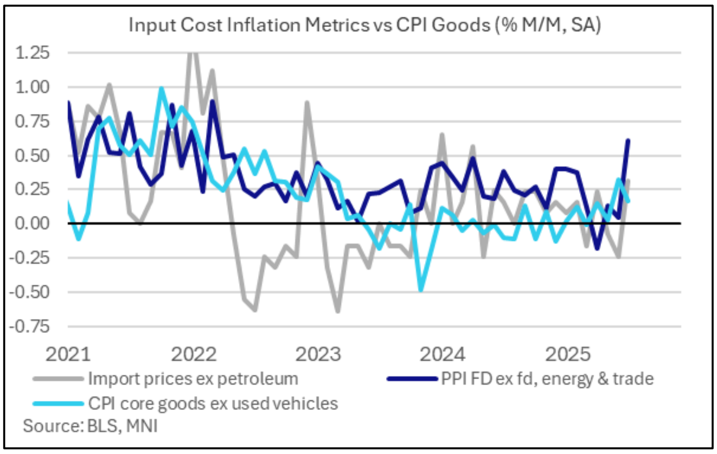
# MNI U.S. Macro Weekly

## MNI View: Inflation Two-Step

*Aug 15, 2025 – By Chris Harrison and Tim Cooper*

**Executive Summary**

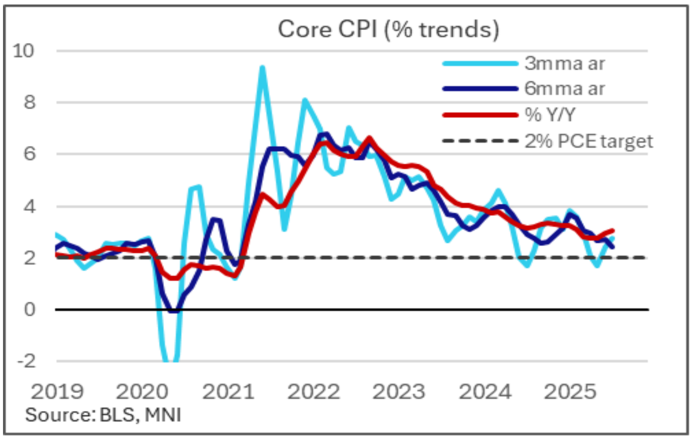
- The latest edition of US "inflation week" brought twists and turns, as CPI data appeared to suggest a slight reprieve from tariff-related price pressures but a hot PPI report told a different story.
- The July CPI report saw further acceleration in monthly core inflation as expected but it was driven by the volatile supercore category. Instead, core goods inflation, an area of focus for tariff passthrough clues, was surprisingly soft. This category only maintained the still-solid monthly clip seen in June, whilst median core goods inflation moderated after a strong increase in June.
- This would see a 25bp September Fed cut get fully priced in, with some analysts pulling forward their expectation for the next cut amid rising speculation that the Fed could even go with an outsized 50bp reduction (reminiscent of September 2024) next month.
- But very strong July PPI data, with undertones of businesses passing along higher tariff-related costs to consumers, reversed those dovish cues - keeping a Sept cut largely priced but no longer quite a sure thing.
- Otherwise, activity data was mixed. In the major non-inflation release, July's retail sales report was generally in line with expectations, with the main upside surprise being an upward revision to June's data suggesting a more solid end to consumption in the second quarter than previously estimated. Overall despite some pockets of weakness and the caveat that the figures are in nominal terms and thus overstate real sales, this report should bolster confidence in consumer solidity entering Q3.
- Indeed, current GDP estimates based on recent data peg Q3 growth at steady to slightly stronger than in Q2. Surveys painted a mixed picture, with Empire State activity much stronger than expected, but UMichigan consumer sentiment falling sharply amid a leap in inflation expectations. Jobless claims data, as ever, portrayed a low hiring, low firing labor market environment.
- A few more names for Fed Chair were floated in media reports, but President Trump appeared to suggest that the shortlist was still limited (3-4 names, which we surmise includes the two "Kevins" Warsh and Hassett, along with Waller), while adding that he will announce his choice "a little bit early".
- In the meantime, Treasury Secretary Bessent who is leading the search said Fed rates should be 150bp lower, possibly with a 50bp cut in September. However, three of the four regional Fed presidents who are in the FOMC voting rotation this year (Goolsbee, Musalem, Schmid) to varying degrees wouldn't commit this week to support a 25bp September cut.
- Next week's data calendar is slightly lighter, with residential sector data (housing starts, homebuilder sentiment, existing home sales) and flash August PMI data featuring.
- Instead the attention will be on Fed communications. The July FOMC minutes Wednesday, while slightly stale as usual, could offer some color on that meeting's deliberations over a rate cut.
- But all eyes will be on the Jackson Hole Symposium Aug 21-23. Most attention will of course mostly be on any nod Chair Powell makes (or doesn't) to a potential September Fed rate cut in his Friday keynote.

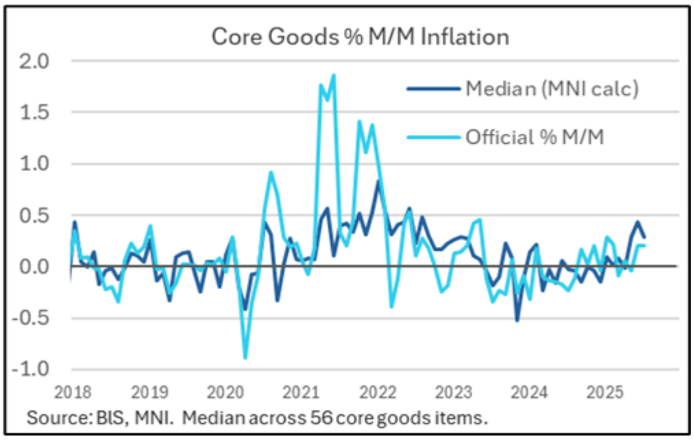


**Inflation: CPI Core Goods Spike Fails To Emerge But Input Cost Inflation Surges**

The July CPI report saw further acceleration in monthly core inflation but it was driven by the volatile supercore category. Instead, core goods inflation, an area of focus for tariff passthrough clues, was surprisingly soft. This category only maintained the still-solid monthly clip seen in June, whilst median core goods inflation moderated after a strong increase in June.

- Core CPI inflation was exactly in line with the median unrounded analyst estimate we had seen for July at 0.32% M/M, accelerating from 0.23% in June and 0.13% in May for its strongest month since January.
- The breakdown relative to expectation was dovish however, as core goods underwhelmed (0.21% M/M vs average expectations closer to 0.4%) in a month that was expected to show increasing signs of tariff passthrough ahead of perhaps the largest monthly increases in the fall months. It follows a very similar 0.20% M/M in Jun after a weak -0.04% M/M in May.
- Notably, this came despite used cars prices exceeding expectations (0.48% M/M vs estimates closer to 0.3) although that's still a modest increase after four consecutive monthly declines averaging -0.6% M/M.
- Indeed, MNI calculations of median core goods inflation across 56 items softened to 0.28% M/M after a particularly strong 0.44% in June and 0.29% in May. This is still a robust pace - it averaged 0.0% M/M in 2024 and 0.06% M/M in Q1 - but clearly doesn't show sign of accelerated tariff passthrough.
- The offsetting factor was core services (0.36% M/M vs average expectations around 0.30%), driven by the volatile "supercore" category at 0.48% M/M whilst rental inflation was exactly as expected.
- Airfares played a large role here and as always won't feed into PCE. Some notable PCE inputs meanwhile saw partly offsetting large moves from booming dental services and further declines in lodging.
- Taking a step back, core CPI inflation firmed to 3.06% Y/Y (cons 3.0) after 2.93% Y/Y, its strongest since Feb 2025. Both three- and six-month run rates are tracking softer than this, at 2.8% and 2.4% annualized.
- Adding to the net dovish take from core CPI details, headline CPI undershot with 0.20% M/M in July (MNI median 0.24) owing to downside surprises in both food (0.05% M/M vs expectations 0.25%, including food at home at -0.12% M/M for only the second decline in the past fifteen months) and energy (-1.1% vs 0.6%, despite gasoline being as expected).
- It saw headline CPI inflation little changed at 2.70% Y/Y after 2.67% in June, holding the prior acceleration from the April low of 2.31% Y/Y.
- The report saw a firming up of 25bp cut expectations for the next FOMC decision on Sept 17, with 24bp priced vs 21bp prior, and 61bp of cuts to year-end. The path nears dovish extremes seen after the surprisingly weak July nonfarm payrolls report on Aug 1.
- Eyes will firmly be on Powell at Jackson Hole next week but we still get Aug NFP/CPI data before Sept 17.



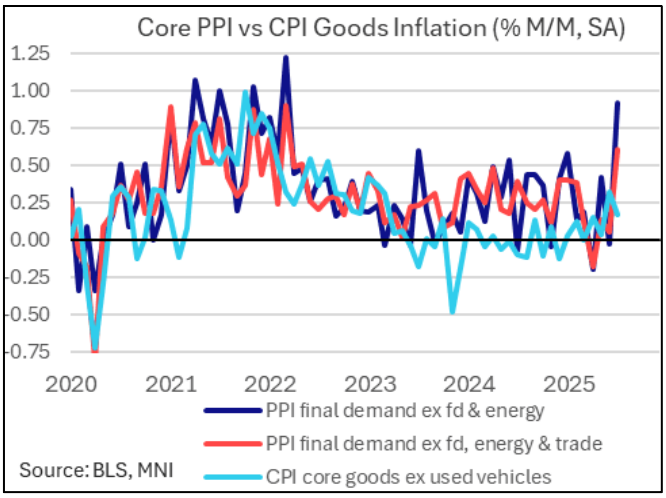



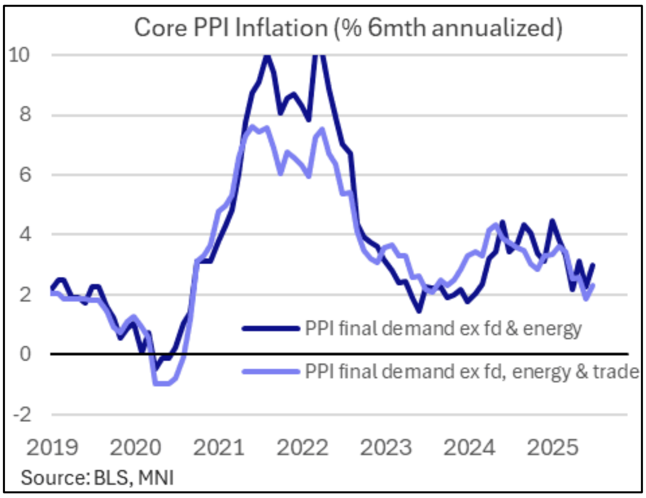

**See more on the CPI report in the full MNI US Inflation Insight publication, [here](#).**

*PPI Price Pressures Pick Up Strongly Across Board In July*

July's Producer Price Index report was one of the strongest in years on a month-to-month basis in the major core aggregates. In contrast to this week's more benign core goods CPI reading than was expected, this will reignite concerns that tariffs will increasingly feed through to consumer prices in the months ahead.

- The headline PPI reading of 0.9% M/M greatly exceeded expectations (0.2%), with ex-food/energy (0.9% vs 0.2%) and "core" ex-food/energy/trade (0.6% vs 0.2%) likewise well to the upside. All had been flat M/M in June, though among revisions, June's core figure was nudged up 0.1pp to mark a positive reading (+0.05% M/M unrounded). For all three categories, this was the highest M/M PPI reading in 40 months.
- While all three had seen slowing momentum over the last several months, this print has singlehandedly started to reverse the trend: the 6-month annualized moving average core PPI rose to 2.3% from 1.9% (which had been a 57-month low), with the 3-month measure up to 3.2% from 0.0%. To be sure these are still relatively behaved (Y/Y was 2.8%), but another month close to this in August will see the tide turn decisively.
- The potentially tariff-related details are worrisome depending on where you look, but overall both services and goods saw outsized price rises.
- Final demand services prices rose 1.1% M/M (-0.1% prior), the fastest since March 2022. The report notes that more than 30% of the rise in prices for final demand services was due to margins for machinery and equipment wholesaling (+3.8%), with trade services +2.0% overall (highest since March 2022) though some of the notorious imputed volatile services prices such as portfolio management/investment advice also played a part (though only added around 0.1-0.2pp to total PPI), and furniture retailing prices fell.
- And in final demand goods, one-quarter of the 0.7% M/M rise (fastest since January, and vs 0.3% prior) was due to higher vegetable prices. The core (ex-food/energy) reading of 0.4% was an advance from 0.2% prior and the fastest since January 2023.
- PPI finished goods rose a fairly non-descript 0.5%, but PPI finished services - which has at times correlated well to "supercore" inflation - rose 1.0%, easily the fastest since March 2022. This may be seen as a sign that wholesale price inflation is close to spilling over into consumer price categories, though again overall momentum doesn't appear to be worrisome unless confirmed by another hot/warm print in August.

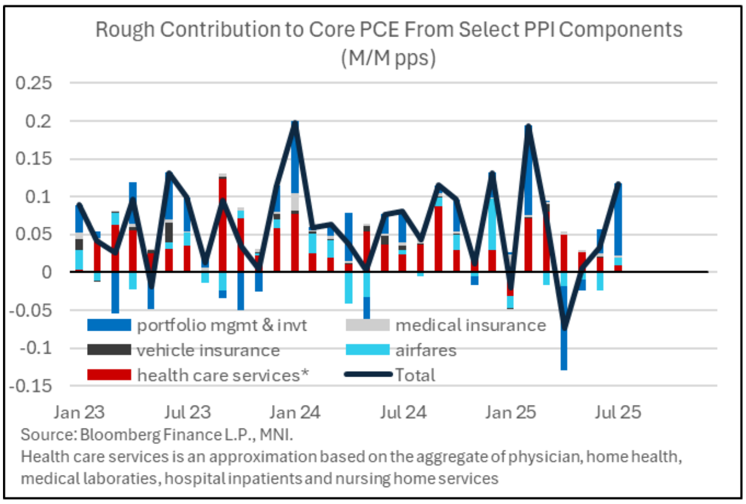


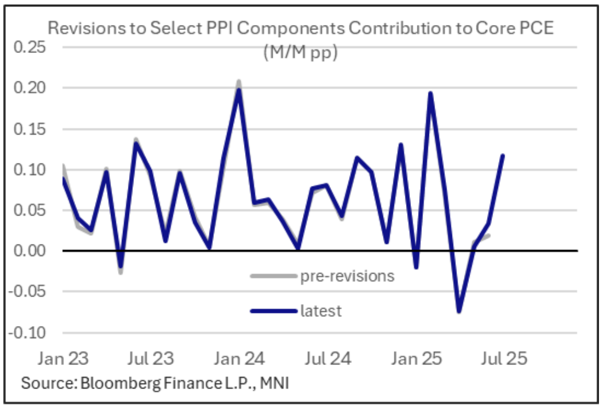

*PPI Details Suggest Higher Core PCE Estimates For July*

- Our proxy for core PCE contributions from typically important PPI categories sees them adding 0.12pps to M/M core PCE in July after 0.03pps in June (hardly revised from 0.02pp prior).
- It's dominated by portfolio management & investment advice adding 0.10pps, on the back of a 5.4% M/M increase after a near unrevised 1.94%. M/M.
- It's hard to get a sense of consensus here but Nomura had pencilled in 2.7% M/M. The series had been notably 'underperforming' recent stock market moves.
- Recall that Tuesday's CPI report saw core PCE estimates for July center on 0.25% M/M vs a tentative 0.31% M/M prior to CPI. It follows 0.26% M/M in June prior to any revisions.

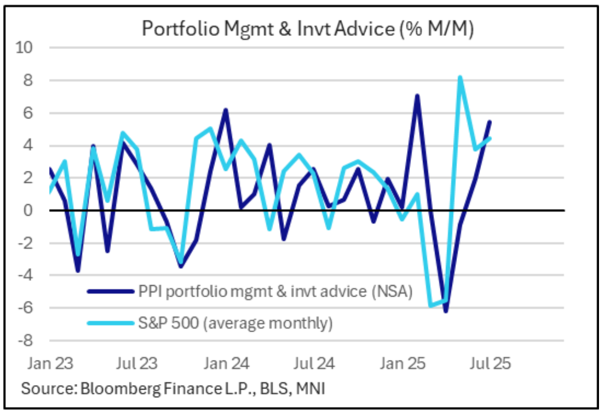
- These select details crudely suggest core PCE estimates back into at least a 0.30-0.35 range with some upside risk beyond that (considering core CPI was 0.32% M/M). It will of course depend on what analyst had penciled in for various components as some other details were on the soft side.
- Updating later on, a small selection of four analyst unrounded core PCE estimates average 0.30% M/M although Wrightson ICAP see it only just rounding down to 0.3% with a risk of a 0.4% M/M print.




Rough Contribution to Core PCE From Select PPI Components (M/M pps)
Source: Bloomberg Finance L.P., MNI.
Health care services is an approximation based on the aggregate of physician, home health, medical laboratories, hospital inpatients and nursing home services




Revisions to Select PPI Components Contribution to Core PCE (M/M pp)
Source: Bloomberg Finance L.P., MNI

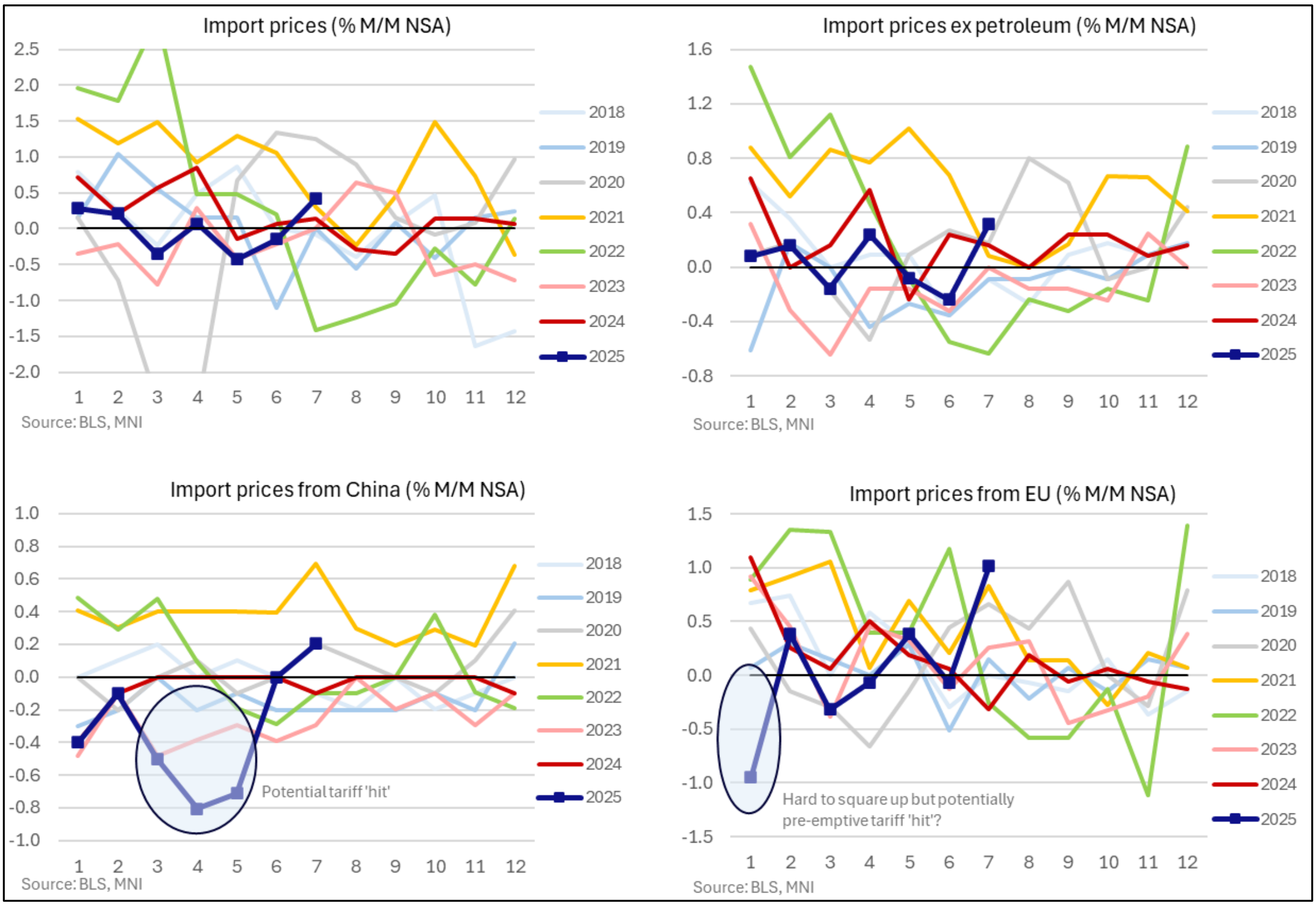



Portfolio Mgmt & Invt Advice (% M/M)
Source: Bloomberg Finance L.P., BLS, MNI

*Import Prices Firm But With Sizeable Downward Revision*

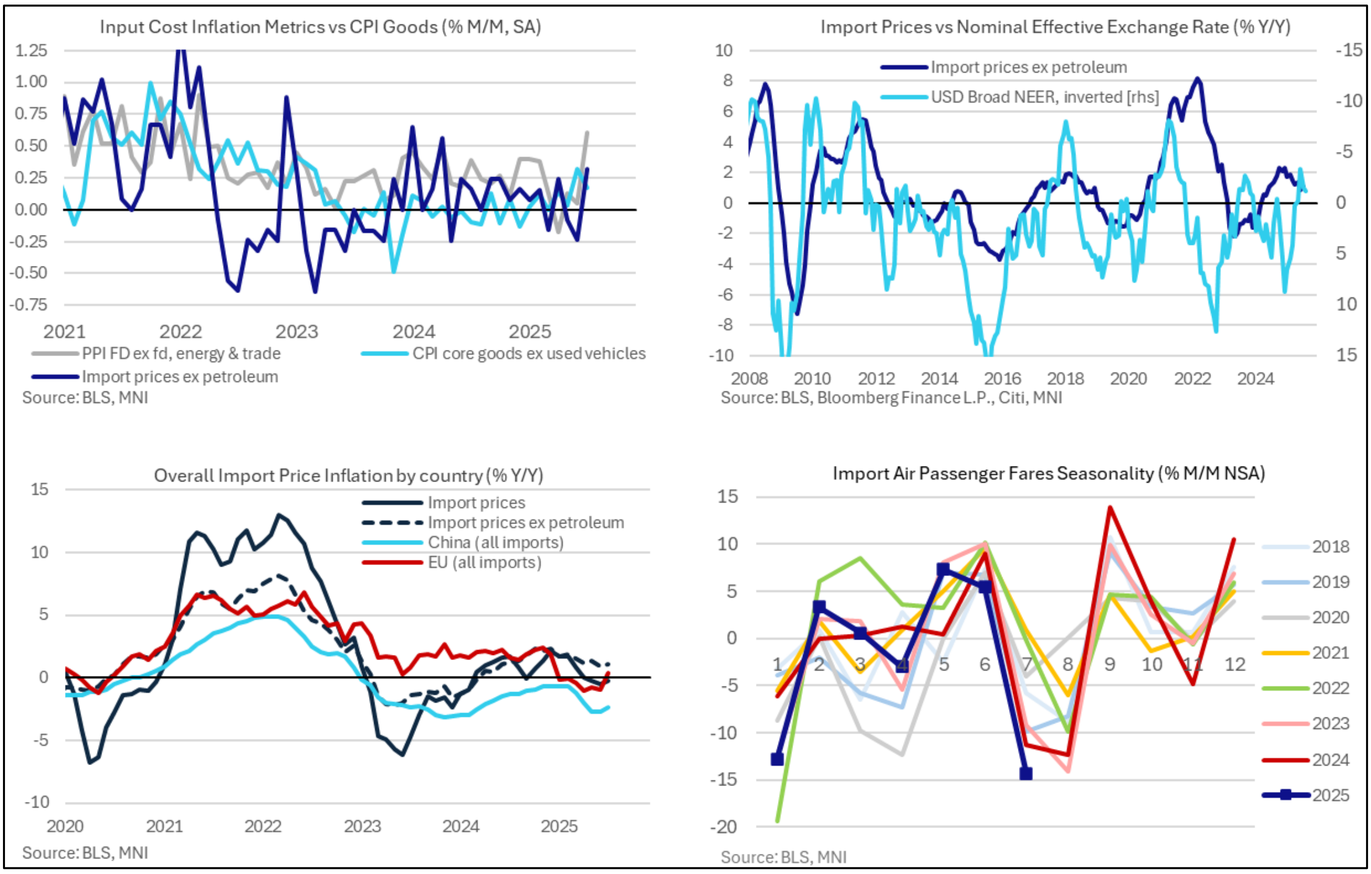
Import price inflation was on balance a touch stronger than expected to in line when factoring in downward revisions, which were especially pronounced for China and EU and risk more questions posed on the reliability of US data. Import prices ex-petroleum have in previous months been a little softer than the 2024 seasonal trend, suggesting perhaps some mild lowering of prices in a tariff ‘hit’ (with country details suggest China was the main culprit), although that was no longer the case in July assuming no further revisions.

- Import prices increased 0.4% M/M (cons 0.1) in July but with the upside surprise mostly offset by a downward revision to -0.1% M/M in June (initial 0.1).
- There’s a similar story in the smoother ex petroleum series, at 0.3% M/M (cons 0.1) after -0.2% (initial 0.0%).
- These downward revisions were particularly large for imports from China and EU (showing for total import prices below):
    - China import prices increased 0.2% M/M after what is now estimated to have been 0.0% in June vs an initially estimated 0.5% M/M.
    - Still, it leaves the past two months seeing much less sign of Chinese exporters taking a tariff hit in the form of lowering prices as had been the case in Mar-May when US-China trade relations were particularly poor.
    - EU import prices meanwhile surged 1.0% M/M in July although it follows -0.1% M/M rather than the 0.6% first thought. The latest trend suggests little sign of a tariff hit from lowered prices, and if anything the opposite in July, whilst prior months had been on the soft side but not unusually so.



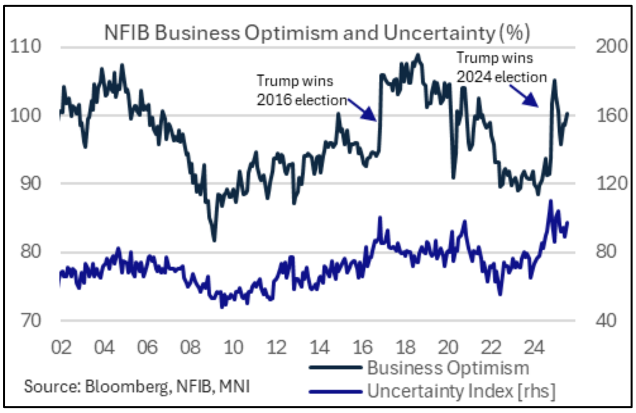

*Downward Revisions Keep Import Price Y/Y Inflation Subdued*

- Adding to our first post on import prices, the 0.3% M/M increase for imports ex petroleum lagged yesterday's 0.6% M/M rise in core PPI prices (ex food, energy & trade services).
- That likely factored in the net dovish reaction to the simultaneous release of retail sales & import prices, although with import prices not directly capturing tariffs (only indirectly if foreign exporters lower prices to compete) we wouldn't read too much into this difference between the two series specifically in July.
- Downward revisions to June were more notable however, especially for those from the EU and China, some areas facing the (on and off) more penal US trade policies.
- That has kept year-ago import price inflation subdued, with overall imports -0.2% Y/Y and ex-petroleum prices 1.0% Y/Y. The latter peaked at 2.3% Y/Y in late 2024 despite the US dollar depreciating 6-7% from its multi-decade January peak on a nominal trade weighted basis.
- Writing prior to the latest round of July inflation releases, GS estimated "that foreign exporters had absorbed 14% of the cost of all tariffs implemented so far through June, but that their share will rise to 25% if the more recent tariffs follow the same pattern as the earliest tariffs on China."
- Returning quickly to latest M/M rates, the air passenger series was weak at -14.3% M/M (NSA), only a little softer than the -11.3% in July 2024 but more notable vs -4.9% averaged in July's through 2021-24. We guess that could see some core PCE estimates lowered by 1-2bp, after seeing some post-PPI estimates ranging from 0.27% M/M to having a risk of rounding to 0.4%.



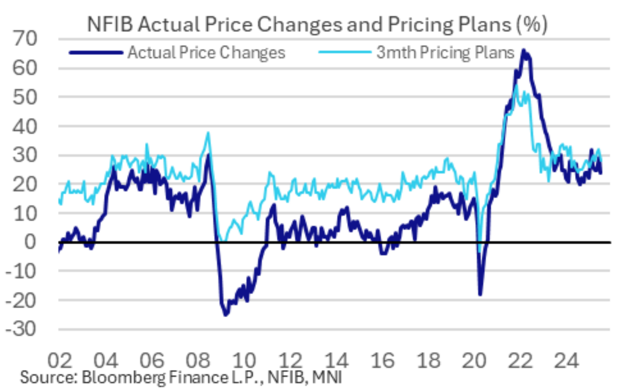

*NFIB Small Business Price Plans Cool*

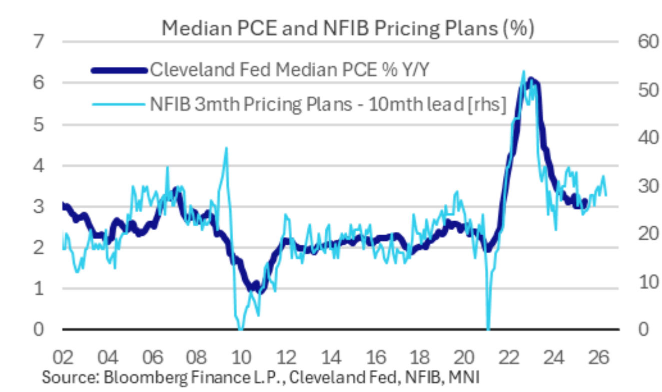
The NFIB small business index was stronger than expected in July despite weakness in the already published jobs details. Notably despite this slightly firmer backdrop, price plans cooled rather than accelerating further.




- The NFIB small business index was higher than expected in July as it increased to 100.3 (cons 98.9) after 98.6 in June for a five-month high.
- The 100.3 compares with the April low of 95.8 on the announcement of reciprocal tariffs, a high of 105.1 in December fully reflecting US election results and an average of 93 in 2024. The series has a very long-term 52-year average of 98.
- Impressively, seeing as the already published jobs report had shown multiple points of weakness in July, six of the ten components for this broader index improved.
- A net 36% of owners expect better business conditions, +14pps from a month earlier and the most this year. A net 16% said now is a good time to expand their business, the largest share since January.
- Ahead of today’s US CPI report for July, price plans remain relatively elevated but contained, and with some moderation compared to May and June levels.
- Specifically, a net 24% increased prices over the past three months vs 29% in June and a recent high of 32% back in February. This is in line with the 23% average seen in 2024 but remains above pre-pandemic averages of ~12%.
- A net 28% expects to increase prices over the next three months vs a recent high of 32% in June. It’s in line with the 28% averaged in 2024 but remains above the 22% averaged pre-pandemic.

- As such, it's still pointing to some stabilization in inflation at above-target rates but the pace hasn't accelerated further as might have been seen if small firms were planning to increasingly pass on tariff cost increases.



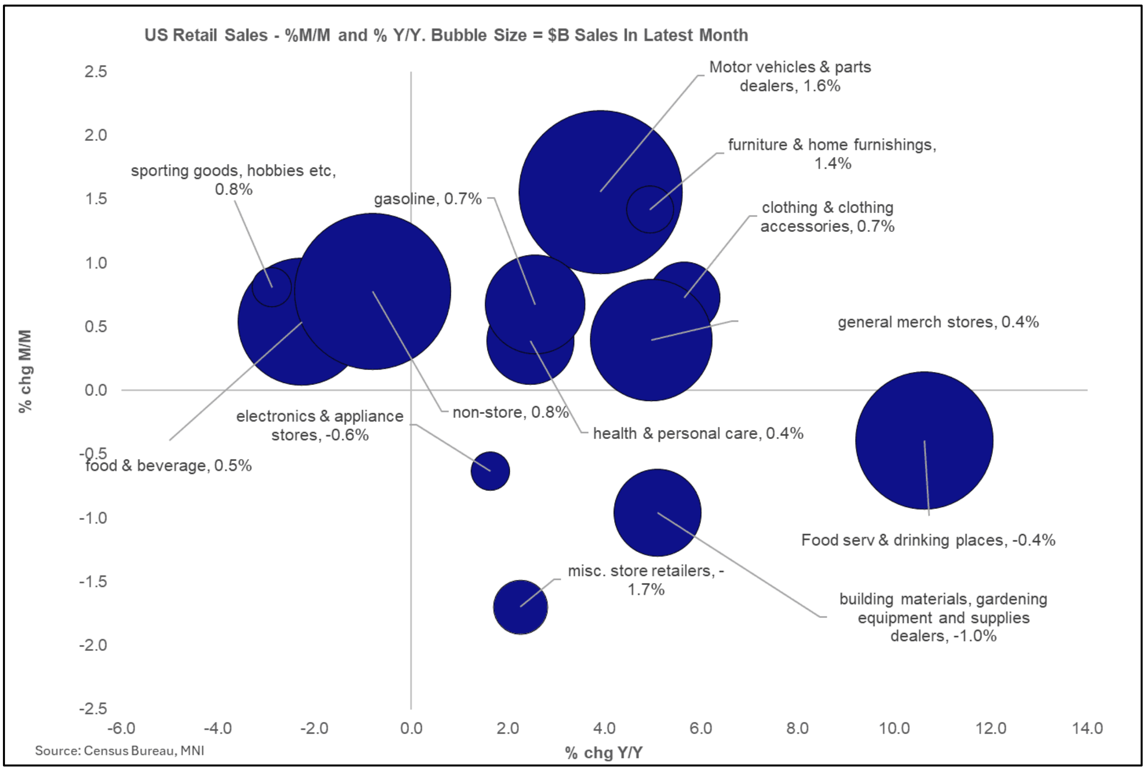




**Growth: Largely Solid Retail Sales vs Fading Industrial Production, GDPNow Holds At 2.5%**

*Major Categories Show Largely Solid Start To Q3 For Retail Sales*

July's retail sales report was generally in line with expectations in the major categories, with the main upside surprise being an upward revision to June's data suggesting a more solid end to consumption in the second quarter than previously estimated. Overall despite some pockets of weakness, this report should increase confidence in consumer solidity entering Q3, and on the margins could lead to some upward PCE growth estimates.

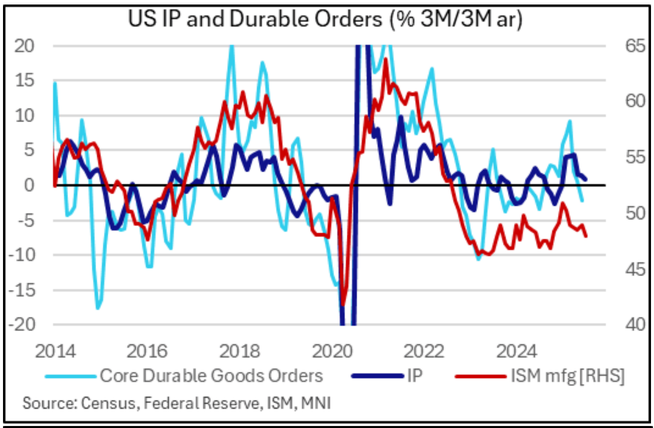
- Headline sales rose 0.5% M/M, in line with the 0.6% expectation but the level was higher than anticipated after an upward revision to June (to 0.90% from 0.64%). The upward revision stems from higher-than-previously estimated vehicle sales (largest retail sales category, upwardly rev to 1.6% M/M from 1.4%) and nonstore (2nd largest, rev up to 0.9% from 0.4%).
- The "core" aggregates printed in similar fashion. Ex-auto/gas sales rose 0.2% (0.3% expected), with prior upgraded to 0.8% from 0.6%; the GDP-input Control Group came in at 0.5% M/M (a little better than the 0.4% expected), with a sizeable upward rev to prior (0.77% vs 0.49%) which implies a potential upward revision in turn to Q2 GDP PCE and increasing the base effect for Q3 PCE average growth.
- As noted, the major categories printed largely as expected. Motor vehicles/parts sales rose 1.6% M/M, with vehicle sales (+1.7% after +1.6%) continuing to pick up after a tariff front-running rise and subsequent fall in previous months, well-telegraphed by light vehicle sales data known beforehand. And non-store retailers continued to grow robustly (0.8% after 0.9%), with a 4-day (vs usual 2-day) Amazon Prime Day sale likely to have contributed.
- The solid control group reading came despite this category not including vehicle sales. But likewise it excludes July weakness in two non-control group categories: food services and drinking places (-0.4%, for the 2nd contraction in 3 months in this only services category and third-largest in retail sales, after +0.6%), with building materials sales down 1.0% M/M (after +1.3%, and also a 2nd contraction in 3 months).
- Other notable areas included some tariff-sensitive areas, which provided no clear narrative on that front: electronics/appliance stores which contracted for a 3rd straight month (0.6%) after a very strong prior 3 months (suggestive of tariff front-running), though furniture/home furnishings at 1.4% had its best month since December after it appeared to weaken sharply in prior months amid tariff angst. Clothing sales rose for a 5th consecutive month (and in robust fashion, 0.7% after 1.1%), with sporting goods recovering to +0.8% after -0.7% and misc store retailers down 1.7% after +2.7% with these latter two categories very erratic month-to-month.
- Food sales (including grocery stores) maintained a strong pace of growth (0.5% M/M after 0.8%). And General Merchandise sales grew largely in line with overall sales, at 0.4% after 0.5%. Gasoline sales rose 0.7% after 0.6%.
- Keep in mind that these figures are in nominal terms, so to some degree should continue to reflect a pickup in core goods prices in the last couple of months. Even so, real retail sales appear to be growing in volume terms after worrying contractions in April/May.

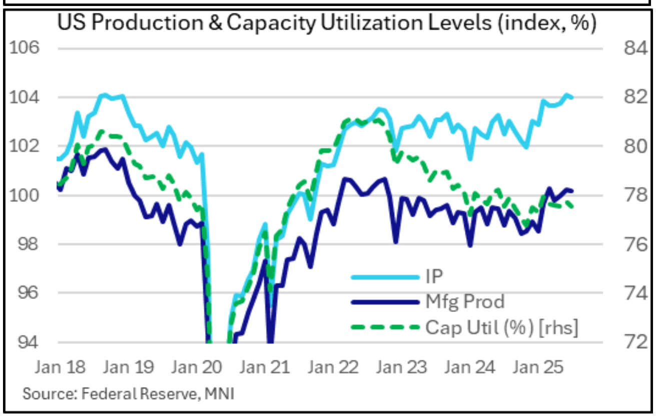



*Industrial, Manufacturing Production Continue To Lose Momentum*

Industrial production unexpectedly contracted in July, albeit only modestly at -0.1% M/M (0.0% expected by Bloomberg consensus). The decline was broad-based, with manufacturing production slightly negative (-0.05% rounding to the 0.0% M/M consensus), and utility production down 0.2% M/M. Mining fell for the 3rd month in 4, by 0.4% (after -0.3% in June).

- Revisions were negligible for IP overall (0.35% in June vs 0.33% prior est), but manufacturing was stronger than previously estimated (grew 0.28% vs 0.12% prior est) with utilities weaker (1.8% vs 2.8%) - so arguably a more positive composition of growth in terms of overall economic activity to conclude Q2, a silver lining to the soft July report.
- This leaves 3M/3M annualized industrial production growth at 0.9%, a 6-month low and a clear deceleration from 4+% earlier in the year which was fuelled by production tariff front-running. Manufacturing has slowed on that basis to 0.9% too, the weakest rate of quarterly-equivalent growth since January having smoothly decelerated from 5.1% in April.
- Major market groups were mixed in July: final products (led by business equipment) rose 0.2% M/M for a 3rd consecutive month of growth (now up 1.2% Y/Y), with nonindustrial supplies (-0.3%) and materials (-0.3%) contracting after expansion in June.
- Total IP and manufacturing are each up 1.4% Y/Y, with man with mining +1.9% and utilities +0.8%. That is the strongest Y/Y for manufacturing in 33 months which reflects a strong burst earlier this year. Meanwhile, capacity utilization has flatlined in the last 5 months in the 77.5-77.7% range.



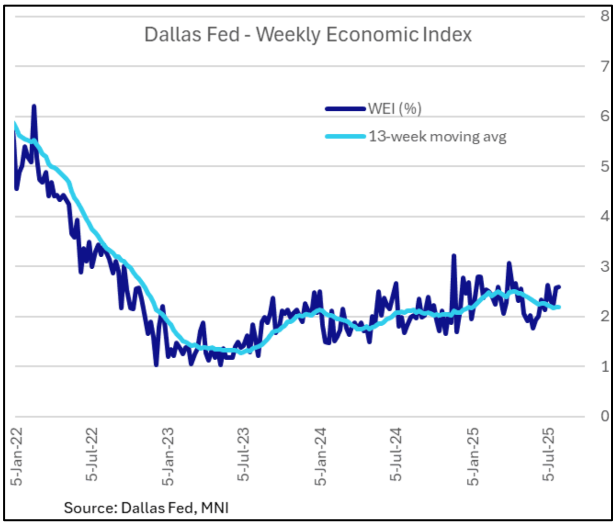



- Indeed, overall production and manufacturing have plateaued after the sharp rise earlier this year (see chart) and show few signs of positive momentum. Forward-looking indicators such as core durable goods orders, as well as manufacturing surveys (ISM, regional Feds) remain weak on a historical basis.

*Dallas Fed Weekly Index Points To Steady Growth Through Mid-Q3*

The Dallas Fed's weekly economic index (WEI) for the week ended Aug 9 remained relatively stable at 2.50% vs 2.59% the week prior (the figures are scaled to 4-quarter GDP growth).

- That brought the 13-week moving average up to 2.23% from 2.20% prior, for the highest since end-June.
- The latest estimates are consistent with steady growth or potentially a modest pickup in Q3 vs Q2, when 4-quarter GDP growth posted 2.0%.




*Atlanta Fed GDPNow Steady After Retail Sales, IP Data*

The Atlanta Fed's GDPNow estimate for Q2 growth ticked up marginally Friday vs the previous update on August 7, though the expected composition of growth has shifted slightly.

- The new nowcast of 2.55% Q/Q SAAR is up from 2.53% for the highest estimate since end-July, largely because the estimate of real PCE rose 0.2pp to 2.2% - the strongest estimate yet for the quarter, and vs 1.4% in Q2.
- We had flagged this possibility following the solid July retail sales data (and importantly, upward revision to June) Friday morning. Additionally, equipment investment is seen at 3.7% (vs 3.5% in prior estimate, 4.8% in Q2).
- Conversely, non-residential structure investment is seen a little weaker, at -3.5% (3.3% prior est, -10.3% Q2) with inventories contributing 0.08pp less (overall boosting GDP by 0.74pp, vs -3.17pp in Q2 amid tariff-related swings). That comes after weaker-than-expected industrial production data albeit in-line business inventories. Additionally, residential investment is seen rising just 1.1% (2.1% in prior est, -4.6% in Q2), potentially related to the 1.0% contraction in building materials sales in the retail sales report.

Atlanta Fed GDPNow estimates for 2025: Q3, growth rates and changes

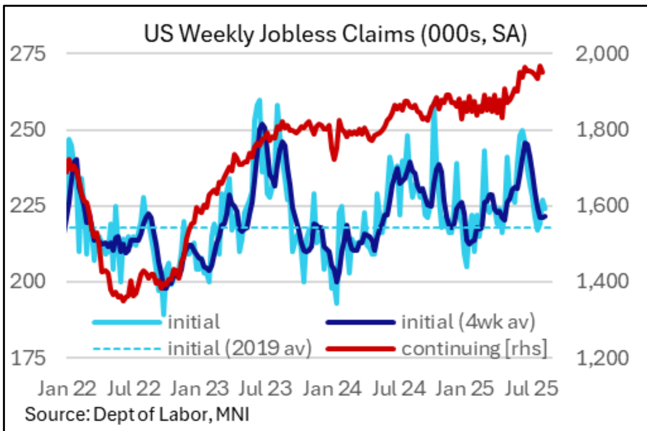
| Date | Major Releases | GDP | PCE | Equip-ment | Intell. prop. prod. | Nonres. struct. | Resid. inves. | Govt. | Exports | Imports | Change in net exp. | Change in CIPI |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 30-Jul | Latest BEA estimate for 25:Q1 | -0.5 | 0.5 | 23.7 | 6.0 | -2.4 | -1.3 | -0.6 | 0.4 | 38.0 | -306 | 152 |
| 30-Jul | Latest BEA estimate for 25:Q2 | 3.0 | 1.4 | 4.8 | 6.4 | -10.3 | -4.6 | 0.4 | -1.8 | -30.3 | 333 | -187 |
| 31-Jul | Initial GDPNow 25:Q3 forecast | 2.3 | 1.9 | 2.6 | 5.5 | -2.3 | 1.8 | 1.7 | 7.8 | 8.5 | -26 | 36 |
| 1-Aug | Employment report, ISM Manufacturing Index, Construction spending | 2.1 | 1.6 | 2.0 | 5.0 | -3.4 | 1.9 | 1.4 | 7.6 | 8.3 | -25 | 43 |
| 4-Aug | M3-2 Manufacturing, Auto sales | 2.5 | 1.9 | 3.7 | 5.0 | -3.3 | 2.0 | 1.4 | 7.6 | 8.4 | -25 | 44 |
| 5-Aug | International trade, ISM Services | 2.5 | 2.0 | 3.5 | 5.0 | -3.3 | 1.9 | 1.4 | 7.1 | 8.4 | -29 | 44 |
| 7-Aug | Wholesale trade | 2.5 | 2.0 | 3.5 | 5.0 | -3.3 | 2.1 | 1.4 | 7.1 | 8.4 | -29 | 47 |
| 12-Aug | CPI, Monthly Treasury Statement | 2.5 | 2.0 | 3.5 | 5.0 | -3.4 | 2.1 | 1.4 | 7.1 | 8.4 | -29 | 47 |
| 14-Aug | Producer Price Index | 2.5 | 2.0 | 3.5 | 5.0 | -3.3 | 2.1 | 1.4 | 7.1 | 8.4 | -29 | 47 |
| 15-Aug | Retail trade, Industrial production, Import/Export Prices | 2.5 | 2.2 | 3.7 | 5.0 | -3.5 | 1.1 | 1.4 | 7.2 | 8.4 | -29 | 43 |

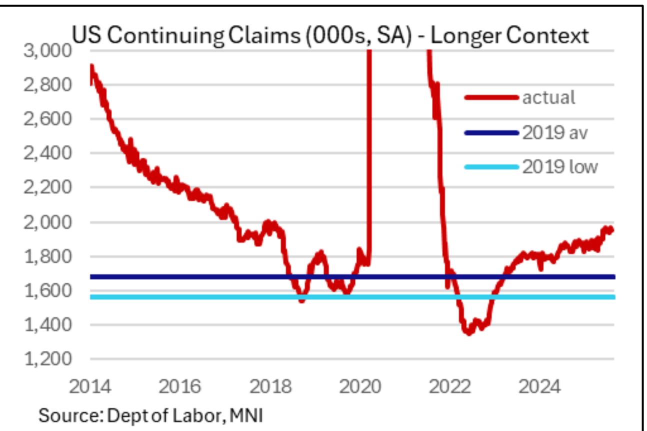
**Labor Market: Steady**

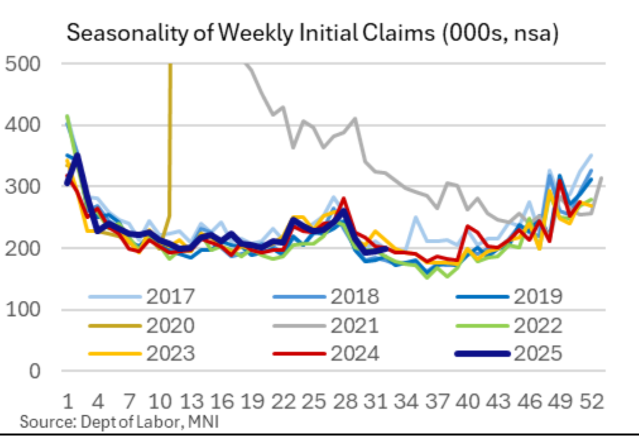
*Another Low Fire Low Hire Jobless Claims Report*

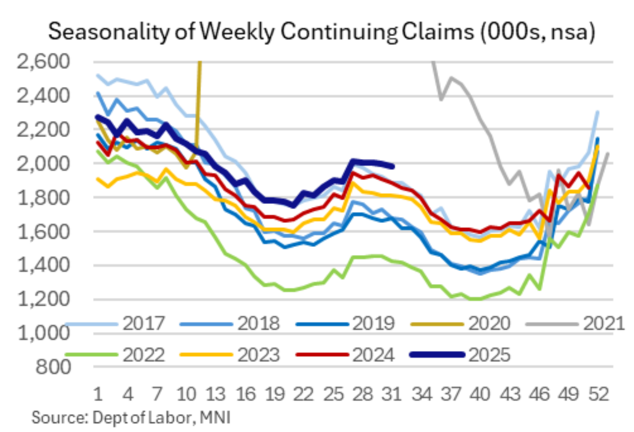
Jobless claims were as expected in latest weekly data at a still historically low level whilst continuing claims dipped after a slightly lower than first thought recent high in the previous week. The data continue to paint a picture of low levels of layoffs but also some continued pressure on those without a job.

- Initial jobless claims nudged down to 224k (sa, cons 225k) in the week to Aug 9 after a marginally upward revised 227k (initial 226k) in the week prior.
- The four-week average ticked up 1k to 222k and has broadly stabilized here since mid-July at levels close to the 218k averaged in 2019.
- Continuing claims meanwhile were lower than expected as they eased to 1953k (cons 1967k) in the week to Aug 2 after yet another downward revision to 1968k (initial 1974k).
- That still leaves the previous week for continuing claims at a fresh high since late 2021 but it's a little closer to the previous high of 1964k in June. We wrote last week that continuing claims had been revised lower in at least the fifteen previous weekly reports.
- Somewhat more notably though, the NSA level of continuing claims is settling at a level more clearly above the typical range for non-pandemic years having previously been right at the high end.
- That suggests the SA process might be a little more favorable. However, it's also worth noting that due to the recent rise in covered employment as part of its quarterly adjustment, the claim rate dipping a tenth to 1.28% left it at a level that it has seen in most weeks since late May (covered employment the denominator for this rate).
- Taking a step back with a historical comparison, initial claims are close to the 2019 average of 218k when the unemployment rate averaged 3.67% whilst continuing claims are close to the 2017 average of 1957k when the u/e rate averaged 4.36%. The latest u/e rate stood at 4.25% in July but remains close to the 4.15% averaged for over a year now.



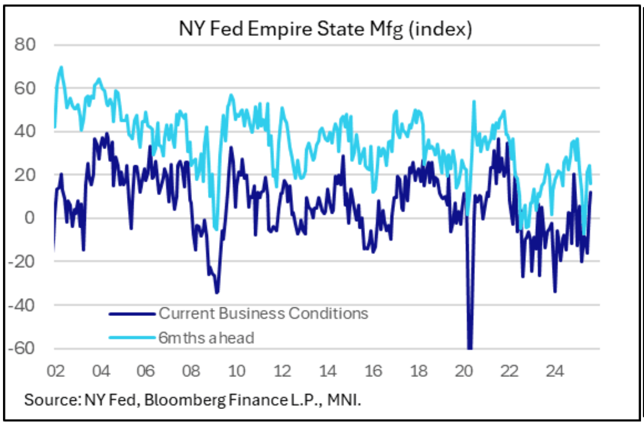



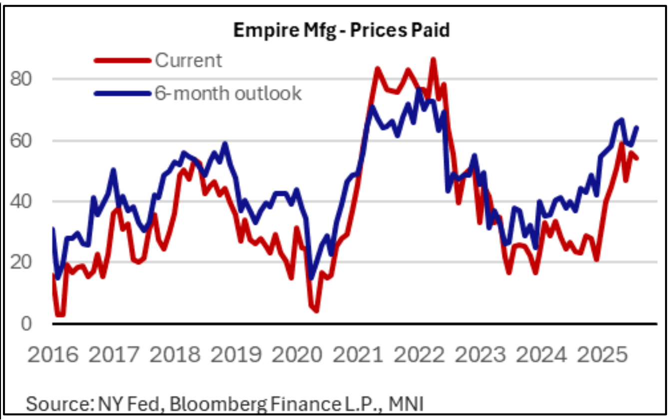
**Business Sentiment: Firmer In A First Look At "August"**

*Empire Manufacturing More Solid On Activity, But Inflation Lingers*

The NY Fed's Empire State Manufacturing survey for August was more positive than expected on the activity front, but inflationary pressures lingered.

- The headline General Business Conditions index rose to 11.9 from 5.5 prior, with New Orders also up smartly to 15.4 from 2.0 - both marked a post-November 2024 high. While the headline index remains below the longer-term average, this is the 2nd consecutive improvement, and much better than the pullback to 0.0 expected by Bloomberg Consensus.
- Less positive outcomes: the 6-month outlook index fell the most in 4 months, 8.1 points to 16; while Employment dropped 4.8 points to a 4-month low 4.4.
- Additionally, the inflation components were, at best, mixed and continued to show elevated price pressures (amid this year's tariff increases).
- Current prices paid moderated to 54.1 from 56.0 with prices received down to 22.9 from 25.7, though both remain roughly double their levels at the start of the year. Meanwhile, anticipated 6-month ahead prices paid rose to 64.2 from 58.7 for a 3-month high, with prices received dipping 0.9 points to 41.3 but not showing any disinflationary progress overall.
- It's premature to draw national conclusions, not least because this survey's results tend to be volatile: this is the only first of the regional Feds to report August manufacturing survey data, with Philadelphia out next week and Dallas/Richmond/Kansas City the following week.



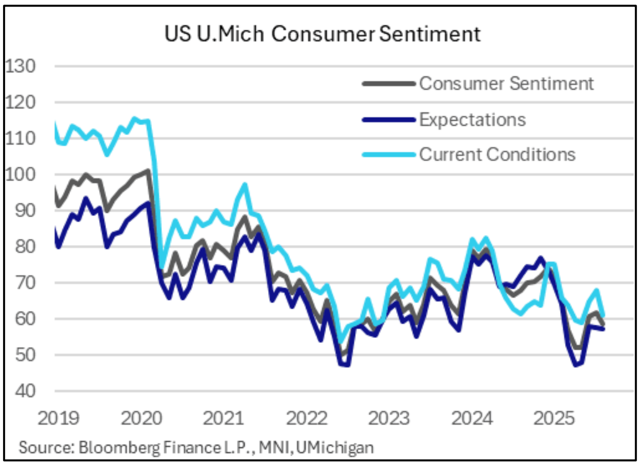




**Consumer Sentiment: Stalling Progress**

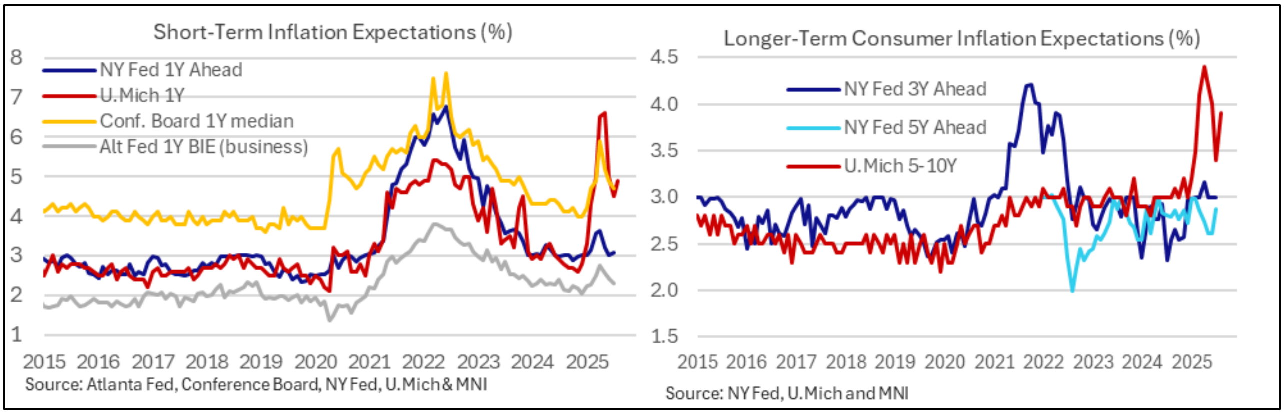
*U.Michigan Shows Stalling Progress, Though Survey Caveats Abound*

The preliminary August University of Michigan consumer sentiment survey was poor: it showed a surprising deterioration in sentiment, alongside a (related) jump in inflation expectations.

- The overall sentiment index fell to 58.6 (62.0 expected) from 61.7, with current conditions at 60.9 (67.5 expected, 68.0 prior) and expectations 57.2 (58.4 expected, 57.7 prior). For the first two of these, it marked the lowest in 3 months after 2 consecutive improvements; expectations also dipped to a 3 month low but that index also declined in August.
- The many sub-category questions in the survey were extremely mixed, with unemployment expectations rising vs personal income expectations modestly improving, but one that stood out to us was buying conditions for large household items which fell to a joint post-2022 low.

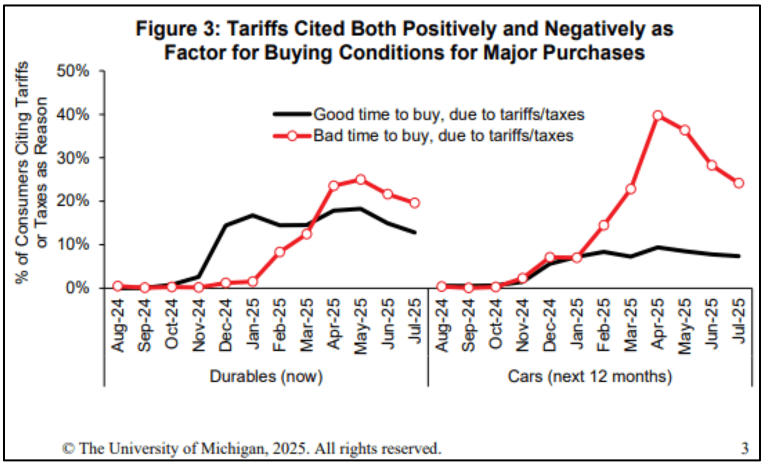


- And the recent diminishment of consumer inflation expectations in the survey sharply reversed, with 1Y ahead rising to 4.9% from 4.5% (and 4.4% expected), with 5-10Y at 3.9% (3.4% expected and prior). July's 1Y reading had been the lowest since February and below a 6.5% peak in April; 5-10Y had been the lowest since January vs a 4.4% April peak. August's preliminary readings, if they hold in the final, would suggest that the downtrend in inflation expectations since the peak of tariff concerns has stalled.
- We wouldn't read too much into a one-month reading on either the sentiment or inflation expectations front given the volatility in the survey, as well as the partisan leans.
- Democrat sentiment fell to a 3-month low, but there was also a fall in Republican sentiment - and current conditions worsened across all of Democrats/Independents/Republicans. The biggest area of disagreement was in expectations, which fell to a 4-month low for Democrats even as they improved to 6-month highs for both independents and Republicans. The usual caveats about partisan sampling in this survey, of course, still apply.
- Additionally, the preliminary survey captured only 512 responses. While that sample should more than double in the final UMichigan, this is the lowest for a prelim number in 2025 so far - so if nothing else, we would not be surprised by some major revisions in the final.




*U.Mich Special Report On Trade Policy And Expected Consumer Spending*

- The University of Michigan has produced a special report this month on "Trade Policy and Expected Consumer Spending", see here: [https://data.sca.isr.umich.edu/fetchdoc.php?docid=79334](https://data.sca.isr.umich.edu/fetchdoc.php?docid=79334)
- Some points from it:
  - "The share of consumers expecting unemployment to worsen in the year ahead was about 32% in 2022 and as recently as November 2024, but is now about 60%, a reading last seen in the Great Recession."
  - "Only about 24% of consumers expect to spend as usual in the year ahead on items that have large price increases. The remaining consumers report that they would reduce their spending on such items, either by cutting back or stopping their spending on such items altogether."
  - "When asked about what purchases consumers anticipate cutting back or delaying the most, the most common responses included car buying (19% of consumers), household items (17%), eating out (14%), and luxury purchases (13%)."
  - "Advance buying motives have increased sharply in 2025, comparable to levels seen around the enactment of tariffs in 2018, but remain much lower than readings from the 1970s and 80s."
  - "Tariffs Cited Both Positively and Negatively as Factor for Buying Conditions for Major Purchases"

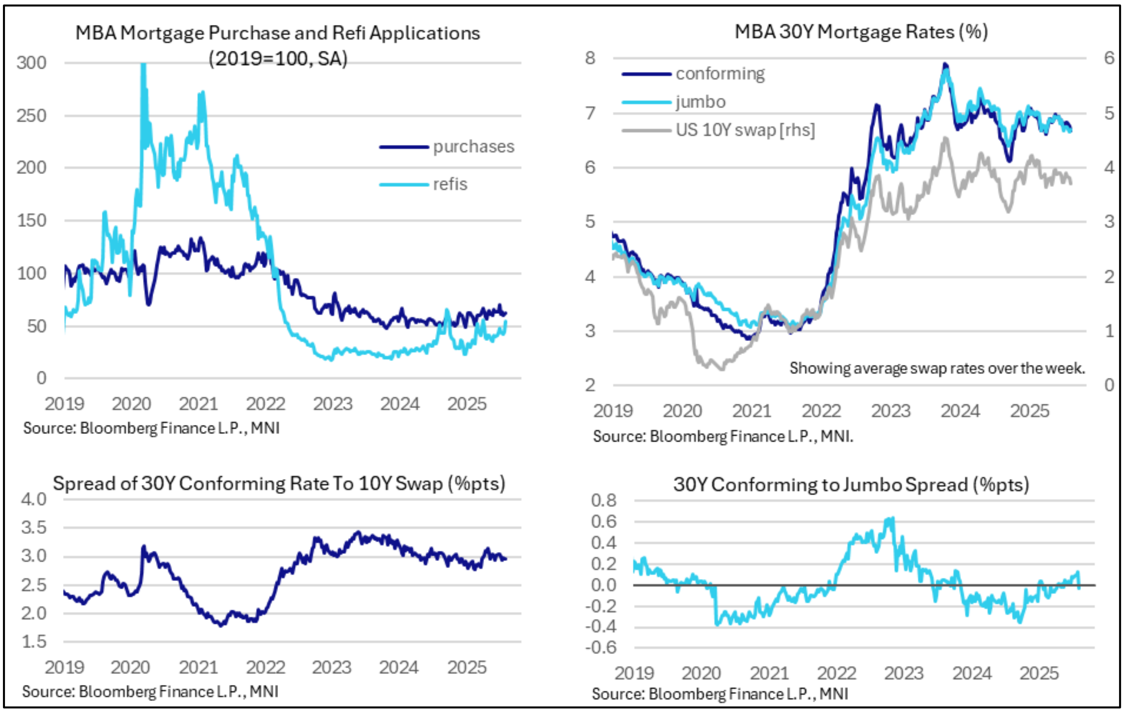


**Credit/Household Finances: Jumbo Mortgage Loans Lose A Little Of Their Appeal**

*Refis Lead An Uptick In Mortgage Applications*

MBA mortgage applications increased to recent highs last week on the back of a rise in volatile refinance applications. Overall levels remains subdued however and new purchase applications continue to point an anemic trend for housing activity.

- MBA composite mortgage applications increased 10.9% sa last week after trending sideways in recent weeks, for their highest since single weeks in July and April and before that Sep 2024.
- It was however driven by a 23% increase in refis after 5.2% as new purchase applications once again saw relative underperformance with just a 1.4% increase after 1.5%.
- Comparison with 2019 averages: composite applications at 59.5%, new purchases 62% and refis 55%.
- These refis are reacting to a recent decline in mortgage rates, with the 30Y conforming rate falling 10bps to 6.67% after a 6bp decline the week prior. It leaves the conforming rate at its lowest since early April.
- 30Y mortgage rate to 10Y swap rate spreads remain at the low end of the 300 +/- 5bp range mostly seen since reciprocal tariffs were first detailed in early April, still wider than the 285bp averaged in Q1.
- Within the mortgage rate details, 30Y jumbo mortgage rates saw a relative correction as they increased 5bps to 6.70%. It saw the regular-jumbo spread slide from +12bp (highest since Oct 2023) to -3bp (lowest since mid-April), tentatively ending what had been a sign of some relative loosening in conditions or perhaps borrowers with higher FICO scores.



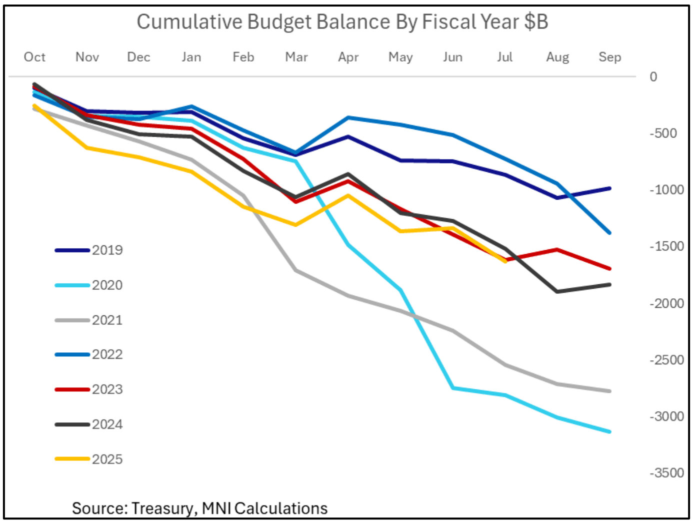

**Fiscal: Surprisingly Large Deficit Approaching Fiscal Year-End**

*Federal Deficit Up 7% Y/Y With 2 Months To Go In Fiscal Year*

Treasury reported a $291.1B federal budget deficit in July, larger than the $239B shortfall expected by Bloomberg consensus but almost exactly in line with the Congressional Budget Office's previously published $289B estimate.

- As MNI noted previously, while the year-to-date deficit is up 7% Y/Y to $1.629T with two months remaining in the 2025 fiscal year (which runs Oct-Sep), compared with $1.517T in the same period of FY2024, the difference is smaller when adjusting for timing changes.

- CBO estimated a $37B wider deficit when accounting for these changes, vs $109B "actual". The implied adjusted rise in the deficit is around 2% Y/Y, tracking lower than nominal GDP growth over that period.
- YTD revenue is up 6.4% Y/Y ($4.346T), with expenditure up 6.7% ($5.975T).
- At the start of 2025, CBO estimated a $1.9T deficit this fiscal year which remains plausible with August typically seeing a large deficit ahead of a better outturn in September in part on tax receipts, though looks on the high side at this point.
- That implies the FY2025 deficit looks closer to coming in below the 6.4% of GDP posted in FY2024, though is widely expected to re-expand in FY2026 largely on "One Big Beautiful Bill" effects.
- CBO will publish the Monthly Budget Review with its final projection next month.




**Trump Administration Deliberations**

- Bessent says rates should be 150bp lower, possibly with a 50bp cut in September, driven by models
- BLS Commissioner nominee Antoni suggests suspending monthly payrolls report

*Tsy Sec Bessent Could See Fed Cutting 50bp In September (Aug 13)*

Treasury Secretary Bessent, interviewed on Bloomberg TV: "I think we could be heading into a series of rate cuts here, and could start with 50bps in September"

- "One of the most politicized governors [Kugler] just left the board"
- If data had been accurate, it's possible Fed cuts earlier, we should be 150, 175bps lower on rates by now.
- "We'll see" on how quickly Miran can be confirmed as Fed nominee. Is "hopeful" for September meeting
- "There is no accountability" at the Fed, in reference to renovations project
- Trump is concerned over the foundations at the Fed
- Would not expect Miran to stay on beyond the remainder of Kugler's term

When asked on whether BLS could suspend NFP releases on quality concerns - seems to talk down comments of BLS nominee as being made outside of office, akin to when Bessent called for a Shadow Fed chair.

- We're concerned on integrity of data, what we want is "good" data. Antoni is "well qualified" as BLS chief, and was there through the interview process.

*Before Rowing Back, Saying He Was Touting Models (Aug 14)*

US Treasury Secretary Scott Bessent said he isn't calling for a series of interest-rate cuts from the Federal Reserve, just pointing out that models suggest a "neutral" rate would be about 1.5 percentage points lower. From Bloomberg's write-up.

- "I didn't tell the Fed what to do," Bessent said Thursday in an interview on Fox Business, referring to his comments a day before about how the central bank "could go into a series of rate cuts here."
- Bessent said Thursday that "what I said was that to get to a neutral rate on interest, that that would be approximately a 150-basis-point cut."
- "I believe that there is room, if one believes in the neutral rate," for a series of rate cuts, Bessent said. "I'm not calling for one. I didn't call for one. I just said that a model of a neutral rate is approximately 150 basis points lower."

*BLS Commissioner Nominee Antoni Suggests Suspending Monthly Payrolls Report (Aug 12)*

Fox Business published an interview with E.J. Antoni in which the White House's nominee as the next BLS commissioner suggests that the monthly Employment Situation (ie nonfarm payrolls) report should be "suspended":

- "Until it is corrected, the BLS should suspend issuing the monthly job reports but keep publishing the more accurate, though less timely, quarterly data... Major decision-makers from Wall Street to D.C. rely on these numbers, and a lack of confidence in the data has far-reaching consequences."
- He adds: "How on earth are businesses supposed to plan – or how is the Fed supposed to conduct monetary policy – when they don't know how many jobs are being added or lost in our economy? It's a serious problem that needs to be fixed immediately."
- This interview was conducted on Monday, before Antoni's nomination by the President. Though it's notable he "told FOX Business that he doesn't believe the jobs data was intentionally manipulated, as some have suggested, but instead argues that persistent flaws in the Bureau of Labor Statistics' methodology have gone unaddressed."

*US May Change How It Collects & Reports Jobs Data – WSJ (Aug 12)*

Headlines have crossed the WSJ that the US Administration is considering changes to how the BLS collects and reports jobs data. See this link.

- The WSJ notes: "The Trump administration is considering changes to how the federal government collects and reports jobs data, according to White House officials, following President Trump's decision to fire the Bureau of Labor Statistics commissioner earlier this month in the aftermath of weak employment numbers."
- It adds: "Trump has complained publicly and privately that jobs report data is designed to hurt him politically, taking aim at large revisions to the numbers that have complicated his contention that the economy is soaring in his second term. Trump has told his advisers that he doesn't want large revisions to the data in the future, the officials said."
- This comes after overnight reports that in terms of the new BLS head: "EJ Antoni, President Donald Trump's pick to lead the Bureau of Labor Statistics, has suggested suspending the agency's monthly jobs reports and publishing only quarterly numbers until issues with data collection are corrected. In an interview with Fox Business before Trump nominated him on Monday, Antoni said businesses can't plan and the Federal Reserve can't conduct monetary policy when the monthly report is unreliable and frequently overstated and thus misleading." (via BBG).

**Fedspeak: Mostly Patient**

- Goolsbee ('25 voter, dove) needs at least one more inflation report to be sure persistent price pressures aren't picking up
- Musalem ('25 voter, hawk) sees it too early to decide on whether to cut in September
- Schmid ('25 voter, hawk) sounds like he would dissent to a September cut
- Barkin (non-voter) says balance between dual mandate variables still unclear
- Daly (non-voter) pushes back against 50bp September cut calls
- Fed Gov Nominee Miran said there's just no evidence of tariff inflation, sees service disinflation imminently

*Goolsbee A Little Less Worried On Inflation Than Earlier In The Week But Needs More Data (Aug 15)*

- "GOOLSBEE: IF KEEP GETTING INFLATION REPORTS LIKE WE HAD EARLIER, TOTALLY FINE TO BRING RATES TO WHERE THEY WILL SETTLE" - RTRS
- "GOOLSBEE: IF WE GET A HINT FOR SEPT, OR LATER IN FALL, THAT WE ARE NOT IN AN INFLATIONARY SPIRAL, WE CAN CUT RATES" - RTRS

- These comments helped Tsys off lows and promoted stabilsation/dovish ticks in the short end.
- A reminder that Goolsbee sounded more cautious after this week's CPI reading. Back then, he noted that FOMC meetings in the fall are "going to be live" but he's "uneasy" about the idea that tariffs have only a one-off impact on prices and that he wants more surety that inflation won't be persistent. (More below)

- Today, it was more like "GOOLSBEE: LET'S NOT OVERREACT TO ONE MONTH OF PPI, CPI, IMPORT PRICES, BUT AN AREA OF CONCERN" – RTRS
- However, he also on Friday said recent inflation data has "been a little mixed […] I feel like we still need another one, at least, to figure out if we're if we're still on the golden path."

*Musalem: Too Early To Decide Whether To Cut In Sept, 50bp Cut Unwarranted (Aug 14)*

St Louis Fed's Musalem ('25 voter, hawk) in a CNBC appearance unsurprisingly added to recent Fedspeak pushing back on 50bp cut calls, or in his case perhaps whether to cut at all. This seeming reluctance to cut chimes with remarks from KC Fed's Schmid (another FOMC hawk) after Tuesday's CPI.

Comments taken from the Bloomberg write-up which didn't show as headlines:

- Federal Reserve Bank of St. Louis President Alberto Musalem said it's too early for him to decide on whether to lower interest rates at next month's meeting.
- "For me, it's too early to say exactly what policy I will be able to support" at the September meeting, Musalem said Thursday in an interview on CNBC.
- Asked about whether a 50 basis point reduction could be warranted next month, Musalem said from his perspective that would be "unsupported by the current state of the economy and the outlook for the economy."

Select Bloomberg headlines:

- " *FED'S MUSALEM: INFLATION SEEMS TO BE RUNNING CLOSE TO 3%"
- *MUSALEM: EXPECT TARIFF INFLATION IMPACT TO FADE IN 2-3 QUARTERS"
- "*MUSALEM: REASONABLE POSSIBILITY TARIFF IMPACT MORE PERSISTENT"
- "*MUSALEM: INFLATION COULD BE PERSISTENT, BUT NOT MY BASE CASE" - repeat of last week's comments
- "*MUSALEM: SO FAR, MUTED TARIFF IMPACT ON CORE GOODS AND SERVICES"

- "*MUSALEM: LABOR MARKET AT FULL EMPLOYMENT BUT RISKS TO DOWNSIDE"
- *MUSALEM: DEMAND FOR LABOR HAS DECLINED BUT SO HAS SUPPLY" These are repeats from last week with the July NFP report in hand.
- "*MUSALEM: REASONABLE TO EXPECT PAYROLL BREAKEVEN RATE BELOW 50K". Actual SA payrolls growth was 74k in July after that far weaker than first thought 14k in June and 19k in May.

*Daly Pushes Back Against 50bp September Cut Calls (Aug 14)*

SF Fed's Daly (non-voter) pushes back against a 50bp September cut in an interview with the **WSJ**.

- "San Francisco Fed President Mary Daly pushed back against the need for an interest-rate cut of a half percentage point, or 50 basis points, at the Federal Reserve's September meeting".
- "Fifty sounds, to me, like we see an urgent-I'm worried it would send off an urgency signal that I don't feel about the strength of the labor market," Daly said in an interview Wednesday. "I just don't see that. I don't see the need to catch up."
- "Daly said she had stopped describing the labor market as solid after the July payrolls report, which sharply revised down employment gains for previous months. Other data suggest layoffs remain low, but people who lose jobs spend longer out of work."

Screens fairly similar to Daly's remarks last week: "We will likely need to adjust policy in the coming months. Recalibrating it to match the collective risks to both of our mandated goals." Recall earlier this week she said in a Reuters interview that the Fed may need to cut more than twice by the end of the year. She characterizes policy adjustments as "Recalibrating it to match the collective risks to both of our mandated goals", suggesting she doesn't see aggressive cuts.

*Chicago's Goolsbee Sounds Unenthusiastic About July CPI, And A Sept Cut (Aug 13)*

Chicago Fed Pres Goolsbee (2025 FOMC voter) says in a Q&A that FOMC meetings in the fall are "going to be live" but he doesn't offer much in the way of overt support for a rate cut in September. Indeed he says he's "uneasy" about the idea that tariffs have only a one-off impact on prices, and that "the hardest thing that a central bank ever has to do is try to get the timing right when there are moments of transition."

- "I'm not speaking for them, but I see my colleagues on the FOMC grappling with the same thing I'm trying to figure out, which is: Are we still on the "golden path" where the economy's doing fine and inflation is going to come back down? Or are we getting into something where the costs are going to start rising again? And then we've got to be a little uneasy."
- He won't pre-commit to how he would approach policy at the September meeting but notes "we're still going to get some PPI readings on inflation and another CPI reading on inflation before the next meeting."
- That said, he sounds unenthusiastic about developments in the latest CPI report: "If we start getting more reports like the latest one, the latest CPI, though, where the overall is inching up. And if you look at the components, services, inflation was was bad. There's no other way to describe it. And services are not obviously tied to the tariffs. So everyone's hoping that's just a blip. You know there's noise in the data. If you start to get multiple months where the components suggest that the impact of tariff inflation is not staying in its lane, then that would be more of a concern."
- He says of the labor market: "I think the state of the labor market is pretty strong." On wage growth: "faster than inflation, but it's fully consistent with 2% inflation."
- He even implies that the Fed may be in a position where it is forced to hike rates: "one risk would be we get back into an environment where costs are rising. We've been above the 2% target for four and a half years now. I was still feeling okay about that, even though we've been above for four and a half years because it was coming down. If we get into an environment where it's not coming down, we're above four and a half years and it's going the wrong way, and that's looking persistent. That would be a problem. And in my opinion, the Fed will have to act. And on the other side, if we have a more traditional slowing of the economy and there are some warning signs in the labor market, that would no longer be the soft landing, we would have we would have had the hard landing. And so I kind of think both sides of that, we've got to keep an eye on."

*Richmond's Barkin: "Balance" Between Dual Mandate Variables "Still Unclear" (Aug 12)*

Richmond Fed President Barkin (non-voter in 2025 and 2026) continues to lean to the hawkish side in a speech released Tuesday called "Why the Consumer Matters" (link).

- On current monetary policy, as usual he holds back on making any explicit projections. While he says the "the fog" of uncertainty in multiple areas "is lifting", he appears to suggest that more time and data is still needed before making any decisions: "at our July meeting, with the labor market near most estimates of maximum employment and inflation above target, the FOMC continued to hold the fed funds rate at a modestly restrictive level. We may well see pressure on inflation, and we may also see pressure on unemployment, but the balance between the two is still unclear. As the visibility continues to improve, we are well positioned to adjust our policy stance as needed."
- He appears to downplay the recent weakness in nonfarm payrolls when revisions are taken into account: " businesses have been in a low hiring-low firing mode that has created an unusual but stable labor market. Unemployment remains low at 4.2 percent, near most estimates of maximum employment... Job gains have slowed recently, which is certainly worth watching. But I'm hopeful that even as businesses face cost and price pressure, they'll largely avoid the type of large layoffs that would spike unemployment and lead to consumer pullback. As with consumers, how businesses have come into this moment matters. Firms are already running lean. They've been slow-rolling hiring for years in anticipation of a recession that hasn't come. They've been downsizing via attrition. With businesses already light on staff, we should see fewer reductions. So, any coming increase in the unemployment rate may well also be less than many anticipate."
- That said, he doesn't appear too worried about inflationary pressures, due to consumers not having the same purchasing power as they did in the pandemic reopening episode: " this isn't 2022, when we saw inflation balloon. For one, the Fed's policy stance is more restrictive now. But beyond that, remember that back then, consumers were flush with cash due to pandemic stimulus, suppressed spending, higher

wages, and frothy asset markets. They didn't let price increases hinder their revenge spending. That fueled inflation. That's just not where consumers are in 2025. They feel stretched, particularly those with low and moderate incomes. They are more willing to defer purchases if prices go up. Should they feel forced to accept price increases for certain products, I expect they will forego spending for others. I'm sure your procurement teams are thinking the same way. This dynamic may already be playing out: Amid all the talk of tariffs and higher goods prices to come, we've seen people stock up on iPhones and cut back on services, such as air travel and lodging. If we see this kind of demand destruction more broadly, the inflationary impact of tariffs would be less than many anticipate."

*KC Fed's Schmid Sounds Like He Would Dissent To A September Cut (Aug 12)*

Kansas City Fed President Schmid (2025 FOMC voter, hawk)'s comments in a speech Tuesday ("The Federal Reserve and Outlook for the Economy and Monetary Policy" - **link**) hint that he wouldn't support a rate cut as soon as September's FOMC meeting, and could even dissent against such a decision. He sees policy as "not very restrictive" and close to neutral and appears to view the debate over tariff-driven inflation as something of a distraction - instead the Fed should "monitor demand growth" in order to keep inflation "on a path to 2%".

- In short, "with the economy still showing momentum, growing business optimism, and inflation still stuck above our objective, retaining a modestly restrictive monetary policy stance remains appropriate for the time being. Though of course this is a position that I will continually reassess as we receive new data and information on inflation, the labor market, and the economy more generally."
- He says that "My support for a patient approach to changing the policy rate is based on two connected arguments. First, while monetary policy might currently be restrictive, it is not very restrictive. And second, given recent price pressures, a modestly restrictive stance is exactly where we want to be."
- He says that the current policy stance is "not far from neutral": "we are as close to meeting our dual mandate objectives of price stability and full employment as we have been for quite some time. And while uncertainties abound, I do not see strong evidence of a trend movement away from our mandates at this point." He points to financial market variables: "looking at financial markets, with stock prices near record highs and bond spreads near record lows, I see little evidence of a highly restrictive monetary policy."
- On the labor market, he appears to shrug off the weakly-perceived July employment report: "While it is true that payroll growth was weak over the summer, a broader set of indicators suggest a labor market that is in balance. " On inflation: "On the other side of the mandate, inflation remains too high." And on growth: "Currently, the economy continues to show strong momentum...I am hearing increased optimism as some of the uncertainty and concern around trade policy that spiked in April recedes. Overall, my expectation is that the economy will show continued resilience."
- On tariffs, he says that he wouldn't "characterize my view on tariffs and inflation as 'wait-and-see'", in part because "I will confidently forecast that a decade from now economists will still be arguing over exactly what impact the tariffs had on inflation. As such, I see no possibility that we will know the effect of the tariffs on prices, either as a one-off shock to the price level or a persistent inflation impetus, over the next few months."
- As such he'll be "data dependent" - while "the Fed cannot offset the effect of higher tariffs on prices, [] what the Fed can do is monitor demand growth, provide space for the economy to adjust, and keep inflation on a path to 2 percent. Overall, I am anticipating a relatively muted effect of tariffs on inflation, but I view that as a sign that policy is appropriately calibrated rather than a sign that the policy rate should be cut."

*Fed Gov Nominee Miran: No Tariff Inflation; Service Disinflation Imminent (Aug 12)*

Fed Governor nominee (and current CEA head) Miran on CNBC says he "just can't comment on current monetary policy at the moment" due to his impending Senate nomination. However, he reiterates his view that there's little to no evidence of tariffs translating into stronger inflation, and he also makes the case that domestic services inflation will pull back "profoundly" due to reduced net immigration.

- "At the aggregate level, when you look holistically across the inflation data, there's just no evidence of [tariffs] whatsoever."
- "If you look at core... two of the strongest categories this month in terms of inflation were used cars and airfares. And neither of those have anything to do with tariffs. We don't import used cars from from abroad

in large scale. And airfares are on domestic services... we've been doing a lot of thinking about just how much of this inflation is due to the illegal immigration that's occurred... Our calculations are that the massive in surge of renters into an only sluggishly adjusting housing supply probably boosted rents by about 4-5%. And that's a significant contribution to overall inflation at a time when the housing stock adjusts only slowly... we think that there's a very strong reason for thinking of very profound service disinflation coming up in the near future, as net migration has come to zero because the President's strong border policies."

- On the BLS jobs data, he says there's an element of "noise, uncertainty" that has "increased in recent years", including the birth-death model. "So this is a degradation in the quality of the statistics that has occurred. And I think the President is dead right when he says, we need to fix this. We need to make these statistics reliable. We need to make them believable. We need to make them credible. And I'm really delighted we're shaping up to be able to do."
- He says that re economic surveys, the BLS should consider "incentive schemes to drive response rates higher. I think that we can start thinking about ways to optimize the collection system, optimize the survey system, optimize the timing of responses. I think that we should be thinking critically about these questions."

### STIR: Hawkish PPI Helps More Than Reverse Dovish CPI Reaction

After initially two-way trade around Friday's US data releases, including a puzzling net dovish reaction to retail sales and import prices, near-term Fed Funds implied rates pushed higher to head towards the end of the week at their most hawkish of the week. Indeed, it extended hawkish reaction to Thursday's very strong PPI inflation which had reversed dovish cues from CPI inflation and core goods specifically when compared to lofty expectations.

A 25bp cut is no longer fully priced for September but still deemed likely, at 22.5bp vs 26bp after CPI as some touted a 50bp cut. This is part of a path with ~55bp of cuts to year-end, coincidentally back close to the median dot showing 50bp of cuts back in the June SEP (a dot plot that showed two eyeing three cuts and seven eyeing zero cuts) although with much changed since then. The SOFR implied terminal yield sits around 3.10% in the H7 contract having flittered either side of fully pricing five cuts from current levels since the hugely weak revisions to the July NFP report on Aug 1.

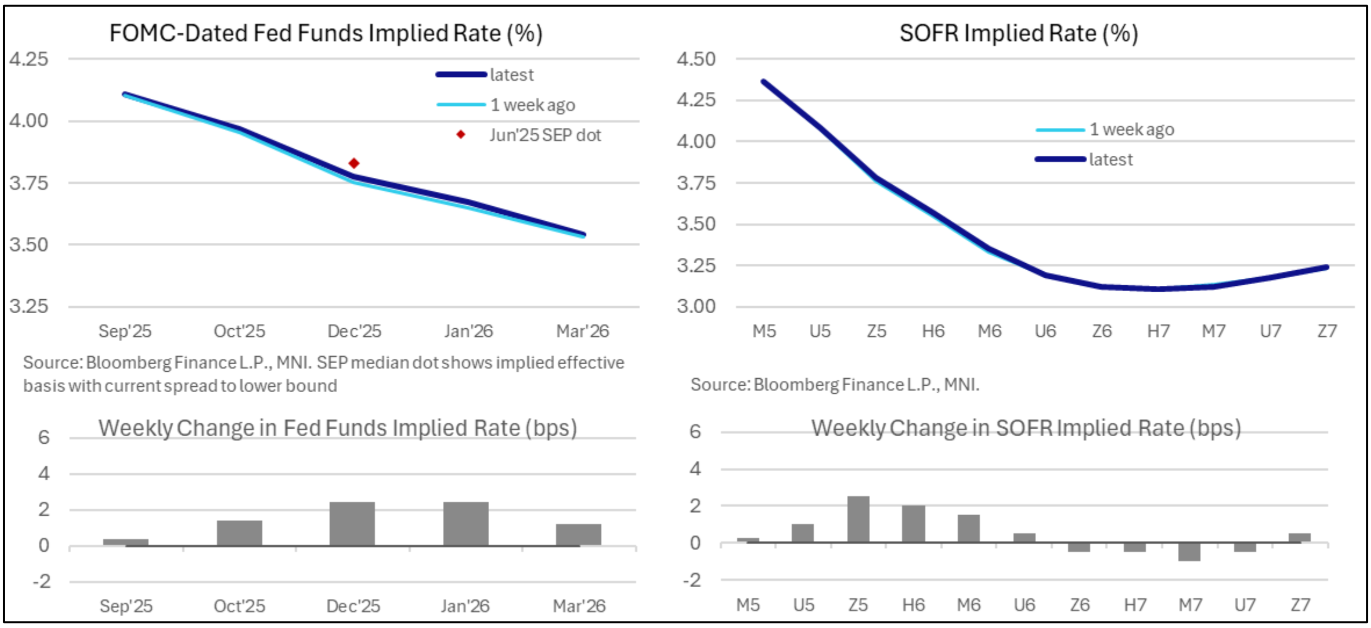
Cumulative Fed cuts by end-2025 (%pt) (Bloomberg Finance L.P.)

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

| Meeting | Latest | | | pre ISM services (Aug 5) | | | *chg in rate* | pre NFP (Aug 1) | | | *chg in rate* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | step (bp) | cum. (bp) | % | step (bp) | cum. (bp) | *bp* | % | step (bp) | cum. (bp) | *bp* |
| Effective | 4.33 | | | 4.33 | | | | 4.33 | | | |
| Sep'25 | 4.10 | -22.9 | -22.9 | 4.09 | -23.6 | -23.6 | *0.7* | 4.21 | -12.0 | -12.0 | *-10.9* |
| Oct'25 | 3.94 | -15.8 | -38.7 | 3.94 | -16 | -39.2 | *0.5* | 4.12 | -9 | -21 | *-17.9* |
| Dec'25 | 3.74 | -20.1 | -58.8 | 3.74 | -19 | -58.6 | *-0.2* | 3.98 | -15 | -35 | *-23.5* |
| Jan'26 | 3.63 | -11.0 | -69.8 | 3.63 | -11 | -69.8 | *0.0* | 3.90 | -7 | -43 | *-27.0* |
| Mar'26 | 3.51 | -11.8 | -81.6 | 3.51 | -12 | -82.2 | *0.6* | 3.79 | -11 | -54 | *-27.4* |

Source: Bloomberg Finance L.P., MNI.

Week-on-week moves:




**Fed View Changes: CPI Sees Nomura and TD Securities Join Sept Cut Camp**

Nomura late Tuesday switched to calling for a 25bp cut in September after TD Securities did so earlier in the day as analysts increasingly shift toward market pricing (24bp priced vs 21bp pre-CPI). Nomura's terminal of 3.5-3.75% is still more hawkish than SOFR eyeing an effective rate of ~3.05% in SFRH7.

- Nomura: "We now expect the FOMC will cut 25bp at the upcoming September meeting. Inflation risks are still skewed higher, but with core PCE tracking the Fed's 3.1% year-end forecast, we expect the Fed will ease in line with the June dot plot. A 50bp cut in September remains unlikely, in our view. The labor market is slowing, but there are few signs of stress, and broader financial conditions remain easy."
- They then see 25bp cuts in Dec and Mar for a terminal range of 3.5-3.75%
- TD Securities: "We are bringing forward the restart of the Fed's easing cycle from October to September, but keeping the same pace of rate cuts that we had previously assumed. We are looking for additional 25bp cuts in October and December — as the Fed recalibrates its policy stance closer to neutral — followed by a more gradual 25bp quarterly easing path in 2026."

Analysts already in the September cut camp prior to yesterday's CPI:

- BMO, Citi, Commerzbank, Danske, GS, ING, JPM, StanChart, Wells Fargo

**The US Macro Week Ahead: Powell at Jackson Hole**

The Federal Reserve's annual Jackson Hole Economic Policy Symposium takes place over Aug 21-23. While Fed officials and multiple global central bank/policy figures will be in attendance, the focus as always will be the keynote speech by the Fed Chair, with Powell speaking at 1000ET Friday Aug 22 on the "Economic Outlook and Framework Review". Attention will of course mostly be on any nod to a potential September Fed rate cut, but as the speech title indicates, a large portion of his comments will touch on the findings from the Fed's policy framework review. Changes to the Statement on Longer-Run Goals and Monetary Policy Strategy are expected to include a move away from the Flexible Average Inflation Targeting (FAIT) adopted in the 2020 review. At a later date, the Fed will address changes to communications policies, including potentially to the infamous Dot Plot.

| Date | ET | Impact | Event |
|---|---|---|---|
| 18 Aug | 1000 | ** | NAHB Home Builder Index |
| 19 Aug | 0830 | *** | Housing Starts |
| 19 Aug | 0855 | ** | Redbook Retail Sales Index |
| 19 Aug | 1410 | | Fed Vice Chair Michelle Bowman |
| 20 Aug | 0700 | ** | MBA Weekly Applications Index |
| 20 Aug | 1100 | | Fed Governor Christopher Waller |
| 20 Aug | 1400 | | FOMC Minutes |
| 20 Aug | 1500 | | Atlanta Fed's Raphael Bostic |
| 21 Aug | 0830 | *** | Jobless Claims |
| 21 Aug | 0830 | ** | Philadelphia Fed Manufacturing Index |
| 21 Aug | 0945 | *** | S&P Global Manufacturing Index (Flash) |
| 21 Aug | 0945 | *** | S&P Global Services Index (flash) |
| 21 Aug | 1000 | *** | NAR existing home sales |
| 21 Aug | 1000 | * | Services Revenues |
| **22 Aug** | **1000** | *** | **Fed Chair Jerome Powell** |