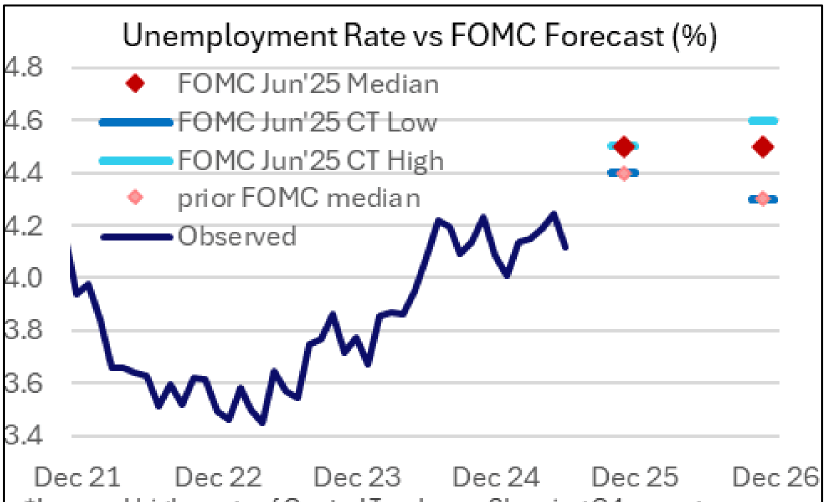
MNI U.S. Macro Weekly

MNI View: Payrolls Drives Rates Recalibration

Jul 4, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- Nonfarm payrolls growth comfortably beat expectations in June with 147k (cons 106k) along with small upward revisions of +16k. An arguably bigger surprise was the pullback in the unemployment rate, which at 4.12% is the lowest since Jan after 4.24% prior and well below the rounded 4.3% consensus.
- But it was far from an unambiguously strong report. Private payroll gains missed expectations at 74k (cons 100k), leaving government payrolls surging by 73k for the largest increase since Mar 2024, whilst wages and hours worked underwhelmed along with other caveats.
- It followed ADP private employment surprisingly contracting in an escalation of its recent moderation trend, which helped explain the magnitude of the hawkish reaction to NFPs.
- Elsewhere, ISM services didn't move the needle, almost in line for the headline index whilst prices paid and employment were softer than expected but new orders at least recovered back into expansionary territory.
- In political and fiscal news, President Trump saw his One Big Beautiful Bill approved by both the Senate and then House after reversals from Republican holdouts, meeting his self-imposed deadline of July 4.
- Payrolls saw July Fed cut odds slashed, having built up to almost the most dovish in a month ahead of it. The next cut is back to fully priced for October and with two rather than two and a half cuts priced for 2H25.
- Payrolls landing on Thursday before Independence Day on Friday has limited Fed reaction to the report.
- FOMC minutes headline the regular calendar next week, potentially of note with a highly divided committee (seven members saw no cuts this year through to two members eyeing three cuts in last month's SEP).
- Tariffs are also back in focus for markets with the 90-day reciprocal tariff deadline set to expire with July 9. Although US officials signalled that a record number of trade deals would be signed between April 8 and now, at the time of writing only agreements with the UK, Indonesia, Vietnam and China have been announced - all with differing degrees of comprehensiveness. Trump has announced that a series of letters will be sent out to trading partners (10-12 on Friday, more in the coming days) detailing what tariff rates will be imposed on imports, with countries starting to pay levies on August 1. Somewhat concerningly, the President has said that these rates will "range in value from maybe 60 or 70% tariffs to 10 and 20%".



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

Labor Market: Relatively Robust Payrolls (With Some Softer Details) Whilst ADP Contracts

Payrolls Report Quick Take: Solid Headline Numbers, But Some Weak Spots Under The Surface

- Nonfarm payrolls growth comfortably beat expectations in June with 147k (cons 106k) along with small upward revisions of +16k after a string of releases with large downward revisions.
- Arguably an even bigger surprise was the pullback in the unemployment rate, which at 4.117% unrounded is the lowest since January, down from 4.244% prior and well below the rounded 4.3% consensus.
- This suggests a faster-than-expected deterioration will be required for the final 6 months of the year to reach the FOMC's latest Q4 median projection of 4.5%.
- But it was far from an unambiguously strong report. Private payroll gains missed expectations at 74k (cons 100k), leaving government payrolls surging by 73k for the largest increase since Mar 2024.
- That may in turn have been supported by seasonal factors in public education employment, and in addition, private sector job creation remains extremely reliant on the large and cyclically insensitive health & social assistance category (adding 59k in June after 81k in May) – not exactly signs of underlying strength.
- Average hourly earnings growth was softer than expected at 0.22% M/M (cons 0.3), with lower revisions.
- And the continued decline in the size of the labor force and participation rates suggests that concerns about diminishing labor supply may be increasingly well-founded.
- On the whole though, the labor market appears to be in solid enough shape to keep the Fed on the sidelines. Payroll growth has averaged 150k over the latest three months, comfortably above long-run breakeven estimates thought to be around 100k, although with private payrolls less elevated at 115k.
- Most focus was on the degree to which this effectively closed the door to a July Fed cut, with implied pricing falling to just 1bp (ie under 5% probability of a cut) from 6.5bp. And it brought down implied 2025 cuts to 2, versus an evenly split pricing between 2 and 3 cuts.
- Analyst expectations had been firmly focused on September or later in 2025 for the resumption of Fed easing. There was nothing in this report to shift those expectations, with the Fed set to take the summer off before assessing the totality of the data to decision day on Sept 17th (2x more payrolls, 3x more CPI).

Payrolls Summary Statistics For June 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	May	Apr	Net Surprise
Monthly growth (000s)							
NFP	147	106	41	16	5	11	57
Private	74	100	-26	-16	-3	-13	-42

	Actual	Cons.	Prior mth	Cycle low		2019 av
U/E rate (%)	4.12	4.3	4.24	3.45	Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.22	0.3	3.71	3.8

Source: Bloomberg Finance L.P., BLS, MNI

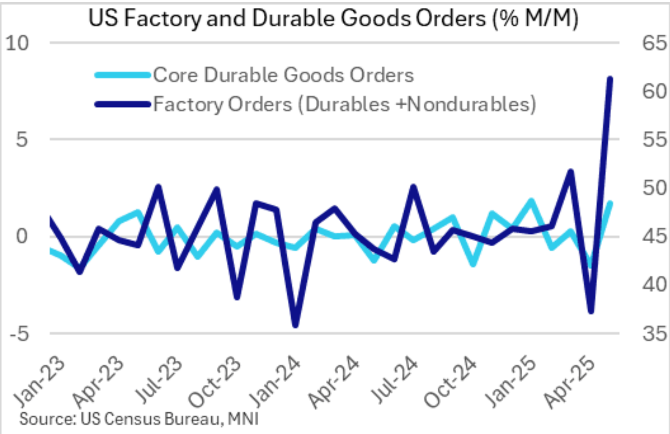
See the MNI US Employment Insight (link) for an in-depth look at latest labor market dynamics, including across a range of indicators beyond nonfarm payrolls such as the surprising -33k contraction in ADP private sector employment in June.

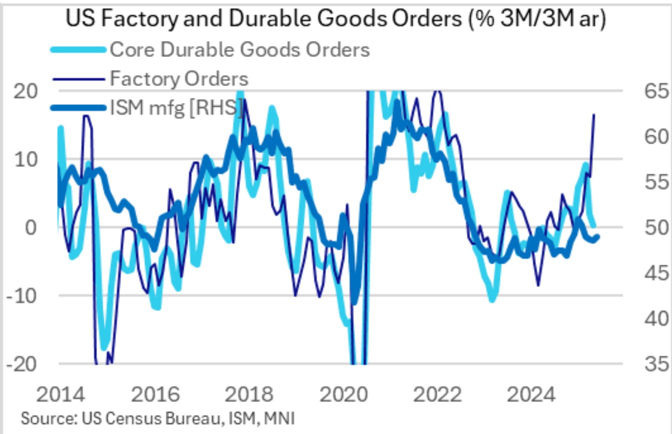
Growth: Factory Orders Bounce In May But Softer Auto Sales and Construction

Factory Orders Increased Sharply In May, Future Momentum In Question

May's factory orders came in line with expectations with 8.2% M/M growth, reinforcing a strong jump from April's weakness (-3.9%, up rev from -3.7%) that had been evident in the preliminary durable goods report out previously. As with the preliminary release, the "hard" data continue to indicate that the sharp tariff-related drop-off in investment in Q2 that some had expected to materialize isn't clearly manifesting.

- Ex-transport manufacturing orders were more subdued at 0.2% M/M (also in line with expectations), up from -0.6% prior (up rev from -0.5%), with the discrepancy with the headline figure accounted for by volatile aircraft orders (+231% after -52%).
- Revisions to durable goods from the preliminary numbers were minimal, with core capital goods shipment growth revised down 0.1pp to 0.4%. Ex-transportation durable orders were confirmed at 0.5% M/M (0.0% prior), and core nondefense ex-aircraft orders were confirmed at 1.7% M/M, more than reversing April's 1.4% drop. Nondurable goods industries saw orders grow a meagre 0.1% M/M, after -1.0%.
- The 3M/3M annualized rate of factory orders growth jumped to 16.5%, fastest in 39 months, though that is likely to drop off once the recent volatility shakes out and/or aircraft orders growth reverses lower.
- Indeed core durable goods orders are running at a 0.4% 3M/3M pace, weakest in 9 months, suggesting that while underlying momentum is slowing, it's not outright contractionary (yet).

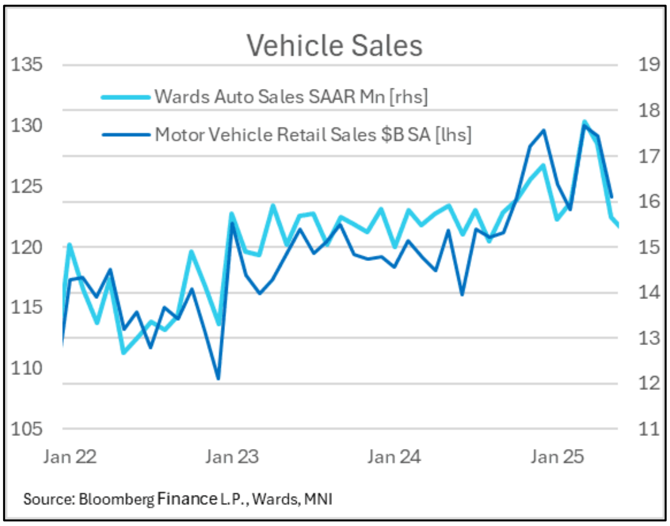




Vehicle Sales Continue To Sag, Set To Keep Lid On Retail Sales

Wards Automotive reports that light vehicle sales came in at 15.34mln (SAAR) in June, a 2% M/M drop from 15.65mln prior and the third consecutive sequential fall.

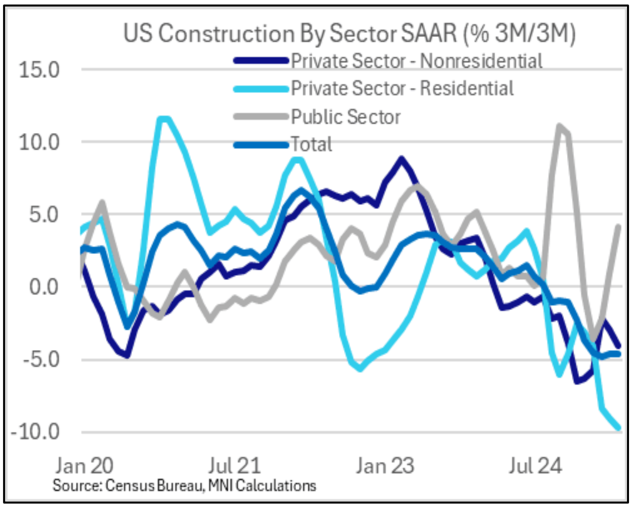
- This was the worst month of sales in 10 months, after nearing 18mln sales in March in what was clearly demand pulled forward ahead of anticipated tariff impacts.
- It suggests continued sluggishness in vehicle retail sales, which are the largest category in the monthly Census Bureau retail report.
- In May's retail sales report, vehicle sales dropped the fastest in 11 months at 3.9% M/M (-0.6% prior), driving the overall 0.9% drop in retail sales. However note that they are not included in the Control Group category, which printed a solid +0.4% in May.
- There's no consensus yet for the June retail sales print (due July 17), though the Wards data will probably keep expectations subdued.



Construction Values Continue To Contract With Residential Activity Weak

May's Construction Spending report showed a 7th consecutive monthly drop in value terms, of -0.3% (-0.2% prior rev up from -0.4%), basically in line with -0.2% consensus. This was another weak report that showed broad based weakness across private sector construction, with negative momentum building.

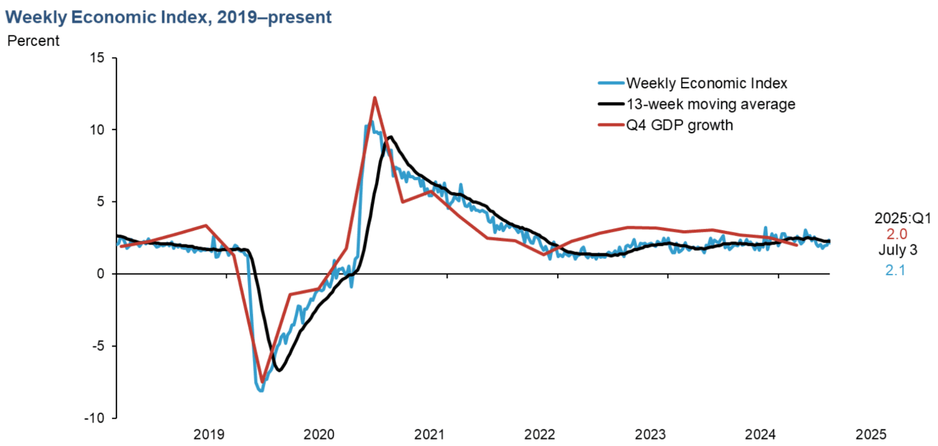
- Overall construction value is now down 3.5% from the May 2024 peak of $2.215T (SAAR) and is contracting at a 4.7% 3M/3M (ie quarterly) annualized rate. While this series is in nominal terms, it's notable that 3M/3M changes are as weak as they have been in the last 25 years.
- That's true across sectors: total private sector construction value fell 0.5% M/M (hasn't posted a positive month since May 2024), led by another weak reading for residential construction (which is half of private sector construction - falling 0.5% M/M).
- Residential construction is now falling at a 9.7% 3M/3M annualized pace, the most since July 2009 amid the US housing crash.
- Two notes on the more positive side from a growth perspective: Manufacturing construction's decline slowed (-0.1%, "best" in 5 months) and is now shrinking at a 3.6% 3M/3M rate, the least bad since November 2024, leaving the door open to a 2nd half recovery. And public sector (one-quarter of overall construction) momentum is roundly picking up, rising 0.1% M/M for the 3rd consecutive sequential gain, and now increasing at a 4.1% 3M/3M pace, fastest in 5 months.
- This report merely confirms that residential investment is contracting and is likely to subtract from GDP this year, with nonresidential structures investment continuing to look weak as well.



Weekly Indicators Remains Consistent With 2-3% GDP Growth Through Q2

The Dallas Fed's weekly economic index came in at 2.12% in the week ending Jun 28 (scaled to four-quarter GDP growth), a slowdown from 2.34% prior.

- That brought the 13-week moving average to 2.26% through the quarter, which represents a slight uptick from 1.99% in Q1 2025 on the same basis.
- While this is expressed on a Y/Y basis, it's largely consistent with a ~high 2% reading for Q2 on a Q/Q SAAR basis, echoing the Atlanta Fed's latest nowcast for growth of 2.5% Q/Q SAAR in Q2.
- In general, higher-frequency indicators show some signs of gradual slowing in the economy, but not a sharp dropoff in Q2 (defying recessionary "soft" survey-based indicators).



NOTE: Annual real GDP growth (four-quarter moving average) is based on the latest quarterly GDP data release from the Bureau of Economic Analysis.
SOURCES: Authors' calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the Association of American Railroads and Booth Financial Consulting.
Federal Reserve Bank of Dallas

Atlanta Fed GDPNow Ticks Up On Better Consumption

Latest Atlanta Fed GDP Nowcast for Q2 ticks up to 2.6% from 2.5% in the last full update on July 1.

- A slight uptick for PCE (1.6% vs 1.5% prior) following Thursday's payrolls and ISM services but net exports very slightly lower (3.45pp contrib vs 3.50pp prior after today's trade data), while equipment investment is net weaker after incorporating auto sales data (-0.6% growth vs +0.9% prior).
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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
26-Jun	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
26-Jun	Latest BEA estimate for 25:Q1	-0.5	0.5	23.7	6.0	-2.4	-1.3	-0.6	0.4	38.0	-306	152
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
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
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
23-Jun	Existing-home sales	3.4	1.9	1.8	5.0	-3.4	-4.2	2.1	-2.8	-14.6	137	-24
25-Jun	New-home sales	3.4	1.9	1.7	5.0	-3.4	-5.4	2.1	-2.8	-14.6	138	-24
27-Jun	Q1 GDP, Adv. Econ. Ind., Adv. Manuf. (M3-1) (6/26), Pers. income & outlays	2.9	1.7	1.7	5.0	-3.5	-5.4	2.0	-1.0	-21.7	231	-127
1-Jul	ISM Manuf., Construction spending	2.5	1.5	0.9	4.9	-5.4	-6.9	2.0	-1.6	-22.2	232	-126
2-Jul	Auto sales	2.4	1.4	-0.5	4.9	-5.4	-7.1	2.0	-1.8	-22.3	233	-126
3-Jul	International trade, ISM Services, M3-2 Manuf., Employment Situation	2.6	1.6	-0.6	5.1	-5.2	-6.4	2.3	-3.3	-22.9	230	-122

Business Sentiment: Surveys Mixed, Mostly Normalizing

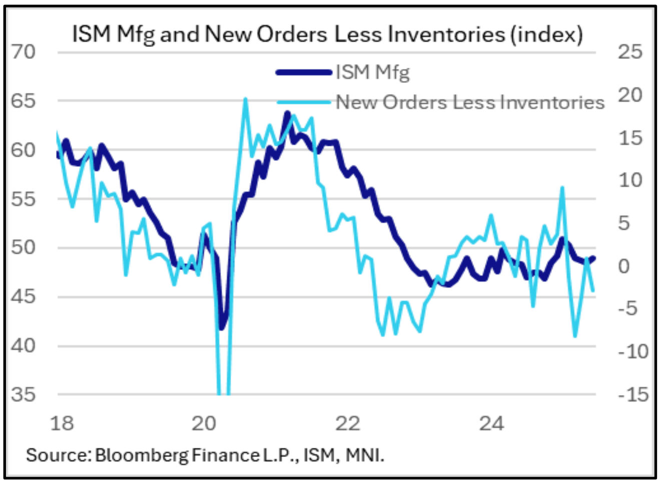
ISM Manufacturing Sees Solid Production But Soft New Orders And Jobs

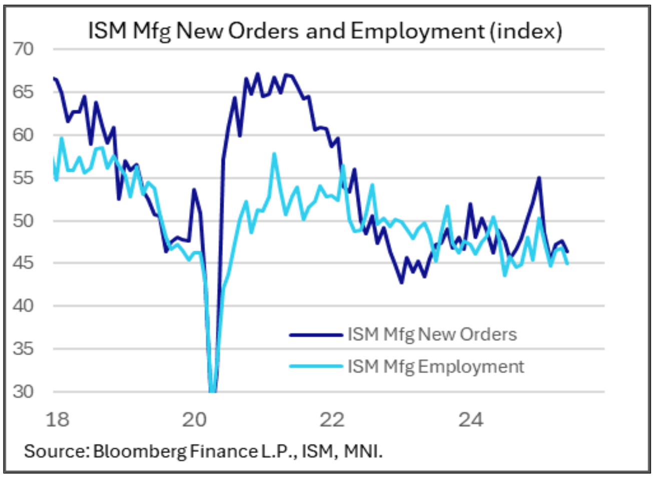
The ISM Manufacturing index improved a little more than expected in June, rising to 49.0 (48.5 prior, 48.8 expected) for the first increase in 4 months albeit still in contractionary territory amid heightened trade policy uncertainty. A rebuilding of inventories as well as stronger production led the increase.

- This was a very mixed report in terms of activity. While production picked up sharply, by 4.9 points to a 4-month high 50.3, new orders fell 1.2 points to 46.4 for a 3-month low, and employment fell 1.8 points to 45.0, a 4-month low. Consensus had anticipated an improvement in both new orders and employment. Per the ISM, "The mixed indicators in output suggest companies still being cautious in their hiring even with an increase in production."
- Inventories rose 2.5 points to 49.2, backlogs fell 2.8 points to 44.3, while supplier delivery times fell 1.9 points to 54.2. Sizeable improvements were seen on the trade front, albeit from weak levels: export orders were up 6.2 points to 46.3, with imports up 7.5 points to 47.4, both 4-month highs.
- Four of the six biggest manufacturing industries (Petroleum & Coal Products, Computer & Electronic Products, Machinery, and Food, Beverage & Tobacco Products) posted growth in June. That said, almost all of the anecdotal comments mentioned tariffs / uncertainty / geopolitics in a negative sense.
- Re New Orders, "continue to slow, as which party will pay for potential tariff costs is still the prime issue in negotiations between buyers and sellers" and on supplier deliveries "deliveries continued to be strained because suppliers and panelists' companies were haggling over who pays for applied tariffs". per ISM survey chair Susan Spence. And re Production, "while improved, [levels] are still fragile as order books remain weak and new orders continue to decline."
- Of particular note on employment headed into June nonfarm payrolls this Thursday: "Of the six big manufacturing sectors, two (Petroleum & Coal Products; and Machinery) reported expanded employment

in June. For every comment on hiring, there were 3.2 on reducing head counts — one of the widest ratios since ISM began tracking employment comments — reflecting companies' continuing focus on accelerating staff reductions due to uncertain near- to mid-term demand. Layoffs were the primary measure, an indication that staff shrinking continues to be urgent."

- Prices paid continued to stand out to the upside, rising 0.3 points to 69.7 - hovering between 69-70 for a 4th consecutive month. Multiple commodities from Aluminum to Electrical Components to Steel were seen up in price, with just one (hot rolled steel) down in price, with "commodities in short supply" including electronic components and labor.



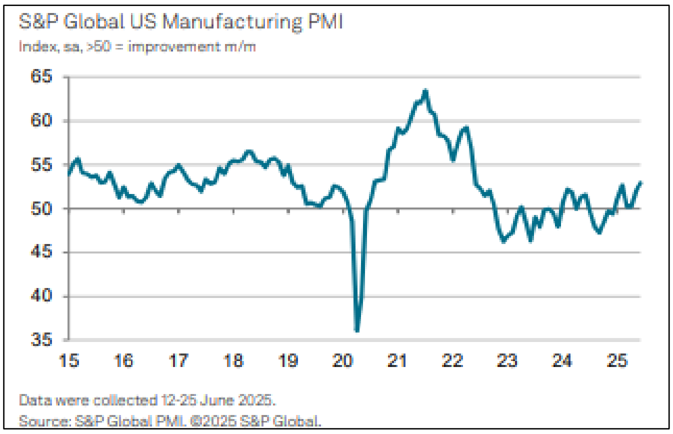


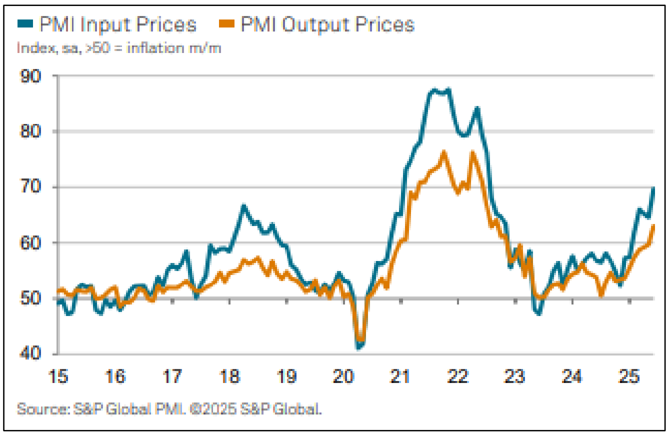
Mfg PMI Revised Higher In June Final, Uptrend In Prices Remains

The S&P Global manufacturing PMI was stronger than initially thought in June at 52.9 (flash and consensus 52.0) after 52.0 in May. It leaves it at its highest since May 2022. The improvement relative to the flash came as output charge inflation was marked down a touch, now seen at its highest since Sep 2022 vs Jul 2022 in the flash release, although an upward trend is still clear.

S&P Global PMI press release highlights (release found in full, here):

- "The US manufacturing sector expanded again in June, with operating conditions improving to the greatest degree in over three years.
- Output increased for the first time since February, and to a solid degree, whilst new orders increased for a sixth successive month due to improved domestic and international demand.
- However, tariffs remained a prevalent theme, notably affecting purchasing decisions and prices.
- Latest data showed manufacturers raising their input buying activity to the greatest extent since April 2022, at times reflective of efforts to build up inventories given ongoing trade and price uncertainty.
- Nonetheless, input costs still rose sharply, with inflation hitting its highest level for nearly three years. A similar trend was seen for output charges, which rose to the greatest degree since September 2022."

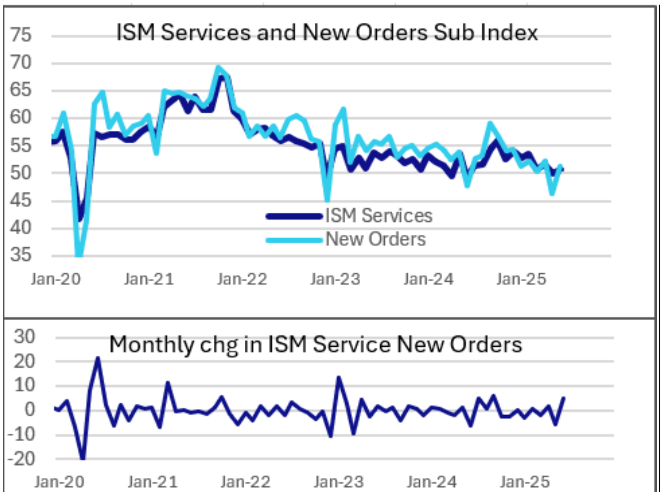




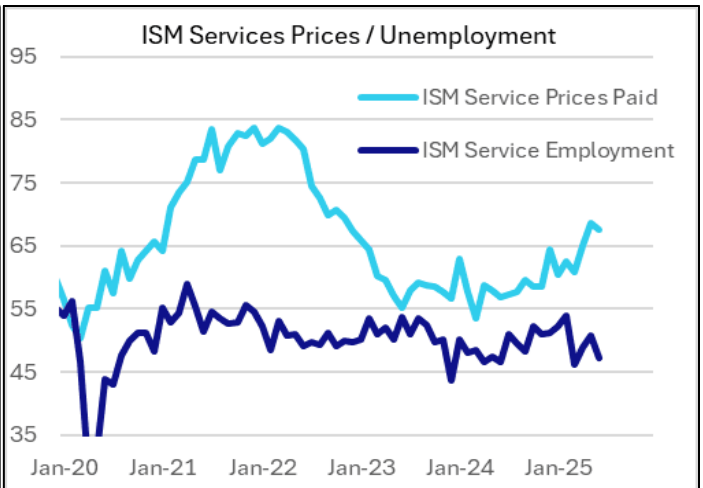
Stabilization In ISM Services, But Tariff Impact Still Looms Large

June's ISM Services report was mixed, with prices, activity and new orders stabilizing after a worrying May, but employment and order backlogs 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.

- The headline index rose 0.9pts to 50.8 (cons 50.6), ending a brief 1-month period in sub-50 territory for the 11th month in 12 at 50-plus. The main standouts on the positive side were in new orders, jumping 4.9pts to 51.3 (cons 48.2) and reversing most of May's surprising weakness, and in new export orders, rising 2.6pts to 51.1 for the first 50+ reading since February as tariff concerns began to ramp up.
- Indeed there was some semblance of trade normalization after tariffs impacted activity heavily in previous months: aside from export orders, imports rose for the first time in the last 3 months, +3.5pts to 51.7.
- There was some respite in inflation, with prices paid unexpectedly pulling back 1.2 points to 67.5 (consensus was for a 0.2 point rise), though at these levels, price pressures remain elevated.
- 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 3rd month in 4 in contractionary territory.
- Elsewhere, inventories continued to rise (up 3 points to 52.7), with supplier deliveries falling 2.2 points to 50.3 and backlogs falling 1 point to 42.4 for the weakest since Aug 2023 and the 10th fall in 11 months. For inventories, some respondents noted buying extra inventory "in case the talks with China don't go well" with "a need to increase stock purchases" due to longer lead times and anticipated further price increases.
- Per the report, "slow growth and economic uncertainty were frequently referenced by respondents...Price increases impacting costs of operations were mentioned more frequently this month. Middle East tensions were a new subject of comments in June, but there was no indication of related supply chain disruptions. The most common topic among survey panelists continued to be concerns about impacts related to tariffs."



Source: Bloomberg Finance L.P., ISM, MNI.



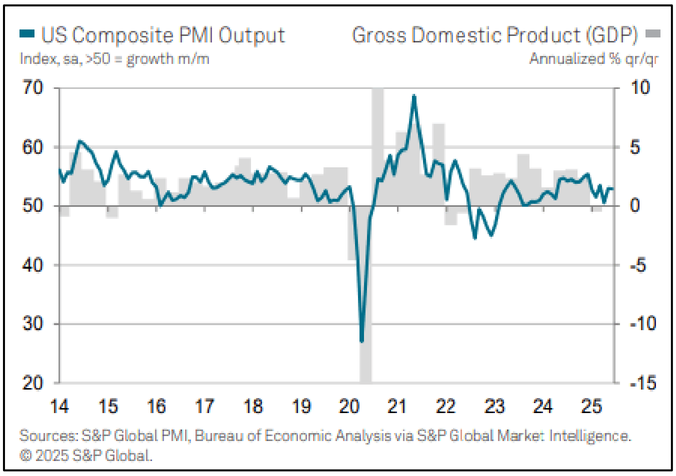
Source: ISM, MNI.

Final Services PMI Confirms Steep Increases In Selling Prices

The S&P Global services PMI was revised down to 52.9 (flash 53.1) in the final June release after 53.7 in May. The composite PMI meanwhile was revised a tenth higher to 52.9 (flash 52.8) for near unchanged from 53.0 in May. The services highlights from the press release (in full here) offer a similar read to those from the flash report:

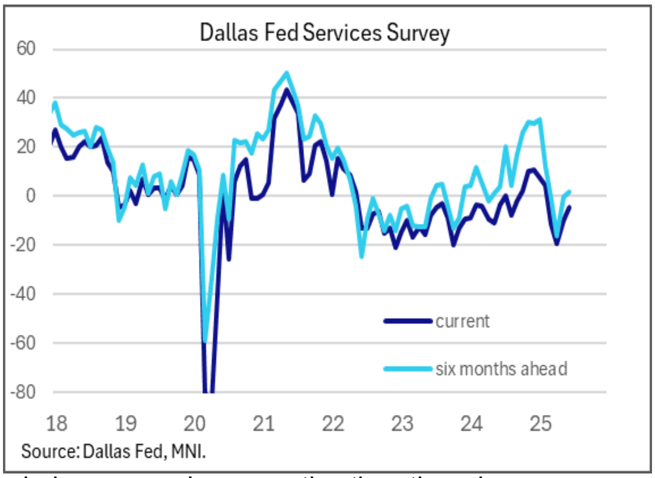
- "A further increase in US service sector business activity was recorded in June, although the rate of growth lost some momentum compared to May and remained well below levels recorded in the second half of 2024.
- New work volumes showed a similar trend, with international sales continuing to act as a drag on total business gains.
- Tariffs meanwhile underpinned a further steep increase in operating expenses and selling prices, although inflation rates softened compared to May.

- Confidence in the outlook also remained below par, but firms were sufficiently optimistic to add jobs at the fastest rate for five months."



Dallas Fed Services Activity Normalizing, Inflation Dynamics Tame

The Dallas Fed's Texas Service Sector Outlook Survey shows General Business Activity index rose to its best level in 5 months in June, -4.4 from -10.1 prior. That's still contractionary, but the 6-month ahead reading rose to 1.5 from -0.3, marking the first positive reading since February.



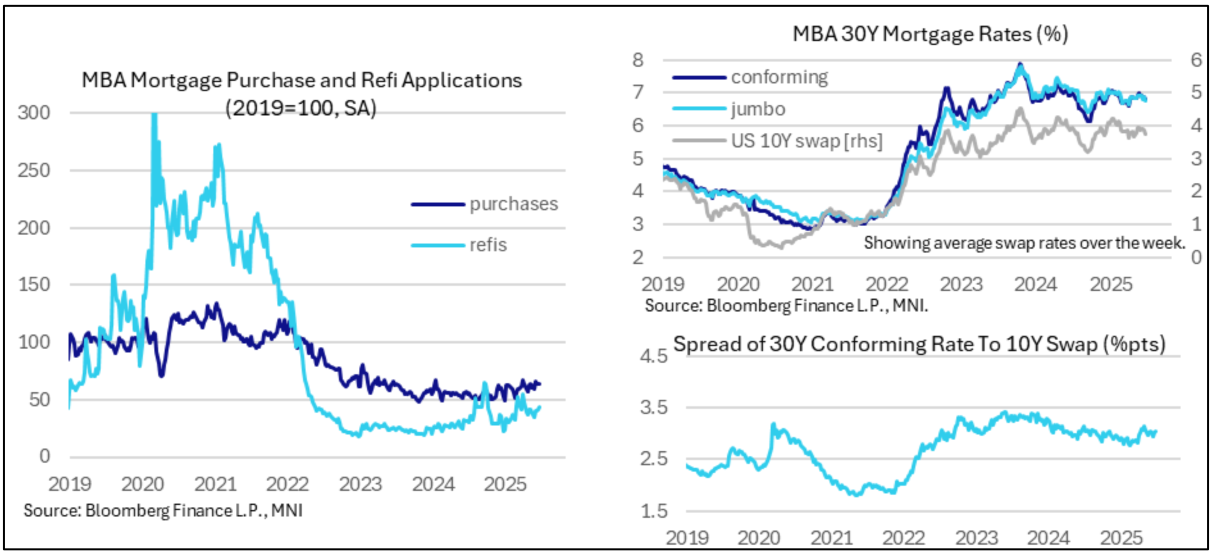
- The current reading is consistent with levels that prevailed through much of 2023-24, before volatility associated with the November 2024 elections through the tariff uncertainty that picked up strongly earlier in 2025. That said, the anecdotes to the report were almost universally negative, with several respondents citing elevated policy uncertainty and soft demand.
- Inflation didn't seem particularly pronounced. Prices paid ticked up to 21.3 from 20.5, though that's well below the average of 29 in the first 4 months of the year. Prices received also edged higher to 6.8 from 5.2 but still below the Jan-Apr average of 9.
- Highlights from the report: "Labor market measures indicated employment and hours worked were largely unchanged again in June. ... Perceptions of broader business conditions continued to worsen in June, though the indexes were less negative than the prior month.... The wages and benefits index remained largely unchanged"
- The retail sales index, a sub-category of the report, remained weak with the sales index at –29.5 vs –30.5 prior.

Housing/Credit: Minor Uplift in Mortgage Activity, Dallas Banking Conditions Solid

A Small Uplift In Mortgage Activity As Rates Ease

- MBA composite mortgage applications increased 2.7% (sa) last week after 1.1%, -2.6% and a strong 12.5% in the previous three weeks.
- Refis led the latest increase, rising 6.5% after 3.0%, as new purchase applications underperformed for a fifth consecutive week with 0.1% after -0.4%.
- The usual reminder of relative levels, however: composite applications stand at 55% of 2019 averages, consisting of 64% for new purchases and 44% for refis.

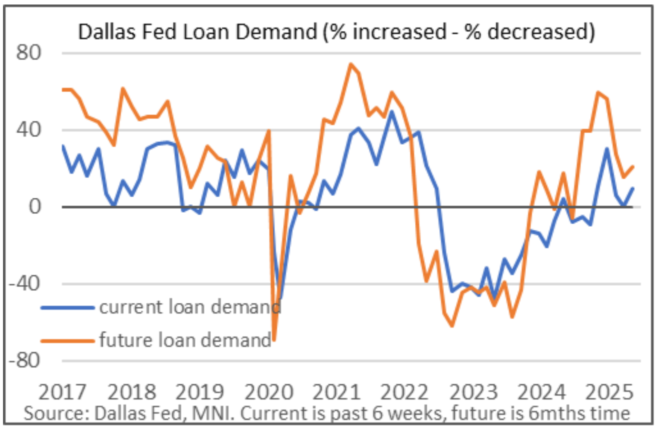
- The latest increase was helped by a 9bp decline in the 30Y conforming rate to 6.79% for its lowest since the week to Apr 4, marking a 13bp decline over the past month.
- With the average 10Y swap rate over the week dropping 12bp, the 30Y mortgage rate to 10Y spread widened further to 305bps (+3bp) for its highest since the week to May 9. That's still below the 315bp in late April/early May but above the 285bp averaged in Q1 in a net tightening in conditions, potentially reflecting some more pessimistic looking housing data more broadly.

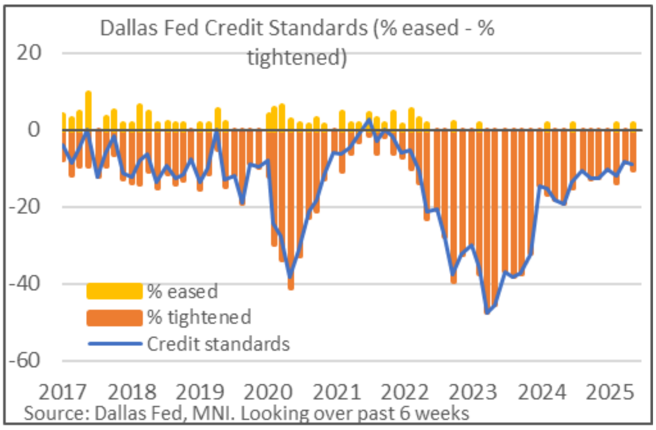


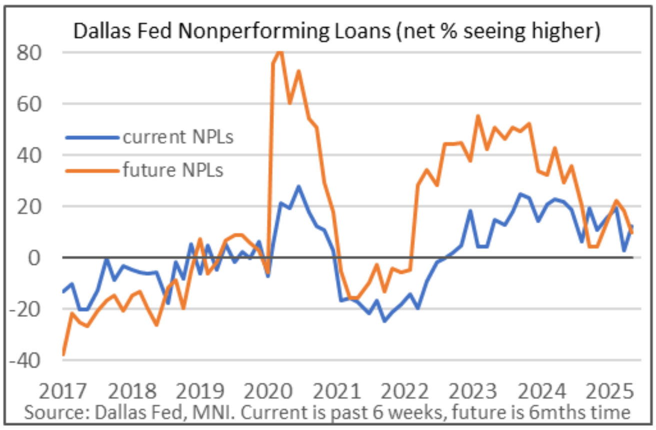
Broadly Solid Dallas Fed Banking Conditions Survey

The Dallas Fed banking survey showed an uptick in loan demand over the past six weeks, smaller than that seen in February in particular but otherwise one of its strongest since 2022. The share of respondents seeing a net increase in NPLs also ticked however but is low by 2023-24 standards.

- The Dallas Fed banking conditions survey, released yesterday, saw a small uptick in both current and expected loan demand.
- As always, whilst a snapshot of banking conditions in a specific region, across 73 financial institutions, it has a perk of being particularly timely with responses collected June 17-25.
- A net 10% of respondents saw increased loan demand over the past six weeks, the strongest since the mid-February release having paused in May.
- Expectations of total loan demand six months from now meanwhile increased from a net 15% to 21% although that’s still comfortably below the 58% averaged in the surveys either side of President Trump’s Jan 2025 inauguration.
- NPLs did however increase at a faster pace, rising across a net 12.5% of respondents vs a low 3% in May, although that’s below the 18% averaged in both Feb/Apr and 2024 as a whole.
- There was little change in credit standards & terms, with a net tightening across 9% of respondents after 8% previously. Those remain the least net tightening seen since early 2022.



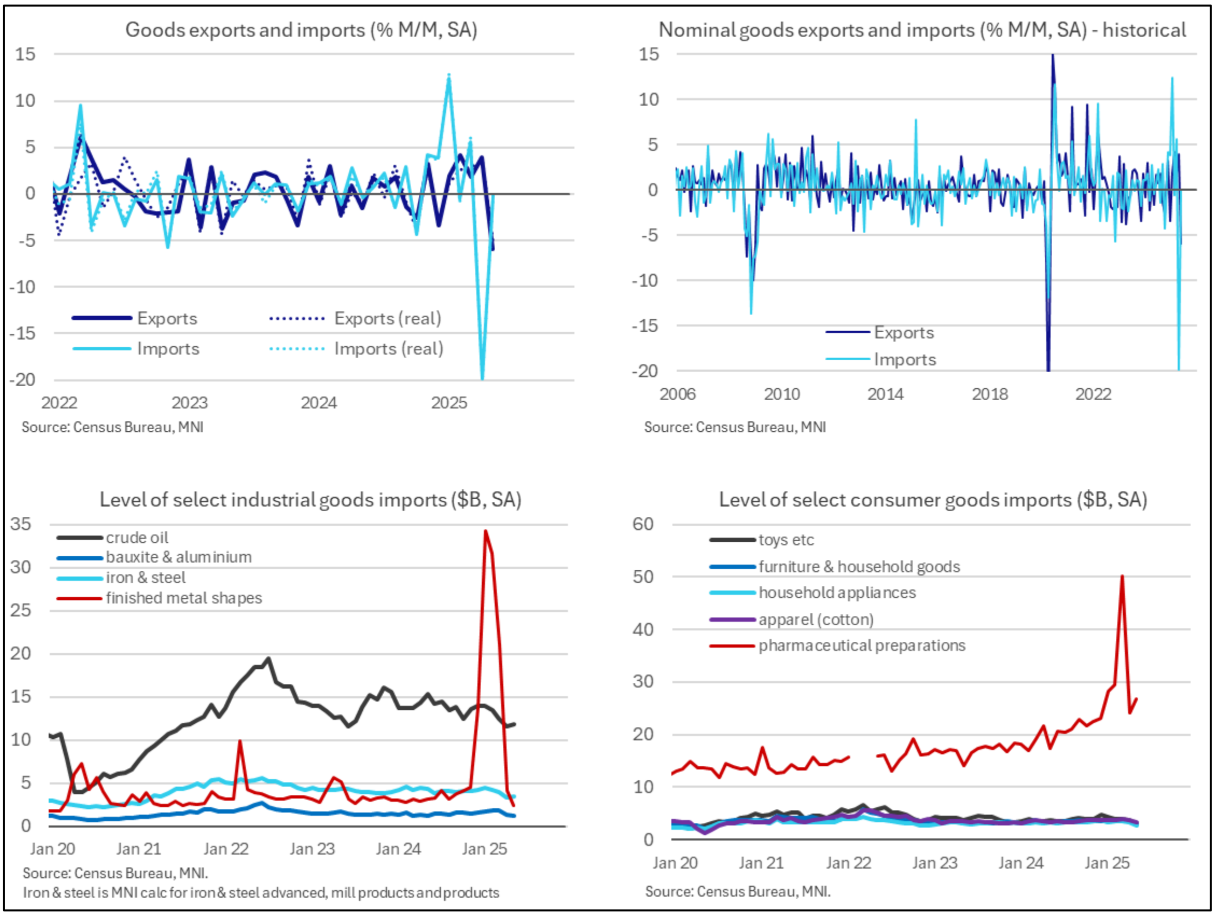




External: US-China Trade Dwindled In May Despite Mid-Month Temporary Truce

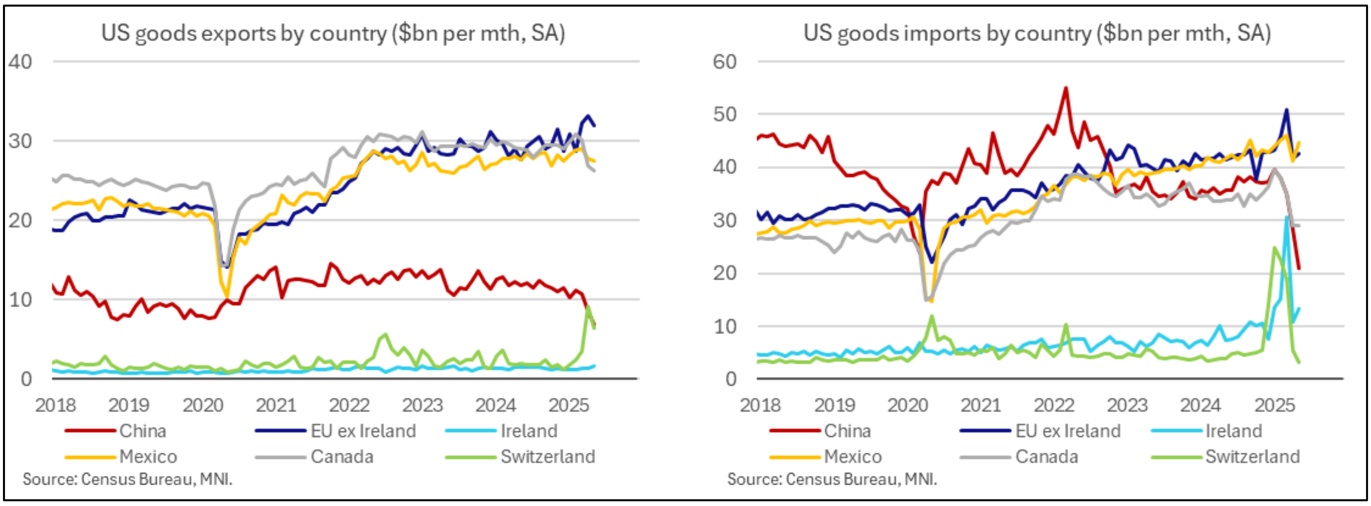
Trade Deficit Confirms Renewed Rise As Exports Slide [1/2]

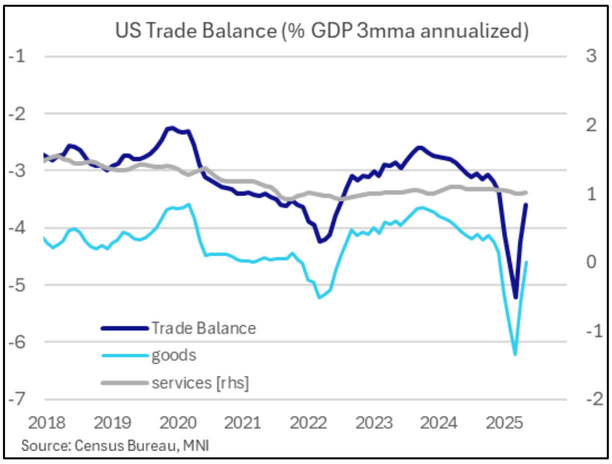
- The goods & services trade deficit was close to expectations in the full May release, at $71.5bn (cons $71bn) after $60.3bn (initial $61.6bn) in April.
- It's a second month of relative correction after the huge deficits of Q1 (average $130bn) on tariff front-running, primarily from gold first and then pharmaceutical products. Deficits in the three months ahead of the US election in November averaged $75.7bn.
- Goods exports drove the deterioration in May as they fell -5.9% M/M, the weakest since Mar and Apr 2020 otherwise the sharpest drop since 2008/09. The full release shows that this wasn't a price effect, with volumes also -5.3% M/M.
- Goods imports meanwhile, still watched closely for more direct responses to fluid US tariff policy, were flat on the month after a historically large -20% M/M in April as softer consumer goods (-5.7% M/M) was offset by stronger autos (10.3% M/M).
- The almost 6% decline in consumer goods came despite an 11% increase in pharmaceutical products although the latter is still somewhat consolidating after a surge from Ireland in March ($26.7bn in May, $24bn in April, $50bn in Mar and $29.5bn in Feb compared to the 2024 average of $20.5bn).
- Imports of industrial supplies fell -1.8% M/M, driven by a further correction in finished metal shapes after huge monetary gold transfers earlier this year. Finished metal shape imports were $2.4bn in May vs $4bn in Apr, $21bn in Mar, $32bn in Feb and $34bn in Jan - they averaged $4bn in 2024.



US-China Trade Fell Further In May Despite Mid-Month Truce [2/2]

- Looking by country, the pullback in goods exports was broad-based but most pronounced in China (from $8.6bn to $6.9bn, lowest since early 2010) and Switzerland (from an unusually high $9.1bn in April - likely on gold flows back to Europe judging by Comex inventories - to a still elevated $6.5bn).
- Exports to the EU were close to historical highs though, with the obvious caveat that this is a nominal measure, at $33.5bn or $32.0bn excluding Ireland (for consistency with imports, below).
- On the imports side, there are increasingly sustained declines from China ($20.9bn in May after $28.3bn in Apr, $34.9bn in Mar and $38bn in Feb vs average $36.6bn in 2024) with a continued decline despite the temporary de-escalation in trade announced May 12 after weekend talks in Geneva. Canada sees a less extreme version ($29.1bn in May after $29.0bn in Apr, $35.0bn in Mar and $38.0bn in Feb vs average $34.3bn in 2024).
- There has been no material moderation in imports from the EU (when looking ex-Ireland to try and control for pharma-specific swings) as EU officials appear increasingly resigned to a best case trade deal with a 10% baseline tariff. Imports from EU ex Ireland amounted to $42.7bn in May after $41.6bn in Feb and an average $41.9bn in 2024.
- Taking a step back, the latest three months to May (covering the peak deficit in March before the abrupt pullback) saw a goods & services trade deficit of 3.6% GDP vs the 3.0% GDP averaged in 2024.
- It's entirely driven by goods (-4.6% GDP vs -4.1% GDP in 2024) whilst the services surplus holds steady (1.0% GDP vs 1.1% GDP in 2024).





Fedspeak: Powell Didn't Rule Out July Cut (On Data Dependence Grounds), Holiday Limits NFP Reaction

- Fed Chair Powell says he "really can't say" if July is too soon to seriously consider a rate cut but it's couched in typical central bank-speak and data dependence.
- Atlanta Fed's Bostic tells an MNI Connect event that he eyes one cut in 2025 before three cuts in 2026 amid lingering tariff risks.
- Independence Day limits post-payrolls Fedspeak.
- MNI's educated guess of where FOMC members sit on the dot plot.
- Tsy Sec Bessent reiterated that the Trump administration's replacement for Gov Kugler's term expiring in January 2026 could eventually become the Fed Chair, as part of broader administration discussions around Fed roles.
- FHFA Director Pulte has upped his previous criticism of Chair Powell, calling for Congress to investigate Powell's "malfeasance".

Powell: "Really Can't Say" If July Too Soon To Seriously Consider Cut (Jul 1)

Fed Chair Powell speaking on an ECB forum panel asked if July is too soon to seriously consider a rate cut and he certainly doesn't categorially rule it out, even if it's couched in typical central bank-speak: "Yeah, I really can't say - it's going to depend on the data. And we are going meeting by meeting. I mentioned, you know, how I'm thinking about that, but I wouldn't take any meeting off the table or put it directly on the table, it's going to depend on how the data evolve."

Powell repeats what he has previously said about expecting tariffs to begin showing their impact on inflation over the summer: "We haven't seen effects much yet from tariffs and we didn't expect to by now. We've always said that the timing, amount and persistence of the inflation would be highly uncertain, and it's certainly proved that. So we're watching. We expect to see over the summer some readings, higher readings, but we're prepared to learn that it can be higher or lower or later, or sooner than we'd expected. We expect to see over the summer some higher readings, but we're prepared to learn that it can be higher or lower or later, or sooner than we'd expected... We're simply taking some time, as long as the US economy is in solid shape, we think the prudent thing to do is to wait and learn more and see what those effects might be."

Atlanta's Bostic: 1 Cut In 2025, 3 In 2026 Amid Lingering Tariff Risks (Jun 30)

Atlanta Fed Pres Bostic told an MNI Connect event that he eyes potential for tariff inflation impact to extend into 2026, as part of a "continuous evolution" of prices as opposed to the textbook one-off impact: "It'll take a while for all these businesses to figure out exactly where their endpoint is. And you know, by some estimates, this could stretch into 2026 before businesses do all the things they're going to do, and that assumes that the tariff situation is not extended even further moving forward... I think the further implication of this is that what we will see with prices is such a more continuous evolution over time, as opposed to the textbook story of tariffs, which is a one time step up, right?... This doesn't look like it's going to be like a step like that, it would be much more incremental over time, and we'll have to see sort of what that means for overarching inflation dynamics."

- Bostic says that in addition to his latest Dot Plot submission for 1 cut in 2025, he has 3 cuts for 2026. Assuming he's talking about cuts in the given year ("next year, I think I have three cuts") rather than cumulative cuts, that means he's at 3.4% end-2026 which is below the 3.6% FOMC median for that year.
- On the timing of the resumption of rate normalization, Bostic says "I would say I like to move in a direction when I know which direction to move in, and that would, for me, require more information than we have today...I want to make sure that I have some confidence that I know for sure which direction the economy is going in and our mandates, before really feeling comfortable that we should move now...I think we actually have some luxury to be patient".
- On last week's soft consumer spending data: "I ... think that a lot of this was not about the tariffs, like because much of the tariff pricing has not actually made it into the marketplace yet, and so that response is yet to come... I think there was some point forward of consumption... and ... uncertainty causes everyone to go a little slower, take your time, step back and wait and see."

Atlanta's Bostic: Risk Of Long Hold Or Hike If Upward Inflation Pressure (Jun 30)

Atlanta Fed's Bostic indicates at this morning's MNI Connect event that while he believes the Fed's 2% inflation target can be achieved without rate hikes, there is a potential outcome that leads to hikes or a prolonged rate hold. Asked about the broader sweep of the FOMC's Dot Plot showing rates moving lower over time to the longer-run rate, and whether that signifies that the inflation impact of tariffs won't be persistent, he says:

- "I would say, in my view, I have confidence that our institution is at a policy rate that can get inflation to 2% ... the longer arc is about, for me, is about what will it take to get us to our target? And I think that we can do that with information I have today, without needing to increase rates. But I think that there is upside risk on that, and things play out in a particular way. There may be a heightened... upward pressure on price, that may require us to raise rates, or at least keep them at this level for a longer period than we might otherwise. And I think that's what animates my approach today. I don't want to, but I'm concerned that there we may witness a sufficiently significant increase in pricing pressure that any kind of cut would exacerbate and make it harder to get us back down to our target. I'd like to avoid that to the extent that I can."

Trump Administration Appears To Be Mulling Board Options (Jun 30)

Treasury Secretary Bessent reiterated in a Bloomberg TV appearance Monday that the Trump administration's replacement for Gov Kugler's term expiring in January 2026 could eventually become the Fed Chair.

- Asked "Is a new appointee supposed to be considered [a] shadow Fed Chair?" Bessent said: "Not necessarily. We will see. The 14-year seat is opening up in January, so we have given thought to the idea that perhaps that person would go on to become the Chair when Jay Powell leaves in May, or we could appoint the new Chair in May. That is just a two-year seat." Asked if he thinks there could be confusion, Bessent says "I do not see why there would be confusion. There are people who are currently at the Fed who are under consideration, so why would there be confusion if you add another candidate in January?"

- Federal Reserve Board seats have 14-year terms. Gov Kugler was appointed in September 2023 to an unexpired term that ends in January 2026 (and it's clear she won't be re-appointed). So her replacement will have a term ending in 2040.
- Powell's term as Chair expires in May 2026. However his term as a Board Member isn't over until January 2028, so he can stay on until then even after being replaced as Chair. (Bessent said in another appearance last week: "Chair Powell doesn't have to leave — he could stay on the board, not as Chair.")
- It's unclear whether Powell will stay on for his full Board term, which is what Bessent appears to refer to here when saying it is "just a two-year seat".
- The White House could appoint a) a current Board member, as Bessent says is possible (this implies Waller or, less likely, Bowman), b) a new Board member appointed to replace Kugler in January, or c) a new Board member appointed to replace Powell if he steps down in May. If c), the new Fed chair would have a 4-year term as Chair, but theoretically would have to be reappointed to a Board seat in January 2028 to continue as Chair.
- Overall Bessent's comments in the last few days appear to suggest that the White House hasn't made up its mind on who will be Powell's eventual replacement or even the board appointment strategy ahead. Overall the White House has pushed back on the notion that they could name a Chair in the coming months, contrary to some speculation and a WSJ report last week.
- Waller, Kevin Warsh, Kevin Hassett, and Bessent himself are widely considered to be the front-runners for Powell's position.
- Note President Trump later on Monday criticized the "entire Board" for not cutting rates, seemingly the first time he's expanded his criticism beyond Powell. The next Board seat term expiries are Waller (2030), Barr (2032) and Bowman (2034) - Trump appointed Waller and Bowman in his first term. Jefferson is in until 2036 and Cook until 2038.

FHFA Director Calls For Congress Investigation Into Powell "Malfeasance"

Federal Housing Finance Administration (FHFA) director Pulte has called for a congressional investigation of Fed Chair Powell, seemingly with the objective of getting Powell removed "for cause" (per the Federal Reserve Act, a member of the Fed board can only be removed "for cause", I.e. misconduct). Pulte has previously criticized Powell and called for his resignation for not cutting rates.

- Per the FHFA official statement (as quoted by HousingWire, article is here):
- *"I am asking Congress to investigate Chairman Jerome Powell, his political bias, and his deceptive Senate testimony, which is enough to be removed 'for cause.' Jerome Powell's $2.5B in capitalizations of Building Renovation Scandal stinks to high heaven, and he lied when asked about the specifics before Congress. This is nothing short of malfeasance and is worthy of 'for cause.'"*
- *"As Senator Cynthia Lummis said, 'he [Chairman Powell] made a number of factually inaccurate statements to the Committee regarding the Fed's plush private dining room and elevator, skylights, water features, and roof terrace,' and that 'this is typical of the mismanagement and 'don't bother me' attitude that Chair Powell has always shown.'" "Chairman Powell needs to be investigated by Congress immediately."*

Educated Guess On 2025 Dots Has Board Clustered At Median

The MNI Markets Team's educated "guess" as to the June SEP submissions for the 2025 end-year dot is below. Note the median for end-2025 is 3.9% (2 cuts).

- Kashkari and Bostic have publicly revealed their "dots" for 2025 (and the case of the latter two, 2026), while Daly and Collins have implied theirs.
- Most of the Board are in the 2-cut median camp. Governors Cook and Jefferson haven't commented on monetary policy since the June FOMC meeting. At a guess, Gov Kugler is only board member who doesn't eye cuts this year, though that could also be Gov Barr, or Gov Cook who said pre-June FOMC that all possibilities, including hikes, were possible.
- Two of the more hawkish members, St Louis's Musalem (2025 voter) and Dallas's Logan (2026 voter) also haven't spoken on current monetary policy since the June meeting, though are scheduled to make relevant commentary on July 10 and July 15, respectively. We assume they are "no-cutters" for this year.
- We also haven't heard from new Philadelphia Fed President Anna Paulson (2026 voter) yet, though her predecessor Patrick Harker could easily have been any of 1, 2, or 3 cuts for 2025. We have him here as a rate-cut skeptic (in his last public appearance he suggested that the direction of the next move rates itself was a question).

FOMC Member	Eyeing July Cut?	MNI Guess Of 2025 Rate Dot In June SEP
M Bowman (Perm. Voter)	Yes	3.6
C Waller (Perm. Voter)	Yes	3.6
J Powell (Perm. Voter)	No	3.9
J Williams (Perm. Voter)	No	3.9
M Barr (Perm. Voter)	No	3.9
M Daly	No	3.9
A Goolsbee (2025 Voter)	No	3.9
L Cook (Perm. Voter)	NA	3.9
P Jefferson (Perm. Voter)	NA	3.9
N Kashkari	No	3.9
S Collins (2025 Voter)	No	4.1
R Bostic	No	4.1
B Hammack	No	4.4
T Barkin	No	4.4
J Schmid (2025 Voter)	No	4.4
L Logan	NA	4.4
A Musalem (2025 Voter)	NA	4.4
A Kugler (Perm. Voter)	NA	4.4
P Harker	NA (Retired Jun 30)	4.4

Source: MNI Markets Team

MNI Hawk-Dove Spectrum Eyes End-2026 Rate Views

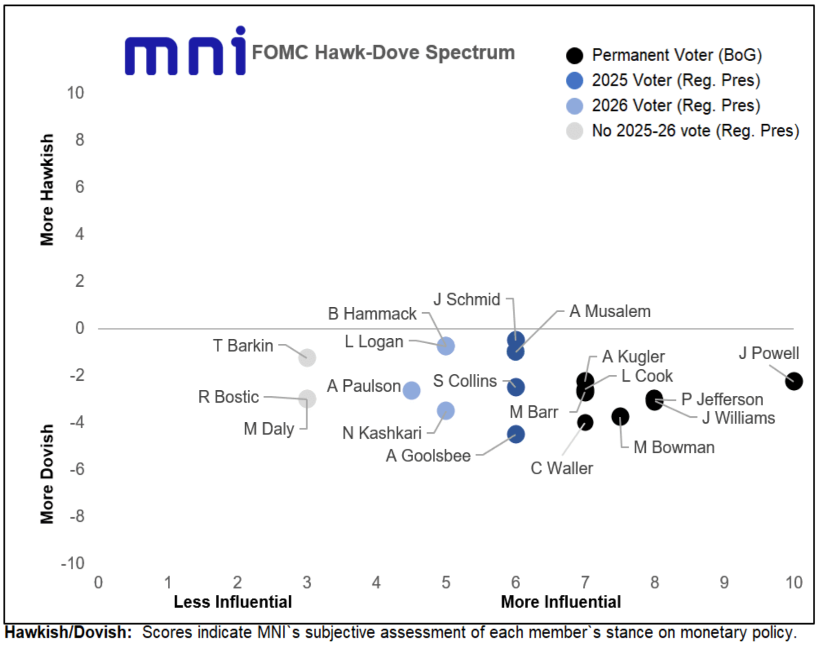
Our FOMC Hawk-Dove Spectrum has shifted since pre-June FOMC to reflect some of the latest commentary on future easing. This is based in part on where we think (or in the case of Bostic and Kashkari, we know) they penciled in end-2026 rates in the June SEP (recall the median was 3.6%).

- We had to pick a "1 cut through end-2026" candidate and that is probably Logan, Hammack or Schmid - we guess the latter.
- Likewise despite Goolsbee not being the biggest dove for 2025, we think he probably continues to have the most dovish rate profile overall, with Bowman and Waller conversely front-loading their cuts.
- The Board is likely split largely between 3.4% and 3.6% end-2026, implying that most are eyeing 1-2 cuts in 2026 on top of 2 cuts by end-2025.

MNI Guess Of 2026 Rate Dot In June SEP

4.1	Schmid				
3.9	Logan	Musalem	Hammack	Barkin	Harker
3.6	Kugler	Barr	Collins	Powell	
3.4	Bostic	Williams	Jefferson	Daly	Cook
3.1	Bowman	Kashkari			
2.9	Waller				
2.6	Goolsbee				

Source: MNI Markets Team



Hawkish/Dovish: Scores indicate MNI`s subjective assessment of each member`s stance on monetary policy. **-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. **Updated Jul 2, 2025**

STIR: Near-Term Rate Cut Odds Slashed On Robust Payrolls Headlines

The Independence Day-shortened week was dominated by Thursday's NFP report. Nonfarm payrolls surprising higher, government caveats aside, and a strong household survey saw a sharp hawkish reaction. Growing odds of a late July cut have been slashed, from 6.5bp to 1bp, whilst cumulative cuts to end-2025 have shifted from 62.5bp to 52.5bp. It sees near-term rate cut expectations back closer to the median FOMC dot from last month's SEP.

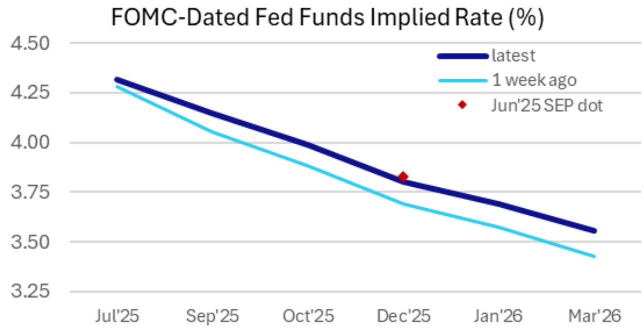
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Jul 3)			*chg in rate*	pre ADP (Jul 2)			*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	4.32	-1.2	-1.2	4.27	-6	-6.3	*5.1*	4.28	-5	-5	*3.6*
Sep'25	4.15	-16.9	-18.1	4.03	-24	-30.1	*12.0*	4.06	-22	-27	*9.1*
Oct'25	3.99	-16.2	-34.3	3.86	-17	-47.0	*12.7*	3.89	-17	-44	*9.5*
Dec'25	3.80	-18.6	-52.9	3.67	-20	-66.5	*13.6*	3.70	-19	-63	*9.7*
Jan'26	3.69	-10.8	-63.7	3.55	-11	-77.7	*14.0*	3.60	-11	-73	*9.5*
Mar'26	3.56	-13.6	-77.3	3.42	-14	-91.2	*13.9*	3.46	-13	-87	*9.3*

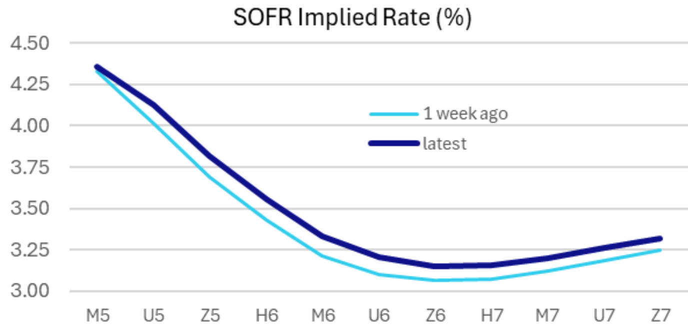
Source: Bloomberg Finance L.P., MNI.

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

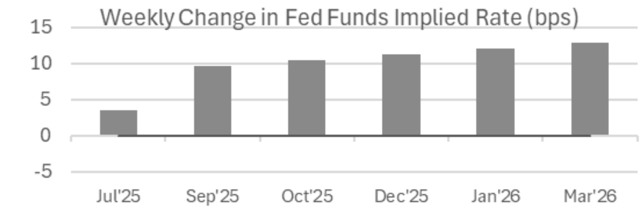
Weekly changes:

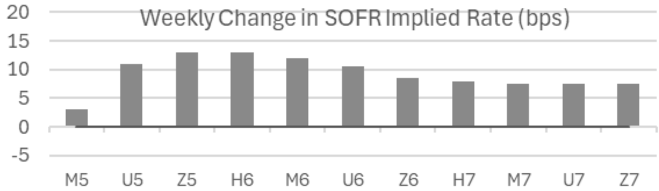


Source: Bloomberg, MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg, MNI.





Analyst View Changes

MUFG Eye September Cut, Three This Year

MUFG pushed back the timing of the next Fed cut from July to September following Thursday's stronger than expected payrolls report, eyeing three cuts this year. Fed Funds futures currently price a cumulative 18bp for September and 53bp for end-2025.

- "Our former July cut view hinged upon the results of the NFP report, where we acknowledged that unless the labor data was unequivocally weak, the chances for a July cut would fade."
- They still see it as a weak labor market when looking into the details: "The share of job losers that are permanent has risen to the highest level since 2015 and the unemployment rate for younger workers continues to worsen. Over 80% of June's job gains were from non-cyclical industries (government, education, and healthcare) […]. We think that private sector hiring has stalled, and we may see sporadic layoffs in some industries in the coming months."
- The unemployment rate ticking down to 4.1% in June "likely keeps the Fed in a "wait and see mode" until September to cut. As a result of removing our July cut view, we now expect only 3 cuts in 2025, in September, October and December (1 additional cut versus what is currently priced-in)."
- "Since we still believe that the neutral rate is closer to 3.375%, we technically just shifted one cut from 2025 into 2026. Therefore, we still view the Fed Funds target range as 100bp too high."
- They expect 10Y yields to continue to trade in a target range of 4-4.5% for the balance of the year, with fiscal concerns preventing 10s trading under 4% and less urgency to term out the debt preventing rates meaningfully above 4.5%.

The US Macro Week Ahead: FOMC Minutes Leads Thin Data Calendar But July 9 Tariff Deadline Looms

The minutes of the June 17-18 FOMC meeting (released Wednesday Jul 9 at 2pm ET) should underline the Committee's patience in making its next rate move amid heightened tariff-related economic uncertainty, as encapsulated in the meeting's Dot Plot which showed participants largely divided between no cuts and 2 cuts by year-end. We have heard significant dovishness on the rate front from Board members Bowman and Waller since June's meeting, and while they appear to be outliers, it could be interesting to see whether any other members tend to agree with the view that the incoming tariff inflation will be largely transitory. With the Fed otherwise firmly in "wait-and-see"' mode though, there will be some added focus this time on any discussion of the Fed's 5-year policy review, with the new Statement on Longer-Run Goals and Monetary Policy Strategy due to be wrapped up by late summer. Additionally, we will be watching for discussion on the format of the much-maligned "Dot Plot" - Powell noted at the press conference that the Committee discussed "enhancements to our suite of communication tools" at a high level, including the Summary of Economic Projections, and said that this would be reviewed in the fall.

Date	ET	Impact	Event
08/07/2025	0600	**	NFIB Small Business Optimism Index
08/07/2025	0855	**	Redbook Retail Sales Index
08/07/2025	1500	*	Consumer Credit
09/07/2025	0700	**	MBA Weekly Applications Index
09/07/2025	1000	**	Wholesale Trade
09/07/2025	1000	**	Wholesale Trade
09/07/2025	1400		FOMC Minutes
10/07/2025	0830	***	Jobless Claims
10/07/2025	1000		St. Louis Fed's Alberto Musalem