

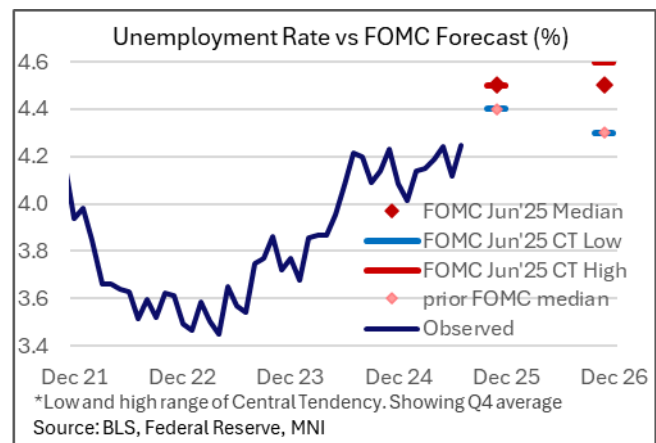
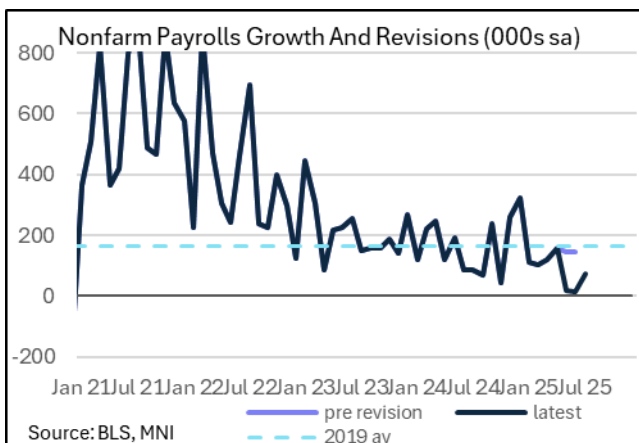
## MNI U.S. Macro Weekly

### MNI View: Poor Payrolls Trumps Patient Powell

Aug 1, 2025 – By Chris Harrison and Tim Cooper

#### Executive Summary

- The second half of the week has seen some significant moves in markets from first a patient Fed Chair Powell not giving a nod to a September rate cut before a weak payrolls report with huge downward revisions materially altered recent trends.
- Nonfarm payrolls growth underwhelmed at 73k in July but the major headline was the -258k two-month downward revision, of which -139k came from the private sector and -119k from the public sector. Outside of April 2020, that's the largest two-month downward revision in at least forty-five years.
- We caution though that whilst jobs growth has soured sharply, it's doing so along with a significant slowing in labor supply under immigration curbs.
- As such, the unemployment rate may have technically ticked up to a new cycle high of 4.248% (above 4.244% in May) but it continues to roughly plateau in the 4.0-4.25% range seen since last July. The median FOMC forecast from the June SEP had the unemployment rate increasing to an average 4.5% in 4Q25 as part of forecast with two rate cuts in 2025 so further deterioration would be expected.
- A note on the latest initial jobless claims data, which are back at 2019 averages, a period when the unemployment rate averaged 3.7%.
- The weak report prompted an extraordinary response from President Trump, directing his team to fire BLS Commissioner Erika McEntarfer. It's a broadening out of criticism beyond the Fed's Powell and its Board.
- Speaking after payrolls, Atlanta Fed's Bostic (in a non-voting role this year) said he hasn't changed his view that there should be just one rate cut this year.
- Elsewhere in a major week for data, core PCE inflation exceeded latest Fed tracking in June at 2.8% Y/Y, whilst away from any tariff impact, market-based services inflation printed 3.3% Y/Y. Various inflation metrics showed a continued stabilization at above 2% target rates.
- The Q2 GDP advance release meanwhile beat analyst expectations with 3.0% annualized although it was close to Atlanta Fed GDPNow expectations. PDFFP moderated further to 1.2% annualized for its weakest since 4Q22 although could have been worse.
- As a precursor to next week's ISM Services report, the Manufacturing counterpart was weak across the board in July. Prices paid pulled back from recent highs, new orders chalked up a sixth consecutive month firmly in contraction territory and the employment index fell to its lowest since mid-2020.
- Yields have tumbled after the weak payrolls report. A September cut is mostly priced now vs 50/50 before the release, with a cumulative 59bp by year-end and five cuts in total from current levels.



## Labor Market: Weak Payrolls Report Prompts Trump To Fire BLS Head, But Claims Looking Healthy

### Huge Downward Revisions For Payrolls Set The Dovish Tone

- Nonfarm payrolls growth was weaker than expected in July at 73k (cons 104k) after huge downward revisions in both June (-133k to just 14k) and May (-125k to 19k).
- That leaves a three month average of just 35k or a six month average of 81k. These are the lowest averages since mid-2020.
- The downward revisions came from a combination of large shifts in both private and public payrolls, equally spread over both May and June.
- Private payrolls saw a more limited miss with 83k (cons 100k) and a two-month downward revision of -139k. What was seen at 74k for private payrolls in last month's release is now just 3k.
- That leaves a three-month average of 52k and six-month of 85k, with the three-month last lower in Aug 2024 after surprise weakness last summer as well.
- Public payrolls fell -10k (federal -12k, state +5k and local -3k) after a two-month revision of -119k.

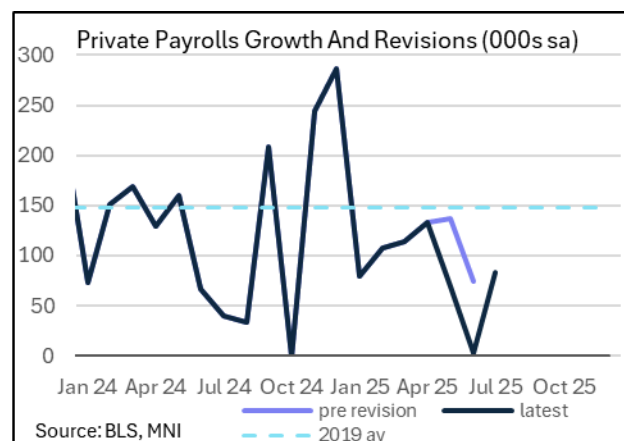
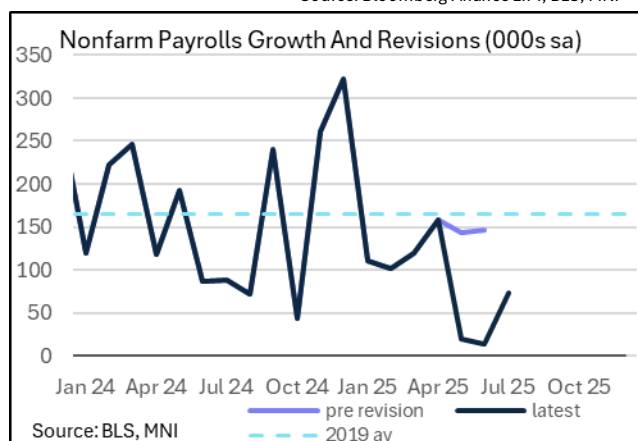
Payrolls Summary Statistics For July 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Jun	May	Net Surprise
Monthly growth (000s)							
NFP	73	104	-31	-258	-133	-125	-289
Private	83	100	-17	-139	-71	-68	-156

	Actual	Cons.	Prior mth	Cycle low	2019 av
U/E rate (%)	4.25	4.2	4.12	3.45 Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.33	0.3	3.91	3.8

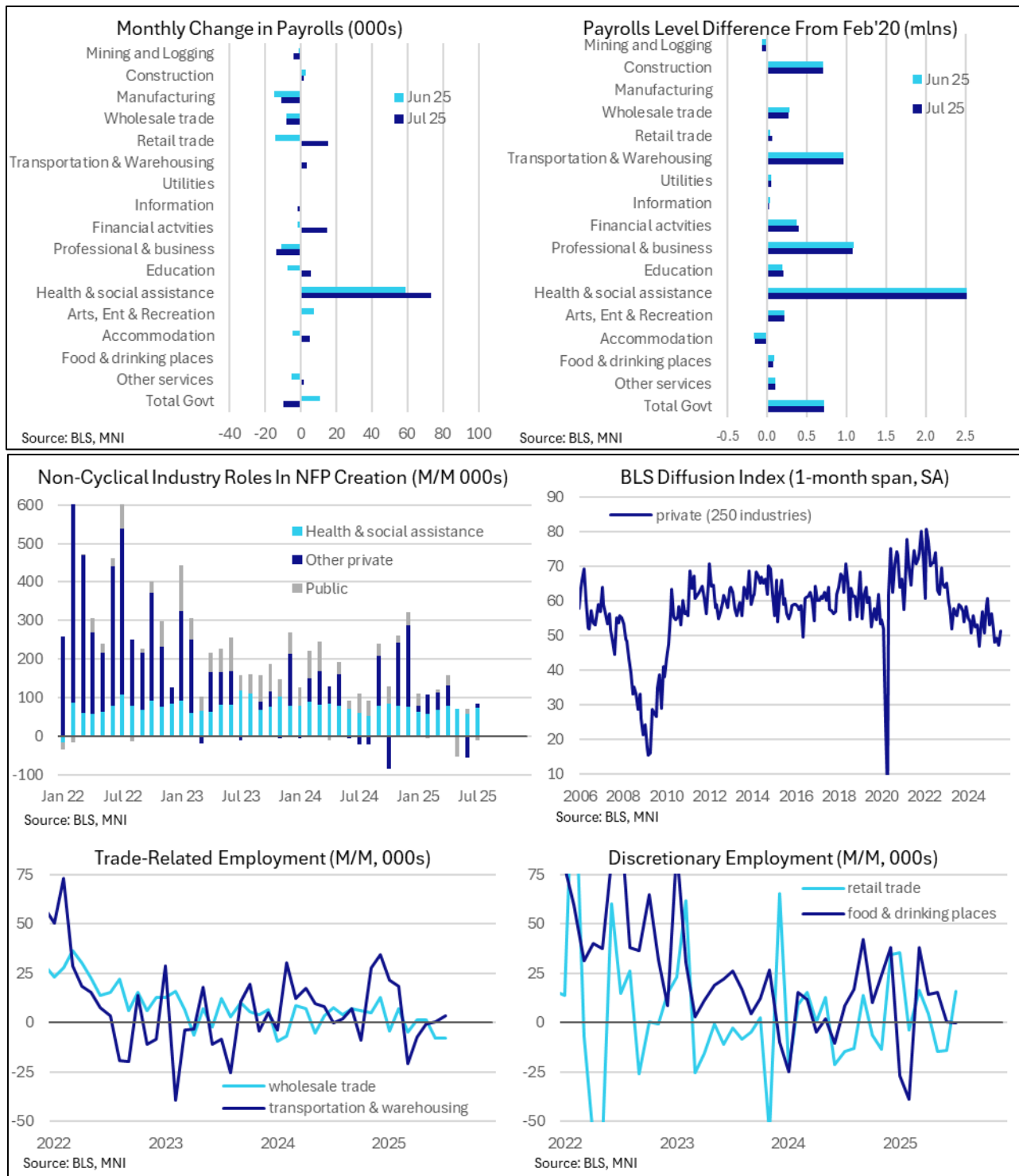
Source: Bloomberg Finance L.P., BLS, MNI



### Non-Health Private Payrolls Stalled In Three Months To July

- Private payrolls increased 83k (sa) in July after a heavy two-month downward revision of -139k which saw a particularly soft 3k in June.
- Private payrolls growth remains particularly reliant on the cyclically insensitive health & social assistance category, which increased 73k after 59k in June.
- Private payrolls ex health & social assistance only increased 10k in July, following -56k in June and -3k in May.
- Those large downward revisions have changed understanding of recent trends within the details as well, with the one-month diffusion index improving to 51.2% in July after three months sub-50% including 47.2% in July (lowest since 46.8% in Jul 2024, lowest since Mar/Apr 2020 and before that early 2010).

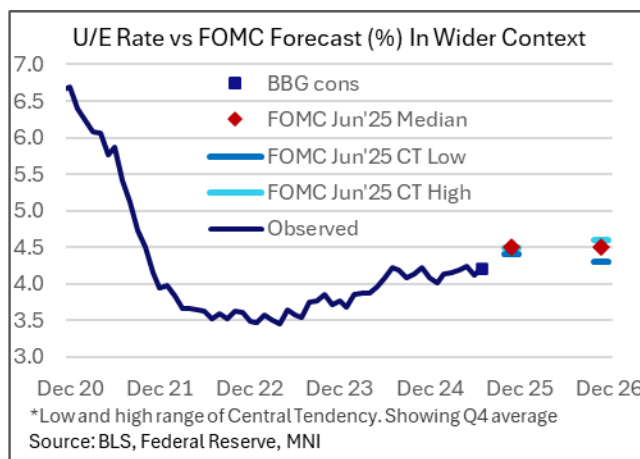
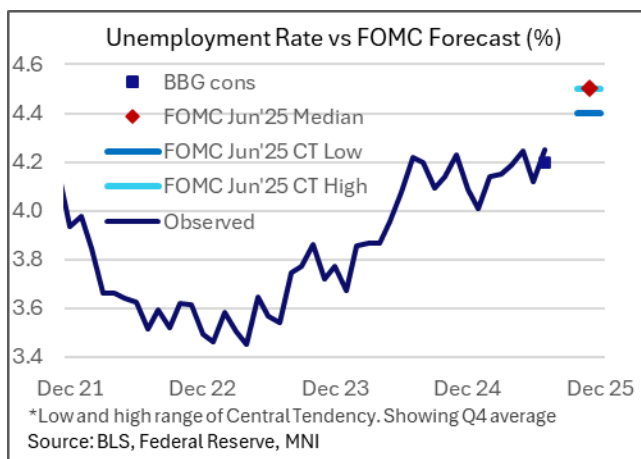
- Put differently, slightly more of the 250 private sector industries increased on the month in July than those that decreased, after three months of net declines.
- Within the aggregate industries, retail trade led non-health increases on the month with 16k after two months averaging -15k, whilst manufacturing (-11k), wholesale trade (-8k) and professional & business services (-14k) remained under pressure.
- Also of note are discretionary areas such as “food & drinking places” where job gains have dried up, with two months of no job creation.



### Unemployment Rate Technically At Recent High But Largely Rangebound

On the household survey side of the payrolls report, the unrounded unemployment rate bounced from a surprise decline to poke to a new cycle high in July at 4.248%. An abrupt slowdown in labor supply is helping keep this rate from breaking more materially out of the recent range however.

- As posted shortly after the release, the unrounded unemployment rate came in on the high side in July at 4.248% (cons 4.2 with a few looking for 4.1).
- It lifts from the surprisingly low 4.117% in June to poke above the 4.244% in May for technically a new cycle high.
- More broadly though, it roughly keeps to a 4-4.25% range seen since last summer. Recall that last July saw a surprise lift to 4.25% which was then revised down to 4.22% in annual revisions.
- It will need a sharper deterioration in the u/e rate in the final six months of the year to reach the FOMC's June Q4 median projection of 4.5% than what is currently implied in the past few months of the household survey. The fear of course is if the much weaker than expected trend in payrolls after today's release continues and outpaces the decline in labor supply ahead.
- The drivers behind latest moves: the number of unemployed increased 221k in July after -222k in June whilst employment fell 260k after a tepid 93k increase in June.
- That nets out at a -38k decline in the labor force, unusually a third consecutive monthly decline after -130k in June and a heavy -625k in May after jumping 544k in April.



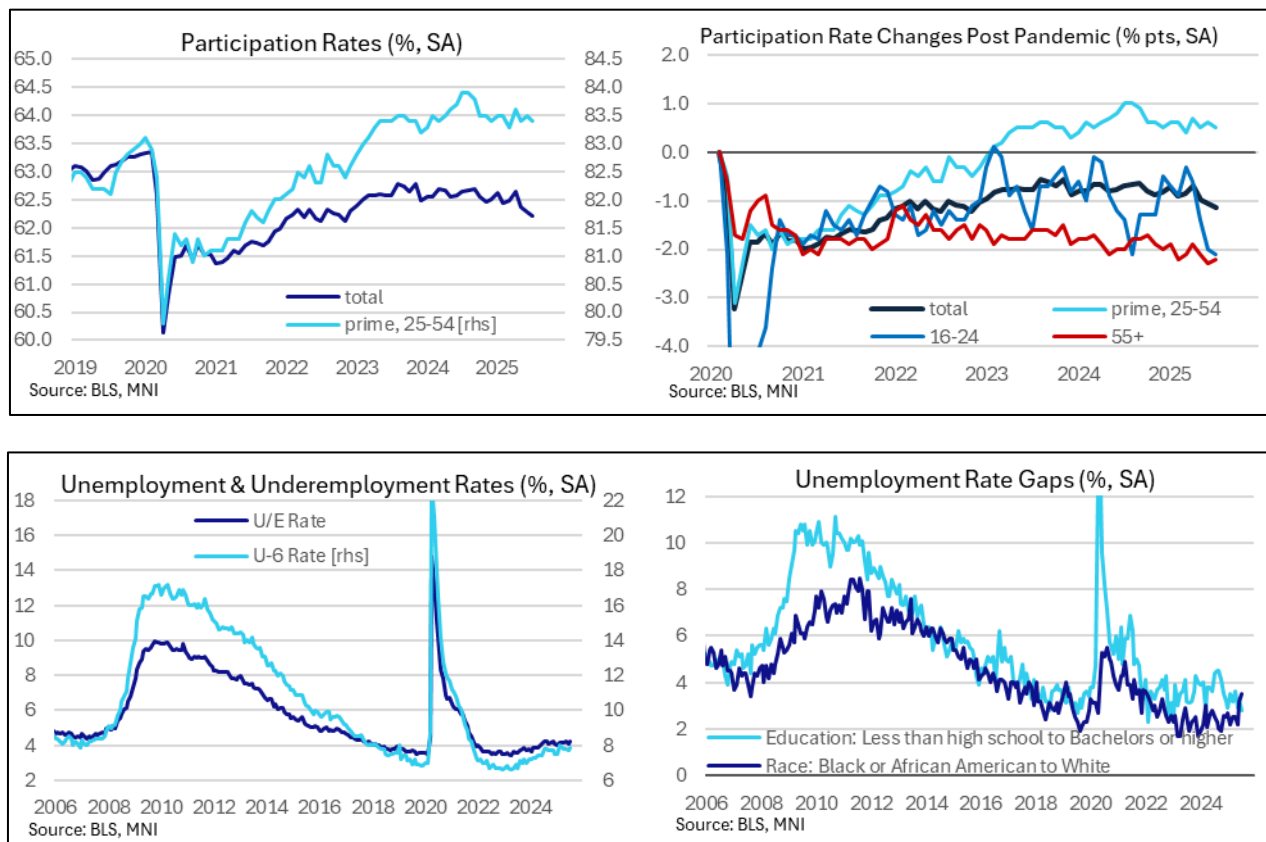
### Another Participation Rate Decline Helps Limit U/E Rate Increase

The participation rate surprisingly declined a little further in July, helping limit the unemployment rate climb on the month. The underemployment and 25-54 unemployment rates both increased on the month but remain just below cycle highs unlike the overall unemployment rate which poked above May's latest high.

- The rise in the unemployment rate in July came along with the participation rate surprisingly falling further to 62.22% (cons 62.3%) after 62.28% in June for its lowest since late 2022.
- It marks a sizeable 0.4pp decline from 62.64% in April thanks to aforementioned heavy declines in the labor supply, albeit ones that petered out most recently in July.
- This latest decline in participation was led by the prime 25-54 falling back a tenth to 83.4% (broadly plateauing around 83.5% since Oct 2024) and 16-24 year olds ticking 0.1pp lower after -0.6pp in June to 54.8% (hitting its lowest since Sep 2020). 55+ participation meanwhile nudged 0.1pp higher to 38.1% after what had been its lowest since 2007.
- Back to unemployment rates, the 25-54 cohort saw a more pronounced bounce in July to 3.58% after 3.32% for a little above the 3.55% in May. However, unlike the overall rate at cycle highs, it's still below recent highs seen in Nov 2024 (3.68%) and Jul 2024 (3.63%).
- Looking at broader measures of unemployment, those working part-time for economic reasons also bounced 219k after -159k in June, the strongest increase since a large 460k February. This helped the underemployment rate climb two tenths to 7.9%, although unlike the main unemployment rate, this is below the 8.0% seen in February on account of that jump in economic part-time positions.



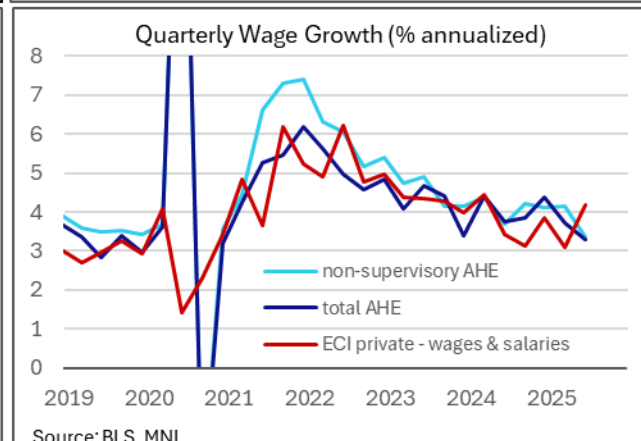
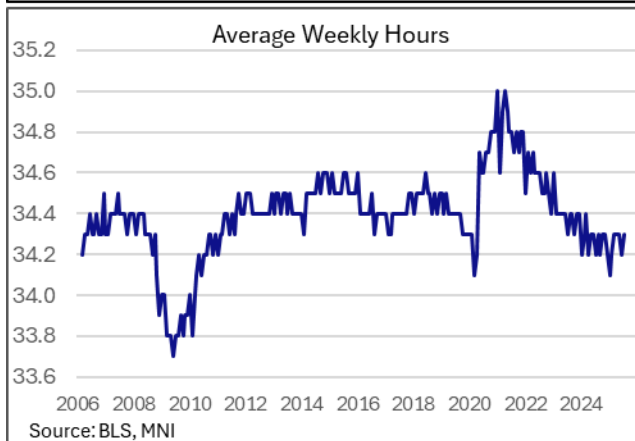
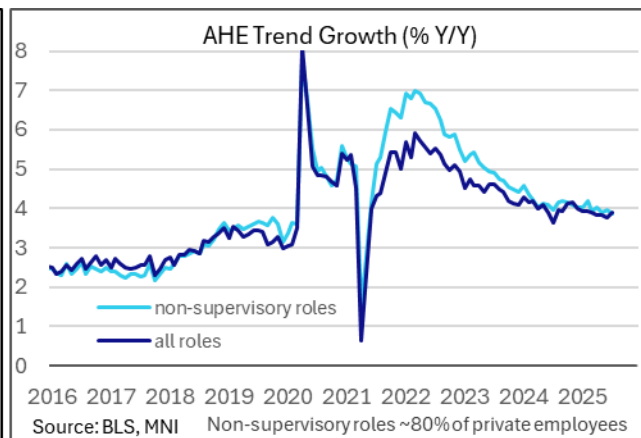
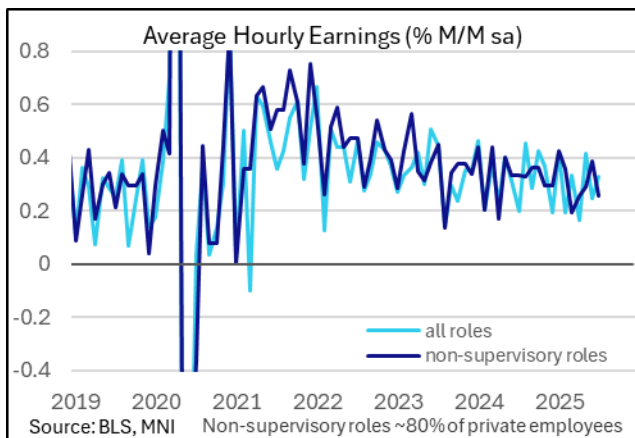
- Different sectors are experiencing the labor market weakening at different paces, with the gap of Black/African American to White unemployment rate widening strongly again to 3.5pps for its highest since Jan 2022.



### Earnings The Only 'Strong' Side Of Payrolls Report

The earnings side of the nonfarm payrolls report was the only area that surprised positively in July. It adds to Thursday's stronger than expected ECI for Q2 although the recent souring in payrolls growth will likely be expected to dampen wage growth ahead if its maintained.

- The earnings side of the July report was the only area to moderately surprise in a hawkish direction, and it was clearly dominated by softer cues from payrolls growth.
- Nevertheless, average hourly earnings growth accelerated to 0.33% M/M (cons 0.3) after an upward revised 0.25% (initial 0.22) in June and 0.42% (initial 0.39%) in May.
- That left AHE growth at 3.91% Y/Y (cons 3.8) for its highest since February.
- Within this, the non-supervisory category saw 0.26% M/M after a solidly upward revised 0.385% (initial 0.29%) in June that more than offset the downward revised 0.29% (initial 0.32%) in May.
- That left the non-supervisory Y/Y at a similar 3.89% although that's its softest since early 2021.
- This mild upside surprise came despite the mechanical drag that should have been seen from average weekly hours increasing back a tenth to 34.3 (cons 34.2) to avoid a rare second month at a low 34.2.
- This relatively stronger wage angle follows yesterday's stronger than expected Employment Cost Index for Q2, which at 0.94% Q/Q was a reasonable beat of 0.8% consensus considering it's a non-annualized rate. The 3.8% annualized is the fastest quarterly rate since 1Q24, led by the private sector wages & salaries component rising 4.2%.



## Weak Jobs Report Prompts Extraordinary Reaction From President Trump

@realDonaldTrump - I was just informed that our Country's "Jobs Numbers" are being produced by a Biden Appointee, Dr. Erika McEntarfer, the Commissioner of Labor Statistics, who faked the Jobs Numbers before the Election to try and boost Kamala's chances of Victory. This is the same Bureau of Labor Statistics that overstated the Jobs Growth in March 2024 by approximately 818,000 and, then again, right before the 2024 Presidential Election, in August and September, by 112,000. These were Records — No one can be that wrong? We need accurate Jobs Numbers. I have directed my Team to fire this Biden Political Appointee, IMMEDIATELY. She will be replaced with someone much more competent and qualified. Important numbers like this must be fair and accurate, they can't be manipulated for political purposes. McEntarfer said there were only 73,000 Jobs added (a shock!) but, more importantly, that a major mistake was made by them, 258,000 Jobs downward, in the prior two months. Similar things happened in the first part of the year, always to the negative. The Economy is BOOMING under "TRUMP" despite a Fed that also plays games, this time with Interest Rates, where they lowered them twice, and substantially, just before the Presidential Election, I assume in the hopes of getting "Kamala" elected — How did that work out? Jerome "Too Late" Powell should also be put "out to pasture." Thank you for your attention to this matter!

## CEA's Miran Downplays Jobs Data, Cites Positive Trade Fiscal Developments

White House Council of Economic Advisers Chair Stephen Miran told reporters: <https://www.c-span.org/program/american-history-tv/stephen-miran-speaks-with-reporters-at-white-house/663712> a short time ago that there were elements of today's jobs report that the administration "didn't love" but suggested that positive developments on trade and 'One Big Beautiful Bill' will be "massive tail winds for the economy."

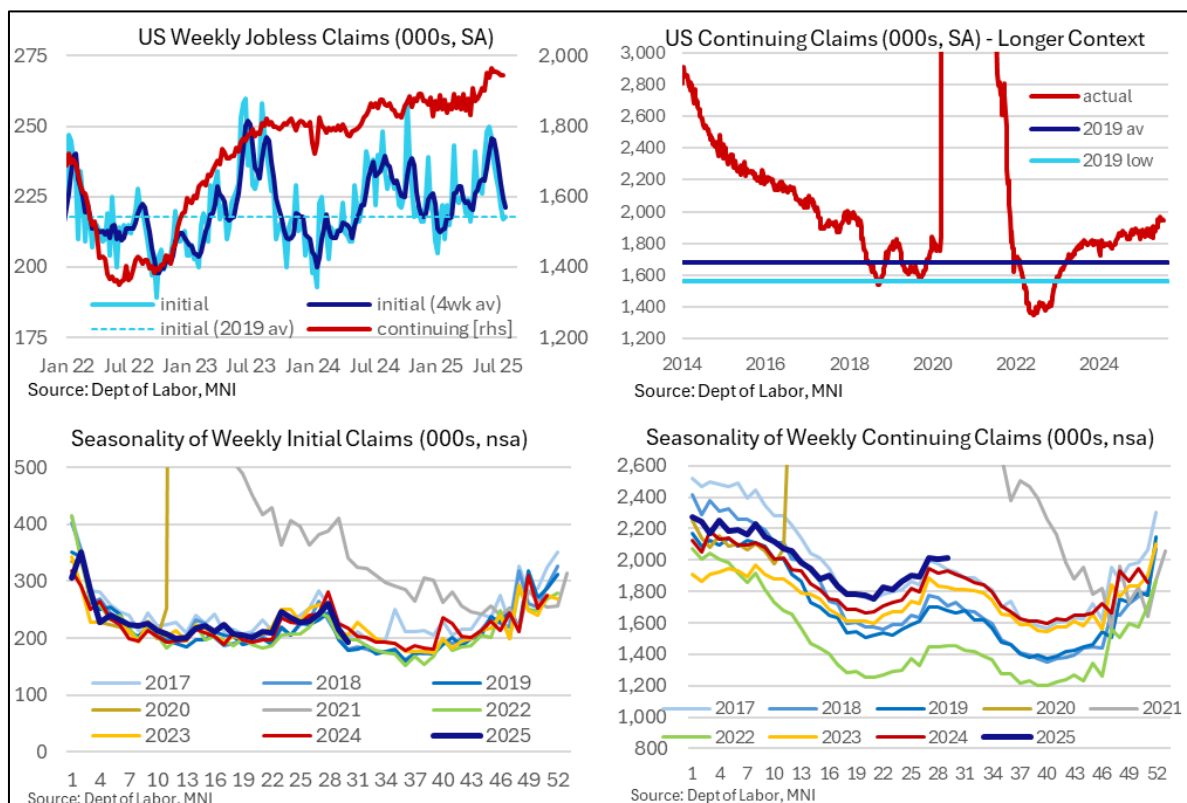
- Miran says that neither the investment boost from trade deals, nor the incentives from the OB BB were in place for "either of the months that experienced downward revisions to the payroll data," but "they are now."

- Miran: "The revisions were obviously not what we wanted to see." Says there are three things to note: "(1) 60% of the overall revisions were due to quirks in the seasonal adjustment process (2) Border policies have led to a decline in over a million foreign-born jobs [which] is ultimately going to show up (3) There was uncertainty around tariffs that was critical to creating the leverage that the president used to accomplish some of the most one-sided trade deals in history..."

### Another Set Of Better Jobless Claims Data

Initial jobless claims surprised lower again in data up to last week as they trend closer to average levels in 2019, a period when the unemployment rate was 40-50bps lower than current levels. Continuing claims meanwhile are very slowly edging lower after a quick climb through May-June. The combination continues to support the "low fire, low hire" categorization of the labor market, with greater emphasis on the former in the past couple weeks.

- Initial jobless claims were lower than expected at 218k (sa, cons 224k) in the week to Jul 26 after an unrevised 217k.
- The four-week average continues to moderate, most recently hitting 221k (-4k) having recently peaked at 246k in mid-June.
- As such, initial jobless claims are roughly tracking at average levels in 2019 despite the population growth seen since then. 2019 was a period of previous labor market tightness during which the unemployment rate averaged 3.7% vs the 4.12% in June and the 4.25% in July.
- Continuing claims were also lower than expected at 1946k (sa, cons 1953k) in the week to Jul 19 after a downward revised 1946k (initial 1955k).
- That downward revision also sees a slightly more favorable figure when comparing payrolls reference periods, with the 1946k vs 1964k in June after 1907k in May and 1833k in April.



## Growth: Private Domestic Demand Softens In Q2 But Avoids Worst Expectations

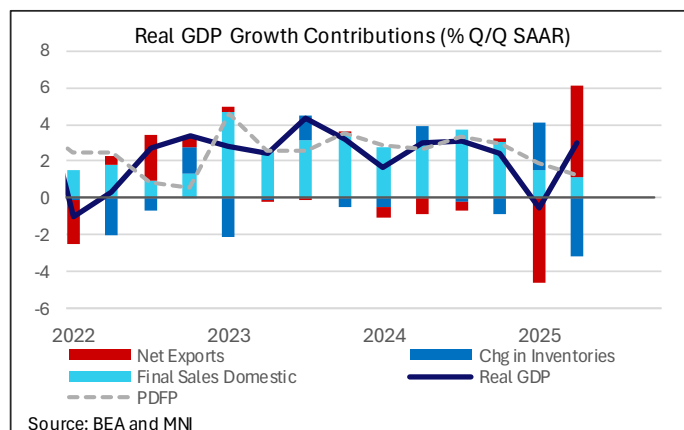
### Private Domestic Demand Softens in Q2 Flash But Could Have Been Worse

- Real GDP was stronger than expected in the Q2 advance release, rising 2.97% annualized vs Bloomberg consensus of 2.6%, close to the 2.90% upgrade in yesterday's final Atlanta Fed GDPNow entry.
- The 1.2% averaged in 1H25 compares with 2.5% in 2024.
- Private domestic final purchases (PDFP), a measure Powell frequently acknowledges, moderated further to 1.2% annualized (its weakest since 4Q22) from 1.9% in Q1. The 1.6% averaged in 1H25 compares with 3.0% in 2024.
- The 1.06pp contribution to GDP from PDFP was better than the 0.7pp pencilled in by GDPNow with an offsetting factor from weaker government consumption, only adding 0.1pp vs expectations of 0.4pp.
- The upward surprise to analyst expectations came away from private consumption, which underwhelmed slightly with 1.4% annualized (both Bloomberg consensus and GDPNow pencilled in 1.5%) after 0.5% in Q1. Tomorrow's monthly PCE report for June will give a better idea of latest momentum.
- As for the noisier items, there were even larger swings in trade and inventories than expected, but they netted out relative to GDPNow expectations.
  - Net exports: 4.99pp (GDPNow 4.00pp) after -4.6pp
  - Changes in inventories: -3.17pp (GDPNow -2.2pp)
- Other notable contributions came from non-residential investment returning to a more typical 0.3pps after a booming 1.4pp in Q1 on likely tariff front-running whilst residential investment remains under pressure with -0.2pp. The latter has seen a volatile few quarters but its weakening trend is becoming increasingly clear with -1.3% Y/Y.

US Real GDP Growth and Contributions (%Q/Q SAAR, pps)

	3Q24	4Q24	1Q25	2Q25
<b>Real GDP</b>	<b>3.1</b>	<b>2.4</b>	<b>-0.50</b>	<b>2.97</b>
<b>Final Sales Dom. Purchasers</b>	<b>3.7</b>	<b>3.0</b>	<b>1.52</b>	<b>1.14</b>
<b>(of which Private)</b>	<b>2.9</b>	<b>2.5</b>	<b>1.62</b>	<b>1.06</b>
Personal Cons	2.5	2.7	0.31	0.98
Gov Cons + Invt	0.9	0.5	-0.10	0.08
Fixed Invt	0.4	-0.2	1.31	0.08
non-resi	0.6	-0.4	1.36	0.27
resi	-0.2	0.2	-0.05	-0.19
Chg in Inventories	-0.2	-0.8	2.59	-3.17
<b>Net Exports</b>	<b>-0.4</b>	<b>0.3</b>	<b>-4.61</b>	<b>4.99</b>
Exports	1.0	0.0	0.04	-0.19
Imports	-1.4	0.3	-4.66	5.18

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



Source: BEA and MNI

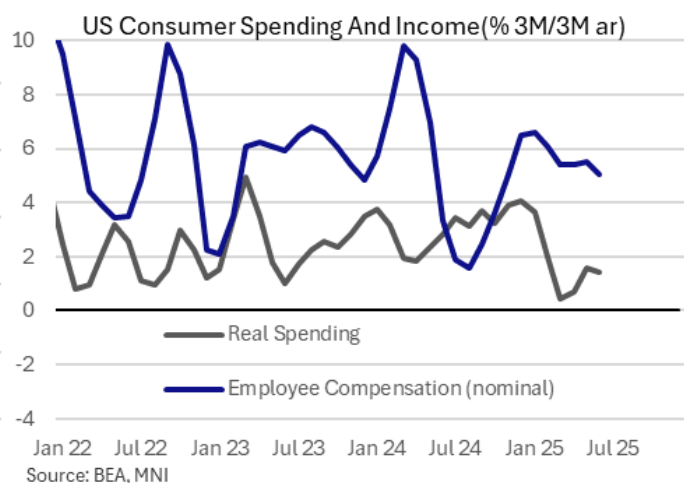
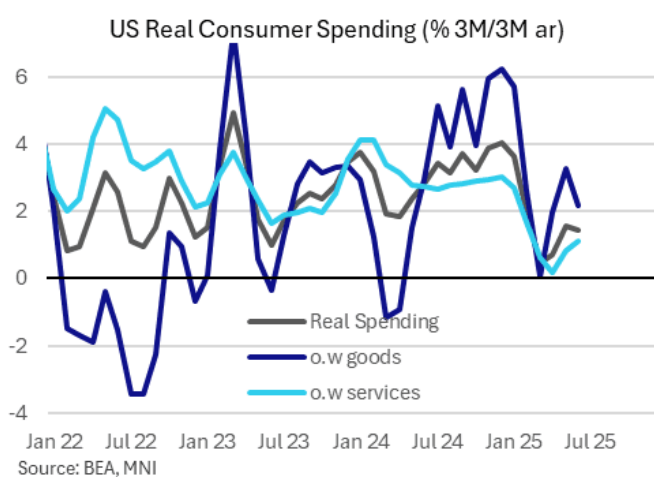
### Consumption And Income Momentum Remained Limited At End-Q2

June's Personal Income and Outlays report confirmed a slowdown in spending and income growth in the second quarter, with May looking to have been the weakest month but the subsequent recovery in consumption looking fairly tame so far.

- Real spending rose by 0.1% M/M (0.06% M/M unrounded) in June, remaining below its end-2024 level albeit amid significant volatility along the way (0.7% rise in March ahead of tariffs, 0.1% in April, -0.2% in May). The 3M/3M annualized rate came in at 1.4% (after 0.5% in Q1). This merely confirms the quarterly PCE consumption reading in this week's Q2 GDP report but suggests that there was neither strong momentum coming into nor exiting the quarter.
- That said, services spending was steady throughout, rising 0.1% M/M in each month of the quarter (albeit decelerating very slightly on an unrounded basis), though overall this remains an area of softness (up 1.1% 3M/3M SAAR). To be fair this is an improvement from contractions in January and February, but not an area of particular strength.
- Real goods spending meanwhile had a more pronounced drop to open the quarter (negative in April and May, shifting barely positive at +0.1% in June), leaving the quarterly growth rate at 2.2% but a far cry from ~6% at the turn of the year.

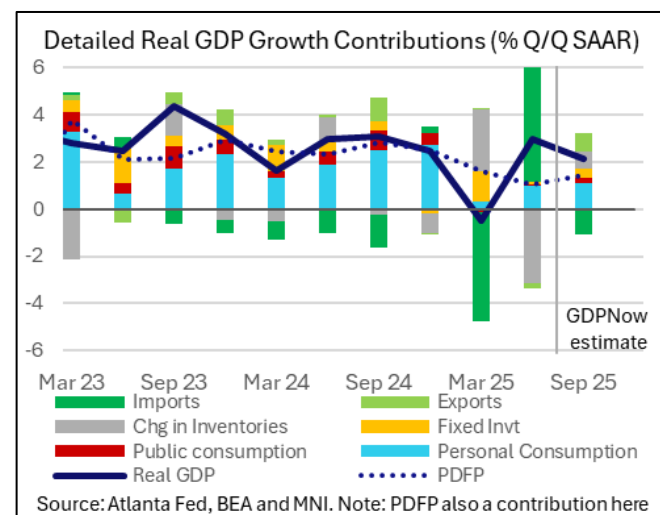


- Real disposable income growth was flat in June, following -0.7% in May. Previous months' readings have been distorted by one-off Social Security payments, but the underlying trend of growth remains fairly solid at 3.0% 3M/3M SAAR (was 2-2.5% for most of late 2024/early 2025).
- What's more worrisome is a slowdown in nominal employee compensation: June's 0.2% M/M rise was the weakest in 11 months, bringing the 3M/3M growth rate down to 5.1%, a 7-month low. To be sure this is still robust but down from the 5.4-6.6% quarterly growth rate over the preceding six months.
- With consumption growth in this cycle being very much employment income-driven, this is a potential warning sign worth watching in the coming months.
- The household savings ratio was flat at 4.5%.
- Real variables were revised down very slightly in the updated Apr/May readings on account of the higher PCE inflation estimates.



### Very Early Q3 Tracking Sees Some Mild Acceleration In PDFP

- The Atlanta Fed GDPNow's first looks at Q3 real GDP growth currently sit at 2.15% annualized.
- It follows Wednesday's BLS advance estimate of 3.0% for Q2 real GDP growth, when GDPNow of 2.9% outperformed the median analyst of 2.6% although admittedly the latter would have struggled to fully reflect the boost from June trade data published the day before.
- It's clearly still extremely early days for the quarter, with various revision rounds still to be seen even for Q2, although it currently sees private domestic final purchases (PDFP) firming to add 1.5pp to real GDP growth after 1.1pp in Q2 and 1.6% in Q1.
- However, in trend terms, this translates to PDFP growth of roughly 1.7% annualized for similar to the 1.6% averaged through 1H25 following a strong 3.0% in 2024.
- Powell at Wednesday's FOMC press conference on the latest GDP data: "The GDP and PDFP numbers came in pretty much right where we expected them to come in. [] Economic activity data, GDP, PDFP which we think is a narrower but better signal for where the economy is going, has come down to a little better than 1% or 1.2% in the case of GDP for the first half. Whereas it was 2.5 last year. So that has certainly come down."
- He warns though: "But GDP is bumpy quarter to quarter, half to half and often gets revised, you know, after the fact."

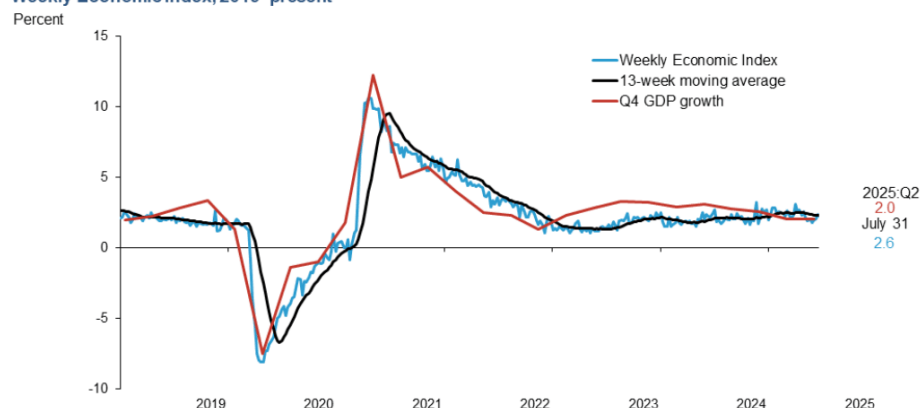


### Dallas Fed Weekly Index Mirrors Domestic Demand Slowdown In GDP

The Dallas Fed's Weekly Economic Index accelerated to 2.56% in the week ended July 26, vs 2.23% the prior week. Growth as measured by this index remains robust, with the 13-week moving average at 2.19%.

- The latter isn't intended to directly proxy GDP but it's effectively a rolling quarterly GDP estimate, and is consistent with a Q/Q SAAR growth in the high 2s% (4-quarter growth was 1.99% through Q1, per the Dallas Fed). That proved largely on-the-mark with the advance Q2 print of 3.0%, which exceeded consensus of 2.6%.
- It has mirrored the underlying slowdown in domestic demand, with the Q1 13-week average closer to 2.5%, slowing as noted to 2.2% in this quarter. In GDP, private domestic final purchases (PDFF) moderated further to 1.2% annualized (its weakest since 4Q22) from 1.9% in Q1.
- Overall, the WEI suggests that economic activity remains positive though on an overall cooling trend since early last year.

Weekly Economic Index, 2019–present



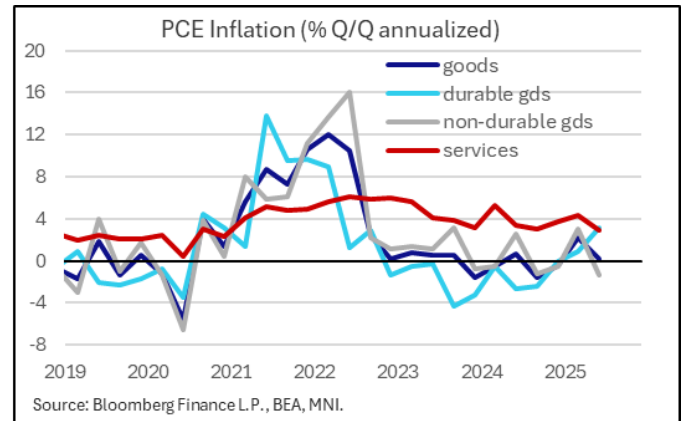
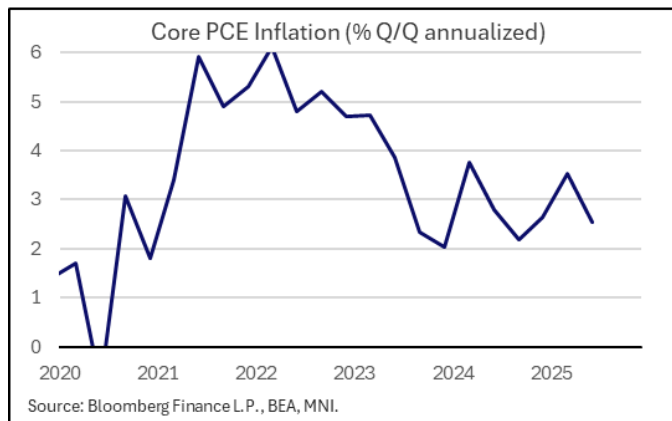
NOTE: Annual real GDP growth (four-quarter moving average) is based on the latest quarterly GDP data release from the Bureau of Economic Analysis.  
SOURCES: Authors' calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the Association of American Railroads and Booth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

### Inflation: Core PCE Q2 Upside Surprise Concentrated In Apr/May, Y/Y Further Stabilizes Above Target

#### Mixed Inflation Figures In Q2 Flash Including Surprisingly Strong Core PCE

The price side of the advance Q2 national accounts release was mixed, with the GDP deflator on the soft side whilst core PCE inflation moderated by less than expected. The upside surprise suggests some scope for a surprise in June's core PCE print tomorrow (previous unrounded estimates were averaging around 0.28% M/M) although our bias is that most of this Q2 surprise will be seen earlier in the quarter after revisions.

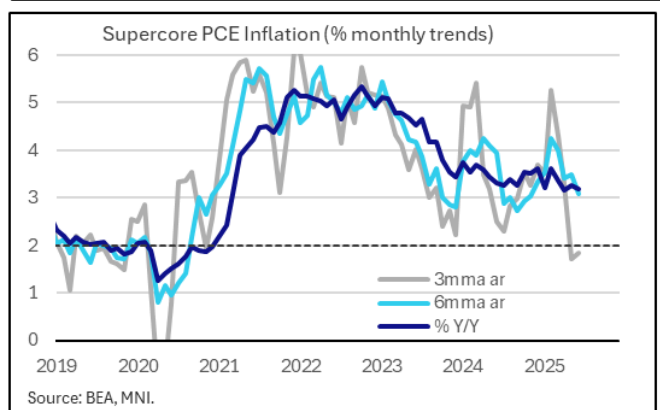
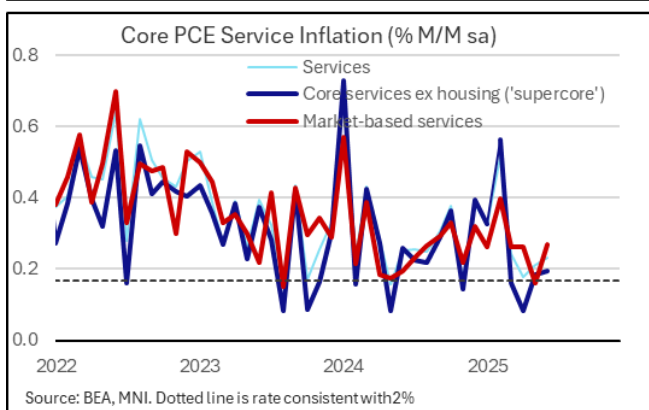
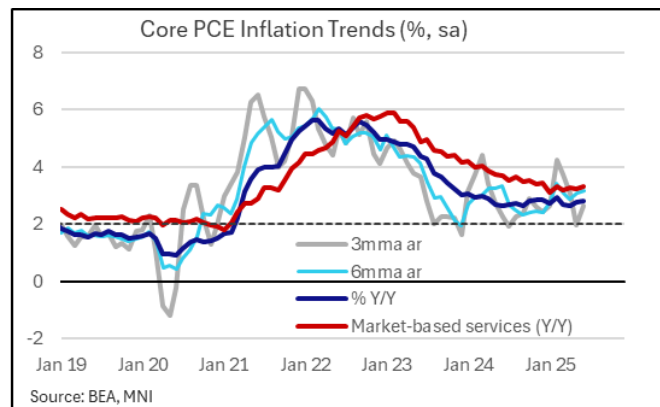
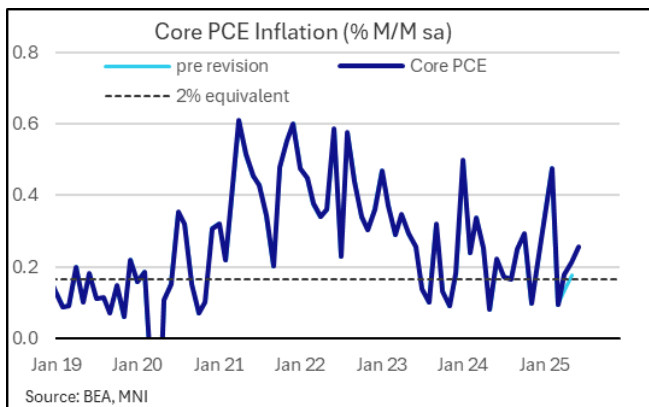
- The GDP deflator surprised softer with a 2.0% annualized increase (cons 2.2) in Q2 after 3.8% in Q1.
- There was widespread moderation here, with personal consumption easing from 3.7% to 2.1%, private domestic investment from 1.2% to 0.6%, government consumption & investment from a strong 4.6% to 2.7% and a moderation in exports (from 5.3% to -1.2%) outpacing imports (from 2.1% to -0.8%).
- Core PCE inflation meanwhile was surprisingly strong as it moderated by less than expected to 2.54% (cons 2.3) after 3.53% in Q1.
- We had seen unrounded analyst core PCE estimates average 0.28% M/M after the June round for CPI/PPI/import prices with a chance of a small upward revision for May judging by PPI. That estimate, assuming no revision, would have seen a 2.30% increase – we imagine the upward surprise was more likely concentrated earlier in the quarter.
- Looking within overall PCE inflation, an acceleration in durable goods inflation bucked the quarterly trend, accelerating to 3.1% annualized for its strongest since 1Q25, whilst nondurable goods inflation slowed to -1.3% after jumping 3.0% in Q1.
- PCE services inflation meanwhile eased from 4.3% to 2.9% for its softest since 4Q20.



### *PCE Inflation Exceeds Fed Tracking, Extends Stabilization Above Target*

Both headline and core PCE inflation were stronger than Fed tracking in June, at least going off Fed Chair Powell's comments in yesterday's FOMC press conference, although don't look too surprising considering an upward surprise in yesterday's Q2 advance release. It continues trend stabilization in core PCE inflation comfortably above the 2% inflation target, most recently at 2.8% Y/Y, whilst market-based services inflation (a component of interest for the more hawkish members) is still at 3.3% Y/Y.

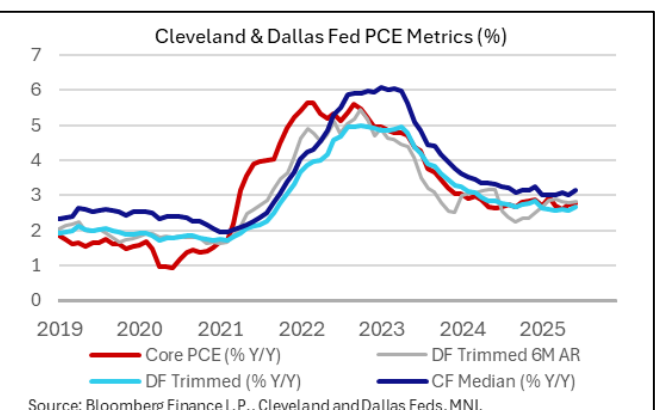
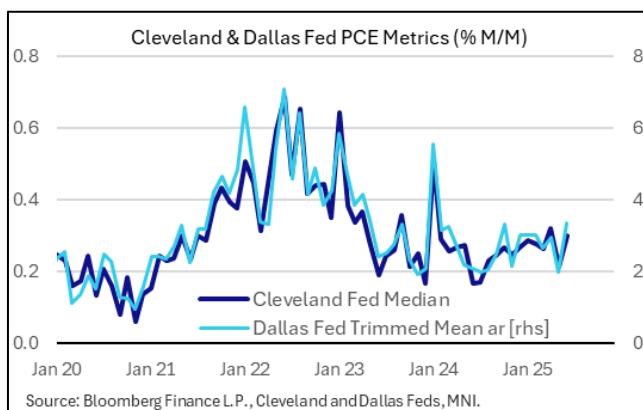
- Core PCE inflation was softer than analyst unrounded estimates had been tracking in June, at 0.26% M/M (we had seen estimates averaging 0.28% after CPI, PPI and import price inputs) but with larger revisions earlier in Q2 more than offsetting (with April +4bp and May +3bp).
- Those revisions meant the 0.26% M/M followed 0.21% in May and 0.18% in April, having previously been more consistent with 2% annualized inflation.
- As flagged though, this net upward revision was known after yesterday's Q2 advance release.
- Interestingly, both headline PCE (2.58% Y/Y) and core PCE (2.79% Y/Y) were stronger than the 2.5% and 2.7% Y/Y that Fed Chair Powell pointed to in yesterday's FOMC presser when citing CPI and other inputs, despite the Q2 advance release coming much earlier that day.
- After impressive disinflationary progress from late 2022 to early 2024, the Y/Y rate has averaged 2.75% since Apr 2024.
- Recent run rates for core PCE inflation are mixed when it comes to interpreting momentum around the latest 2.8% Y/Y rate, with a three-month rate tracking at 2.6% annualized and six-month at 3.2%.
- As for some key sub-components, core services ex-housing came in at 0.193% M/M for little change from the upward revised 0.184% M/M in May (previously 0.129%). This measure is running hotter than core PCE in Y/Y terms at 3.19% Y/Y but both three- and six-month rates are softer at 1.9% and 3.1% annualized.
- Whilst that may offer some comfort to the Fed, market-based services are stickier, at 3.3% Y/Y or 2.8% annualized over three months and 3.3% over six months.



### Regional Fed PCE Metrics See Another Month Above Target

Regional Fed PCE metrics echo core PCE Y/Y inflation continued to plateau at rates stubbornly above the 2% inflation target, including a one tenth uptick in June.

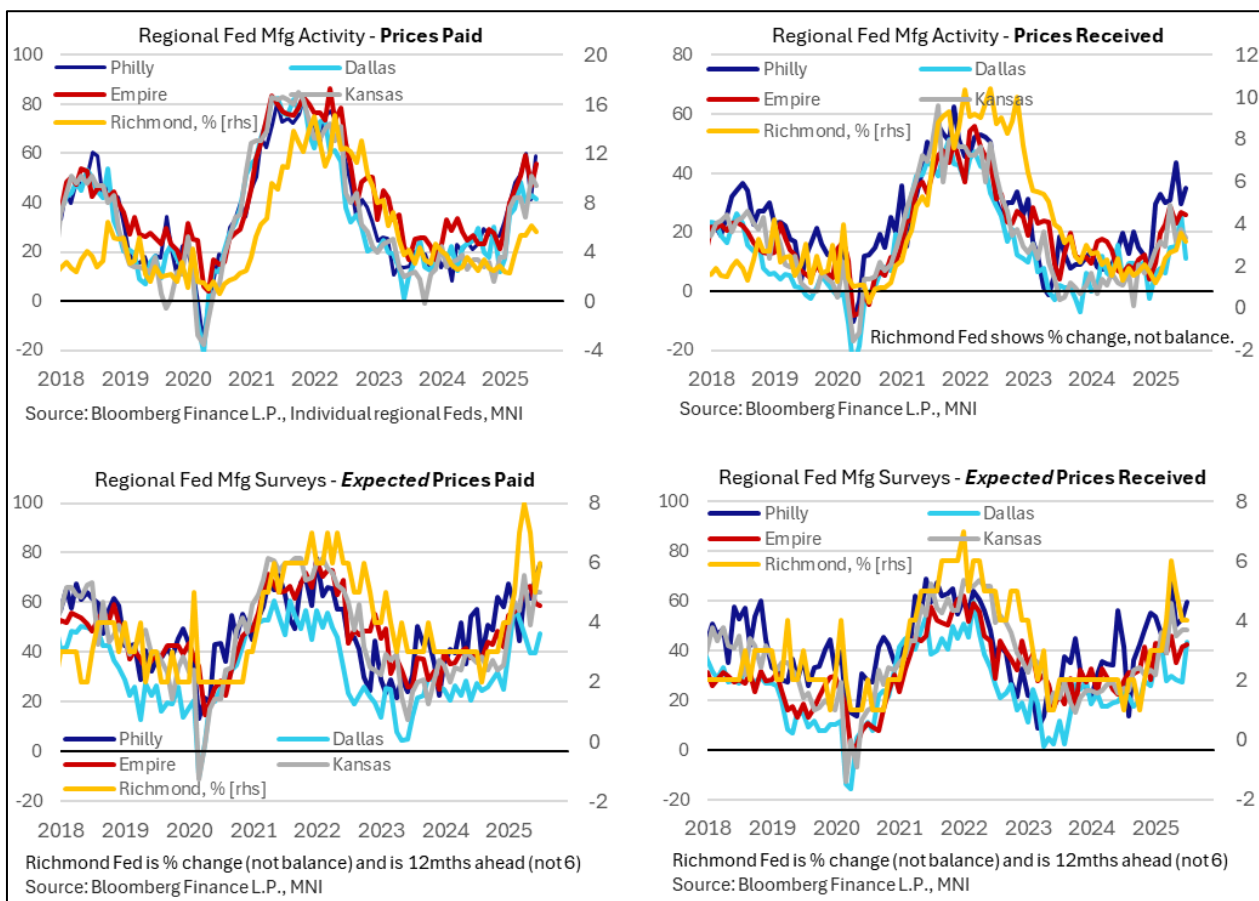
- The Cleveland Fed median increased to 0.30% M/M in June after 0.21% in May and 0.32% in April, having last roughly seen monthly rates consistent with the 2% inflation target in Jun & Jul 2024.
- The median Y/Y accelerated from 3.01% to 3.15% for its highest since Dec 2024.
- The Dallas Fed trimmed mean increased to 3.4% annualized in June after 2.0% in May and 3.0% in April. Prior to April, it was last roughly consistent with target in Jul & Aug 2024.
- The trimmed Y/Y accelerated from 2.57% to 2.68% for also its highest since Dec 2024.
- These alternate PCE metrics sit either side of core PCE inflation of 2.8% Y/Y, and help support the fact that it for some time now stabilized at a rate above the 2% inflation target.





### Mixed Ability Of Firms To Pass Cost Increases On In Dallas Fed District

- The improvement in the Dallas Fed manufacturing survey for July came despite an apparent relative -re-compression in margins although this in turn was countered by the opposite when looking six months out.
- The prices paid index remained at an elevated 41.7 after 43.0 in June (average of 43.5 since Apr 2 reciprocal tariff announcements, 30 in 1Q25 and 21 in 2024) but prices received dropped from 26.1 to 11.1 for the lowest since March (average 16.8 since Apr, 7 in 1Q25 and 7 in 2024).
- Countering this, the six-months ahead measures saw a marked increase in expectations for prices received with its highest since April 2022. The 43.2 compares with an average of 32 since April, 35 in 1Q25 and 21 in 2024.
- That said, whilst this uptick in expected prices received was a marked rise on the month, it's only really catching up with relative levels seen in other regional Fed manufacturing surveys – see charts.
- Of course, whilst a particularly timely survey with a collection period of Jul 15-23, it still predates the US-EU deal made over the weekend with a 15% tariff rate on most EU goods (with the EU being the US's largest source of imports).



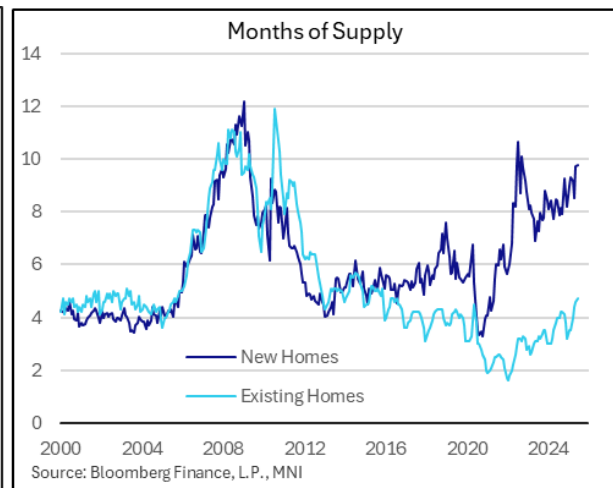
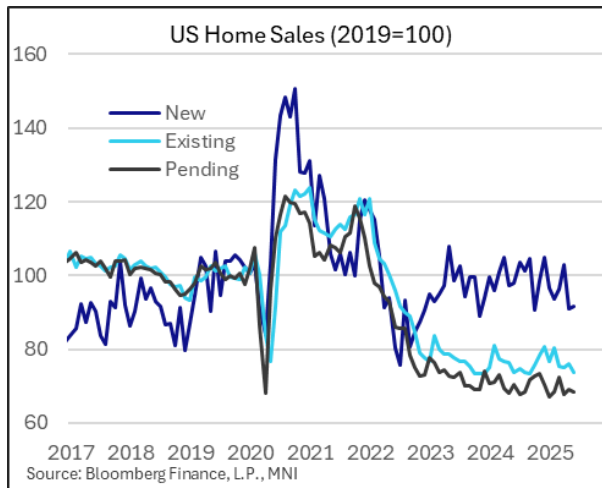
### Housing: No Sign Of Sales Uptick and Construction Continues Slide

#### Pending Home Sales Maintain Bleak Housing Market Outlook

- Pending home sales disappointed in June as they dipped -0.8% M/M (cons 0.2) after 1.8% M/M in May.
- It follows a volatile period with -6.3% M/M in April after 5.5% M/M in March, but one that hasn't materially changed what has been a broad flat-lining in sales at low levels since late 2013.
- Indeed, the latest index level of 72.0 compares to the series low (going back to 2001) of 70.6 in January.
- Offering a 1-2 month lead on existing home sales, it points to little sign of improvement ahead as housing market activity remains constrained by still high mortgage rates. The MBA 30Y conforming rate is currently

350bp higher than the 2020 average for those who locked in a 30Y mortgage early in the post-pandemic period.

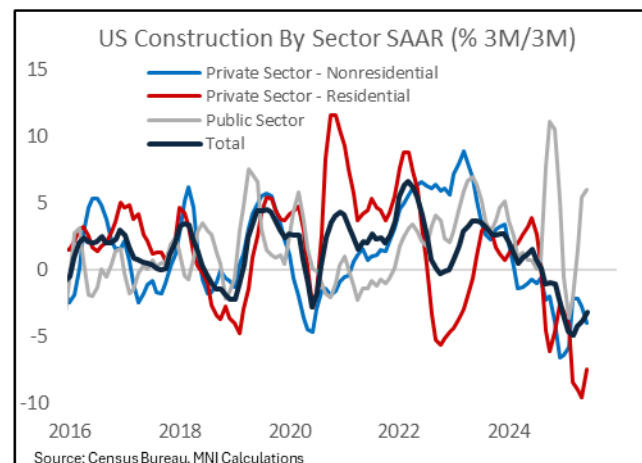
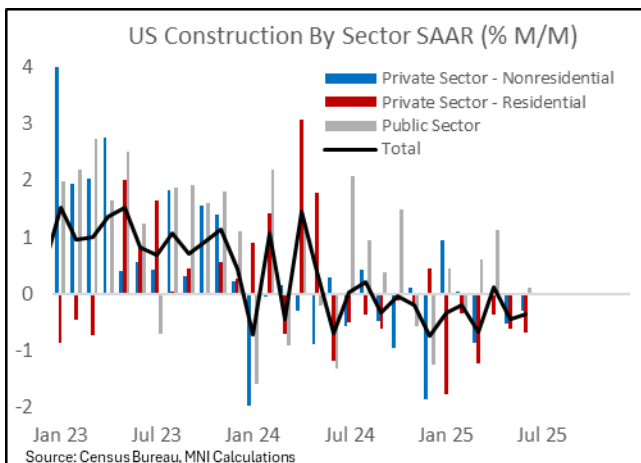
- This continued weakness in sales isn't down to a lack of supply however, with existing home sale inventory continuing to build as it reached 4.7 months of supply in June for the highest since 2016.
- Pending home sales are running at 68% of 2019 averages (74% for existing home sales) whilst new purchase mortgage applications are running at 60% of 2019 averages.



## Construction Values Continue Recent Slide

The June construction spending report went under the radar today but continued what has been a particularly weak run of nominal spending. A trend bounce in government construction in Q2 helped offset a heavily negative private sector. Residential spending is particularly weak, lending support to the -0.2pp annualized that real residential investment dragged from Q2 real GDP growth according to Wednesday's advance release after -0.05pp in Q1.

- Construction spending values were much weaker than expected in June at -0.4% M/M (cons 0.0) after a downward revised -0.4% (initial -0.3%) in May.
- It has now seen monthly declines in ten of the past eleven months, with April's 0.1% M/M the lone increase.
- It sees the latest 3m/3m rate at -3.2% annualized in June for a slight moderation from the -4.8% in Q1.
- These trend rates are being flattered by the public sector, rising 6.0% annualized in Q2 for a strong recovery from -2.2% in Q1 (with monthly strength concentrated back in Mar and Apr).
- The private sector looks much weaker, at -5.9% annualized in Q2 after -5.6% in Q1.
- Residential construction is under most pressure, at -7.5% annualized in Q2 after -8.4%, whilst declines in non-residential construction are accelerating with -3.9% vs -2.1%.

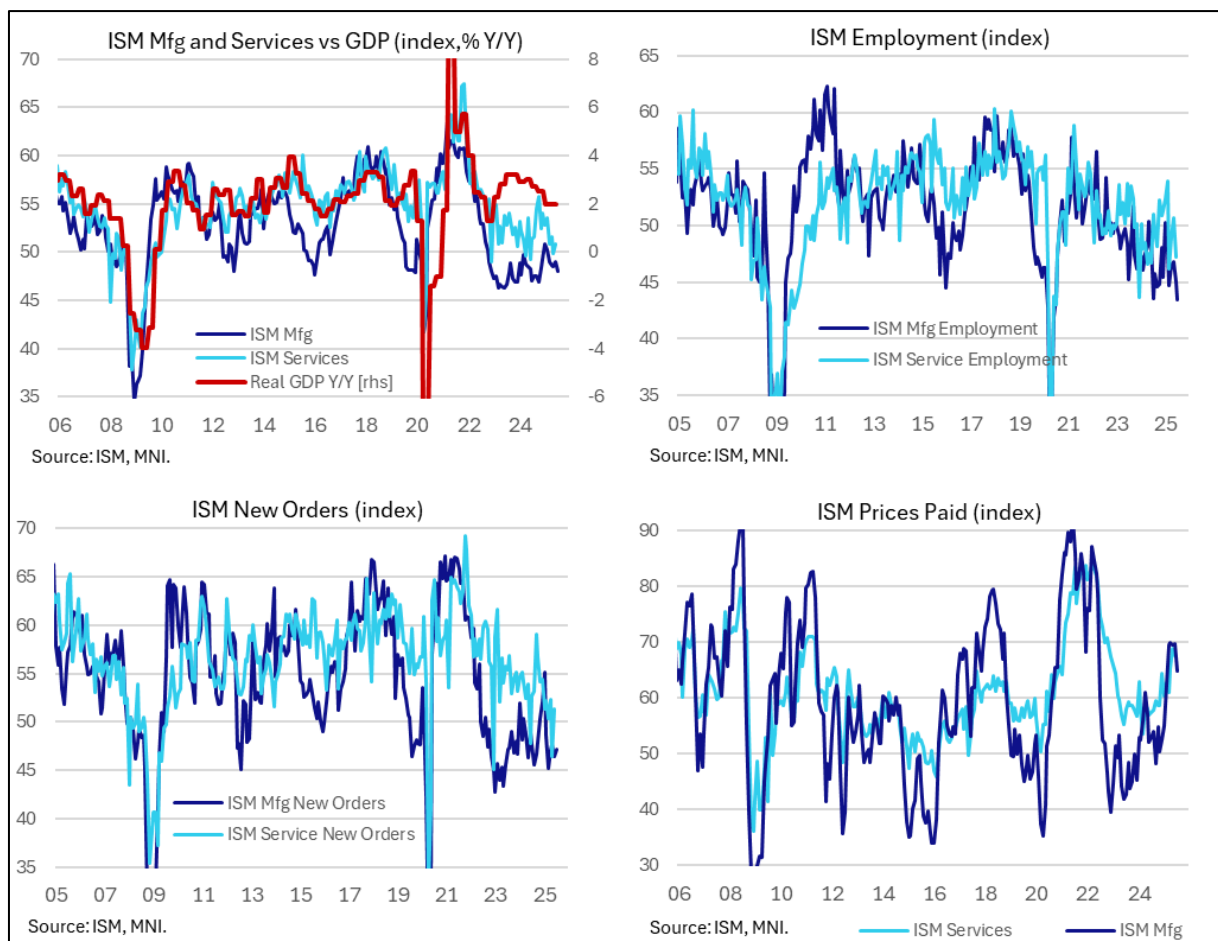


## Business Sentiment: Weak ISM Manufacturing Counters Firmer MNI Chicago PMI In July

### ISM Manufacturing Weak Across The Board In July

The ISM manufacturing July release was weaker than expected across the board, with prices paid pulling back from receive highs, new orders chalking up a sixth consecutive monthly firmly in contraction territory and the employment index at the lowest since mid-2020.

- The ISM manufacturing survey was weaker than expected in July at 48.0 (cons 49.8) after 49.0 in June, falling to its lowest since October.
- Prices paid saw the largest downside surprise, falling to 64.8 (cons 70.0 from 8 responses vs 60 for the headline) from 69.7 in June for its lowest since February.
- Employment fell to 43.4 (cons 46.8 from 4 responses) from 45.0, falling below the 43.6 in Jul 2024 for its lowest since Jun 2020. Whilst manufacturing is a small share of payrolls, at about 10%, the trend direction is notable.
- New orders meanwhile increased but by less than expected, to 47.1 (cons 48.7 from 3 responses) after a low 46.4 in June. It has been in contractionary territory since January.
- The forward-looking calculation of new orders less inventory firmed a touch from -2.8 to -1.8 but nevertheless registered its fifth negative month in the past six.
- ISM Manufacturing's Susan Spence: "Looking at the manufacturing economy, 79 percent of the sector's gross domestic product (GDP) contracted in July, up from 46 percent in June. Notably, 31 percent of GDP is strongly contracting (registering a composite PMI® of 45 percent or lower), up from 25 percent in June. The share of sector GDP with a PMI® at or below 45 percent is a good metric to gauge overall manufacturing weakness. Of the six largest manufacturing industries, none expanded in July, compared to four in June".

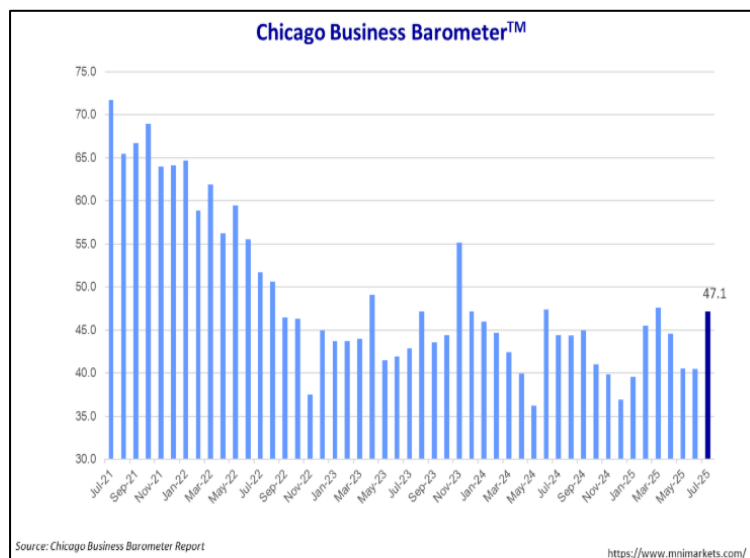




## Chicago Business Barometer™ - Advances To 47.1 In July

The Chicago Business Barometer™ produced with MNI advanced 6.7 points to 47.1 in July. This was the largest increase in thirteen months, bringing the index to the highest since March 2025. However, the index has still been below 50 for twenty consecutive months.

- The increase was driven by a sharp rise in New Orders and Order Backlogs. Meanwhile, Production, Employment and Supplier Deliveries saw small decreases.
- New Orders expanded 14.6 points, the ninth largest increase on record. The index is now at its highest since May 2022.
- Order backlogs rose 12.9 points, more than unwinding the declines seen in May and June.
- Production softened 1.2 points to 40.0, the lowest level since January 2025.
- Employment idled 0.4 points to 41.6. The index has now been below 50 for twenty consecutive months.
- Supplier deliveries fell 0.2 points. The index has been above 50 since February 2025.
- Prices paid reversed 8.3 points to 76.5, fully unwinding June's rise. For the fifth month in six, no respondents reported lower prices paid.
- Inventories increased 4.5 points.
- The survey ran from July 1 to July 14.



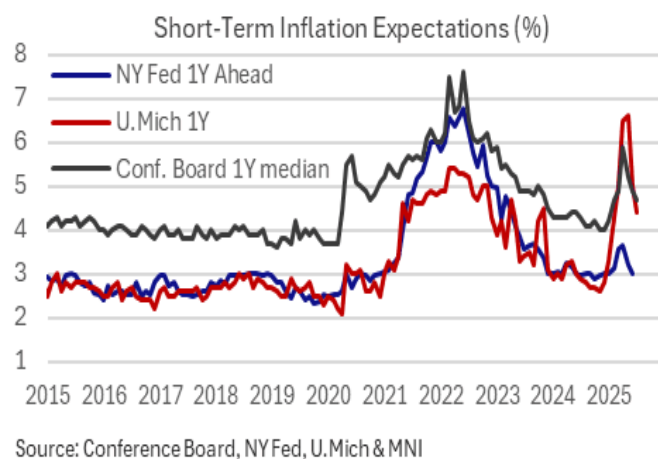
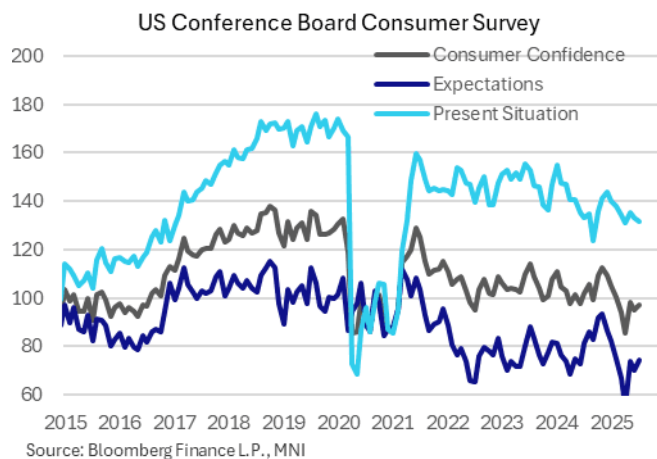
## Consumer Sentiment: Mixed Drivers Behind Sentiment Improvement, Inflation Expectations Cool

### Consumer Confidence Off Lows, But Remains Weak Overall

The Conference Board's consumer confidence survey showed a notable improvement in sentiment in July, with the headline reading rising to 97.2 (96.0) from 95.2 prior (rev up from 93.0). The Present Situation reading dipped to 131.5 from an upwardly revised 133.0 in Jun (129.1 pre-rev), but Expectations improved to 74.4 from 69.9 (rev from 69.0). The report notes "all three components of the Expectation Index improved, with consumers feeling less pessimistic about future business conditions and employment, and more optimistic about future income."

- The Composite has stabilized after falling to 85.7 in April, while the Expectations reading is the highest since February - albeit combined with the continued softness in the Present Situation, these are still well below the late 2024 highs and consistent with subdued sentiment overall.
- Indeed per the report, "expectations remained below the threshold of 80 that typically signals a recession ahead for the sixth consecutive month".
- On the inflation front, expectations continue to abate, mirroring other surveys. The 1Y average and median inflation expectation fell to 5-month lows of 5.80% and 4.70% respectively, down from April peaks of 7.0% and 5.9% respectively. But there were multiple caveats noted in the report. Per the write-in responses, "tariffs remained top of mind and were mostly associated with concerns that they would lead to higher prices. In addition, references to high prices and inflation rose in July" despite the pullback in the survey metrics.
- The survey cutoff was July 20, and marking the first responses since the federal fiscal package passed earlier in the month - it doesn't appear to have had a major impact on sentiment, however: "A number of survey respondents mentioned the recent budget reconciliation legislation passed by Congress (referring to it as the "Big Beautiful Bill")—with some consumers praising its potential positive economic impact and others expressing concerns. However, the bill and its implications were relatively low on the list of themes that consumers were focused on in July."

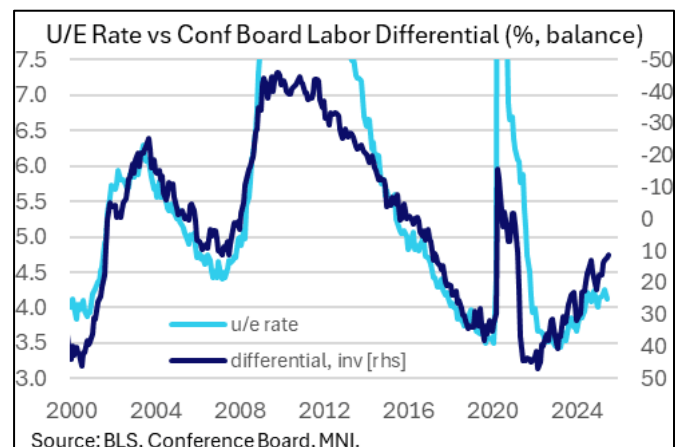




## Labor Differential Highest Since Mar 2021, Adds To Soft Jobs Data

The closely-watched labor differential (as calculated from the Conference Board's Consumer Confidence survey's jobs "plentiful" 30.2% minus "hard to get" 18.9%) fell to 11.3pp in July from 12.2 prior, marking the 7th consecutive decline to the lowest since March 2021.

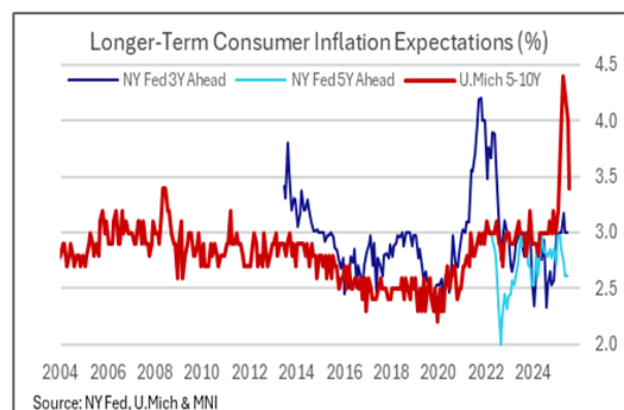
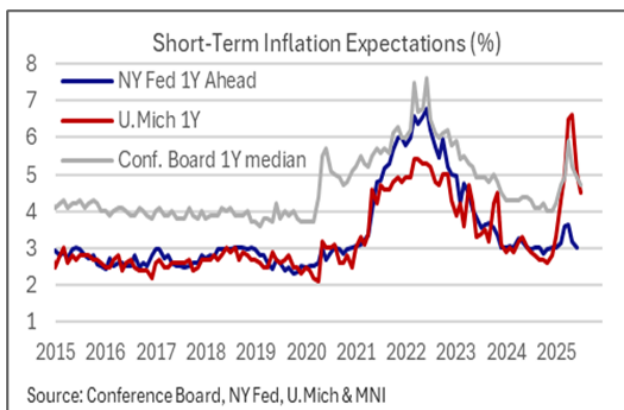
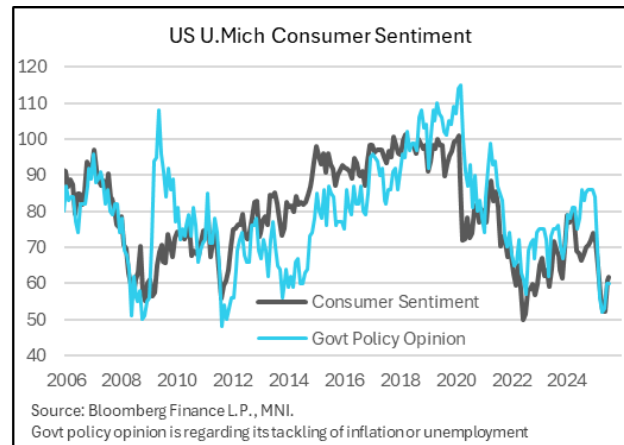
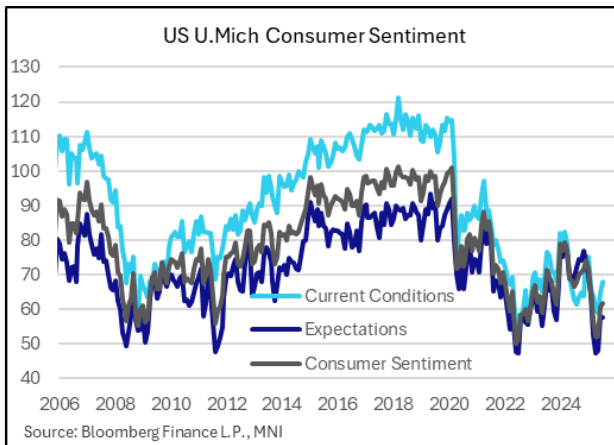
- Historically, a falling labor differential balance has translated into a rising unemployment rate - more consistent with above 4.5% versus the 4.1% printed in June's nonfarm payrolls report.
- It adds to evidence in other indicators that suggests that labor market conditions are loosening overall despite solid headline numbers, pointing to a low firing, low hiring environment. Notably, the "hard to get" reading was the highest since February 2021.
- Indeed this was released alongside a relatively soft JOLTS report for June which included the lowest hiring rate since June 2024.



## A Mixed Improvement In U.Mich Consumer Sentiment In July

The final U.Mich consumer survey for July saw consumer sentiment trimmed fractionally from the preliminary release although that still left it at its highest since February as tariff fears continue to recede. The July improvement was driven by current conditions however, with expectations softening. Inflation expectations meanwhile were mixed relative to the flash but both continued to reverse previous sharp increases.

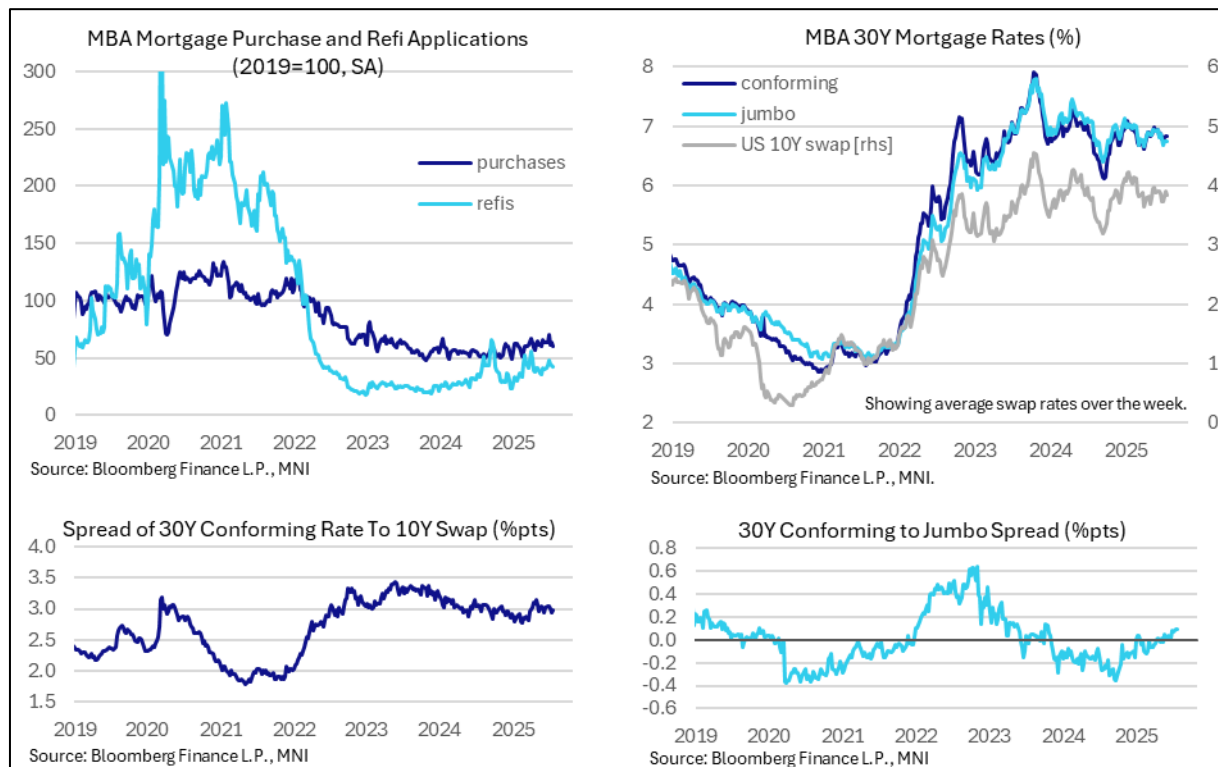
- Consumer sentiment revised down to 61.7 (cons 62.0, prelim 61.8) but still increases from 60.7 in June for its highest since February.
- In contrast to the Conference Board consumer survey for July, where expectations led the improvement in July confidence, U.Mich expectations faded to 57.7 (flash 58.6) from 58.1 whilst current conditions firmed to 68.0 (prelim 66.8) from 64.8 for its highest since January.
- Somewhat wedded to broad consumer sentiment, the opinion of government policy was unchanged at a reading of 60 in July. That holds an improvement from an exceptionally low 52 in April, which was on a par with 2008-09 lows, although it remains historically depressed (with caveats for partisanship seen in the survey details).
- 1Y inflation expectations revised up to 4.5% (cons & prelim 4.4) after 5.0% in June – lowest since Feb.
- 5-10Y inflation expectations revised down to 3.4% (cons & prelim 3.6) after 4.0% in June – lowest since Jan.



## Credit/Household Finances: Mortgage Activity Remains Subdued

### Mortgage Applications Slip To Lowest Since May Amidst Steady Rates

- MBA composite applications fell -3.8% (sa) last week, driven by a return to trend underperformance for new purchase applications since June (-5.8% on the week vs refis -1.1%).
- Still, new purchase applications remain at relatively higher levels, around 60% of 2019 averages vs 42.5% for refis. Composite applications are at 52% of 2019 levels.
- The regular 30Y conforming mortgage rate was near unchanged at 6.83% (-1bp) and has averaged 6.81% since late June.
- It left a mild relative tightening relative to the 5bp drop in the average 10Y swap rate across the week. That doesn't materially change the trend of mortgage-swap rate spreads hovering around 300bp +/-5bp mark vs an average 285bp in Q1 prior to more widespread tariff policies.
- Jumbo rates again traded inside at 6.74%. The regular-jumbo spread held at 9bp for a second week and has been little changed for four weeks now, having last been higher in Oct 2023 in a sign of relative loosening in specific lending conditions in recent months.



## Fed Review: No Nod To September Cut

The July FOMC decision came with a subtle signal that the Committee was beginning to lay the groundwork for a September rate cut, but Chair Powell's press conference was largely spent playing down that prospect. The net impact on markets was a paring of rate cut expectations, with a September easing finishing the session at no better than a 50% proposition, versus about 60% pre-decision.

See the full MNI Fed Review here: [https://media.marketnews.com/Fed\\_Review\\_Jul2025\\_c74a594da3.pdf](https://media.marketnews.com/Fed_Review_Jul2025_c74a594da3.pdf)

## Fedspeak: First Post-FOMC and Payrolls Fedspeak

- Bostic sticks to view that should only cut once this year with risk to inflation much greater than employment
- Hammack says need to watch labor market very carefully
- Dissent statements from Bowman and Waller, citing labor concerns, didn't move the market

### Bostic Still Sees Only One Cut This Year Despite Significant Jobs Data

Atlanta Fed's Bostic (non-voter) speaking on CNBC notes the significant revisions in today's nonfarm payrolls report but warns that the Fed still needs to determine what the trend of hiring will be. He hasn't changed his view on rates and still expects one cut this year.

Headlines from Reuters:

- \* "FED'S BOSTIC: THE JOBS DATA WAS SIGNIFICANT, REVISIONS WERE BIGGER STORY -CNBC
- \* FED'S BOSTIC: JOBS MARKET SLOWING FROM STRONG LEVELS
- \* FED'S BOSTIC: STILL NEED TO DETERMINE WHAT TREND OF HIRING WILL BE
- \* ATLANTA FED PRESIDENT BOSTIC: RISK TO INFLATION MUCH GREATER THAN RISK TO EMPLOYMENT- CNBC INTERVIEW" - RTRS

Bloomberg headlines:

- \* **"BOSTIC: IN MANY REGARDS, LABOR MARKET STILL LOOKS GOOD**
- \* **BOSTIC: MIGHT TAKE 12 MONTHS FOR BUSINESSES TO ADJUST PRICING**
- \* **BOSTIC: DON'T THINK I'D HAVE CHANGED THIS WEEK'S FED DECISION" - bbg**

Reuters headlines:

- \* **"FED'S BOSTIC: FOR TODAY, STILL EXPECTS ONE CUT THIS YEAR**
- \* **FED'S BOSTIC: OPEN TO CHANGING FED VIEW IF DATA SUPPORTS IT**
- \* **FED'S BOSTIC: NEED TO SEE HOW THINGS EVOLVE OVER COMING MONTHS" - Reuters**

### *Hammack On Disappointing Jobs Data*

Cleveland Fed's Hammack ('26 voter, hawk) speaking on Bloomberg TV:

- \* **"JOBS REPORT WAS DISAPPOINTING TO BE SURE",**
- "SHOULD BE WATCHING LABOR MARKET VERY CAREFULLY",**
- "COULD SEE SOME WEAKNESS ON LABOR SIDE OF PICTURE".**
- "I FEEL CONFIDENT WITH DECISION WE MADE THIS WEEK"**
- "INFLATION MISS HAS BEEN BIGGER, LASTED LONGER" – all bbg**

### *No Surprises From Bowman and Waller Citing Labor Concerns In Fed Dissents*

- Federal Reserve governors Michelle Bowman and Christopher Waller said Friday that they voted against the central bank's "wait and see" rate policy this week because upside risks to price stability have diminished and it was time to proactively hedge against further weakening in the economy and the risk of damage to the labor market.
- In separate statements, the two governors said inflation is moving closer to the central bank's 2% target and cited increased concerns about the Fed's employment mandate. The FOMC held rates this week at 4.25%-4.5% on a 9-2 vote, and it was the first time two governors dissented at the same meeting since 1993.
- Links to the two statements:
  - Bowman: <https://www.federalreserve.gov/newsevents/speech/bowman20250801a.htm>
  - Waller: <https://www.federalreserve.gov/newsevents/speech/waller20250801a.htm>

### **STIR: Implied Rates Tumble On Soft Payrolls; September Mostly Priced and Five Cuts Seen Ahead**

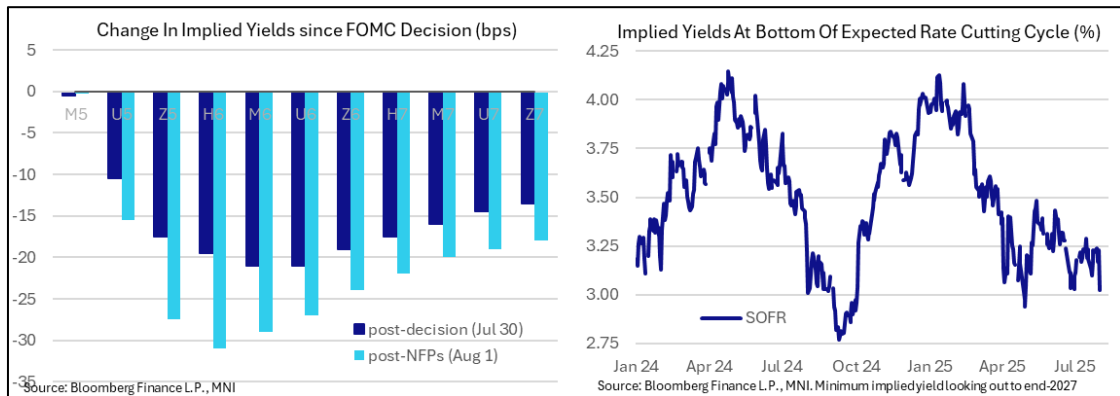
Fed Funds implied rates for the near-term path have swung this week closing out at 22bp vs 12bp pre-payrolls and 15bp prior to the FOMC announcement. Cumulative cuts to year-end meanwhile are currently at 59bp vs 35bp pre-payrolls and 44bp pre-FOMC. Declines in implied yields have been heaviest in early 2026 contracts although there have still been very large moves in terminal rate expectations, with the 3.025% (SFRH7) currently just below late June levels for what would be its lowest close since Apr 30. It prices more than five cuts from current levels.

**FOMC-dated Fed Funds futures implied rates**

Meeting	Latest			pre NFP (Aug 1)			chg in rate bp	pre FOMC decision (Jul 30)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.33			4.33				4.33			
Sep'25	4.11	-21.8	-21.8	4.21	-12.0	-12.0	-9.8	4.18	-15.3	-15.3	-6.5
Oct'25	3.94	-17.4	-39.2	4.12	-9	-20.8	-18.4	4.06	-12	-27	-11.9
Dec'25	3.74	-20.0	-59.2	3.98	-15	-35.3	-23.9	3.89	-17	-44	-15.1
Jan'26	3.63	-11.0	-70.2	3.90	-7	-42.8	-27.4	3.80	-9	-53	-17.5
Mar'26	3.49	-13.5	-83.7	3.79	-11	-54.2	-29.5	3.68	-12	-65	-18.9

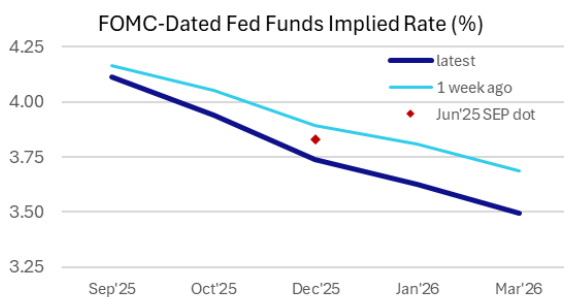
Source: Bloomberg Finance L.P., MNI.



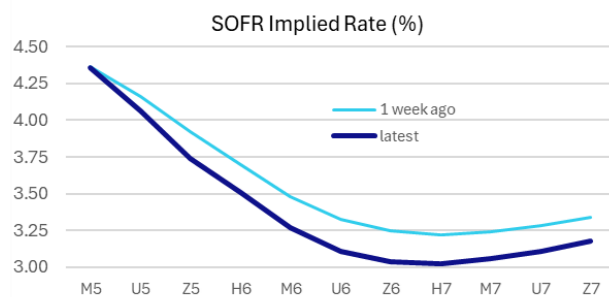


Cumulative cuts for Dec 2025 FOMC. Source: Bloomberg Finance L.P. (Times as BST)

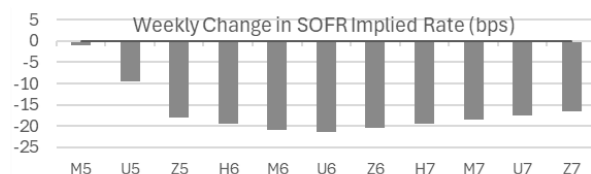
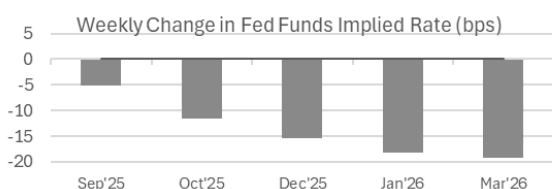
## Week-on-week moves:



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



Source: Bloomberg, MNI.



## The US Macro Week Ahead: ISM Services Headlines A Much Quieter Macro Docket

Date	ET	Impact	Event
04/08/2025	1000	**	Factory New Orders
05/08/2025	0830	**	Trade Balance
05/08/2025	0855	**	Redbook Retail Sales Index
05/08/2025	0945	***	S&P Global Services Index (final)
05/08/2025	0945	***	S&P Global US Final Composite PMI
<b>05/08/2025</b>	<b>1000</b>	<b>***</b>	<b>ISM Non-Manufacturing Index</b>
06/08/2025	0700	**	MBA Weekly Applications Index
06/08/2025	1400		Boston Fed's Susan Collins
06/08/2025	1400		Fed Governor Lisa Cook
06/08/2025	1510		San Francisco Fed's Mary Daly
07/08/2025	0830	***	Jobless Claims
07/08/2025	0830	**	Preliminary Non-Farm Productivity
07/08/2025	1000	**	Wholesale Trade
07/08/2025	1000		Atlanta Fed's Raphael Bostic
07/08/2025	1100	**	NY Fed Survey of Consumer Expectations
07/08/2025	1500	*	Consumer Credit
08/08/2025	1020		St. Louis Fed's Alberto Musalem