MNI U.S. Macro Weekly

MNI View: Powell Patience As Geopol Risks Surge

Jun 20, 2025 – By Chris Harrison and Tim Cooper

[This is an unusual two-week edition of the MNI US Macro weekly, capturing CPI/PPI and retail sales reports before the FOMC decision of Wed 18 June]

Executive Summary

- The CPI report saw weakness in services and large goods items outweigh some emerging tariff signs whilst PPI details had a neutral readthrough. Core PCE inflation is tracking at 0.15% M/M in May after a 0.12% in April.
- Since the releases, import prices suggest most foreign exporters didn't take a tariff "hit" in April or May by lowering their selling prices, implying domestic consumers or importers continue to bear the larger costs.
- Surveyed inflation expectations have cooled, with some question marks around the U.Mich survey.
- May retail sales, on day one of the two-day FOMC meeting, saw the control group flatter a mixed report.
- Combined with weak residential construction and the Q2 GDPNow of 3.4% is its lowest since May 27.
- Weekly jobless claims confirmed recent deterioration in the labor market, including a sizeable step higher in initial claims compared to recent payrolls reference periods.
- The June FOMC communications had a hawkish tilt overall, despite the immediate dovish reaction to the updated Dot Plot retaining the median expectation of 50bp in rate cuts by end-2025. Chair Powell was far from emphatic about the prospect of rate cuts, all but taking a cut at the July meeting off the table. That said, the FOMC still remains committed to cutting, if only in half-hearted and patient fashion.
- A characteristically dovish Governor Waller was quick to push back on Powell's patient rhetoric, saying on Friday that the Fed could cut as early as July whilst not wanting to wait until the job market "tanks".
- Geopolitical developments and prospects of the US striking Iran have set the tone throughout although the dovish Waller has helped see cut expectations climb to 51.5bp of cuts for 2025 at typing.
- The week ahead sees Powell's Congressional testimonies and we watch broader Fedspeak -- the FOMC is particularly divided with 7 members looking for zero cuts this year through to 2 looking for three.
- There are various data releases of note, with the pick being the May PCE report on Friday.

A More Hawkish Distribution Behind The Dot Plot

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	7	4				
4.00-4.25	2	4	1	3		
3.75-4.00	**8**	**9**	5	1	2	2
3.50-3.75	2	2	**4**	2	3	4
3.25-3.50			5	**9**	**6**	2
3.00-3.25			2	1	3	**6**
2.75-3.00			1	3	3	3
2.50-2.75			1		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	**3.9**	3.9	**3.6**	3.4	**3.4**	3.1
Participants	**19**	19	**19**	19	**19**	19

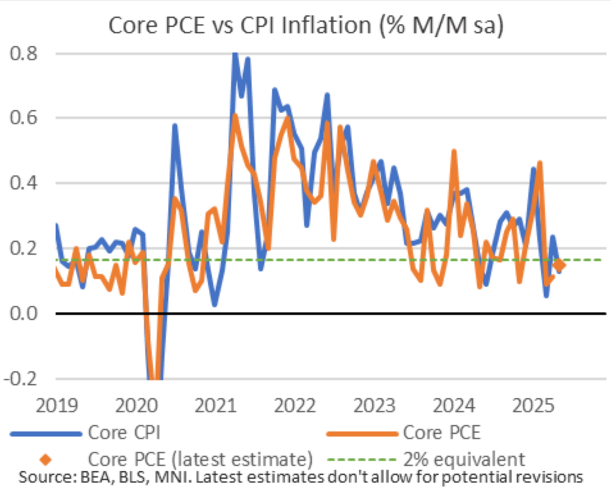
Medians in bold. Source: MNI, Federal Reserve

Inflation: Weak Services And Large Goods Items Outweigh Some Emerging Tariff Signs

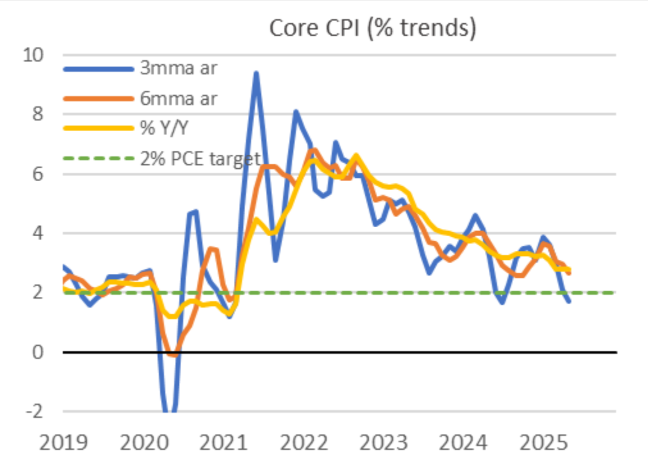
Surprising Weakness Sees Core PCE On Track For Another Soft Print

CPI Inflation	Apr	May
Core M/M (sa)	0.24%	0.130% (MNI unrounded median 0.27)
Headline M/M (sa)	0.22%	0.081% (MNI unrounded median 0.16)
Core Y/Y	2.78%	2.79 (cons 2.90)
Headline Y/Y	2.31%	2.35% (cons 2.48)

- Core CPI inflation was notably softer than expected in May at a seasonally adjusted 0.13% M/M.
- There were downside surprises across the major categories, with core goods and both housing and non-housing services.
- Core goods details did show some increased signs of tariff increases but they were clouded by declines for both new & used vehicles and, more surprisingly, apparel.
- Accordingly, the Y/Y surprised lower at an unchanged 2.8% Y/Y whilst the six-month trend rate eased from 3.0% to 2.65% annualized. That's the first time the six-month rate has been softer than the Y/Y since December, having been as much as 0.4pp higher in Jan and Feb.
- PPI inflation on Thursday then saw largely benign trends even if trade margins bounced back.
- The PCE-relevant components of PPI were largely neutral on the month after a heavy drag in April.
- Core PCE is currently expected to come in at 0.14-0.15% M/M for May.
- It is however, too soon to determine tariff inflation implications, with larger increases expected to filter through in June and July.
- Overall versus pre-CPI, 2025 cumulative Fed cut pricing has deepened 11bp to 53bp –briefly hitting 56bp post-PPI. The next cut is just about priced by September (23+bp, over 90% probability), vs October prior.



Source: BEA, BLS, MNI. Latest estimates don't allow for potential revisions



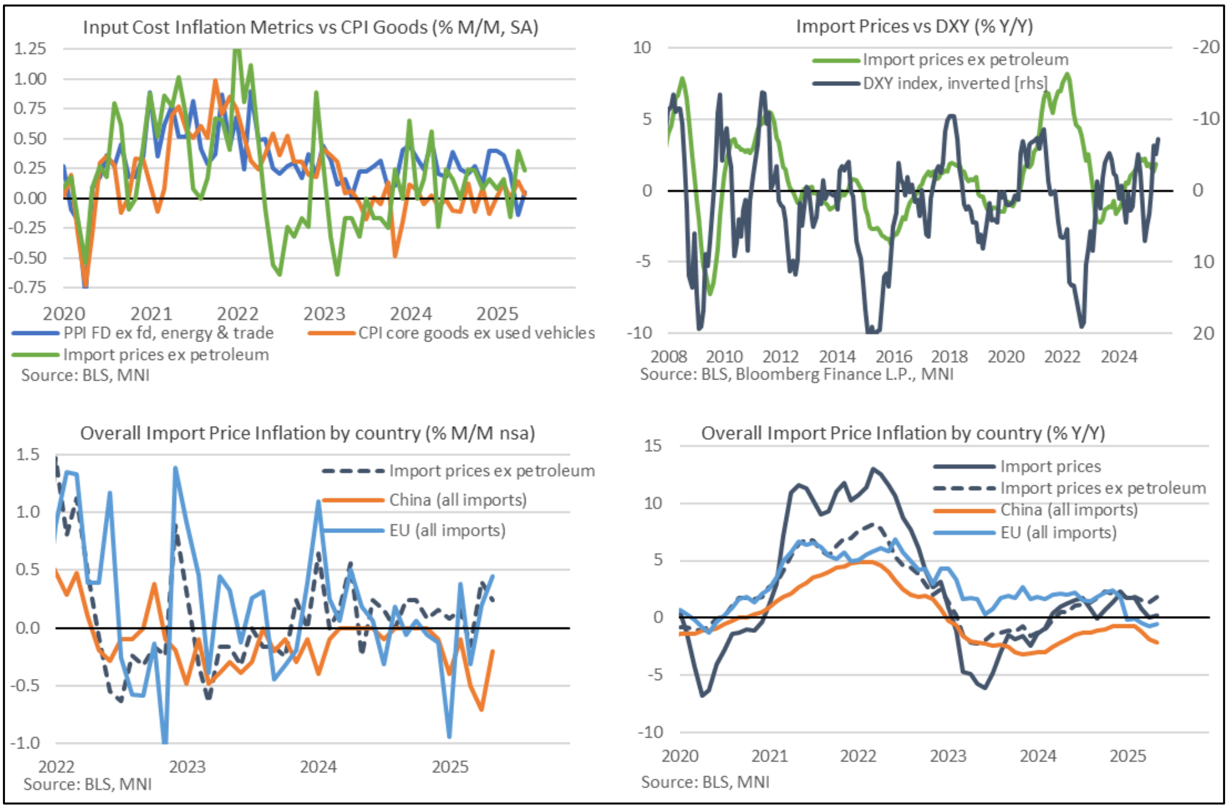
Source: BLS, MNI

For more detailed analysis on the CPI and PPI, see the MNI US Inflation Insight (link).

Import Prices Show Most Exporters Didn't Take Tariff "Hit" In Apr/May

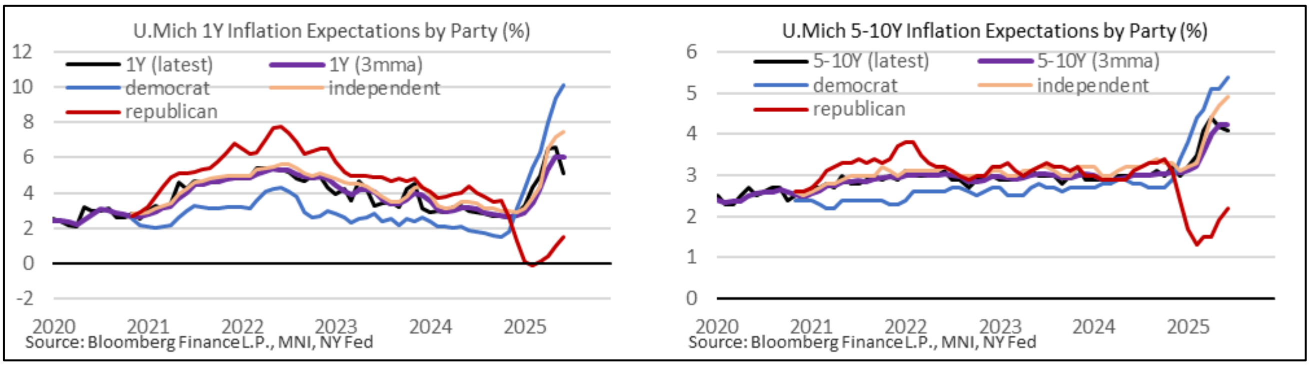
- Import prices were a little stronger than expected in May at 0.0% M/M (cons -0.2) after 0.1% in April whilst ex petroleum prices increased 0.2% M/M (cons 0.1) after 0.4% in April.
- For ex-petroleum prices, it's a solid increase after the 0.4% in April was its strongest in twelve months. It saw the Y/Y accelerate from 1.36% to 1.8% Y/Y for its highest since February and with some further increases possible judging by USD weakness - see charts below.
- Whilst these data do not take account of tariffs (which are considered taxes in the national accounts), they importantly point to little sign of exporters taking part of the "hit" of US tariffs in the form of lowering their prices to remain more competitive against countries with lower tariff rates.
- That's on a widespread basis, and likely a factor of the baseline 'reciprocal' 10% tariff rates seen for many countries during the current 90-day pause. There are however signs of some discounting from those that have been targeted more heavily, with China a clear standout.
- For example, overall import prices from China fell -0.2% M/M in May after a heavy -0.7% M/M in April whereas prices from the EU increased 0.4% M/M after 0.2% M/M.

- Overall declines in Canada (-1.0%) and Mexico (-0.3%) have to be taken with caution, as this was driven by fuel prices, with non-manufacturing import prices +0.7% M/M from Canada and 0.0% M/M from Mexico.
- China import price inflation stands at -2.1% Y/Y (weakest since Apr 2024) whilst EU import price inflation lifted from -0.8% to -0.5% Y/Y after what had been its weakest since May 2020.



U.Mich Inflation Expectation Details Suggest Caution Is Needed In Interpretating Headlines Figures

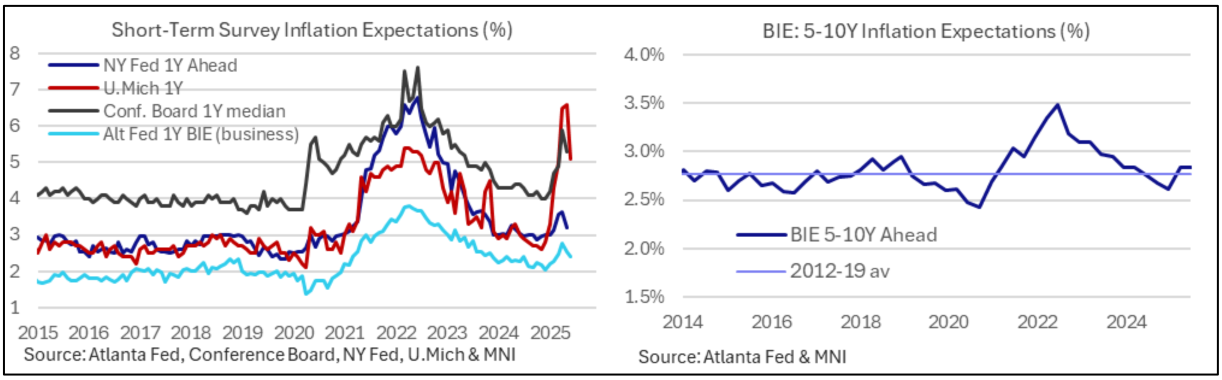
- Median 1Y inflation expectations surprisingly fell to 5.1% (cons 6.4) in preliminary June results after 6.6% in May. However, a three-month average inched up from 6.03% to 6.07%.
- Against that, Bloomberg reports that democrats increased from 9.4% to 10.1%, independents from 7.2% to 7.5% and republicans from 1.0% to 1.5%. These are three-month averages, per the latest full “Data Booklet” that U.Mich published which was only up to April - pg 73 here)
- Median 5-10Y inflation expectations meanwhile fell to 4.1% as expected after 4.2% in May, although the three-month average was unchanged at 4.23%.
- Again, democrats increased from 5.1% to 5.4%, independents from 4.7% to 4.9% and republicans from 1.9% to 2.2%.



Mellow Business Inflation Expectations In June – Atlanta Fed

The Atlanta Fed's Business Inflation Expectations survey for June continued to show relatively modest impacts from US tariff policy.

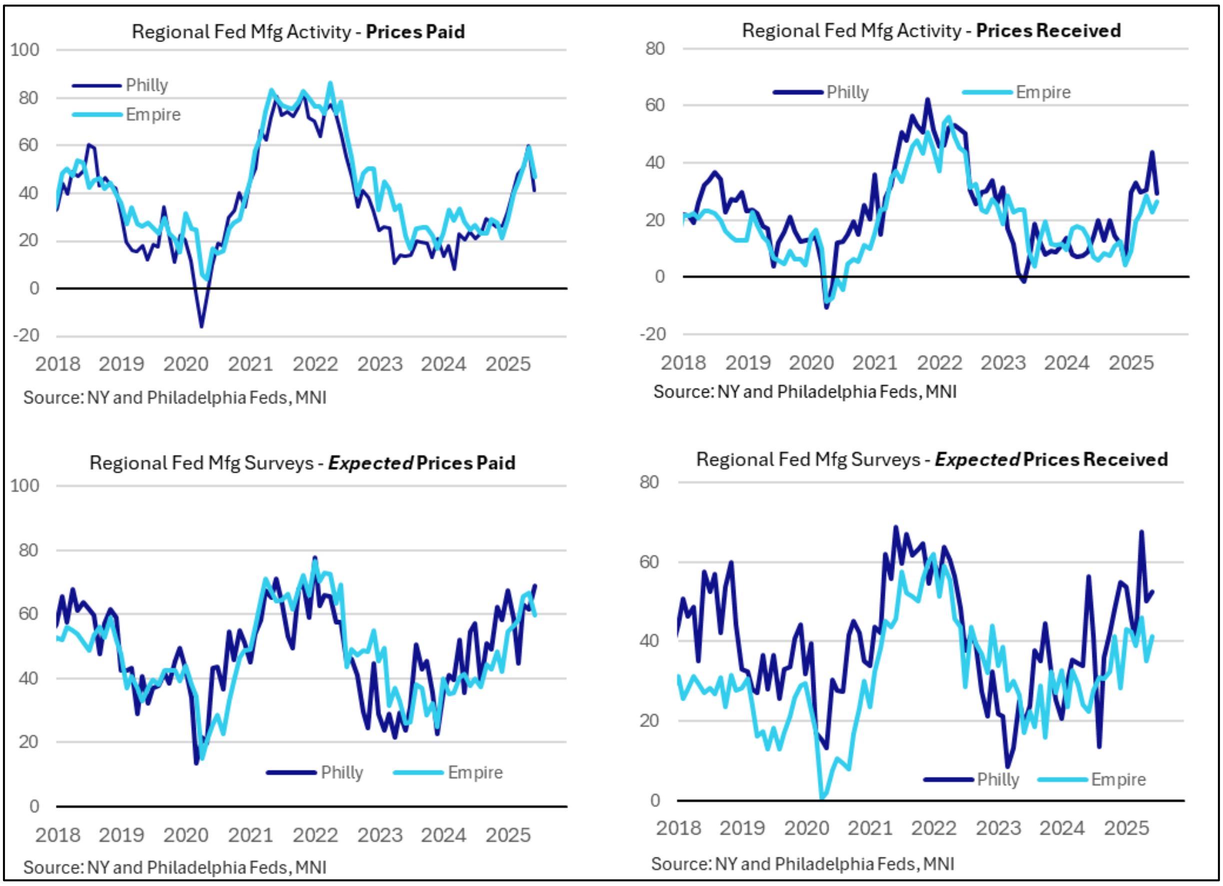
- Firms' 1Y ahead inflation expectations, defined in the details as the mean change in expected unit costs over the next 12 months, fell to 2.42% in June from 2.54% in May.
- It's down from a recent high of 2.76% in April (highest since Jul 2023) for the lowest since February but still a little above the 2.24% averaged in 2024 for context.
- The increase and subsequent pullback is more in keeping with a modest increase in consumer expectations from the NY Fed's survey as opposed to the sharper climbs in the U.Mich survey and less so Conference Board survey.
- This release also sees the quarterly question for firms' long-run unit cost inflation expectations 5-10Y ahead, with it unchanged at 2.8% from the March survey. It's up from Q4 low of 2.6% (lowest since 3Q20) but has only increased back to the 2.8% averaged since the survey started in 2012 through 2019.
- The combination points to a more mellow uptick in inflation expectations compared to sharper increases in prices paid components of ISM manufacturing and services surveys as of May.



Philly Fed Mfg Current Inflation Eases In June But Expectations Climb

The price details of the Philly Fed manufacturing survey for June showed a pullback from elevated rates for both prices paid and prices received in the current period. Six-month ahead expectations for prices paid pushed higher again though, and at 68.9 is getting closer to the high of 77.8 from Jan 2022, although prices received isn't quite as relatively elevated.

- Current period prices paid eased to 41.4 in June (lowest since Feb) after a particularly elevated 59.8 in May (highest since Jun 2022).
- Notably, current period prices received also pulled back to 29.5 (lowest since Dec) from 43.6 in May (highest since Jun 2022) rather than showing any sign of inertia.
- These readings are still elevated, comparing with an average 19.7 for prices paid in 2019 and 16.5 for prices received, but at least pressures have abated.
- Expectations continued to increase however, with the six-month ahead for prices paid rising a further +7.3pts to 68.9 (highest since Jan 2022), although this didn't translate as strongly into prices received, +2.5pts to 52.5 off April's 67.7.

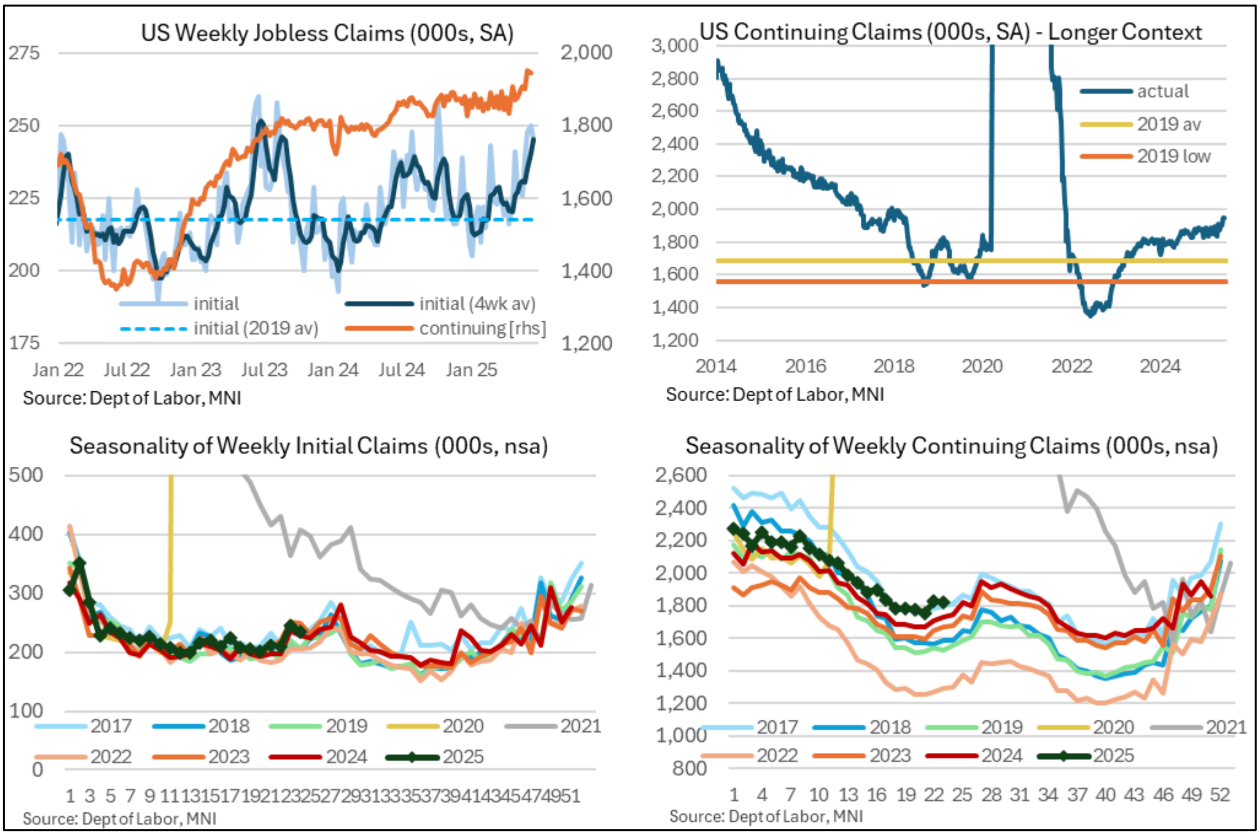


Labor Market: Cracks Emerging

Notable Upward Trend In Jobless Claims Confirmed

The weekly jobless claims data confirmed recent deterioration in the labor market. There was a sizeable step higher in initial claims compared to recent payrolls reference periods along with the highest four-week moving average since Aug 2023, whilst continuing claims hovered close to the previous week's fresh high since late 2021.

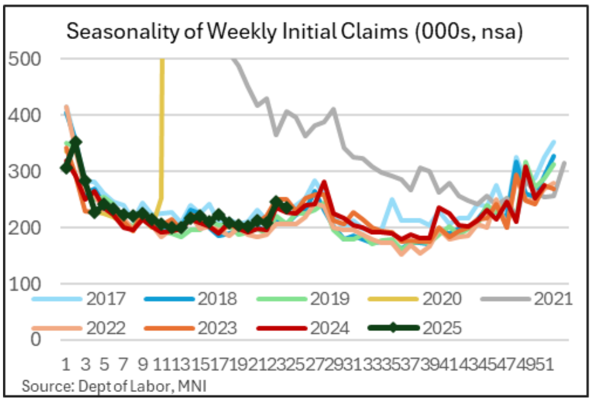
- Initial jobless claims were as expected at 245k (sa, cons 245k) in the week to Jun 14 – a payrolls reference period – after a slightly upward revised 250k (initial 248k).
- This can still be revised next week but for now it points to a step higher from reference payroll periods (226k for May, 216k for Apr, 225k for Mar and 224k for Feb).
- The four-week moving average increased to 246k from a marginally upward revised 241k (initial 240k) for its highest since Aug 2023.
- Continuing claims were a touch higher than expected at 1945k (sa, cons 1941k) in the week to Jun 7 after a slightly downward revised 1951k (initial 1956k).
- It rules out a larger downward revision from what had been a firm uptick in continuing claims in the prior week for a fresh high since late 2021, with only a marginal improvement seen in latest data.
- The claims rate saw a second week at 1.28% after two weeks at 1.25%.

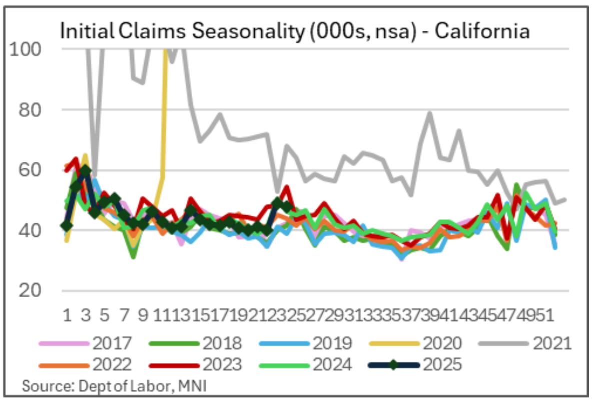


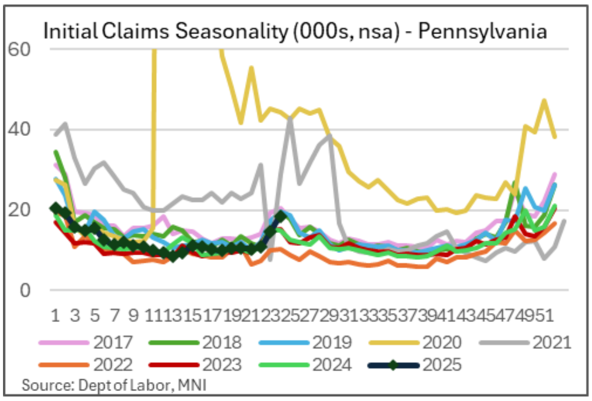
Recent Increases In NSA Jobless Claims Relatively Concentrated

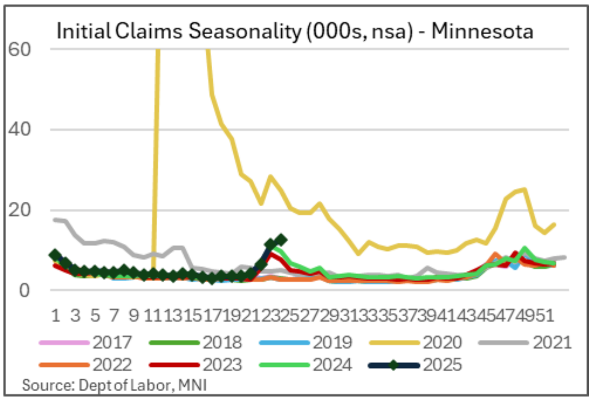
The state-levels details of jobless claims data suggest recent increases in non-seasonally adjusted initial claims has been driven by increases in a relatively narrow range of states although a lack of improvement ahead would be notable.

- Adding to the above on jobless claims data, the seasonally adjusted initial claims figures have started to push higher with their highest four-week moving average since Aug 2023.
- The non-seasonally adjusted level of initial claims mostly support this, lifting a little in the past two weeks compared to non-pandemic years although as top left chart shows it's not wildly different to readings from 2023 and 2024 for the same time of year.
- Of the increase that we have seen, with NSA initial claims rising a cumulative 27k in the latest two weeks, 7.5k has come from California (largest state, similar to 2024 but otherwise elevated) whilst more notable increases for their size have come from Pennsylvania (+7.7k) and Minnesota (+5.9k).
- These latter two are somewhat linked to seasonal norms but would start to be more notable if they don't roll over shortly, especially Minnesota.







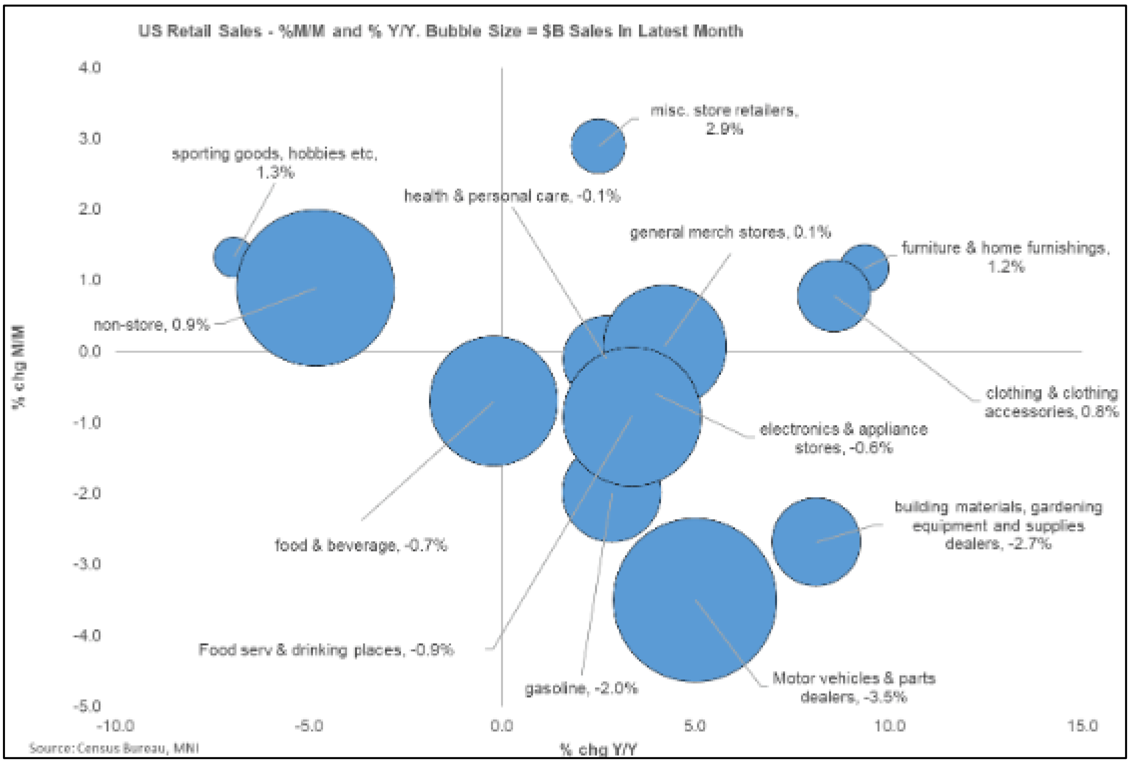


Growth: An At Best Mixed Retail Report Ahead Of PCE Update

Control Group Flatters Mixed Retail Sales Report

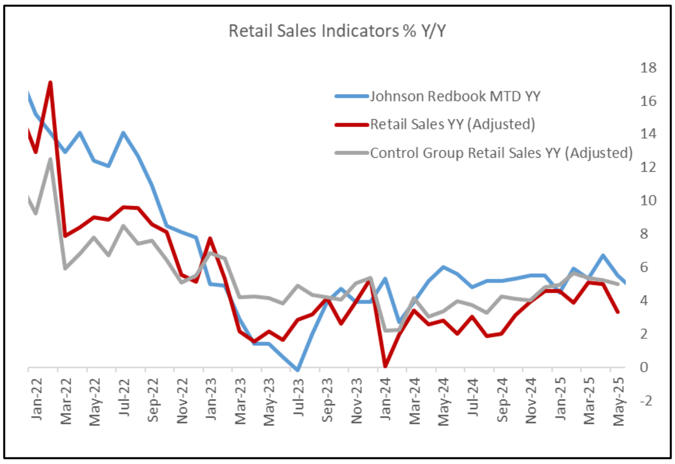
May saw the biggest month-to-month drop in retail sales (-0.91% M/M SA unrounded, vs -0.6% consensus and -0.1% April rev from +0.1%) since March 2023, with ex-autos/gas weaker than expected (-0.1% vs +0.3%) and surprisingly decelerating from April (0.1%, rev down from 0.2%). Likewise, ex-auto sales unexpectedly fell, by 0.3% (+0.2% expected, 0.0% prior rev down from 0.1%).

- Bucking the trend was the closely-watched Control Group, which rose more than expected at 0.4% (0.3% consensus), with prior revised up (April -0.1%, from -0.2%).
- The reason for the Control Group "beat" was the poor performance of several major categories of retail sales that aren't included in Control: vehicle sales, which dropped the fastest in 11 months at 3.9% M/M in line with expectations for a sharp decline (-0.6% prior); gasoline sales, which fell 2.0% (-0.7% prior) also as expected given 2.6% CPI deflation in this category; building materials/gardening sales, which fell 2.7% M/M for the biggest decline in 16 months (0.3% prior); and food services and drinking places, whose fall of 0.9% (biggest drop in 27 months) looks to have been unexpected, versus strength in the prior two months.
- The pullback in restaurant sales is somewhat concerning from a discretionary spending perspective, though of course all of the individual series are volatile. But the Control Group performance flatters the broader report in terms of gauging the health of consumption. Motor Vehicles/Parts and Food Services/Drinking Places, plus Food/Beverage stores (-0.7%) are three of the top four categories of retail sales by size making up 60% of the total, and each contracted.
- The standout was on the upside was non-store retail, the second-largest category, which impressed with 0.9% M/M gains; the smaller categories of clothing (+0.8%), miscellaneous scores (+2.9%), furniture (+1.2%) sporting goods (+1.3%) which were all arguably tariff-impacted categories saw gains albeit largely in a rebound from a poor month or two prior, though electronics stores (-0.6%) weakened.



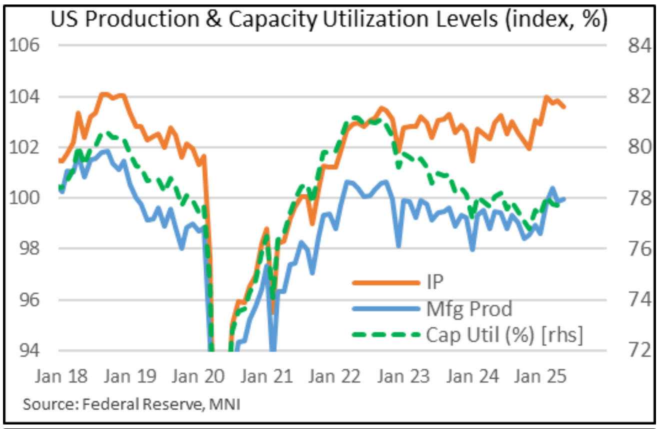
Redbook Sales Continue To Suggest Steady Slowdown In Core Retail

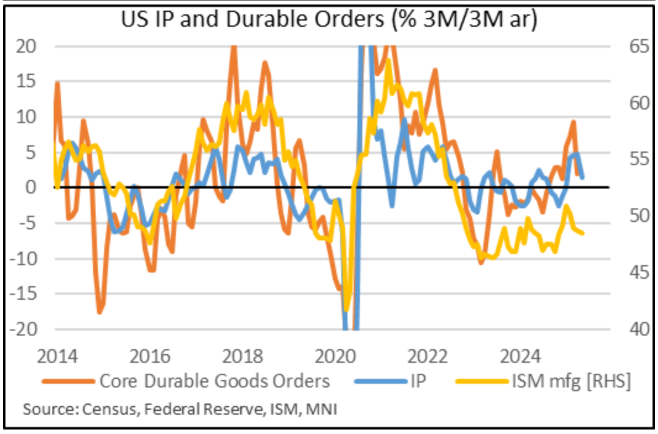
Johnson Redbook's retail sales index showed a 5.2% Y/Y rise in the week ending Jun 14, up from 4.7% prior and bringing June-to-date sales to 5.0% Y/Y.



- However that was versus retailers' targeted 5.7% gain, and the report's anecdotals were very much mixed: "Father's Day promotion sales were mediocre, but they still managed to bring customers into stores, increasing foot traffic and creating positive spillover business in other product areas. Off-price and discount retailers continue to gain market share from department stores. During the week, there was notable activity in men's apparel and other typical gift categories, such as home improvement items, gardening supplies, sporting goods, leisure items, and appliances. Additionally, the summer heat increased customer traffic for seasonal products, including air conditioners, fans, pool and beach equipment, swimwear, and other warm-weather apparel, as most shoppers tended to purchase items according to their immediate needs."
- Redbook's 5.5% Y/Y reading for May exceeded the Census Bureau retail sales report which showed a pullback in overall sales to 3.3% Y/Y, a 7-month low. However that was heavily influenced by weak auto and gasoline sales and other volatile categories, and indeed Redbook was closer to the mark on Control Group sales, which came in at 5.0% Y/Y.
- Both Control Group and Redbook have been seeing a clear but relatively steady slowdown since Q1 on a Y/Y basis, and this looks likely to continue into June.

Industrial Output Continues To Stutter After Pre-Tariff Burst





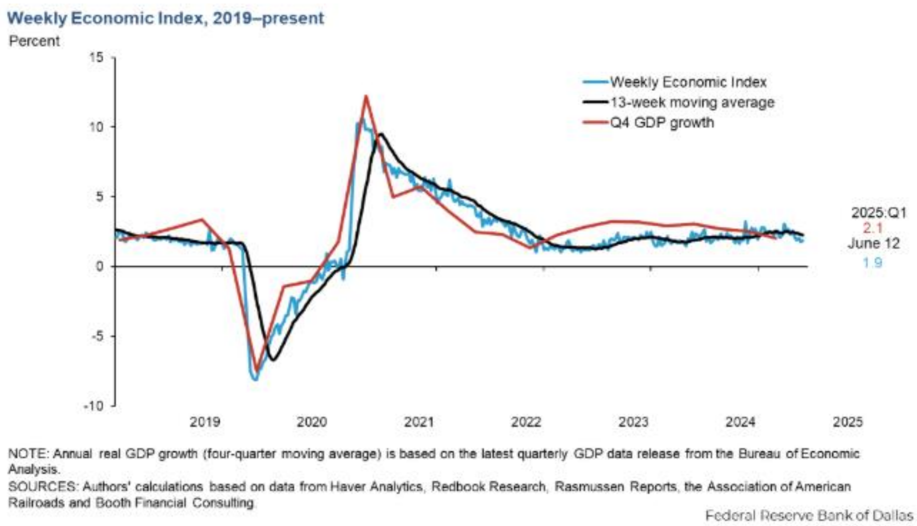
Industrial production unexpectedly contracted in May, falling 0.2% M/M vs a consensus for +0.1%, though this was partially offset by an upward revision to April (0.1% vs 0.0%). Manufacturing production growth was in-line with 0.1% growth, though April was revised a bit lower (-0.5% after -0.4%).

- That meant utilities were the primary reason overall IP fell, with a decline of 2.9% M/M following a strong April (+4.9%, upward rev from +3.3%), looking largely weather related (electric utilities -3.6% M/M, vs natural gas +2.7%).
- Overall, US industrial output looks to have peaked in Q1 for the time being, reflecting some pulling forward in production and demand ahead of tariff impacts. Most indicators, including durable goods orders and surveys such as ISM Manufacturing, have pointed to a pullback in Q2 in industrial output which looks to be borne out in the data so far.
- Manufacturing output rose at a 39-month best 5.5% 3M/3M SAAR pace in April largely reflecting a breakneck Feb/Mar, but this has started to pull back to 3.9%. Manufacturing levels are up just 0.5% Y/Y.
- Also reflecting the pullback, the level of the IP index is below its February level, and up just 0.6% Y/Y, the slowest since December (and 1.5% 3M/3M SAAR). Overall capacity utilization fell 0.3pp to a 4-month low 77.4%.
- Major market groups were mixed, though likewise paint a picture of pre-/post-tariff dynamics: consumer goods production fell for a 3rd consecutive month (-0.2%) after a strong burst in February (+1.1%), with the level of production below end-2024 levels. Construction/non-industrial and materials production also continued to struggle.
- On a more positive note: motor vehicle assemblies soared 7.2% in May, to 11.19M, most since March 2024, with overall automotive product production up 3.9% (albeit merely rebounding from -2.9% in April), helping durables offset nondurable weakness in consumer goods output. And the solid 0.8% M/M rise in business equipment production which continues to be the best performing major market group category, albeit this has cooled significantly from late 2024/early 2025.

Dallas Fed Weekly Economic Indicator Ticks Up

The Dallas Fed's Weekly Economic Index picked up slightly to 1.88% in the week ending June 7, up from the 6-month-low 1.76% seen in the prior week.

- That figure is scaled to annual (four-quarter) real GDP growth; the 13-week moving average is running at 2.27%, which would represent a slight tick up from 2.06% through Q1 2025.
- Overall the tracker has relented significantly from the 3+% rate seen in early April, and the longer-term averages appear to be rolling over - but still very much in expansionary territory for now. 1.8% growth is roughly what the Fed forecasts as the longer-run real GDP rate.
- Reminder of methodology: the index incorporates "the common component of 10 different daily and weekly series covering consumer behavior, the labor market and production".



GDPNow Dragged Down By Residential Construction

Residential construction looks like it is going to be an increasing drag on economic growth. The latest Atlanta Fed GDPNow estimate for Q2 GDP growth has been lowered to the weakest since May 27, at 3.4% Q/Q SAAR (3.5% prior), because residential investment is now seen contracting by 4.4% Q/Q annualized in the quarter - vs a -2.8% estimate yesterday and -0.6% in Q1.

- That would be the weakest residential investment growth since Q4 2022 and implies a 0.2pp drag on quarterly growth.
- Overall, the Atlanta Fed's GDP estimate has fallen fairly steadily since peaking at 4.6-4.7% at the start of June. See details below.

Atlanta Fed GDPNow estimates for 2025: Q2, growth rates and changes

Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
29-May	Latest BEA estimate for 24:Q4	2.5	4.0	-8.7	-0.5	2.9	5.5	3.1	-0.2	-1.9	17	-49
29-May	Latest BEA estimate for 25:Q1	-0.2	1.2	24.8	4.6	-1.4	-0.6	-0.7	2.4	42.6	-326	154
30-Apr	Initial GDPNow 25:Q2 forecast	2.4	3.3	5.1	5.2	0.6	-1.0	2.4	1.9	5.4	-41	-15
27-May	Advance Manufacturing (M3-1)	2.2	3.7	7.3	5.2	-1.7	-2.2	2.2	0.4	4.6	-43	-32
30-May	Q1 GDP (5/29), Adv. Econ. Ind., Personal income & outlays	3.8	3.3	5.1	5.3	-1.7	-2.2	2.3	-3.5	-11.4	97	-39
2-Jun	ISM Manuf., Construction spending	4.6	4.0	8.8	5.5	-1.7	1.8	2.4	-1.3	-9.4	90	-40
3-Jun	M3-2 Manufacturing	4.7	4.0	8.7	5.5	-1.7	1.8	2.4	-1.3	-9.4	90	-40
4-Jun	ISM Services, Auto sales	3.5	3.0	1.8	5.3	-2.9	-0.7	2.4	-3.3	-11.3	97	-40
5-Jun	International trade	3.8	2.6	2.3	5.3	-3.0	-0.9	2.4	-2.2	-13.9	133	-40
6-Jun	Employment situation	3.7	2.5	1.6	5.0	-3.3	-1.6	2.3	-2.8	-14.4	135	-36
9-Jun	Wholesale trade	3.8	2.5	1.7	5.0	-3.3	-1.6	2.3	-2.8	-14.4	135	-32
11-Jun	CPI, Monthly Treasury Statement	3.7	2.5	1.6	5.0	-3.3	-1.6	2.1	-2.8	-14.4	135	-31
12-Jun	Producer Price Index	3.7	2.5	2.0	5.0	-3.1	-1.6	2.1	-2.8	-14.4	135	-32
17-Jun	Retail trade, Industrial production, Import/Export Prices	3.5	1.9	1.8	5.0	-3.3	-2.8	2.1	-2.8	-14.6	137	-24
18-Jun	Housing starts	3.4	1.9	1.8	5.0	-3.4	-4.4	2.1	-2.8	-14.6	137	-24

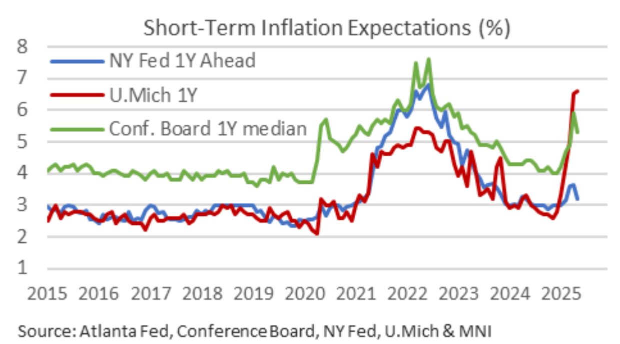
Consumer Sentiment: Less Pessimistic As Inflation Concerns Ease

NY Fed Consumer Inflation Concerns Ease In May (1/2)

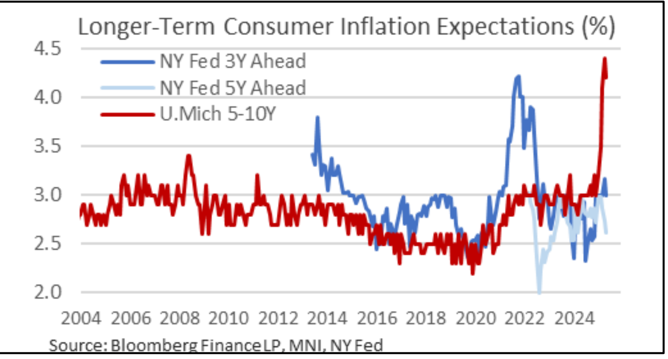
The New York Fed's Survey of Consumer Expectations (SCE) showed an improvement across the board in May, with respondents both less pessimistic on economic prospects and less concerned about future inflation compared with April. The prior months will of course have been impacted by the anticipation and announcement of April's

"Liberation Day" tariffs, while May's respondents will have taken into account the US-China trade conflict climbdown on May 12 (NY Fed: "The survey is structured so that a roughly equal amount of data are collected every week of the month.")

- 1-Year median inflation expectations fell to 3.2% from 3.6% prior, the biggest drop since February 2023 to the lowest level since February of this year. 3Y median ticked 0.2pp lower to 3.00% (fully reversing what now appears to be a temporary tariff-led increase in April).
- The 5Y median fell to the lowest unrounded (2.61% from 2.74%) since January 2024, and is now nearly 0.4pp below the early-2024 peak.
- These levels are much closer to the longer-term averages, having not come close to pandemic reopening highs (at least in the cases of the 1Y and 3Y figures, the 5Y started in 2022).
- The NY Fed survey is seen as having a more robust methodology than other consumer surveys, and has certainly been less volatile during the current tariff episode. The UMichigan survey actually saw an uptick in the May 1Y
- reading in May (6.6% vs 6.5% April) albeit a slight decline in the 5-10Y (4.2% vs 4.4%); the Conference Board survey saw a 0.6pp pullback to 5.3% median 1Y expectations.
- The survey notes the declines "were broad-based across age, education, and income groups" and that "median inflation uncertainty-or the uncertainty expressed regarding future inflation outcomes-declined at the one-year horizon and was unchanged at the three- and five-year horizons."



Source: Atlanta Fed, Conference Board, NY Fed, U.Mich & MNI

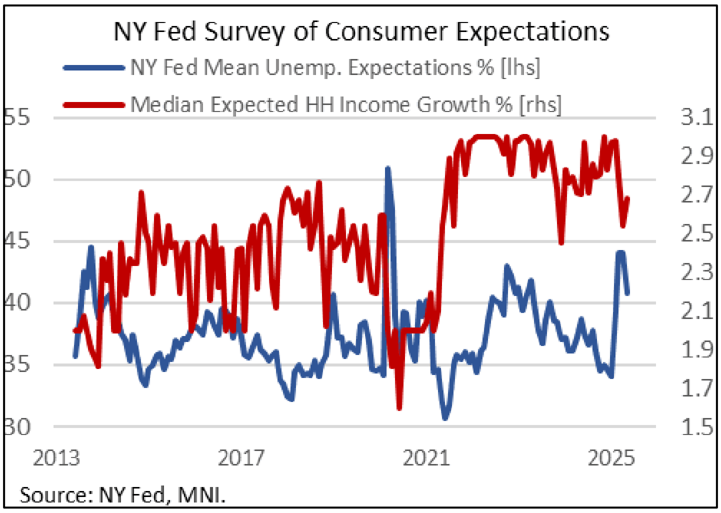


Source: Bloomberg Finance LP, MNI, NY Fed

Consumers Less Pessimistic On Jobs, Finances (2/2)

The vast majority of Labor Market and Household Finance categories in the NY Fed's Survey of Consumer Expectations (SCE) improved in May, though many remain weaker compared with late 2024/early 2025 as tariff uncertainty appears to continue in respondents' minds.

- One-year ahead earnings growth expectations rose 0.2pp to 2.7%, not far from the 12-month average of 2.8%, while mean unemployment expectations (re the mean probability the US national unemployment rate will be higher in 1 year's time) fell 3.3pp to 40.8%, though that's still above the 37.7% 12-month average. It should be noted that this hasn't been a particularly effective series in predicting future unemployment rates, but is still useful as a gauge of current consumer sentiment.
- Respondents' mean probability of losing their job in the next 12 months also improved, falling 0.5pp to 14.8%, with the expected 12-month quits rate up 0.1pp to 18.3% - and the perceived probability of finding another job in 3
- months (if respondents left the current job) rose 1.5pp to 50.7% (12m avg 52.2%).



Source: NY Fed, MNI.

- Against this backdrop, respondents were more optimistic (or at least, less pessimistic) on household finance prospects (current situations compared to a year ago and expectations about year ahead), with median expected household income growth up 0.1pp to 2.7% (albeit below the 12m avg 3.0%), perceived credit access improving, and lower perceived probability of missing a minimum debt payment.

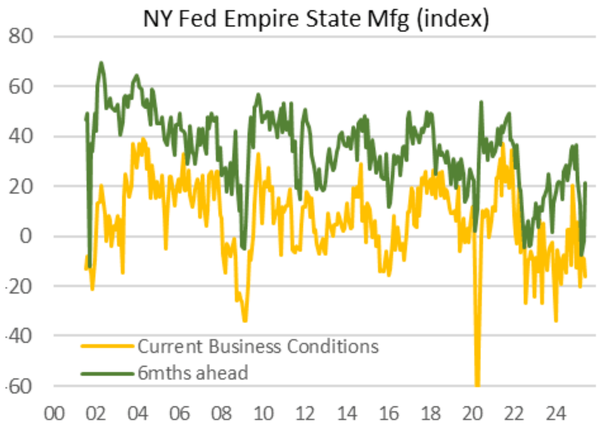
- Expectations of higher equity prices no doubt helped here too after the May stock recovery: the mean perceived probability that stocks would be higher in 12 months rose to 36.3%, though that's below the 12-month average 38.7%.
- Perhaps the weakest aspect of the May report overall was that median nominal household spending growth expectations dipped 0.2pp to 5.0%, though that's above the trailing 12-month average of 4.9% and being a nominal figure it may simply reflect lower 1Y inflation expectations.

Business Sentiment: A Few Warning Shots In Regional Surveys

Poor Activity, But Much-Improved Outlook In Empire Manufacturing Survey

The NY Fed's Empire Manufacturing survey unexpectedly saw the headline General Business Conditions index worsen in June, to a 3-month low -16.0 (-6.0 expected) vs -9.2 in April.

- This was a surprise as the Empire survey is conducted early in the month, and May's deterioration (-8.1 to -9.2) had been seen as not reflective of the May 12 US-China tentative tariff deal which saw sentiment improve in other surveys conducted later in the month.
- New orders pulled back sharply, from a positive 7.0 reading in May, to -14.2, a 3-month low, with shipments also declining. We also note higher delivery times and lower inventory levels, with the Supply Availability index ticking up to -8.3 from -11.4 but still suggestive of worsening supply availability.
- That said, this was a very mixed report as there was some notable improvement in other subindices. Most notably, the 6-month-ahead reading jumped to 21.2 (-2.0 prior), a 4-month high. And employment rose to the first positive reading (4.7, from -5.1 prior) since January, and the best level outright since December 2022, suggesting some hiring in the month.



Source: NY Fed, Bloomberg Finance L.P., MNI.

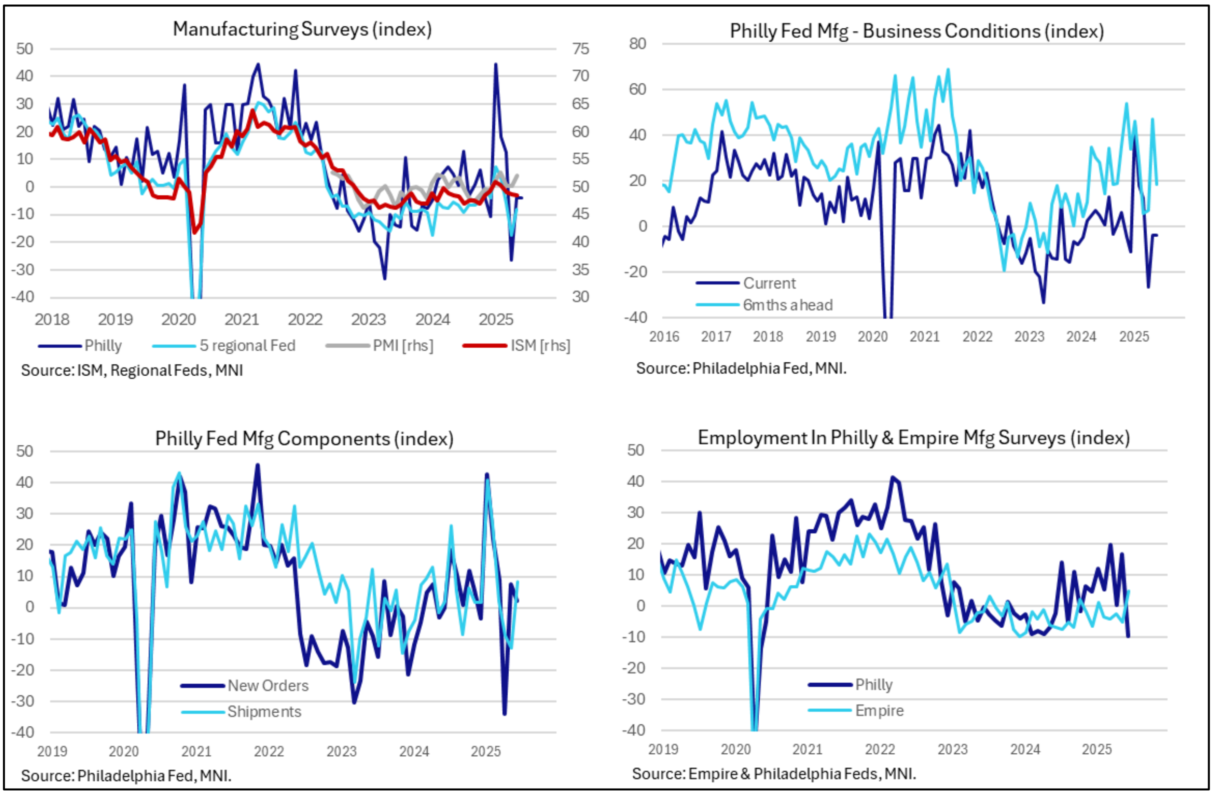
- Even within the 6-month outlook, results were extremely mixed: "New orders and shipments are expected to increase, and firms expect supply availability to be only slightly worse in the months ahead. Capital spending plans remained soft." Indeed capex plans were the weakest since 2020.
- There is probably more noise in this report than signal, given how mixed these readings are (and how volatile the survey is even in normal times).
- One largely clear finding though was that inflation components in the survey eased from multi-year highs in May: prices paid fell to 46.8 from 59.0, with 6-month expectations falling to 59.6 from 66.7, suggesting that the worst of the perceived price pressures may be over.

A Mixed Bag For Activity Within Philly Fed Mfg Survey

The Philly Fed manufacturing survey was a touch weaker than expected in June as it failed to improve. A sharp decline in the employment component was notable but we’re cautious reading too much into a single month.

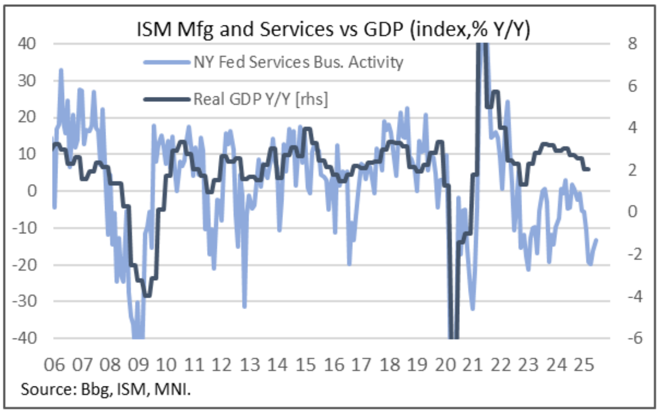
- The Philly Fed manufacturing business outlook reading was a little weaker than expected in June as it held steady at -4.0 (cons -1.5) for a second month.
- It marks two months of recovery from a particularly sharp drop to -26.4 in April although is still below the 25.0 averaged in Q1 after a boost at the start of the Trump presidency.
- Some of the main components were mixed. New orders softened to 2.3 after recovering to 7.5 in May after tumbling to -34.2 in April (lowest since Apr 2020 and before that early 2009) in April.
- Shipments however followed with a rough one-month lag, increasing to 8.3 (highest since Feb) after -13 (lowest since Nov 2023).
- The employment component meanwhile looks more troubling, slumping to -9.8 (last lower Apr and May 2020 and before that mid-2016) after 16.5 (second highest since Oct 2022) in a sign of cooling labor demand after a general front-loading of activity in Q1.

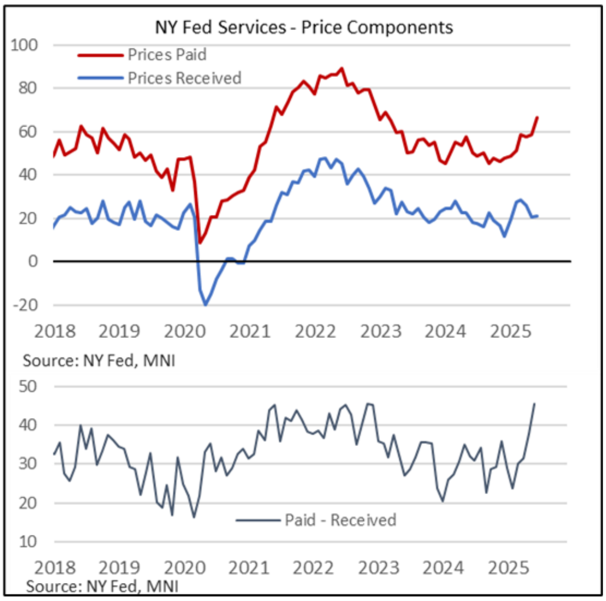
- There are however notable caveats that this is only for manufacturing, a sector that makes up about 10% of nonfarm payrolls, and the index is volatile. What's more, Monday's Empire survey saw the employment index rise from -5.1 to 4.7 for its highest since late 2022.

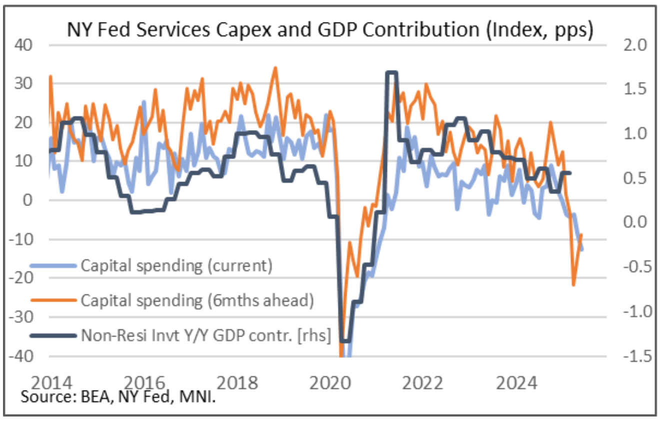


Service Firms In NY Fed District Saw Price Sensitivity and Lower Capex

- The NY Fed services general activity index increased from -16.2 in May to -13.2 in June, offering a first look at broader business activity and sentiment in the first half of June (collected Jun 2-9).
- It continues a slow recovery from -19.3/-19.8 readings seen in Mar/Apr ahead of/with the announcement of reciprocal tariffs. These are still low levels, having averaged -2.4 in 2024 and +7.3 in 2019 for context.
- Realized inflation readings were mixed but ultimately point to increased price sensitivity. Prices paid increased sharply from 58.5 to 66.5 (highest since Feb 2023) whilst prices received only inched up from 20.7 to 21.0 having averaged 27.4 through Feb-Apr.
- Latest capital spending indications offered notable weakness, falling from -8.3 to -12.6 for the lowest "current" figure since Jan 2021. The six-month ahead capital spending index did however continue to reverse its decline to a significantly weak -21.7 in April with -14.0 in May and now -8.7 in June, although prior to April that's still the weakest since Sep 2020. If replicated more broadly, these point to a large correction for non-residential investment after it added 0.6pps to Y/Y real GDP growth in Q1.
- Employment meanwhile fell for a second month to -2.5 (lowest since March) although six-month ahead expectations improved more notably from -4.1 to 6.2 (highest since Feb).

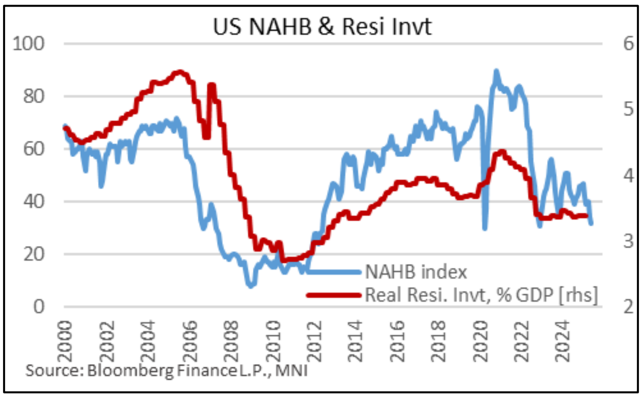






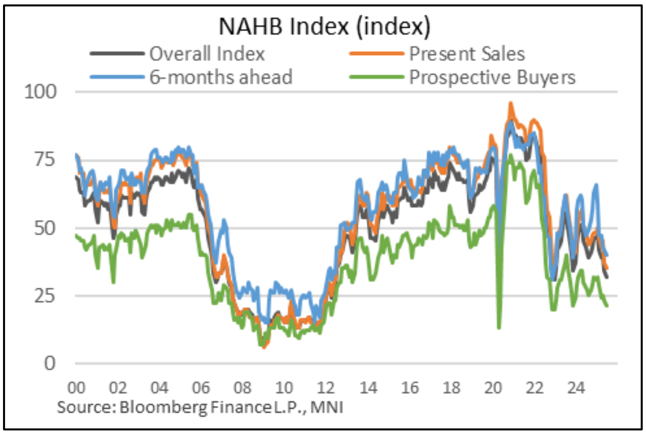
Housing/Credit: Sentiment and Construction Slides

Homebuilders Cutting Prices, Reducing Starts As Sentiment Sinks



The June National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index hit a joint 29-month low and 3rd-weakest since 2012 at 34, down sharply from 40 prior and continuing the overall decline since a post-2024 election burst of optimism.

- While the index of future sales merely edged 1 point lower to an 18-month low 42, present sales dropped 8 points to 37, a 29-month low and the biggest one-month drop in 34 months. Prospective buyer traffic also fell 2 points to 23, an 18-month low.
- Falls were seen across all 4 geographical regions.
- As such the nascent pickup at the start of the year has fully reversed, and if anything, prospects look as bleak as ever. The report notes "the use of price incentives increased sharply in June as the housing market continues to soften", with 37% of builders cutting prices, a record in a short series (tracking started in 2022) but notably up from 34% in May and 29% in April.
- Per the NAHB: "Buyers are increasingly moving to the sidelines due to elevated mortgage rates and tariff and economic uncertainty...To help address affordability concerns and bring hesitant buyers off the fence, a growing number of builders are moving to cut prices."
- The NAHB says that "given current market conditions, NAHB is forecasting a decline in single-family starts for

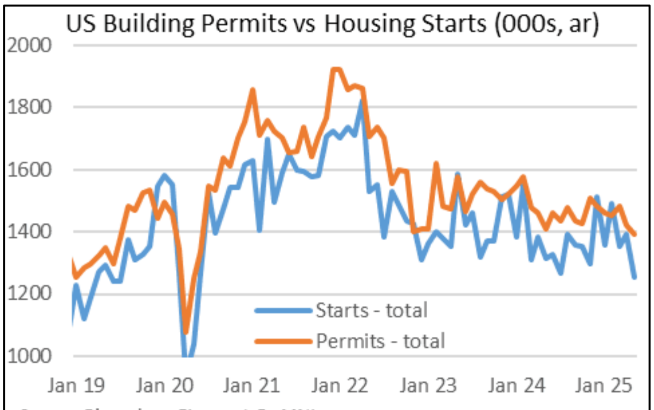


2025". Data through April suggests that's very likely to be the case (927k SAAR, 2nd weakest since April 2023, and down from 1,078k at end-2024).

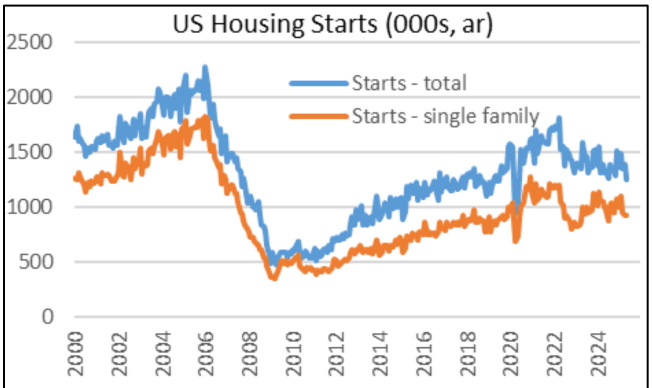
- In turn, with multi-family starts steady/lower, there is a good case for residential investment to drag on GDP this year after a rebound in 2024, unless there is a sudden and sustained reversal lower in mortgage rates.

Housing Activity Showing Increasing Signs Of Deterioration

May's New Residential Construction report was very weak, portending very negative current conditions for residential investment activity, as well as a dim outlook for the quarters ahead.



Source: Bloomberg Finance L.P., MNI



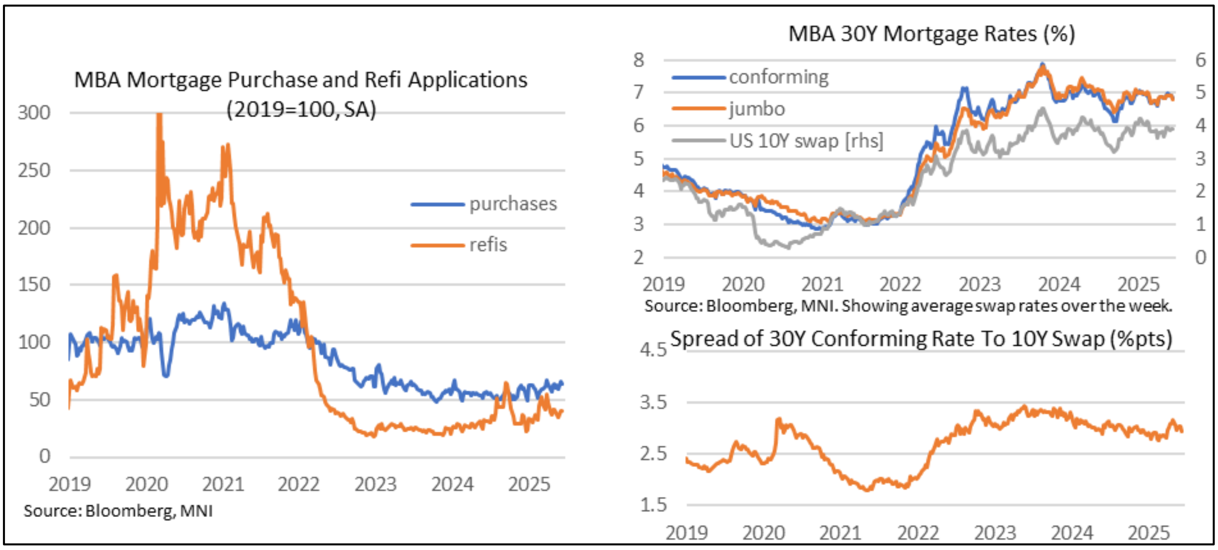
Source: Bloomberg Finance L.P., MNI

- Housing starts fell to the lowest level since July 2019 (seasonally adjusted) excluding the sudden stop in 2020's pandemic, with a 9.8% M/M decline bringing the seasonally-adjusted annual rate of starts to 1,256k in May (vs 1,350k expected, 1,392k prior rev from 1,361k).
- Permits at 1,393k also disappointed vs expectations of a steady reading vs April at 1,422k and also hit the ex-pandemic lowest since July 2019.
- Weakness was seen across the board: single family permits fell 2.7% (4th fall in 5 months) to a 25-month low 898k, with multi-unit permits down 0.8% (7th fall in 9 months). Starts, which lag permits, saw single-family activity actually pick up slightly (0.4%, but only after falls in 3 of the prior 4 months) to 924k, but multi-units fall almost 30% to 332k.
- Starts are now down 4.6% Y/Y with permits down 1.0% Y/Y.
- New homes continue to sell, but combined with June's very poor NAHB survey - which tends to lead single-family starts/permits - the housing market is due to weaken significantly this year after 2024's residential investment bounce.
- The recent downward pressure in prices is set to accelerate too, albeit against the backdrop of very limited sales volumes as existing homeowners stay put (that said, inventories-to-sales have clearly picked up). New home sales are fairly robust though as we learned in the NAHB survey, that may be because discounting is picking up sharply.
- There is likely no relief in sight absent a pullback in mortgage rates, with homebuilders' responses to supply-side reform (eg regulation) probably paling in importance.
- Permits are a leading indicator for starts but there is a bit more of a gap than usual building between the two - we wonder if there is some combination of factors here restraining starts, including uncertainty over government policy, "surprisingly" elevated interest rates, and immigration policy shifts (which were noted in the Fed's latest Beige Book as a constraint on construction companies).

Mortgage Spreads Retrace Half Of Tariff-Driven Widening

- MBA composite mortgage applications fell -2.6% (sa) last week for only a modest pullback from a strong 12.5% increase the week prior.
- The lack of reaction to a 9bp decline in the 30Y conforming mortgage rate wasn’t too surprising considering the outsized strength of that prior increase on a 1bp increase previously.
- New purchase applications led the decline (-3.0% after 10.3%) although refis saw a broadly similar pattern (-2.1% after 15.6%).
- Composite applications are at 52.5% of 2019 levels, with new purchases at 64% and refis at 40%.
- The 9bp decline in the 30Y mortgage rate came despite no change in the average 10Y swap rate over the week, which saw the mortgage-swap rate narrow to 294bps for its tightest since late March having widened

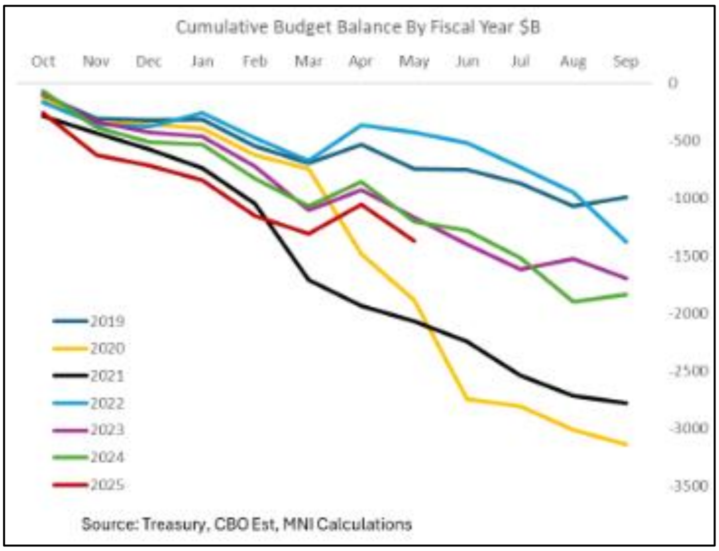
to 315bp in early May (widest since Feb 2024) in fallout from trade policy. It's still above the 285bp averaged through Q1 before the reciprocal tariff announcements of Apr 2.



Fiscal: In Line With Large Deficit Tracking

Federal Deficit Running In Line With Bessent's 6.5-6.7% of GDP Est

The federal budget deficit came in a little higher than expected in May, at $316.0B (vs $314.0B consensus and as estimated by the CBO on Monday), per Treasury's monthly statement. That brought the FY2025 fiscal year (Oct-Sep) to date deficit to $1.365T, up $160B from the equivalent period in 2024 and, through the first 8 months, is set for the highest for a full FY in nominal terms since 2021.

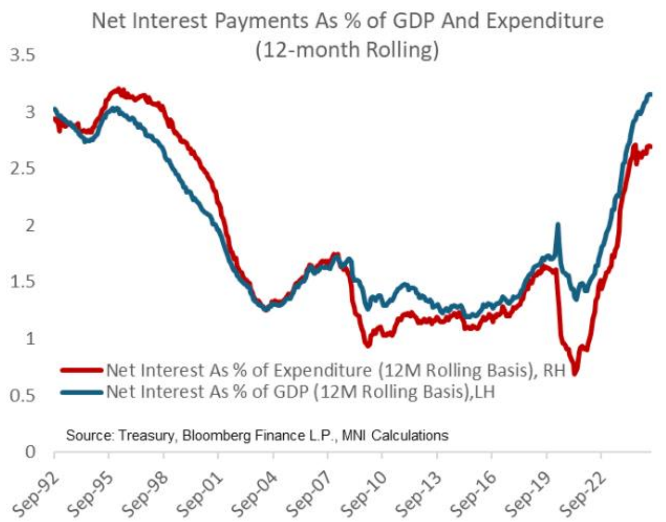


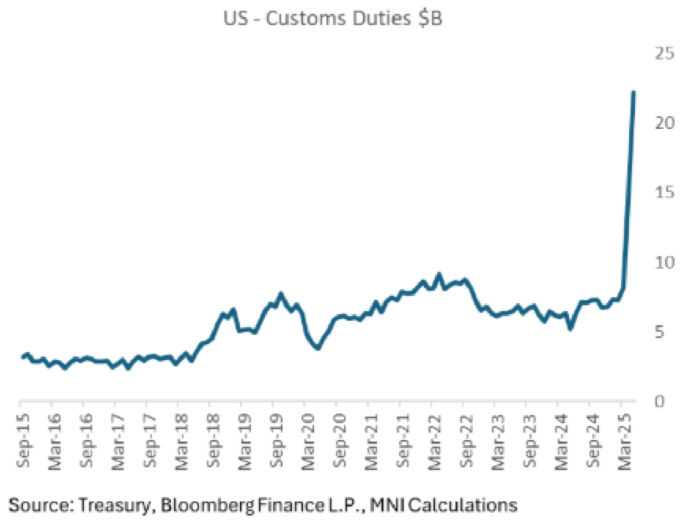
- MNI estimates the 12-month running deficit at around 6.6% of GDP, which is squarely in the middle of Treasury Sec Bessent's estimated 6.5-6.7% of GDP that he mentioned at a congressional committee hearing today.
- Cumulative FY expenditures came in at a new record $4.85T (+7.9% Y/Y) vs revenue of $3.48T (+5.9% Y/Y). Both are set to reach all-time highs this year.
- The 12-month rolling deficit (which helps mitigate timing and other seasonal issues in the monthly comparisons) of $1.99T represents the third consecutive decline after the recent $2.15T peak in February. The 12-month running total of revenue likewise hit a new all-time high $5.11T, but expenditure continued to rise $7.11T (the all-time-high set in March 2021 at $7.62T).
- It would also represent a widening after 6.4% in FY2024 and 6.2% in FY2023.

Interest Expenses Set To Continue Dwarfing Tariff Revenue

Net interest expense is currently running at just under $1T annually on a 12-month rolling basis. May's interest payment of $86.0B was a 4-month low, but that still dwarfs an all-time high $22B in customs revenue in May. That illustrates a major structural fiscal issue that's only likely to be relieved by lower real Treasury yields.

- As a percentage of GDP, net interest payments now total around 3.2% on a 12-month rolling basis, an all-time high; as a percentage of expenditure, it's 13.3%. At the recent bottom in March 2021, those figures were 1.4% and 4.1%, respectively.
- The effective tariff rate was around 5-6% in April ($16B taxes on $278B of goods imports), so very limited - it appears closer to 8-10% in May assuming same level of goods imports...getting up to double-digits). That's expected to rise to about 15% effective under the current configuration of tariffs, so closer to $25-30/month at current import levels, or ~$300-350B/year.
- However, the baseline of imports is set to contract as importers react, reducing annual income to closer to $250B - or, roughly 25% of interest payments, which continue to rise.





FOMC Decision:

MNI Fed Review: Less Uncertainty, Less Easing

The June FOMC communications had a hawkish tilt overall, despite the immediate dovish reaction to the updated Dot Plot retaining the median expectation of 50bp in rate cuts by end-2025. Chair Powell was far from emphatic about the prospect of rate cuts, all but taking a cut at the July meeting off the table. That said, the FOMC still remains committed to cutting, if only in half-hearted and patient fashion.

For comprehensive analysis of the FOMC decision and communications, see the MNI Fed Review (link)

Post-FOMC Fedspeak:

Waller Sees Rate Cuts As Early As July, Pushing Back On Powell

Gov. Waller (permanent voter), one of the most dovish members of the FOMC, is speaking on CNBC and is in firm contrast to Fed Chair Powell from Wednesday’s press conference. Waller was already seen as a good bet of being one of the two dots looking for three cuts in what’s left of this year.

Bloomberg headlines:

- "*FED'S WALLER: COULD CUT RATES AS EARLY AS JULY MEETING
- *WALLER: IMPORTANT FOR TO LOOK THROUGH TARIFFS INFLATION IMPACT
- "*WALLER: FED COULD PAUSE RATE CUTS IF THERE'S SOME BIG SHOCK
- "*WALLER: DON'T WANT TO WAIT FOR CUTS UNTIL JOB MARKET TANKS
- *WALLER: LABOR MARKET IS OK BUT NOT STRONG LIKE IN 2022
- *FED'S WALLER: HAVEN'T SEEN BIG TARIFF SHOCK TO INFLATION
- *WALLER: JUST DON'T SEE SECOND-ROUND TARIFF INFLATION EFFECTS
- *WALLER: INFLATION PERSISTENCE FROM TARIFFS IS A VALID CONCERN" – all Bloomberg

Recall that Powell was far from emphatic about the prospect of rate cuts, all but taking a cut at the July meeting off the table. Powell on learning a great deal over the summer: "It's very, very hard to say when that will happen. We know the time will come. It could come quickly. It could not come quickly. As long as the economy is solid, as long as we're seeing the kind of labor market that we have and reasonably decent growth, and inflation moving down, we feel like the right thing to do is to be where we are, where our policy stance is, and learn more. And in particular we feel like we're going to learn a great deal more over the summer on tariffs."

Barkin Sees No Rush To Cut Rates

Richmond Fed's Barkin (non-voter) with comments that seems more in keeping with Powell from Wed, if anything a little more hawkish, as opposed to Waller's dovish musings earlier. The below headlines are from a Reuters interview:

- "RICHMOND FED'S BARKIN SAYS HE SEES NO RUSH TO CUT INTEREST RATES
- BARKIN: NOT READY TO DISMISS INFLATION RISK FROM TARIFFS
- BARKIN: CAN'T IGNORE A SPIKE IN INFLATION IF IT COMES, PRICE INDEXES STILL ABOVE TARGET
- BARKIN: NOTHING URGENT IN DATA WARRANTING A RATE CUT AT THIS POINT
- BARKIN: JOB MARKET, CONSUMPTION HOLDING UP
- BARKIN: FIRMS SAY THEY EXPECT TO RAISE PRICES LATER IN THE YEAR AS MORE EXPENSIVE IMPORTED GOODS WORK INTO THEIR INVENTORIES
- BARKIN: FIRMS NOT IMPACTED BY TARIFFS SEE CONFUSION OVER TRADE POLICY AS A MOMENT TO RAISE PRICES FOR OTHER REASONS" – all Reuters

STIR: Ending The Week On A Soft Note

The week ends with implied rates on a softer note, in part on Waller's dovish comments. A next Fed cut is still seen in October but September odds have increased with now a cumulative 20bp priced, whilst the 51.5bp of cuts by year-end is in line with the somewhat surprising 50bp marked in the dot plot.

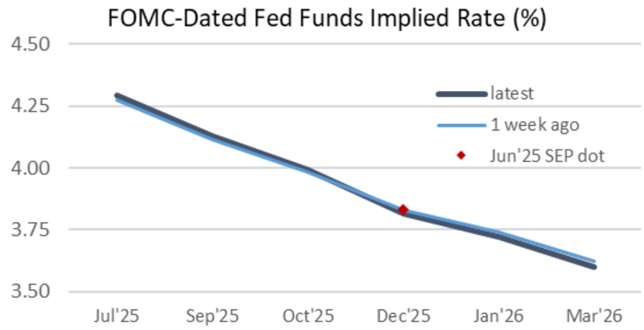
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Jun 18)			*chg in rate*	pre FOMC w/ SEP (Jun 18)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Jul'25	4.29	-3.7	-3.7	4.29	-4	-3.7	*0.0*	4.29	-4	-4	*0.0*
Sep'25	4.13	-16.4	-20.1	4.13	-16	-19.9	*-0.2*	4.15	-14	-18	*-2.3*
Oct'25	3.99	-13.6	-33.7	4.00	-13	-32.7	*-1.0*	4.03	-12	-30	*-3.9*
Dec'25	3.82	-17.7	-51.4	3.83	-17	-49.8	*-1.6*	3.87	-16	-46	*-5.6*
Jan'26	3.72	-9.3	-60.7	3.74	-9	-58.7	*-2.0*	3.78	-9	-55	*-6.0*
Mar'26	3.60	-12.1	-72.8	3.62	-12	-71.1	*-1.7*	3.66	-12	-67	*-5.7*

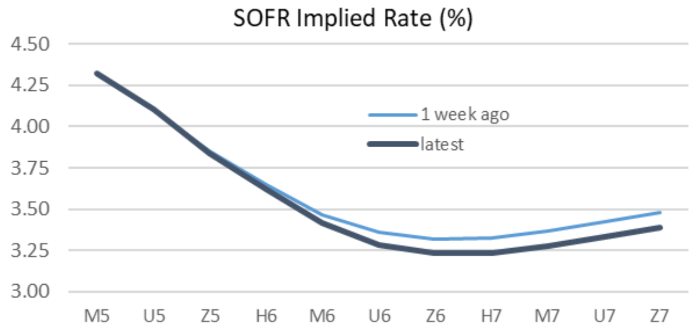
Source: Bloomberg Finance L.P., MNI.

Cumulative cuts for Dec 2025 FOMC. Source: Bloomberg Finance L.P. (Times as GMT)

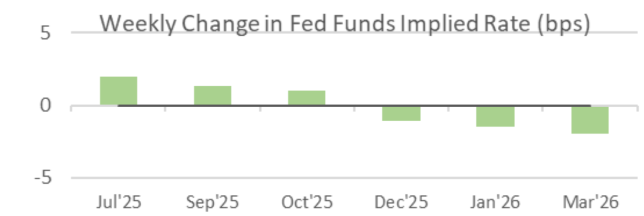
Week-on-week moves: geopolitical risk drives curve flattening

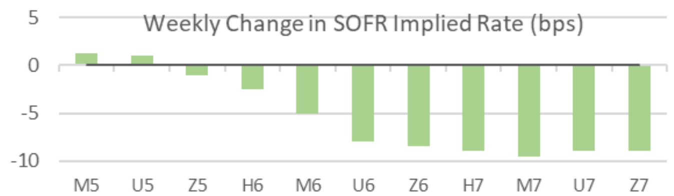


Source: Bloomberg, MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg, MNI.





The US Macro Week Ahead: May PCE Report and Powell Congressional Testimonies

US DATA
US data is headlined by Thursday's Q1 GDP revisions and Friday's PCE report for May although there are plenty of other releases that will be watched with interest throughout the week. Q1 GDP data will be "stale", especially being a third release, but it will nevertheless help the Fed assess whether its previous view on the economy is playing out. Recall that Powell at the May FOMC press conference said he expected consumption and inventories to have increased more strongly than first reported in the flash release. Last month's second release showed that only partly played out, with inventories revised even higher but consumption revised down from 1.8% to 1.2%. Nevertheless, Powell at Wednesday's June FOMC press conference still described the downward revised 2.5% for PDFP as "solid". The May PCE report should be more impactful for clues on latest consumer momentum amidst strong income growth. Retail sales saw the largest monthly drop since March 2023 although the closely-watched control group was stronger than expected. As for inflation metrics, core PCE is seen around 0.15% M/M in May judging by unrounded estimates after the usual CPI, PPI and import price inputs, after 0.12% M/M in April.

As for the other releases to watch, Monday's preliminary June PMIs will give timely updates on wider activity after Empire and Philly Fed manufacturing surveys remained in contractionary territory. We also expect greater than usual focus on housing data (existing home sales Mon, new home sales Wed) after what have been some troubling releases across both construction and sentiment. Tuesday then sees the Conference Board consumer survey for an alternative look at the improvement since the de-escalation in trade policy before Wednesday's advance trade data for the latest post tariff front-running update.

FEDSPEAK
Fed Chair Powell is set to deliver congressional testimonies on Tuesday (House) and Wednesday (Senate). The first appearance should as usual carry more weight. We expect a similar tone from Wednesday's FOMC press conference, where he was far from emphatic about the prospect of rate cuts, all but taking a cut at the July meeting off the table. "As long as the economy is solid, as long as we're seeing the kind of labor market that we have and reasonably decent growth, and inflation moving down, we feel like the right thing to do is to be where we are, where our policy stance is, and learn more. And in particular we feel like we're going to learn a great deal more over the summer on tariffs." With repeated attacks from President Trump including calls for rates to be materially lower, expect a partisan approach to questions. Fedspeak can also be important this week considering the dot plot revealed a particularly divided FOMC with seven pencilling in zero cuts this year through to two looking for three cuts. Post-FOMC commentary has already been kickstarted by a dovish Governor Waller stating the Fed could cut rates next month.

Date	ET	Impact	Event
22/06/2025	1315		San Francisco Fed's Mary Daly
23/06/2025	0300		Fed Governor Christopher Waller
23/06/2025	0945	***	S&P Global Manufacturing Index (Flash)
23/06/2025	0945	***	S&P Global Services Index (Flash)
23/06/2025	1000	***	NAR existing home sales
23/06/2025	1000		Fed Vice Chair Michelle Bowman
23/06/2025	1320		Chicago Fed's Austan Goolsbee
23/06/2025	1430		Fed Governor Adriana Kugler
24/06/2025	0830	*	Current Account Balance
24/06/2025	0830	**	Philadelphia Fed Nonmanufacturing Index
24/06/2025	0855	**	Redbook Retail Sales Index
24/06/2025	0900	**	S&P Case-Shiller Home Price Index
24/06/2025	0900	**	FHFA Home Price Index
24/06/2025	0900	**	FHFA Home Price Index
24/06/2025	0915		Cleveland Fed's Beth Hammack
24/06/2025	1000	***	Conference Board Consumer Confidence
24/06/2025	1000	**	Richmond Fed Survey
24/06/2025	1000		Fed Chair Jay Powell
24/06/2025	1230		New York Fed's John Williams
24/06/2025	1405		Boston Fed's Susan Collins
24/06/2025	1600		Fed Governor Michael Barr
24/06/2025	2015		Kansas City Fed's Jeff Schmid
25/06/2025	0700	**	MBA Weekly Applications Index
25/06/2025	1000	***	New Home Sales
25/06/2025	1000		Fed Chair Jay Powell
25/06/2025	1400		Federal Reserve Board Meeting
26/06/2025	0830	***	Jobless Claims
26/06/2025	0830	**	Durable Goods New Orders
26/06/2025	0830	***	GDP
26/06/2025	0830	**	Advance Trade, Advance Business Inventories
26/06/2025	0830	**	Durable Goods New Orders
26/06/2025	0900		Cleveland Fed's Beth Hammack
26/06/2025	1000	**	NAR Pending Home Sales
26/06/2025	1100	**	Kansas City Fed Manufacturing Index
26/06/2025	1315		Fed Governor Michael Barr
27/06/2025	0730		New York Fed's John Williams
27/06/2025	0830	***	Personal Income and Consumption
27/06/2025	0915		Cleveland Fed's Beth Hammack
27/06/2025	1000	***	U. Mich. Survey of Consumers
27/06/2025	1000	**	University of Michigan Surveys of Consumers Inflation Expectation