

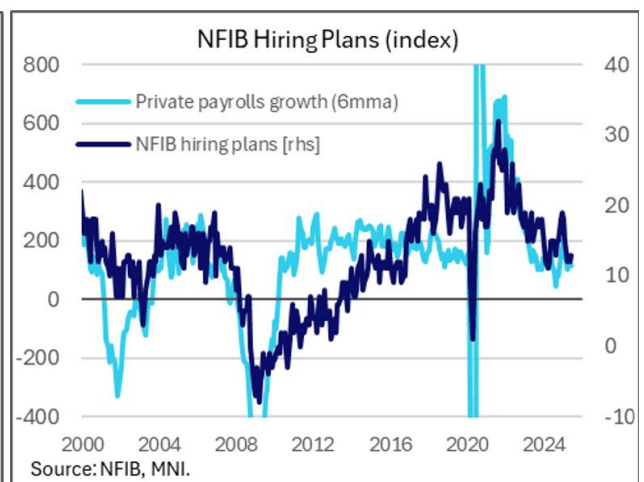
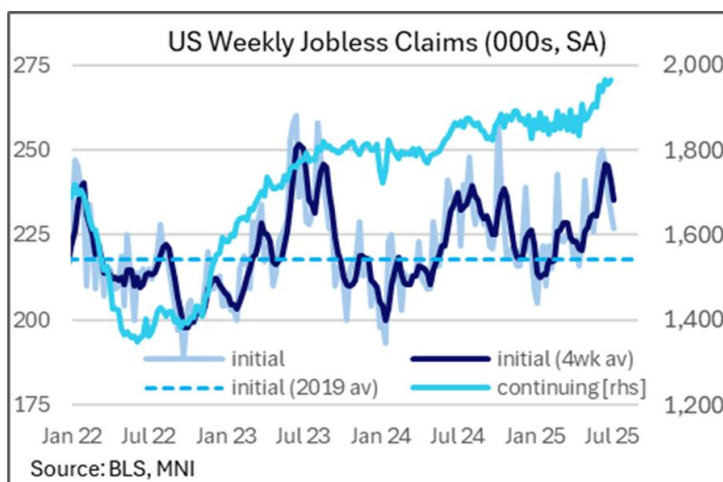
## MNI U.S. Macro Weekly

### MNI View: Staying Calm, Carrying On

Jul 11, 2025 – By Tim Cooper

#### Executive Summary

- The limited set of data releases in the return from the July 4 long weekend didn't greatly change the outlook for the US economy, reflected by almost-unchanged Fed cut pricing (still 50bp through year-end).
- Employment data appeared to confirm a "low firing, low hiring" labor market, and GDP growth tracking has settled in the 2-3% Q/Q SAAR area for Q2 with signs of gradual but not dramatic slowing in Q3.
- Inflation looks set to pick up in Q3 though perhaps not to as dramatic an extent as previously feared, and in the meantime, inflation expectations are not showing signs of de-anchoring.
- On the latter front, there was perhaps surprisingly little market reaction to the White House's series of announced tariff rates including on Brazil, Canada, Japan and South Korea, some of which appeared to be higher than had been expected, not to mention a hefty 50% levy on copper imports.
- Fed speakers were limited in number but impactful. Gov Waller reiterated his call to consider a July rate cut, but also gave an extensive (and hawkish-leaning) speech on how he envisaged the future size and composition of the Fed's balance sheet – a subject that will be of growing importance in the coming months as reserves shrink amid the Treasury's post-debt limit cash rebuild.
- St Louis Fed Pres Musalem warned of tariff inflation impacts potentially extending well into 2026, while Chicago's Goolsbee said that the latest round of tariff announcements could push back further the Fed's resumption of easing.
- Conversely, San Francisco's Daly confirmed at an MNI event that she sees two cuts by year-end, sounding increasingly unconcerned about the tariff impact on inflation and saying that she doesn't want to get "behind" in adjusting the policy rate.
- The main headline from the June FOMC meeting minutes was on the Committee's split on the rate outlook, which had already been encapsulated in the Dot Plot mostly split between two and zero cuts for the year. One hawkish note was that "several participants commented that the current target range for the federal funds rate may not be far above its neutral level".
- June CPI is the highlight of next week's US data slate, with MNI's early roundup of analyst expectations showing an anticipated acceleration in the main measures of inflation.
- But even a downside surprise would be unlikely to persuade the Federal Reserve to seriously consider cutting rates in July, given the expected pickup in tariff-related prices in coming months. That said, further evidence of soft price pressures would certainly help lay the groundwork for a resumption of easing in September, particularly if PCE is confirmed to be tame.
- Wednesday's PPI will refine the post-CPI estimate of PCE. We also have a busy Thursday for data with June Retail Sales alongside the customary weekly jobless claims report.

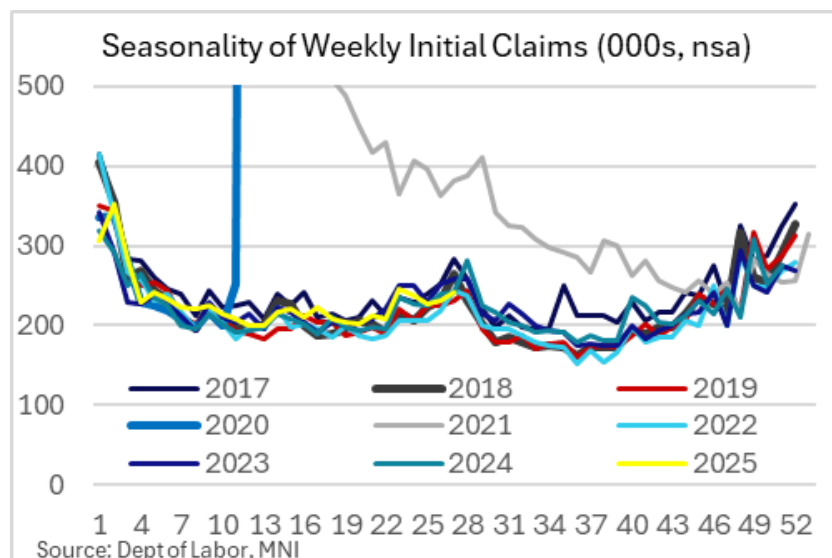


## Labor Market: Low Hiring, Low Firing

### *Claims Data Reinforces "Low Firing, Low Hiring" Labor Market Theme*

The latest weekly jobless claims report showed a further improvement in seasonally-adjusted initial claims, though the continued elevation in continuing claims kept the broader theme of a 'low firing, low hiring' labor market very much intact going into the second half of the year.

- Initial jobless claims were below expected at 227k (235k consensus, 232k prior rev from 233k) in the Jul 5 week. This was the 4th consecutive pullback from the recent high 250k in the Jun 7 week, with the current level now marking an 11-week low. The 4-week average fell for a 3rd consecutive week, to 236k, a 5-week low.
- Continuing claims were exactly in line at 1,965k (1,965k expected, prior rev from 1,964k) in the Jun 28 week. This was, by a mere 1k, the highest continuing print since November 2021.
- Overall continuing claims have pretty much steadied out between 1,900-2,000k (4 of the last 5 weeks were within a range of 1,951-1,965), with the advance seasonally adjusted insured unemployment rate in the 1.27-1.29% range over the past 5 weeks.
- So far as seasonal factors are concerned, initial NSA rose 10.0k, besting the seasonal factor expectation of a rise of 14.8k; there were no major standouts on a state-by-state NSA basis. Meanwhile continuing claims rose 6.1k NSA, with seasonal factors expecting a decrease of 3.9k.

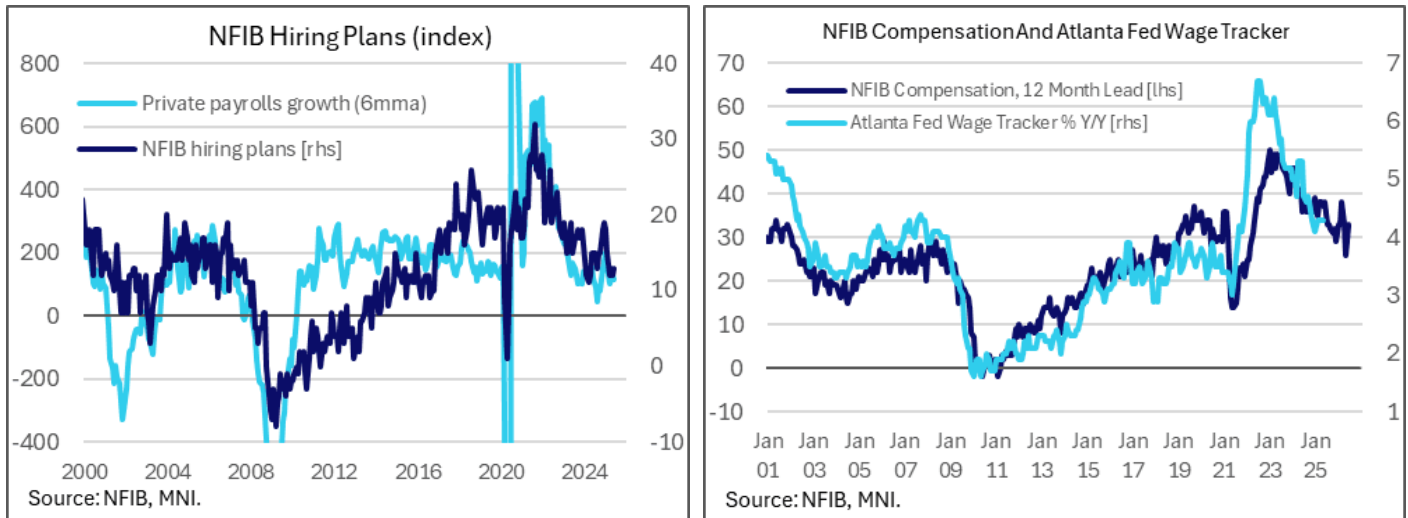


### *Small Business Hiring Steady Amid Stubborn Wage Pressures*

A standout in June's NFIB small business report was the set of the labor market indicators. Net hiring plans have stabilized at 12-13% over the last 4 months, including 13% in June, after looking as though they were dropping quickly (18% in January). That's consistent with continued growth in private payrolls, albeit at low levels.

- The stubbornness in net compensation is more notable.
- Compensation plans were fairly steady (down 1 point to 19%, within the same broad range of the year so far), but the 33% reading for actual net compensation represented a 7ppt bounce from May which was a 51-month low but now looks like a temporary dip.
- This would be consistent with wage growth - per the Atlanta Fed's median wage tracker - in the low 4% Y/Y area for the next year.

- That could be interpreted largely through the lens of continued resilience in the labor market, but it could also be a warning sign for inflationary pressures via higher unit labor costs if productivity fails to gain pace.

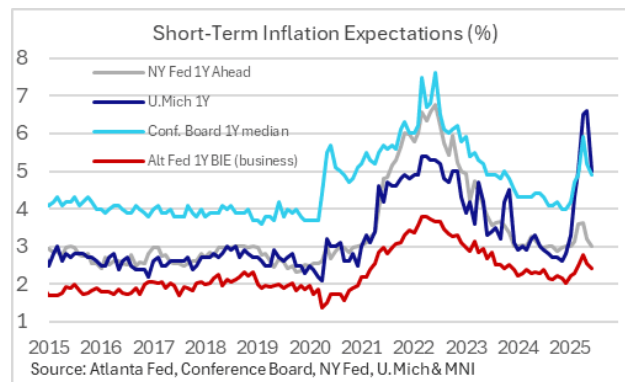
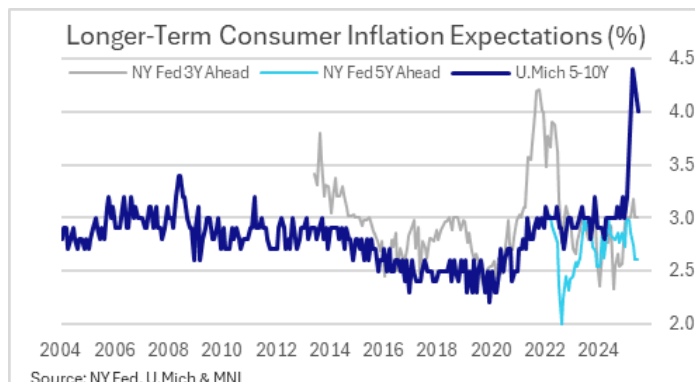


## Inflation: No Tariff Panic (Yet?)

### NY Fed Survey Adds Further Evidence Of Anchored Inflation Expectations

Overall inflation expectations receded in June for the 2nd consecutive month in the New York Fed's Survey of Consumer Expectations, following April's apparent peak amid tariff announcements. It adds to evidence that inflation expectations are "well anchored", or at least, certainly not becoming de-anchored even as tariffs are expected to start feeding into goods price inflation over the coming months.

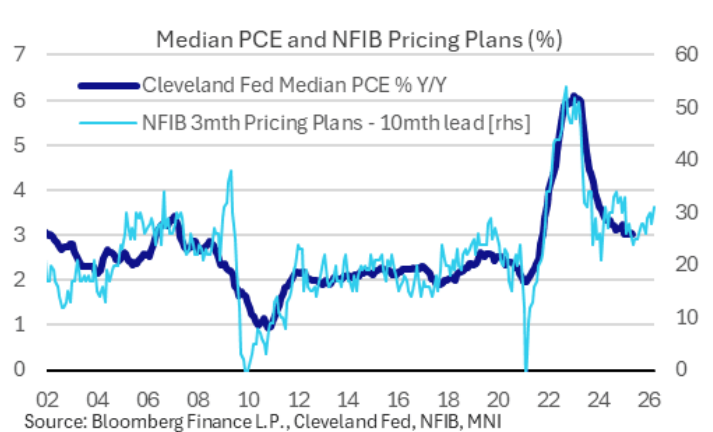
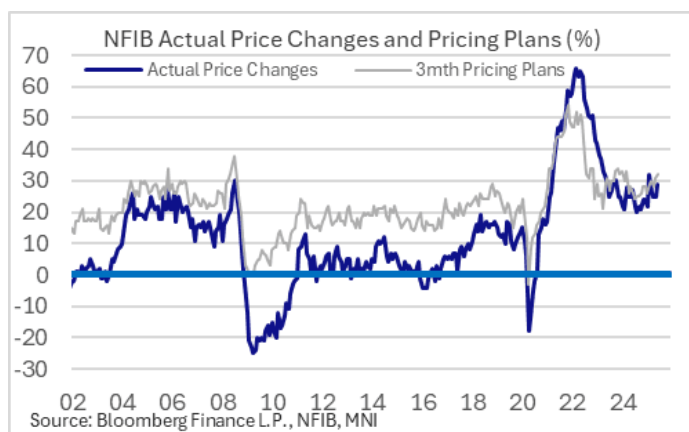
- 1Y ahead median expected inflation fell to a 5-month low 3.02% (3.20% prior), well down from the 3.63% peak in April. 3Y expectations were steady at 3.00%, and has now been at a rounded 3.0% for 6 of 7 months with the exception being 3.2% in April. And longer-term expectations were also steady, with the 5Y median remaining at 2.61%, a joint 16-month low.
- With almost all FOMC members citing inflation expectations as a key determinant in whether higher tariff-related inflation could lead to broader and more sustained price pressures, continued deceleration in expectations in what is a well-regarded report will provide a little more confidence that a resumption of the easing cycle can begin sooner rather than later.
- While the NY Fed survey has been the steadiest of its kind through the tariff episode, other surveys (UMichigan / Conference Board) have also reflected a moderation in consumer price expectations albeit still at elevated levels.
- In other NY Fed survey results, mean expected probability of losing a job dipped 1.8pp to 14.0% (5-month low), with one-year expected household income growth rising 0.2pp to 2.9% (4-month high), though median expected earnings growth fell 0.2pp to 2.5% and expectations of finding a job in 3 months if one's job is lost fell 1.1pp to 49.6%. Spending growth expectations dipped slightly but remained near the 5% Y/Y area (4.9% after 5.0%).



### Price Pressures Growing For Small Businesses

The NFIB Small Business Optimism index ticked slightly lower in June (0.2pp to 98.6m exactly in line with consensus), resembling many surveys stabilizing after a tariff-related drop earlier in the year. But as usual with this report, the details were more interesting than the headline reading.

- The first standout was an increase in the main inflationary gauges which both appear to have bottomed out late last year.
- The net % raising selling prices (vs 3 months earlier) rose to 29% from 25%, the highest since February.
- And planned price increases (3-month ahead) picked up to a 15-month high net 32%, from 31% prior.
- These levels are consistent with underlying PCE inflation steadying out above 3% over the next 10 or so months (see chart).
- Small businesses are arguably under more pressure to absorb rising tariff costs than their larger corporate counterparts, so this bears watching over the coming months.

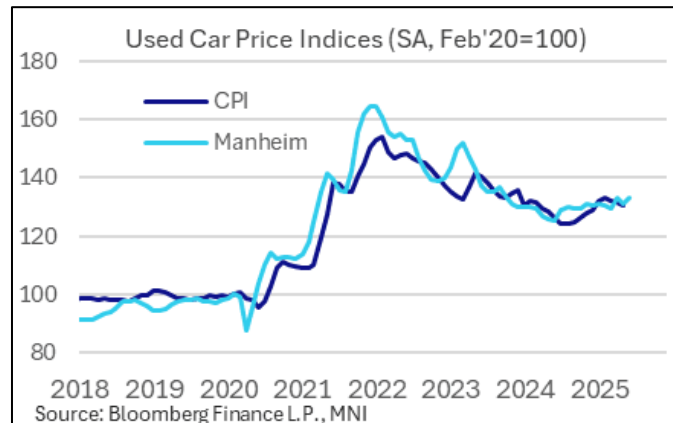


### Used Vehicle Prices Picking Back Up

Used vehicle prices rose 1.6% M/M in June on a seasonally-adjusted basis, per Manheim Auctions data. That brought the index up 6.3% Y/Y to the highest level since October 2023.

- The report made note of volatility in wholesale used prices in Q2 given tariff impacts on new vehicle sales.
- Such wholesale used vehicle indices tend to lead CPI used vehicle prices by 2-3 months.
- In CPI, used vehicle prices have fallen for 3 consecutive months to May, reflecting a dropoff between December 2024 and March 2025 in the Manheim index.
- The latest reading suggests that prices may be on track to pick up by the end of Q3, adding pressure to broader goods CPI aggregates.

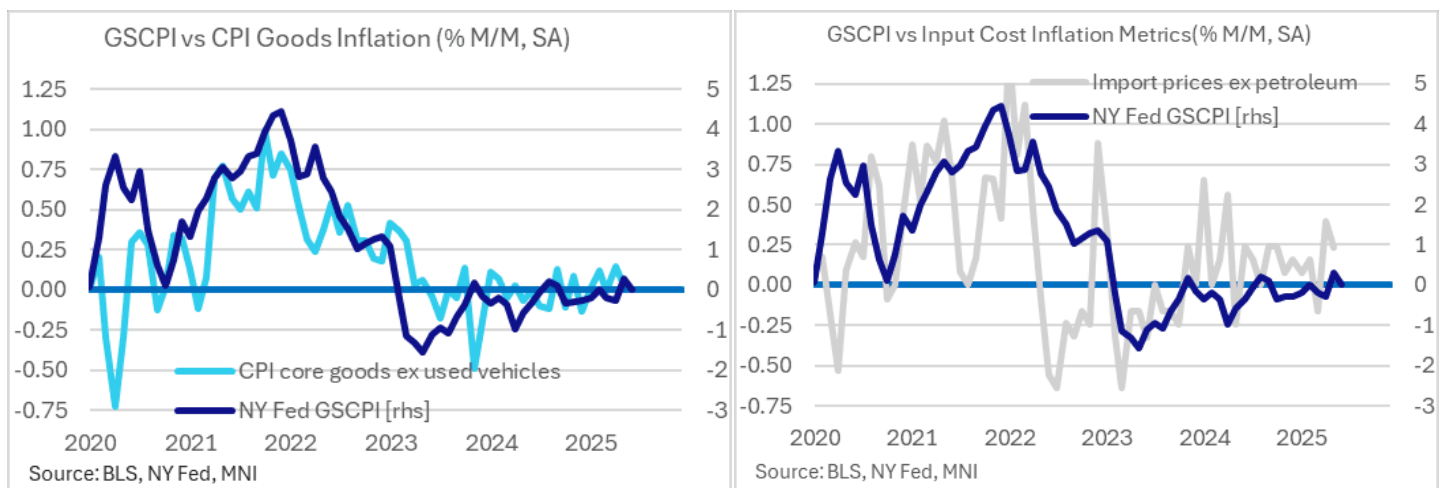




### Global Supply Chain Pressures Not Worsening Amid Tariffs

The New York Fed's Global Supply Chain Pressure Index (GSCPI) fell to 0.00 in June from 0.30 in May (upward rev from an initial reading of 0.19). That means the index is zero standard deviations from the index's historical average - so very much in normal territory despite an uptick in container prices in May amid apparent US tariff front-loading.

- The GSCPI was a closely-watched measure during the pandemic as supply chains were impaired amid strong goods demand, pushing goods inflation sharply higher through 2021-22. See charts.
- There doesn't appear to be anywhere near the same sustained pressure now, despite signs in various indicators (including slower manufacturing ISM delivery times) that would suggest incipient price pressures working their way through.
- While the imposition of tariffs will have an upside impact on prices, those aren't reflected in import price indices. Meanwhile the steady GSCPI suggests US core goods prices, while higher, don't look like they will be pushed up further by global supply chain issues in the near-term.



### Growth: Steady

#### Atlanta Fed GDPNow For Q2 Steadies At 2.6%

The Atlanta Fed's GDPNow latest estimate for Q2 GDP is 2.58% Q/Q SAAR (-0.5% in Q1), basically steady vs 2.61% in the last full update on Jul 3.

- The latest update incorporates today's wholesale trade data, which had only a negligible negative impact on the forecasts (0.02pp bigger drag on growth from inventories).
- The high estimate for the quarter was 3.8% in early June, with 2.4% in early July marking the low). Analyst consensus is for 2.1%.
- The next update isn't until July 17, after retail sales + inventories, import and export price data.

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

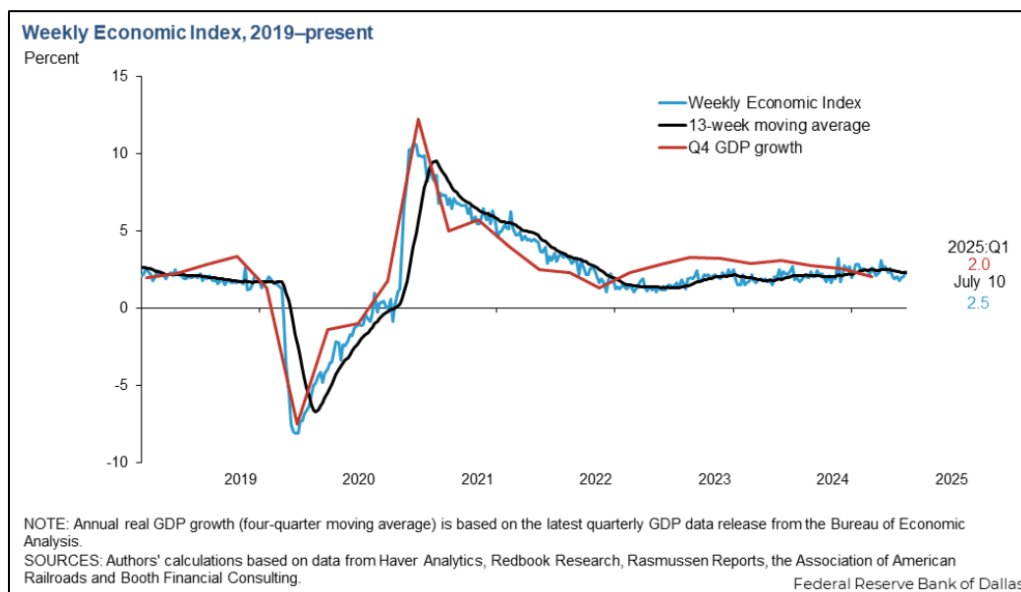
| Date   | Major Releases  | GDP  | PCE | Equip-<br>ment | Intell.<br>prop.<br>prod. | Nonres.<br>struct. | Resid.<br>inves. | Govt. | Exports | Imports | Change<br>in net<br>exp. | Change<br>in CPI |
|--------|---|------|-----|----------------|---------------------------|--------------------|------------------|-------|---------|---------|--------------------------|------------------|
| 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.,<br>Personal income & outlays                  | 3.8  | 3.3 | 5.1            | 5.3                       | -1.7               | -2.2             | 2.3   | -3.5    | -11.4   | 97                       | -39              |
| 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,<br>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.<br>(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<br>Manuf., Employment Situation       | 2.6  | 1.6 | -0.6           | 5.1                       | -5.2               | -6.4             | 2.3   | -3.3    | -22.9   | 230                      | -122             |
| 9-Jul  | Wholesale trade   | 2.6  | 1.6 | -0.6           | 5.1                       | -5.2               | -6.5             | 2.3   | -3.3    | -22.9   | 230                      | -123             |

Source: Atlanta Fed

### Weekly Economic Index Points To Slight Slowdown But No Big Dropoff

The Dallas Fed's Weekly Economic Index picked up in the week ended July 5, to 2.52% (vs 2.13% the prior week). That left the 13-week moving average to 2.21%, a slight uptick from 1.99% in Q1 2025 on the same basis (though slightly slower than 2.26% prior).

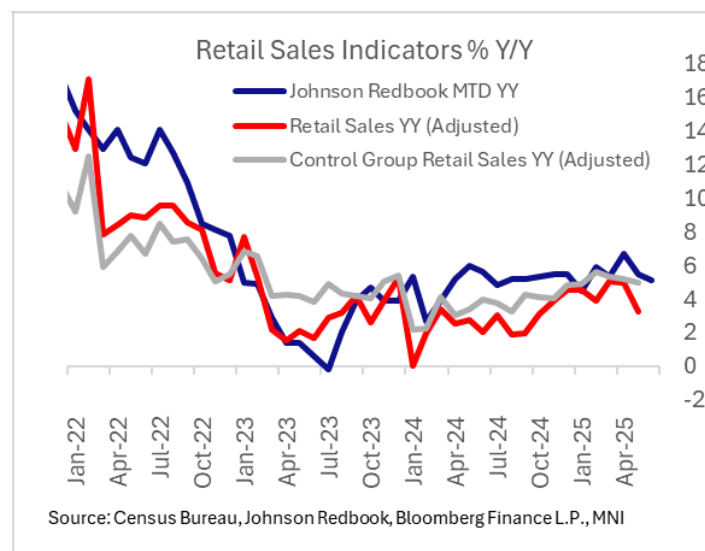
- The current 13-week average, which is effectively covering the last quarter, is consistent with a GDP Q/Q SAAR reading of around 2.5-3.0% in Q2.
- While high-frequency economic indicators are broadly slowing on a week-to-week basis, there is no sign of a significant dropoff in activity through H1.



### Redbook Data Continues To Suggest Gradual Slowdown In Retail Sales

Johnson Redbook Retail Sales closed June on a high, rising 5.9% Y/Y in the final week (ending Jul 5 - June is a 5-week month on the retail calendar), after 4.9% in the prior week. This brought month-to-date sales to 5.1% Y/Y (lower than retailers' targeted 5.7% rise).

- Johnson Redbook notes that their preliminary target is for 4.8% Y/Y growth, with the estimate to be finalized next week. "July is a four-week month that ends on August 2nd and typically experiences relatively low sales volume, with promotions driving sales as stores clear out summer inventories and restock for fall."
- Anecdotes in the report were brief, and again didn't mention tariffs: "Significant increases in temperatures nationwide, combined with Independence Day promotions and increased demand for summer merchandise, encouraged consumers to visit air-conditioned stores. Many people also stocked up on groceries in preparation for the long holiday weekend."
- The Redbook series suggests continued resilience in retail sales through early July albeit continuing a gradual slowdown since some apparent tariff front-running to April. Next week brings the June advance Retail Sales report, which is expected to see a bounce vs May (headline 0.0% M/M after -0.9%, ex-auto 0.3% after -0.3%). A flat rate of headline M/M growth would roughly translate into a pickup in Y/Y activity to the high 3s from a 7-month low 3.3% in May.



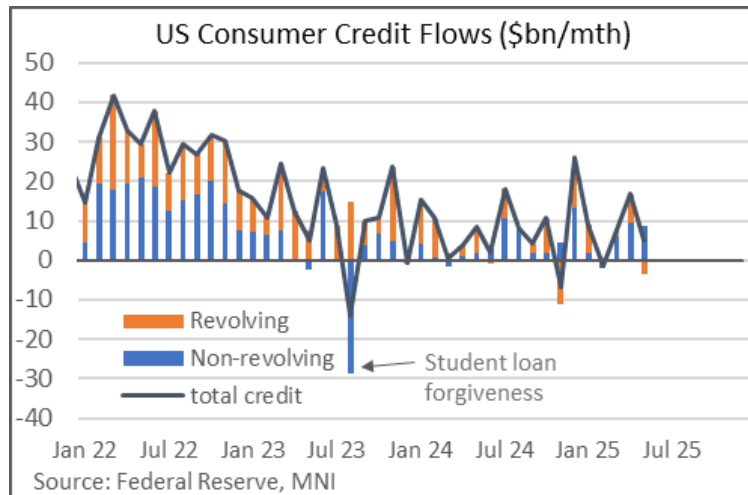
## Credit/Household Finances: Mixed

### *Revolving Credit Growth Gradually Softening*

Total consumer credit rose by \$5.1B in May, about half of the consensus expectation and well below the \$16.9B in April (downward rev from \$17.9B). This was the lowest since February's \$1.3B contraction.

- But the composition was also noteworthy: revolving credit (largely made up of credit cards) fell \$3.5B (was +\$7.5B prior), the first drop since November 2024 and only the 3rd fall in the last 17 months. Nonrevolving credit (which includes auto and student loans) flows remained strong, rising \$8.6B (was +\$9.4B prior).
- These series are very volatile on a month-to-month basis but broader trends are emerging. Revolving credit flows are now growing at the slowest rate (2.6% Y/Y) since August 2021, having gradually receded from double-digit growth in 2022 (which followed a sharp contraction in 2021).
- Conversely, nonrevolving growth has ticked up on that basis to 1.8% Y/Y, highest since August 2023.
- This represents a deleveraging in real terms given nominal GDP growth of 4-5% (was 4.7% in Q1). Indeed total credit outstanding remains below levels seen late last year.
- While sustained employment income gains have been the key underpinning of consumption in the last couple of years even as Covid-related government transfers have faded, slowing revolving credit growth and pickup in household savings suggests that credit may be going from a modest tailwind to something more neutral.
- That said, despite May's weakness, April's strong credit flow suggests a firmly positive credit impulse (3M/3M change vs year before), and other indicators (including the latest Dallas Fed banking and Fed Senior Loan Officer surveys) suggest consumer credit conditions are holding in.

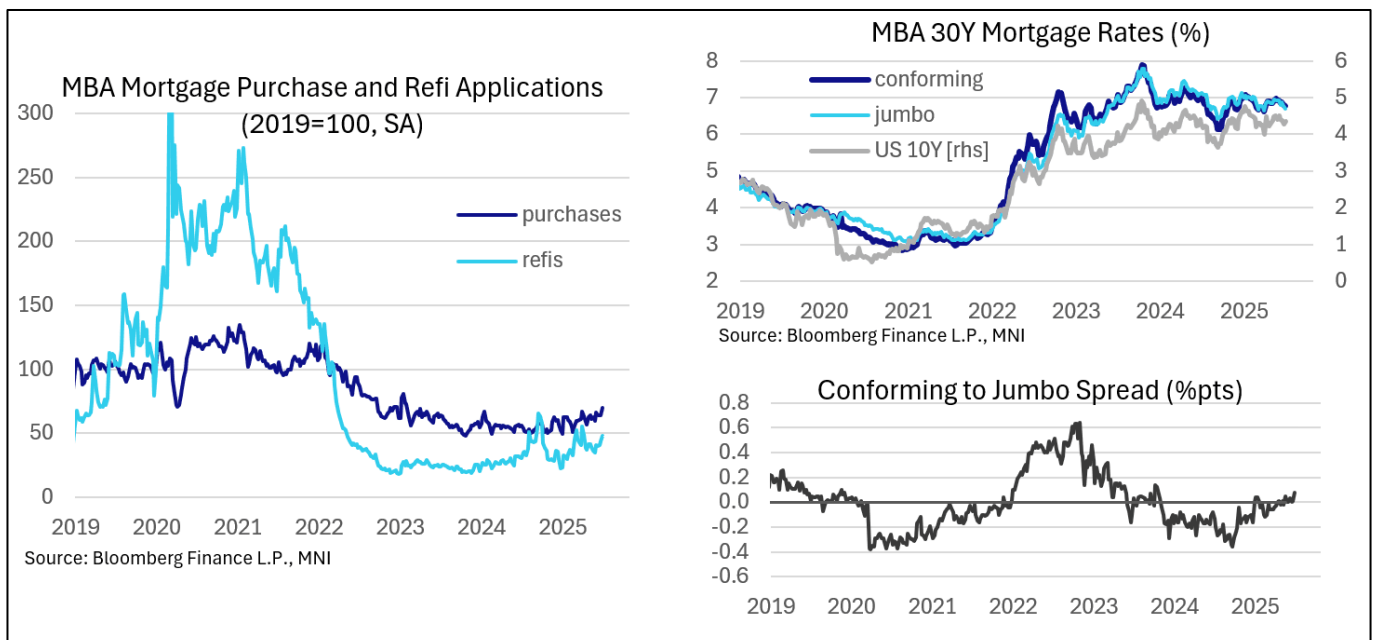




### Mortgage Purchase Applications Gaining Traction As Rates Dip

The MBA mortgage applications market composite index rose 9.4% W/W in the week of July 4 (2.7% prior), the biggest increase in a month to the highest level in 13 weeks (all on a seasonally-adjusted basis).

- Gains were more or less equally attributable to purchases (+9.4%) and refinancings (+9.2%). While refis hit a 12-week high, this was the highest purchases index since February 2023.
- As such it appears that there is some life returning to the mortgage market, though both purchases and refis are below levels seen both during the 2020-21 boom (indeed refis are currently 20% of those levels) and prior to the pandemic.
- The latest uptick appears to have been triggered by a pullback in mortgage rates, with 30Y conforming at a 13-week low 6.77% having fallen 16bp in the last month.
- Indeed the last time purchase applications were this high, 30Y conforming yields were 6.18%, with buyers taking advantage of what had fallen to what was at that time a 21-week low.
- Activity both then and now confirms sensitivity to mortgage rates, which at current levels continue to strain affordability.
- One additional note is that 30Y jumbos at 6.69% are trading inside regular rates by 8bp, the most since October 2023.

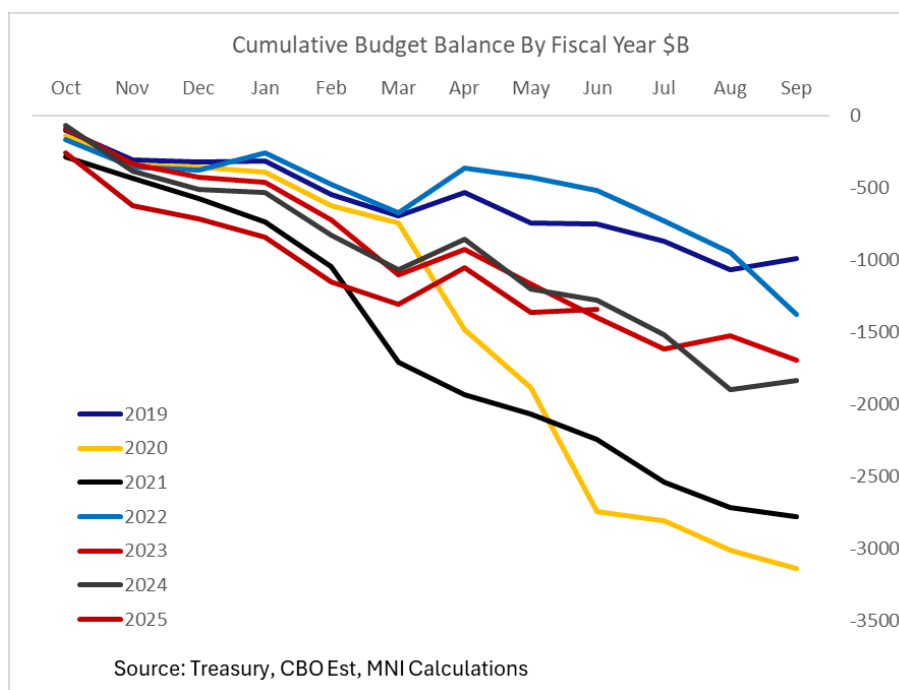


## Fiscal: Post-Debt Limit Adjustments Begin

### *June Surplus Confirmed, 12-Month Deficit Continues To Narrow*

The federal budget balance came in at a \$27B surplus in June, per the Treasury - \$1B higher than the Congressional Budget Office's estimate made earlier in the week (\$26B).

- As we noted earlier in the week, that compares to a deficit \$71B in the same month a year prior. However the CBO notes that if accounting for timing shifts (outlays registered on June 1 2025 moved into May), the government would have recorded a \$71B deficit.
- Note also that this year's figures are flattered to some degree by tariffs, which raised around \$28B in June, vs \$7.6B a year earlier.
- The cumulative deficit through the first 9 month of the fiscal year (Oct-Sep) is running just under \$1.34T, vs \$1.27T a year earlier, with revenues up 7% and outlays up 6% (largely due to rising mandatory spending).
- The 12-month running deficit has been narrowing very slightly as a % of GDP over recent months to 6.3% in June, and with 3 months to go in the year it looks likely to roughly meet Treasury Sec Bessent's estimated 6.5-6.7% of GDP range (was 6.4% in FY2024 and 6.2% in FY2023) though we have seen at least one estimate of a full year reading much lower than that (JPM 6.1%).

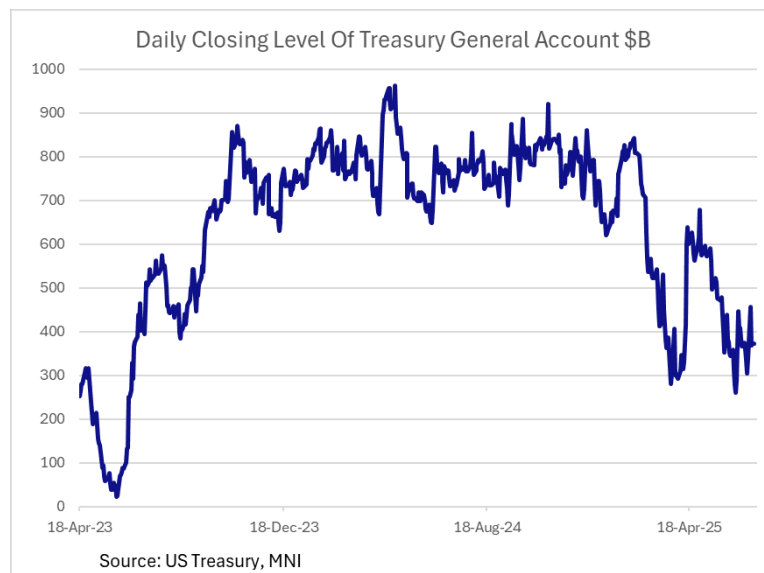


### *Treasury Starts Ramping Up Bill Issuance To Rebuild Cash Pile*

Treasury has made its first indication of its cash management plans since last week's \$5T increase in the debt limit paved the way for a rebuild in the Treasury General Account: "Treasury plans to increase issuance of Treasury bills to continue financing the government and to gradually rebuild the cash balance over time to a level more consistent with Treasury's cash balance policy."

- Treasury also said that it would aim for a cash balance of \$500B by end-July, "before approaching levels consistent with Treasury's cash balance policy in September." And not surprisingly, "Treasury will provide further updates about its issuance plans as part of the August refunding announcements."
- That guidance points to a rebuild to \$850B by end-September, which was in the last quarterly Refunding financing requirement document. Treasury's last daily report showed \$372.2B in cash as of July 3 so if that target is adhered to, that's over \$470B in net cash to raise in just under 3 months.

- As largely expected, to rebuild cash Treasury will rely on benchmark bills and "specifically, the 4-, 6-, and 8-week bills", as opposed to cash management bills (which are no longer anticipated to be issued).
- As we noted Monday, the TGA rebuild will weigh on what is now an "abundant" level of reserves currently north of \$3.2T, with peak downside pressure on reserves likely to come in mid-September alongside the next key tax date.



## Fedspeak: No July Cut, But Balance Sheet And Fall Easing Discussed

### *Fed Minutes Clearly Signal A July Hold, While Keeping Future Options Open*

The June meeting minutes captured a Committee that was leaning in a slightly more hawkish direction than earlier in the year, though probably no more so than should have been expected. The Dot Plot released at the meeting already captured most of the story: a divided Committee retains its overall easing bias but needs varying degrees of certainty before supporting a resumption of the easing cycle.

- The main headline from the minutes was on the Committee's split on the rate outlook, which was encapsulated in the Dot Plot mostly split between two and zero cuts for the year.
- "Participants generally agreed that, with economic growth and the labor market still solid and current monetary policy moderately or modestly restrictive, the Committee was well positioned to wait for more clarity on the outlook for inflation and economic activity." "Most participants" thought a cut later this year would "likely be appropriate" with "some" seeing the "most likely appropriate path" being a hold through year-end, neither of which is a surprise given the Dot Plot.
- The primary area of interest within the rate outlook was whether anyone else on the Committee would join Waller and Bowman in supporting a July cut, and it turns out not: "A couple of participants noted that, if the data evolve in line with their expectations, they would be open to considering a reduction in the target range for the policy rate as soon as at the next meeting." With the Minutes taking no effort to massage this message, we take it as a clear signal that the Committee has no intention of cutting rates in July.
- With tariff policy crystallizing a little more clearly and uncertainty diminishing slightly, opinions were mixed as to the implications for the dual mandate targets. A minority clearly was concerned about labor market weakness, while it was interesting that "some" saw inflationary risks as gaining in importance vs employment since the May meeting. "Some participants commented that they saw the risk of elevated inflation as remaining more prominent, or as having diminished by less, than risks to employment. A few participants saw risks to the labor market as having become predominant."
- Overall the discussion of various risk scenarios to inflation and to the labor market/activity remained open-ended, providing optionality to act or not act according to incoming data and developments.

There was not much that was really new on the inflation outlook in the June minutes vs what we have heard from FOMC participants in the last 3 weeks. Overall, "participants noted that the progress in returning inflation to target had continued even though that progress had been uneven" (and in a nod to the hawks and perhaps a little surprising given decent inflation readings, "a few participants noted that there had been limited progress recently in reducing core inflation.").

- The viewpoints on tariffs' impact on inflation were not particularly novel. The overall - seemingly unanimous - message was that tariffs are "likely to put upward pressure on prices", but there is "considerable uncertainty, however, about the timing, size, and duration of these effects."
- The main language on tariffs being "transitory" is as follows - notice that "a few" thought tariffs would have a one-off impact (slightly more than the "couple" who could support a July cut) - but this was very much portrayed as a minority view: "While a few participants noted that tariffs would lead to a one-time increase in prices and would not affect longer-term inflation expectations, most participants noted the risk that tariffs could have more persistent effects on inflation, and some highlighted the fact that such persistence could also affect inflation expectations."
- On the cautious side of the table, "many" thought it would take "some time" for the rise in tariffs to be reflected in goods inflation, and "several" commented that inflation could be worse if "tariffs disrupted supply chains or acted as a drag on productivity." And additionally, "several" thought firms whose products aren't directly subject to tariffs could raise prices.
- On the more dovish side though, "many" thought the inflation impact could be more limited from the supply side - "if trade deals are reached soon, if firms are able to quickly adjust their supply chains, or if firms can use other margins of adjustment to reduce their exposure to the effects of tariffs".
- And on the demand side, "several participants observed that the pass-through of tariffs might be limited if households and businesses exhibit a low tolerance for price hikes or if firms seek to increase their market share as others raise their prices", with "a few" noting that smaller/tighter-margin businesses may have to pass costs through to a greater degree.
- Taking a more hawkish bent was the discussion of inflation expectations: it appeared consensus on the Committee that "longer-term inflation expectations continued to be well anchored and that it was important they remain so", but it's slightly surprising that so many ("several") were concerned about higher short-term expectations spilling over into near-term inflationary pressures: ("shorter-term inflation expectations had been elevated and that this development had the potential to spill over into longer-term expectations or to affect price and wage setting in the near term").
- In a line of thinking expressed publicly by a few FOMC members, "some" said "that because inflation has been elevated for some time, there was a heightened risk of longer-term inflation expectations becoming unanchored if there is a long-lasting rise in inflation."

One hawkish note to the a largely unsurprising set of Fed minutes - we took note that "several participants commented that the current target range for the federal funds rate may not be far above its neutral level".

- The last time participants' comments on the neutral level was noted in the minutes was in January's edition, when only "a few" said the same thing - and the Fed funds rate hasn't changed since then.
- While the estimated range of the neutral range is notoriously wide, this shift in language could suggest that participants may be eyeing a slightly higher end-point than they had previously.
- It also adds to this comment from Chair Powell at his congressional testimony last month in which he suggested that the "neutral" level of rates could start in just "a couple" of cuts from here: "If you just look in the rearview mirror and look at the existing data that we've seen, you could make a good argument that it would call for us to be at a neutral level, which would be a couple of cuts or maybe more."

#### *Gov Waller: Tariff Inflation Impact One-Off, July Cut "Not Political" (Jul 10)*

Fed Gov Waller says that he's going to be delivering a speech next Thursday on his outlook but in advance of that in an event today he goes through his logic in supporting a rate cut in July, further to his comments on CNBC in June. He is careful to point out that his view on rates is "not political" (he's probably well aware of criticism that he may be angling for the Fed Chair's job by supporting an immediate policy easing), but rather a continuation of his long-standing views. He argues that policy should be more forward-looking albeit he is one of the strongest proponents of the transitory inflation view of tariffs, but argues that policy is "pretty restrictive".



- **On the logic of easing amid what he sees as a one-off tariff impact on inflation:** "I've made arguments going back to 18 months ago that as long as inflation would come down [it was running close to 4%], we could lower the policy rate just because inflation comes down to our target. That's good central banking. You don't need to be as restrictive anymore because the inflation rate comes down. So I've been advocating for lowering the policy rates since November of 2023. Then last summer, there was a big discussion about potential tariffs. I made a point at the European Central Bank conference ... that tariffs are a one time thing. You put them on, the price level jumps up say 10%, but it doesn't keep going up 10%. The tariffs are things that cause the price level to go up once, but not keep going up. So in standard central bank lingo, you look through that because it's not a permanent source of inflation, it's a one off event. Ignore it. Don't change interest rates because of it. So I made that argument last July, in 2024, and I have been making that argument ever since, that evidence comes down, we can lower rates.
- "We should not be responding to tariffs with the policy rate. And as long as the economy is doing okay, that's fine to lower rates. And if there's any blip up in inflation - just look through it and keep moving. So that's why I said a couple of weeks ago that given where we are with the labor market, given where inflation has been given, we've seen relatively small. We see tariff effects there not zero, but...some goods, not all goods. And other goods are adjusting in a way that kind of offsets it a bit. So we're not seeing a lot of tariff inflation yet."
- **On policy's current restrictiveness and a July easing:** "So for that reason, I've been arguing that we could start lowering the policy rate from our current setting. That given where the SEP, our survey of economic projections is, the policy rate is still pretty restrictive. So we could lower that. Now some people have a different view of what's restrictive, but just going off the Dot plot that we publish, for at least half the committee, the policy rate is 125 to 150 basis points above their long run policy rate. Where you would be, if you were right, achieving your goals.... GDP growth is going to be right around two or less than two the first half of this year. Unemployment's right at what we think long run should be, and inflation's running about a half a percentage point above target. But we're 150 basis points above where we think we should be in the long run, if we're hitting all those goals. So I just made the argument I think we're just too tight and we could consider cutting the policy rate in July. That's my view. I'm kind of in the minority on this, but I've tried to lay out very clearly in economic terms why we could do this. It's not political."

#### *Gov Waller Eyes \$2.7T "Ample" Reserve Level, Moving Away From Long Duration (Jul 10)*

Gov Waller's speech on the Fed's balance sheet is [here](#):

- This speech reinforces that Waller is something of a relative balance sheet "hawk": he was the only one on the 12-voter FOMC to vote in March against the slowdown in QT. Currently, QT is running at a \$20B or so monthly pace (\$5B Tsy cap, average \$15B MBS), vs \$40B prior to the reduction of the pace.
- He says reserves are currently abundant, and says his estimate of the the "ample" level is around \$2.7T (vs around \$3.3T now). So "I believe we can likely continue to let a share of maturing and prepaying securities roll off our balance sheet for some time, reducing reserve balances."
- He says that "the duration of our asset portfolio is far too long for the liabilities we need to hold for an ample-reserves system", including over \$2T in MBS.
- He says that "if the Fed moved forward with a maturity-matching strategy as I suggest, it would hold about half of its Treasury securities in shorter-dated bills."
- Note that bill holdings are currently a little under \$200B, vs \$3.6T nominal Treasuries, \$316B TIPS, and \$2.14T MBS.
- However "moving our portfolio toward shorter-duration securities will be a slow process unless we were to take the dramatic step of selling existing securities to replace them with Treasury bills. When reserves hit their desired ample level and we need to increase securities holdings in line with growth in autonomous factors, like currency and the TGA, we can actively accumulate bills, if we do not take other actions sooner."
- And as for the final composition of assets, "I support continuing the conversation about what the ultimate composition should be."
- His suggestion that selling existing securities would be a "dramatic step" suggests that's not something he would support, though he doesn't rule it out.

*SF's Daly: Eyes "Adjusting" Rates Down Twice By End-Year, With Risks (Jul 10)*

SF Fed President Daly says on a MNI webcast that one scenario for tariff inflation is "You get an impact... even if it's delayed and it's persistent. I don't see that as most likely. I don't see the evidence rolling in thinking this is going to be a very persistent impact". Another is for a "delayed impact, but it is going to be a one off, which we can ultimately look through". And she sees as increasingly possible "it just doesn't materialize [into] a large increase in price inflation for consumers, because the businesses find ways to adjust."

- Daly repeats that her 2025 end-year rate "dot" is for 2 cuts: "I really am of a view that it's time to think about formalizing or adjusting, perhaps not normalizing just yet, but at least adjusting the interest rate... I see two cuts as a likely outcome, but you know, again, those uncertainty bands around everyone's projections. Doesn't matter if you're a zero or two or a three, there's just a large amount of uncertainty there."
- Asked about what she would need to see to support a September cut, Daly says: "what I'm looking for is the continuation of what we've been seeing... inflation in recent months has come down....incoming information that does suggest that we're on a sustainable path down to 2% so I think that's good news. I'd like to see the labor market continuing to stay in the balance that I see it in....with those two factors, then I think just the normal fundamentals of the economy would suggest that we can move to a less restrictive point of interest rates. And so that would mean a cut."
- As for "what would cause us to move earlier or cause me to want to move earlier? ... It would be any sense there's weakening in the labor market, not just the cooling we would expect with restrictive interest rates. On the other hand, what would make me give have pause about cutting the interest rate in September ... or in the fall... it would be something that would push inflation up and make it look like it was going to be persistent."

*SF's Daly: Don't Want To Be Behind On Easing (Jul 10)*

SF Fed President Daly tells the MNI webinar that she doesn't want the Fed to fall behind the curve in terms of easing. She says "one of the ways you can make a policy mistake is to wait for something to materialize that doesn't. And so it's useful now to sort of recognize that waiting for inflation to rise or become persistent could leave us behind in terms of adjusting the policy rate, and I don't want to be doing that. I don't want to be behind on that, because ultimately, the commitment we continue to talk about, I must have said this hundreds of times in all my outreach across the country and in my district, is we want to restore price stability, but do it without harming growth in the labor market."

- She doesn't see much tariff impact in CPI ("just less of an impact than we've been seeing")
- Daly says she hasn't seen evidence that non-direct importers are raising prices: "The sectors that haven't had any impact of tariffs just are coming down as we would expect." On judging tariffs' impact on inflation, she notes that the expected effective tariff rate is "around 16% but then you look at the tariff collections data, and it puts it more at eight or 9% Well, that's why that gap is there, because there's all this negotiation that goes on before it ever gets imported. There's probably other reasons, but that's one reason that gap exists."
- Against this backdrop, Daly also doesn't see the labor market as a source of inflation: "with the labor market not giving any impetus for wage pressure, that cycle of where you push prices up and wages might rise, et cetera, just isn't there. Right now, employers are not hearing what we're hearing is they're not hearing much in terms of wage demands, and they're finding workers available when they need them."
- On immigration's impact on the workforce, "I don't see this right now as being a large threat to either the balance in the labor market or the potential run-up in wage inflation".
- She says that the breakeven rate for payrolls growth is "around 100,000, could be even a little bit lower", and is currently running at a higher level than that. "We have a lot of room before we get to something that I would think of as a steady state in the economy."

*St Louis's Musalem: Tariffs Could Impact Inflation Well Into 2026 (Jul 10)*

St Louis Fed Pres Musalem, a 2025 FOMC voter and considered to be a hawk, makes his first comments since the June meeting. He does not give away much on his rate views but overall we continue to think he is one of the 7

members who penciled in no rate cuts this year, preferring to wait and see several months of inflation data before deciding on the impact of tariffs.

- He sounds a little dovish on incoming inflation data, emphasizing that on a 3-month basis there have been "very positive inflation trends in core and headline [PCE] in goods and in services, and those are very welcome developments".
- However overall: "The economy is a good place. The labor market is at or around full employment. It has some downside risks, but it's looking stable and good. Inflation is running slightly above or somewhat above our target. There are some upside risks to inflation. Looking ahead, monetary policy is modestly restrictive and financial conditions are supportive of growth." And his outlook for inflation is for "inflation to increase going forward, mostly owing to tariffs".
- On whether tariffs will be temporary or more persistent, "it's too soon to tell which way it's going to go". He offers a key metric for this: tariff revenue relative to imports is only slowly rising, to estimating 2.5% before April, to 4% in April, to 6-6.5% in May, and close to 8-9% by June, but eventually reaching the "low teens or low 20s" in accordance with the overall effective tariff rate. "So it's going to take time for the tariffs to settle what people are actually paying and therefore how they're passing through", in part because businesses are waiting months to pass through any higher costs.
- Additionally he is mindful of "second round effects and the dollar has depreciated and that could contribute to inflation going forward and "to make sure that short term inflation expectations ... don't seep into longer term inflation expectations."
- As such he suggests that it could be a while before he has enough "certainty" over the inflation impact from tariffs: "There's a scenario where we could be in Q4 of this year or Q1 or Q2 of next year, and tariffs are still working themselves through the economy... I think as we progress through the year, I'm going to get more comfortable in understanding what the total impact of of tariffs may be. I expect that to begin to show up in data with June, July, August, September data. I don't expect it to be the end of it, but it's possible. I may be able to form a picture by October, November, December. It's possible. I may not form a picture. Again, I'm not looking for a complete certainty, but I'm looking for sufficient confidence in one direction or another."
- On the labor market, he says: "both supply and demand and labor markets seem to have cooled at the same time on the demand side. One thing that's interesting is vacancies have been rising lately. So while there is no while the hiring is low, some some increase in vacancies, meaning more more jobs, which is interesting. So we're in a low hiring, low firing environment. When I go around and I talk to companies and I talk to a lot of companies, I'm not hearing about layoffs."

#### *Chicago's Goolsbee: Latest Tariffs Require Caution (Jul 11)*

Chicago Fed President Goolsbee tells the Wall Street Journal in an interview Friday ([link](#)) that this week's latest round of tariff announcements could force him and the FOMC to wait for longer before having enough clarity to cut rates.

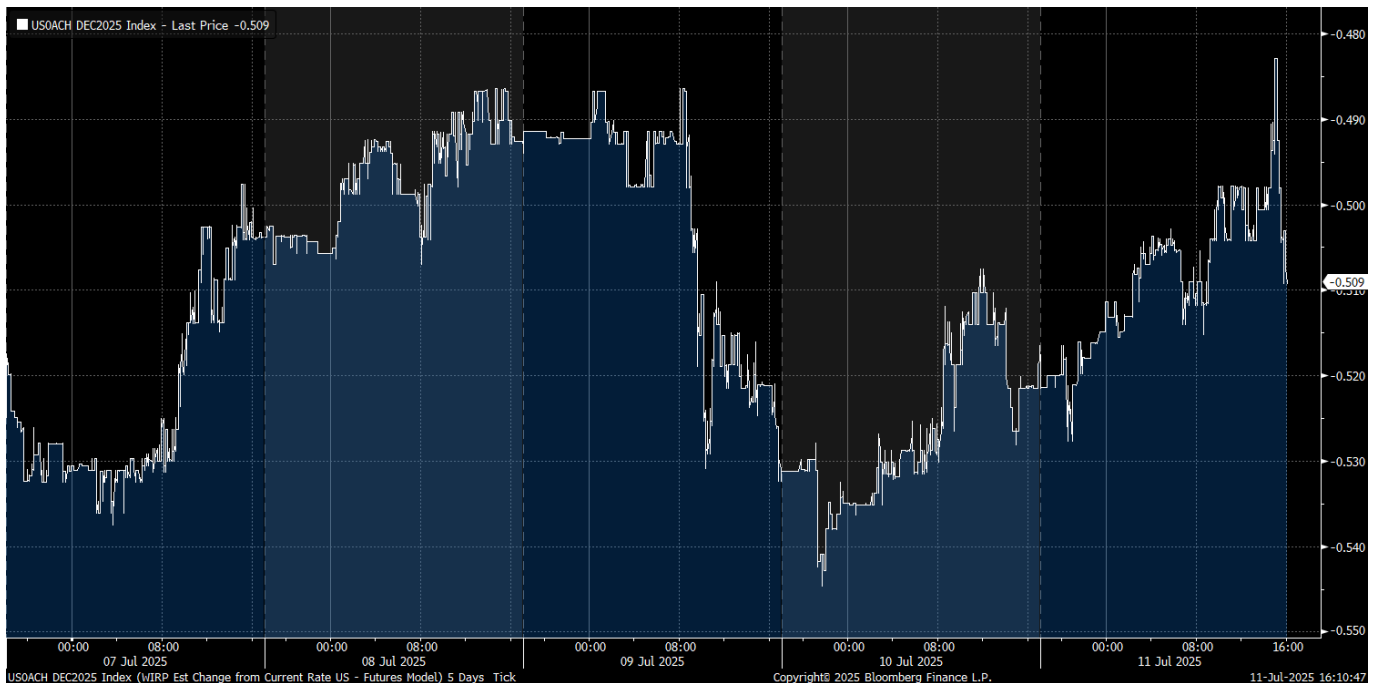
- "I'm hopeful that when we go back and talk to [businesses] now, they don't say, 'Oh, this is putting us back to where we were on April 3... But I don't know, because this has just happened...The more we keep adding things to the mix that make it hard to figure out, 'Are prices going to be rising or not?' The more it's just throwing more dirt back in the air."
- On the recent criticism from the Trump administration, Goolsbee said "I'm still pretty confident that the culture of the Fed is one that everyone takes the job seriously and recognizes how important independence is from political interference."

#### **STIR: Week Sees Modest Shift Higher In Implied Fed Rates**

The futures-implied Fed funds rate path shifted a little toward the tighter side this week.

- Since the Jul 3 close (skipping last Friday's thin July 4 session), expectations for total 2025 cuts have fluctuated between 49bp and 54bp, ending up the week at about 50bp (with the implied rate of 3.83% representing a rise of a little over 1bp).

- Implied rates drifted modestly higher to start the week in an apparent spill-over from last week's solid employment report. They fell on Wednesday in part due to President Trump's renewed criticism of Fed Chair Powell's reluctance to cut rates.
- The first cut remains only fully priced by October's FOMC meeting, with a July easing remaining only a remote possibility (under 8%).
- There's about 94bp of cuts priced through the next 12 months in total, with a notable jump between April and June (13bp) appearing to reflect expectations that Fed Chair Powell will be replaced at the end of his term in May with a more dovish White House appointee.



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

## The US Macro Week Ahead: Inflation And Retail Sales Feature

June CPI is the highlight of next week's US data slate, with MNI's early roundup of analyst expectations showing an anticipated acceleration in the main measures of inflation. Both core and headline CPI are seen rising to the mid 0.20s% M/M, from May's readings of 0.13% for core and 0.08% for headline.

- Such outturns would mean the strongest M/M headline CPI since January, with core continuing to range between 0.0-0.3% for a 5th consecutive month. They would also bring the Y/Y core reading to 2.9% or 3.0%, with headline at 2.6% or 2.7% (both would be 4-month highs).
- The first area of focus will be on core goods prices, with the impact of import tariffs expected to become more acute as the summer progresses: core goods are seen up from May's flat M/M reading to closer to 0.2%, with tariff-sensitive categories such as apparel and recreational goods seeing a pickup, offset by a drag from used vehicles.
- Core services are seen picking up modestly from 0.2% M/M in May to closer to 0.3%, with May's relatively tame housing inflation steady-to-higher. "Supercore" (core services ex-housing) is expected to rise from May's surprisingly low sub-0.1% M/M print to closer to 0.3%, as airfares and medical care services prices regain traction.
- Our full preview of the CPI data will be out Monday, but below is our early analyst roundup.
- It's unlikely that a downside surprise would persuade the Federal Reserve to seriously consider cutting rates in July, given the expected pickup in tariff-related prices in coming months, but it would certainly help lay the groundwork for a resumption of easing in September, particularly if PCE is confirmed to be tame.



- Wednesday's PPI will refine the post-CPI estimate, while we also have a busy Thursday for data with June Retail Sales alongside the customary weekly jobless claims report.
- Data Friday will help offer the latest gauge of residential investment activity, which has been one of the weak points in the economy so far this year.

### Overview Of Unrounded Core CPI Analyst Estimates

| mni           | Headline |      | Core | Headline |      |
|---------------|----------|------|------|----------|------|
|               | NSA      | NSA  | NSA  | SA       | SA   |
|               | Index    | Y/Y  | Y/Y  | M/M      | M/M  |
| May           | 321.465  | 2.35 | 2.79 | 0.08     | 0.13 |
| Jun (median)  | 322.432  | 2.64 | 2.96 | 0.26     | 0.26 |
| Jun (mean)    | 322.424  | 2.65 | 2.96 | 0.27     | 0.27 |
| Bbg consensus | 322.512  | 2.6  | 2.9  | 0.3      | 0.3  |

| Date   | ET   | Impact | Event                                |
|--------|------|--------|--------------------------------------|
| 15 Jul | 0830 | **     | Empire State Manufacturing Survey    |
| 15 Jul | 0830 | ***    | CPI                                  |
| 15 Jul | 0855 | **     | Redbook Retail Sales Index           |
| 15 Jul | 0915 |        | Fed Vice Chair Michelle Bowman       |
| 15 Jul | 1245 |        | Fed Governor Michael Barr            |
| 15 Jul | 1445 |        | Boston Fed's Susan Collins           |
| 15 Jul | 1845 |        | Dallas Fed's Lorie Logan             |
| 16 Jul | 0700 | **     | MBA Weekly Applications Index        |
| 16 Jul | 0830 | ***    | PPI                                  |
| 16 Jul | 0915 | ***    | Industrial Production                |
| 16 Jul | 0915 |        | Cleveland Fed's Beth Hammack         |
| 16 Jul | 1000 |        | Fed Governor Michael Barr            |
| 16 Jul | 1400 |        | Fed Beige Book                       |
| 16 Jul | 1830 |        | New York Fed's John Williams         |
| 17 Jul | 0830 | ***    | Jobless Claims                       |
| 17 Jul | 0830 | ***    | Retail Sales                         |
| 17 Jul | 0830 | **     | Import/Export Price Index            |
| 17 Jul | 0830 | **     | Philadelphia Fed Manufacturing Index |
| 17 Jul | 1000 | **     | NAHB Home Builder Index              |
| 17 Jul | 1000 | *      | Business Inventories                 |
| 17 Jul | 1000 |        | Fed Governor Adriana Kugler          |
| 17 Jul | 1245 |        | San Francisco Fed's Mary Daly        |
| 17 Jul | 1330 |        | Fed Governor Lisa Cook               |
| 17 Jul | 1600 | **     | TICS                                 |
| 17 Jul | 1830 |        | Fed Governor Christopher Waller      |
| 18 Jul | 0830 | ***    | Housing Starts                       |
| 18 Jul | 1000 | ***    | U. Mich. Survey of Consumers         |