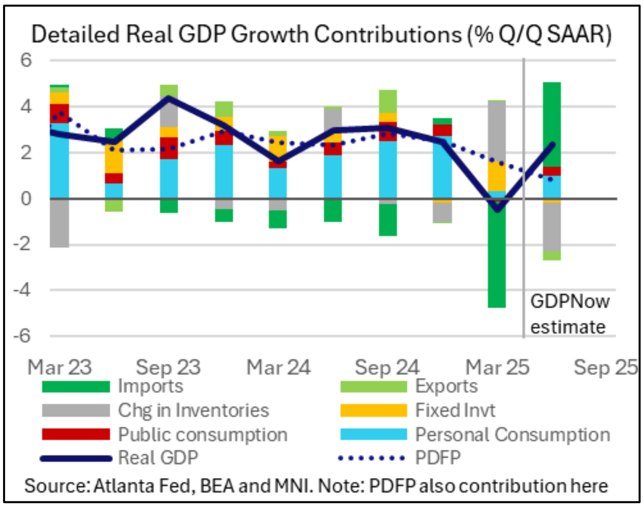
All Signal, No Noise

MARKET ANALYSIS

To help contextualise the potential extent of tariff-driven price increases, Treasury deposits from customs and certain excise duties have increased by an equivalent of 1.2% of total (not core) personal consumption expenditure. Alternatively, that's worth 10% of imports whereas the effective tariff rate could increase to 16-17% with more penal tariffs slated for Aug 1, implying at least half as much again could be in the pipeline. Of course, actual passthrough into consumer prices depends on the burden sharing between consumers, businesses and importers.

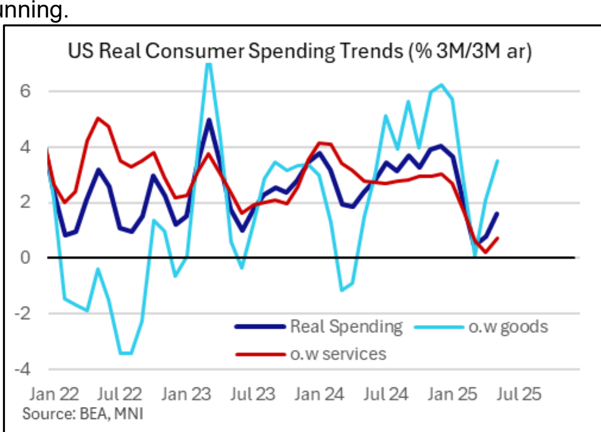
Q2 GDP Bounce Looks Increasingly Less Impressive

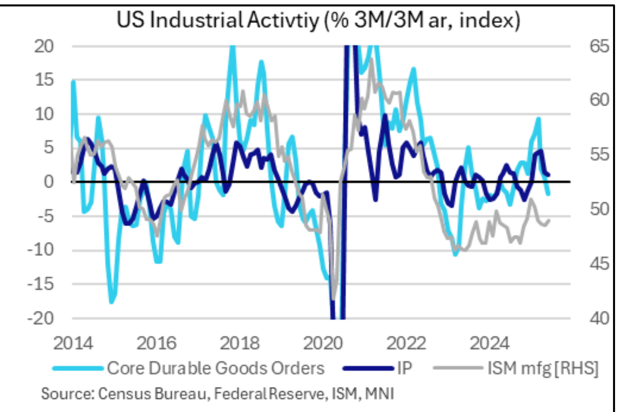


Q1 national account revisions saw another trimming in consumer spending, going further against the narrative that the Fed expected to play out. Rather than being revised higher as Powell suggested in the May FOMC press conference, personal consumption has been cut from 1.8% in the advance release to 1.2% in the second (avaiable with the June FOMC) and 0.5% in the final release in late June. It was partly offset by a less heavily negative net trade contribution (a still massive -4.6pp) but real GDP growth was revised lower to -0.5% annualized. That abrupt slowdown in GDP growth from 2.4% in Q4 was expected to be followed by a bounce in Q2, with real GDP tracking solidly in the 3-4% range in the lead up to the June FOMC meeting although this has faded to 2.4% in the latest Atlanta Fed GDPNow estimate. That's ahead of the official advance release for Q2 on Jul 30.

Net exports remain a key driver in Q2 tracking, seen adding 3.3pp after that -4.6pp in Q1, whilst on the flip side changes in inventories are expected to drag -2.1pp after +2.6pp. Private consumption is looking weak, tracking at 1.0pp after 0.3pp in Q1. The latter stems from some tepid monthly consumer data, with May's report much weaker than expected. While underlying personal income growth remains solid, services spending remains worryingly weak and the pre-tariff pulling forward of goods demand showed its inevitable reversal in May. In particular, real consumer spending fell -0.3% M/M in May (0.0% expected, 0.1% prior). The household savings rate fell from 4.9% to 4.5% although has been above 4% for four consecutive months. This higher level could reflect a lack of consumer confidence amid policy uncertainty, suggesting that consumers have some resources with which to make purchases if confidence returns, though we always take this volatile and often heavily-revised data series with some skepticism. The subsequent retail sales report for June did however surprise stronger, rising a nominal 0.6% (consensus 0.1) in a partial recovery after the -0.9% M/M in May. The control group meanwhile accelerated to a nominal 0.5% M/M after a downward revised 0.2% M/M, with large divergence between in recent months stemming from swings in auto sales.

On the business side, industrial production accelerated in June with a 0.3% M/M increase after 0.0% although it was boosted by the volatile utilities sector whilst manufacturing production only increased 0.1% M/M after 0.3%. The 3M/3M trend rate has slowed to 1.1% annualized or 2.1% for manufacturing, the slowest since February in a clear sign that tariff front-running effects have dissipated. Core durable goods orders have also eased to -1.7% annualized in Q2 after a booming 9.2% in Q1 on tariff front-running.





Housing is worth a mention, an area where activity continues to struggle and is being used by President Trump to repeatedly criticize Fed Chair Powell and increasingly the broader Fed Board. Construction data have been soft whilst existing home sales fell more than expected in June to a nine-month low, a level that's about 25% below the level of sales pre-pandemic (2019) and 40% below that seen at the height of the pandemic frenzy in 2020-21. The lack of activity hasn't dampened selling prices though: median prices rose 2.0% Y/Y. It saw an all-time (nominal) high of $435.3k in non-seasonally adjusted terms - while June tends to bring the highest prices of the year, the Y/Y change reflects continued price resilience. That said, relative supply increased further – 4.7 months of supply was the highest since 2016 – and there are similar findings in new home inventories. Amid continued affordability issues with mortgage rates high, it's likely that downside pressures on prices will increase. Against this backdrop, residential investment is likely to remain moribund through the rest of 2025.

In some of the key soft indicators, consumer confidence holds a rebounded off post-tariff announcement lows but remains depressed historically. On the business side, the ISM Manufacturing survey improved a little more than expected in June, rising to 49.0 (48.8 expected, 48.5 prior) for the first increase in 4 months albeit still in contractionary territory amid heightened trade policy uncertainty. A rebuilding of inventories as well as stronger production led the increase. The ISM Services report for June was mixed at 50.8 (50.5 expected, 49.9 prior). Prices, activity and new orders stabilized after a worrying May, but employment and order backlogs were notably soft as inventories continued to grow. Tariffs continued to cast a shadow over the survey, with anecdotes appearing more wary of the demand outlook than suggested by the improvement in the major aggregates. With signs of labor market weakness still keenly watched for, the biggest point of weakness was in employment: the index fell 3.5 points to 47.2, more than the expected 1.2 point deterioration and the third month in four in contractionary territory. Flash July PMIs meanwhile were mixed, with manufacturing surprising with its lowest since December and back in contractionary territory whilst services surprisingly increased to the highest since December. Tariffs were reported as being “increasingly passed through to consumers” resulting in prices charged inflation for goods & services among the largest seen over the past three years.