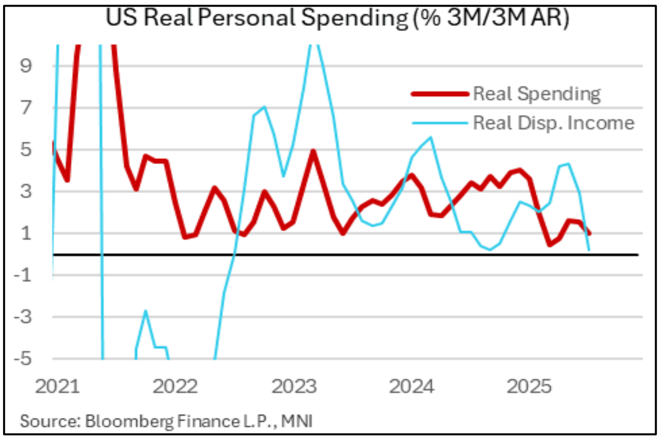
MNI U.S. Macro Weekly

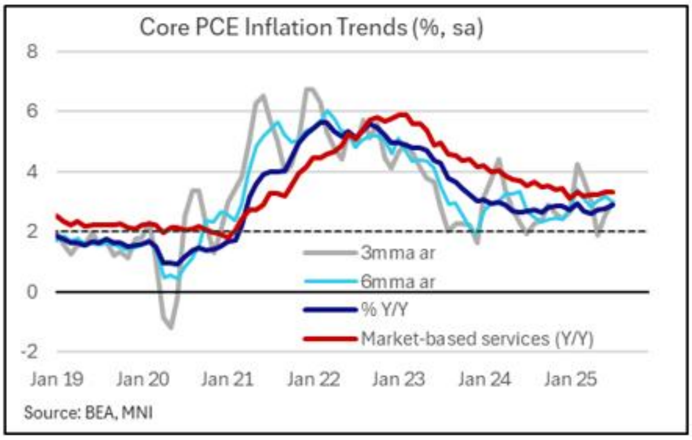
MNI View: One Week, Two Labor Days

Aug 29, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- A busy pre-holiday week for data brought mixed economic signals and little net change in Fed easing expectations, putting next week's labor day – Friday with its nonfarm payrolls report, of course, with apologies to Monday's federal holiday – in focus for the FOMC and market participants alike.
- Second-quarter GDP was revised up by more than expected in the second reading, to 3.3% Q/Q SAAR, driven by better-than-previously estimated domestic demand but still leaving 1st half growth in slightly weaker territory vs last year. That said, the Atlanta Fed's Q3 GDPNow estimate jumped to 3.47% (though the implied contribution from net exports in the quarter looks somewhat dubious, as we explain).
- The other major release of the week was July's Personal Income and Outlays report, which showed a modest uptick in income and spending on the month. However, the broader trends remain mixed at best, as real disposable income growth remains soft and services consumption is failing to regain traction.
- Core PCE inflation was close to expectations in July as the Y/Y accelerated to 2.9% for its fastest since February as it moves further away from recent lows of 2.6% having stalled above the 2% target. Recent trend rates are a little hotter but the median FOMC member will still need to see a further acceleration to meet their 4Q25 forecasts from June.
- Labor data were mixed. Latest jobless claims were in line to slightly better than expected, with initial claims trending a little higher but still impressively low whilst continuing claims are broadly plateauing after sharper increases in 1H25. But within the Conference Board consumer survey, the labor differential edged lower again, suggesting a continued upward trend in the unemployment rate.
- Elsewhere: regional Fed activity surveys were individually mixed, but combined generally showed an improvement in both manufacturing and services activity albeit with continued upside price pressures.
- Consumer sentiment (UMichigan and Conference Board surveys) and housing activity remained soft.
- Apart from Gov Waller again making the case from rate cuts, other FOMC colleagues who commented this week were a little more guarded when it came to the need for easing, to our ear.
- Overall, the week's data and speakers didn't move the needle much on Fed cut pricing, which still envisages a 25bp September cut (nearly 90% implied), with 56bp of cuts through end-year (a cumulatively priced second cut in December) and 83bp through March 2026 (3+ cuts).
- The next major catalyst for rates will be Friday's employment report for August which will be watched extremely closely after last month's weak July report subsequently set the tone for price action. Bloomberg consensus currently looks for nonfarm payrolls growth of 75k, very similar to the 73k in July, but with those two-month revisions also in focus.
- In Fed commentary, we will hear from Board Governor nominee Stephen Miran in his congressional nomination hearing, as well as Musalem, Williams, and Kashkari. We also get the latest Beige Book.





Growth: Surprisingly Strong Q2 Revisions, Solid July PCE Even If Momentum Tepid

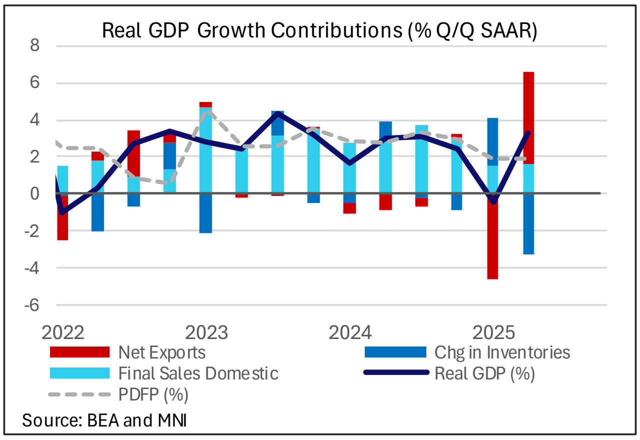
Real GDP Q2 Revision Driven By Non-Resi Investment

- Real GDP revised to 3.29% annualized (cons 3.1) from 2.97% in the advance Q2 release, after -0.5% in Q1.
- Real personal consumption revised to 1.57% annualized (cons 1.6) from 1.44% in the advance Q2 release, after 0.5% in Q1.
- Real PDFP revised to 1.92% annualized from 1.23% in the advance Q2 release, after 1.9% in Q1.
- See the below table for changes in contributions (noting that's contributions and not % changes):

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

	4Q24	1Q25	2Q25		
			prior	latest	rev
Real GDP	**2.4**	**-0.5**	**2.97**	**3.29**	***0.32***
Final Sales Dom. Purchasers	**3.0**	**1.5**	**1.14**	**1.63**	***0.49***
(of which Private)	**2.5**	**1.6**	**1.06**	**1.66**	***0.60***
Personal Cons	2.7	0.3	0.98	1.07	*0.09*
Gov Cons + Invt	0.5	-0.1	0.08	-0.03	*-0.11*
Fixed Invt	-0.2	1.3	0.08	0.59	*0.51*
non-resi	-0.4	1.4	0.27	0.78	*0.51*
resi	0.2	-0.1	-0.19	-0.19	*0.00*
Chg in Inventories	-0.8	2.59	-3.17	-3.29	*-0.12*
Net Exports	0.3	-4.6	4.99	4.95	*-0.04*
Exports	0.0	0.0	-0.19	-0.14	*0.05*
Imports	0.3	-4.7	5.18	5.09	*-0.09*

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

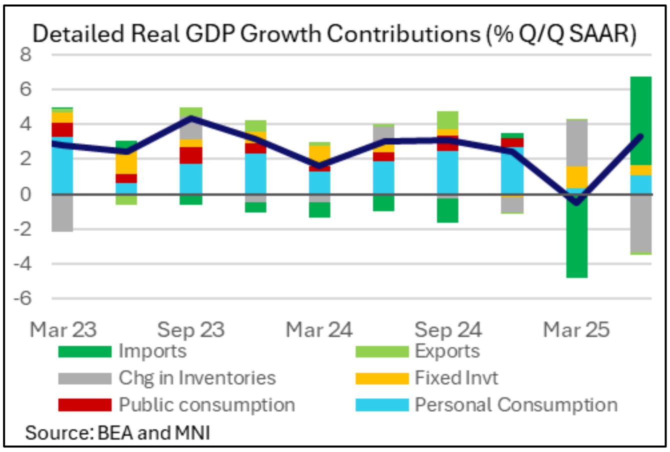


Source: BEA and MNI

H1 Domestic Demand Looks Bit More Solid After GDP Revs (Thanks To Tech)

Second-quarter GDP was revised up by more than expected in the second reading, to 3.3% Q/Q SAAR (3.0% in 1st est, 3.1% expected in 2nd, and vs -0.5% in Q1). This was a "solid" upward revision in its composition, driven by non-residential investment, though still left 1st half growth in slightly weaker territory vs last year.

- With the revision, Q2 marked the strongest quarter of growth since Q3 2023. Even so, this was just a rebound from net export and inventory distortions in Q1, with H1 GDP growth averaging 1.4%, vs 1.2% as per the first estimate of Q2. That's a clear step down from 2.8% in H2 2024.
- One can make a case that demand metrics, which strip out those distortions, showed a more solid picture than that, however: final sales to private domestic purchasers, closely watched by the Fed, came in at 1.9% in both Q1 and Q2 (after Q2 was revised up from a 10-quarter low 1.2%).
- The big surprise was the much higher estimate for nonresidential investment, which rose 5.7% Q/Q vs 1.9% previously estimated, after 10.3% in Q1.
- And in turn this was driven by a doubled estimate for intellectual property investment (to 12.8% vs 6.4% in 1st est, 6.0% Q1), best since Q2 2022, with software investment the strongest in over 20 years (Q3 2003).
- Adding to the narrative that AI-related spending is propping up the economy, equipment investment was also stronger than previously estimated at 7.4% (4.8% 1st est, 23.7% Q1). This was driven by information processing equipment investment which rose 10.0% Q/Q after 72.9% in Q1, with computers and peripheral equipment investment rising 61.2% after 122.4%. These are big pullbacks from roaring Q1s but still are outright some of the highest growth rates for these categories in history. Not to be outdone, transportation equipment rose 20.4% after 6.8%.



Source: BEA and MNI

- To put these into perspective: without information processing equipment and intellectual property products, overall GDP growth would have averaged just 0.3% in H1 (-1.83% in Q1, 2.43% in Q2).
- Conversely, though, residential investment remained a very weak spot, subtracting 0.2pp from overall GDP (unchanged), the 4th quarter in 5 of negative growth.
- Personal consumption helped boost the headline figure at 1.6%, with the upward revision in line with consensus (1.4% in 1st est, 1.6% expected in 2nd). This saw personal consumption contribute 1.1pp to overall GDP in the quarter, vs 1.0pp in the prior estimate, and after 0.3pp in Q1.
- There was a notable set of revisions to sub-categories though, with goods consumption revised up to 2.4% form 2.2%, but durable goods purchases revised down to 2.6% from 3.7% vs nondurables up to 2.3% from 1.3%. Services spending was revised up a notch, at 1.2% vs 1.1% in the first estimate.
- Net exports added 4.95pp to GDP in Q2, after subtracting 4.61pp in Q1, little changed from the 1st estimate; inventory changes subtracted 3.29pp (rev from an original -3.17pp) after adding 2.59pp in Q1.
- Government spending was a slight drag for the 2nd consecutive quarter.

Atlanta GDPNow Jumps On Investment And... Net Exports?

The Atlanta Fed's GDPNow estimate for Q3 has risen substantially after incorporating the last couple days' data: it's now at 3.47% Q/Q SAAR, vs 2.18% in the last update on Aug 26.

- That's the highest estimate yet for the quarter, and would represent an acceleration from Q2's upwardly revised 3.3%.
- While multiple categories saw upgrades in the latest nowcast, the two that stand out are equipment investment (11.7% Q/Q SAAR, vs 4.8% in prior up date and 7.4% in Q2) and the change in net exports (now seen contributing +0.59pp to GDP, vs -0.36pp in the previous estimate, and 4.95pp in Q2). Combined, those revisions are worth about 1.3pp - basically the entire upward revision for the quarter.
- It must be noted that the new trade estimate which shows much lower import growth vs slightly higher exports is counter-intuitive given the bigger-than-expected advance goods trade deficit for July out this morning.
- At an educated guess: with the July deficit having been driven by a jump in industrial goods imports, the GDPNow model may be over-adjusting for gold imports which badly distorted early 2025 growth (remember, they moved to an ex-gold model as their baseline); while July's industrial imports are probably partly gold-related, they may also have to do with a jump in copper imports amid tariff front-running, but we won't have a full breakdown until the final release.
- The next update will be Tuesday after construction spending and ISM manufacturing.

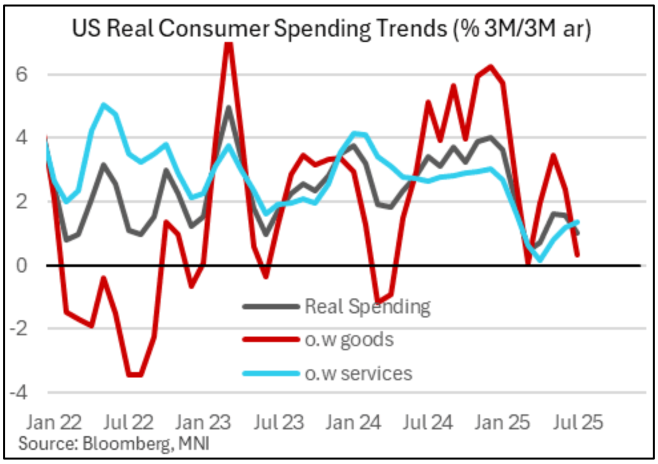
Atlanta Fed GDPNow estimates for 2025: Q3, growth rates and changes

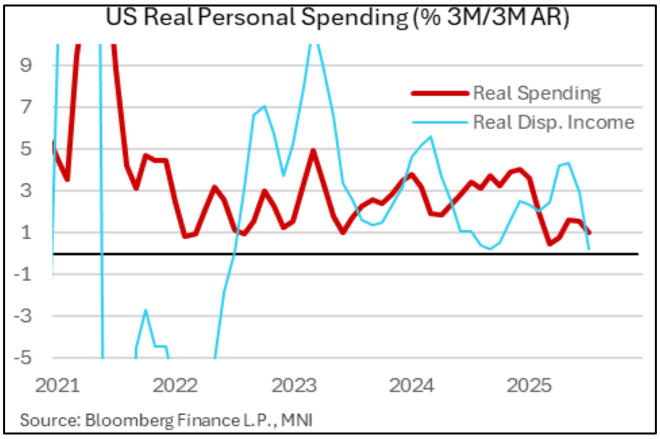
Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
28-Aug	Latest BEA estimate for 25:Q1	-0.5	0.5	23.7	6.0	-2.4	-1.3	-0.6	0.4	38.0	-306	152
28-Aug	Latest BEA estimate for 25:Q2	3.3	1.6	7.4	12.8	-8.9	-4.7	-0.2	-1.3	-29.8	330	-193
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
19-Aug	Housing starts	2.3	2.2	3.7	5.0	-3.5	-5.9	1.4	7.2	8.5	-29	43
21-Aug	Existing-home sales	2.2	2.2	3.8	5.0	-3.5	-6.3	1.4	7.2	8.5	-29	43
25-Aug	New-home sales	2.2	2.2	3.7	5.0	-3.5	-8.2	1.4	7.2	8.5	-29	43
26-Aug	Advance Manufacturing (M3-1)	2.2	2.2	4.8	5.0	-3.5	-8.2	1.4	7.2	8.5	-29	40
29-Aug	Q2 GDP (8/28), Adv. Econ. Ind., Personal income & outlays	3.5	2.3	11.7	5.5	-3.5	-8.2	1.5	7.9	1.8	35	34

Solid July For PCE, But Consumption And Income Momentum Remain Tepid

July's Personal Income and Outlays report showed a modest uptick in income and spending on the month - however, the broader trends remain mixed at best. The bedrock of income, employee compensation, posted solid gains, but the overall trend in real disposable income growth remains soft. And despite an improvement in July, there is waning momentum in goods consumption after a strong tariff-front running boomlet earlier in the year, with services consumption not really gaining much traction either.

- Nominal personal income (a 3-month high 0.44% M/M after 0.29%) and spending (0.53% after 0.37%) both had very marginal prior revisions and came in exactly in line with rounded expectations for July.
- Real spending growth printed 0.33% M/M growth after 0.08%, which when considering softer prints in the prior 3 months meant the quarterly pace of growth fell to 1.0% (3M/3M annualized) after an upwardly revised 1.6% in June (known from the second Q2 GDP reading out previously). That's the slowest pace in 3 months though Q3 is off on better footing than Q2 from a month-to-month perspective.
- The breakdown shows real goods spending rose 0.9% M/M, the fastest in 4 months after 3 consecutive contractions (June's was notably revised to slightly negative after 0.1% originally reported). This category is growing at a 0.3% quarterly rate, after rising above 6% at the turn of the year amid tariff-front running, and 2.4% in Q2 as a whole. Services consumption, which is twice as large as for goods, remained tepid, rising just 0.1% for the 4th consecutive month between 0.05-0.15%. Growth here however accelerated for the 3rd consecutive month on a 3M/3M annualized basis, up to 1.4% (1.2% prior), having seen contractions in Q1, leaving the 3M/3M rate at 0.2% at the trough in April. Of course, inflation - tariff or otherwise - may be playing a part here in keeping a lid on real growth.





- Going back to the income breakdown, this was pretty healthy: employee compensation drove the increase, rising 0.62% M/M, the fastest since November 2024, though the 3M/3M annualized rate slowed to a 9-month low 4.6%. After taxes though, total disposable income rose just 0.42% (0.29% prior). The discrepancy between the slowdown in employee compensation and the softer overall income is down to flat current transfer receipts in July, following significant volatility in previous months due to one-off Social Security payments.
- The bottom line is that real disposable income rose just 0.2% M/M, leaving it below April's level though that was unduly upped by the aforementioned government benefits. Though the 3M/3M rate dropped to a 10-month low 0.2%, the Y/Y rate rose to 2.0% from 1.7% the prior two months, suggesting a reasonably steady but hardly spectacular rate of growth (compare to the 4-6% growth rates in 2023).
- The household savings ratio remained unusually steady at 4.4% (has been 4.4% or 4.5% for 5 of the last 6 months).

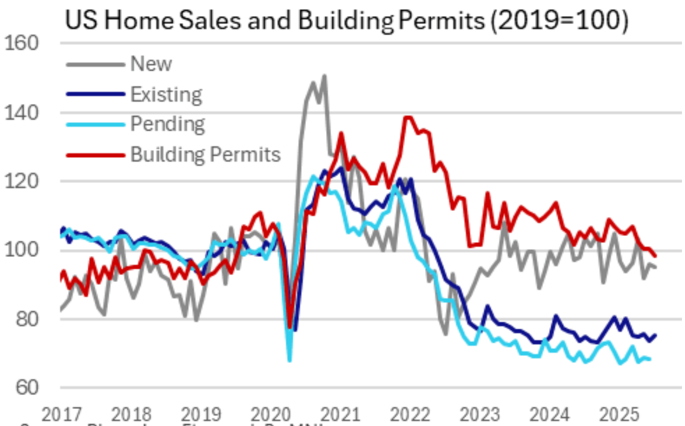
New Home Sales Activity Not As Bad As Once Thought, But Still Weak

New home sales were much stronger than expected in July, with an upward revision to June suggesting that activity has been stronger this summer than previously estimated - but nonetheless, broader trends of elevated inventories and falling prices continue to suggest increasing slack in the new build market.

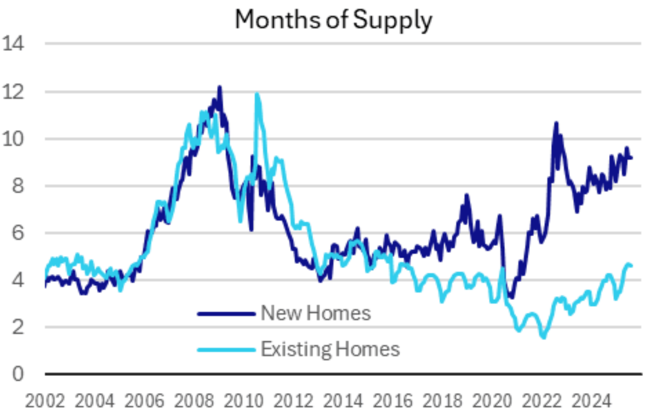
- The June reading of 652k (seasonally-adjusted, annualized) was better than the 630k Bloomberg consensus, but actually represented a slight fall (-0.6%) on the month due to a sizeable upward revision to

June to 656k (from 627k). This is a significant improvement from May's near-18 month low (623k), though still keeps sales below pre-pandemic (2019) levels (and down 8% Y/Y).

- Regionally, sales were mixed, with falls in the Northeast and West more than compensated for by rises in the South and Midwest.
- The pickup in activity will be welcome news for homebuilders, though the rest of the data remained tenuous.
- One element of good news was that revisions were also seen in lower inventories, closer to 500k the last couple of months whereas June's data had previously shown 511k houses on the market which would have been highest since October 2007 (instead, the distinction of highest since 2007 reverts to March's 504k).
- That said, inventories remain over 9 months of supply equivalent (9.2 for 2 consecutive months) albeit a little below the 9.6 in May though well above levels that prevailed in the tight markets of 2021-23 and above the 7.9 months a year earlier.
- Additionally the data showed a 5.9% Y/Y fall in median prices ($403.8k, $20-30k below prices seen in 2022-23 at the height of the market).
- As such the broad sweep of data continue to indicate deterioration in the new homes market overall, though it may be worsening at a lesser rate than previously thought. This will continue to keep a lid on residential construction activity.



Source: Bloomberg Finance L.P., MNI

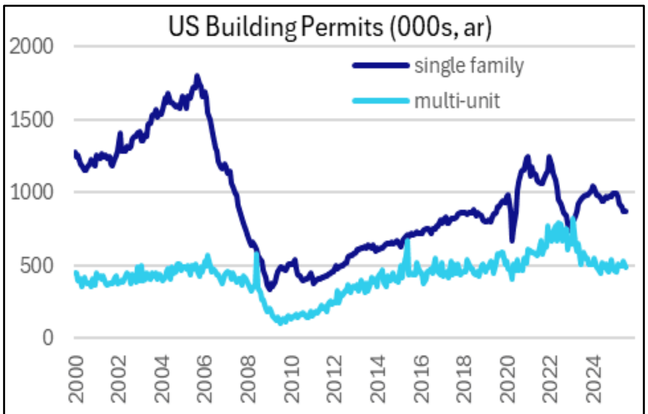


Source: Bloomberg Finance L.P., MNI

Building Permits Revised Up Slightly, Single Family Activity Still Weak

July's building permits were revised up in the final reading to 1,362k (annualized, seasonally-adjusted), vs 1,354k in the initial estimate. That got the data a little closer to the 1,386k consensus estimate going into the initial reading last week, though either way it is a pullback from 1,393k in June (a 2.2% fall vs the 2.8% initially recorded).

- The upward revision was due to both single family permitting getting revised up 5k to 875k, and multi-unit up 3k (to 487k).
- That's still a 7.6% M/M fall for multi-units, biggest since January, with single-family confirming the first rise since February.
- Overall though single family permitting has been slowing faster than for multi-units (single family = down 7% Y/Y, multis down less than 1% Y/Y), unsurprising given historically low homebuilders' confidence and rising single-family new home supply amid high mortgage rates.
- As a leading indicator of starts, this suggests residential investment will continue to be a drag on GDP growth.



Source: Bloomberg Finance L.P., MNI

Dallas Fed Weekly Economic Index Picking Up Through Mid-Q3

The Dallas Fed's weekly economic index (WEI) picked up to a 7-week best 2.60% in the Aug 23 week (figures scaled to 4-quarter GDP growth), vs 2.53% prior.

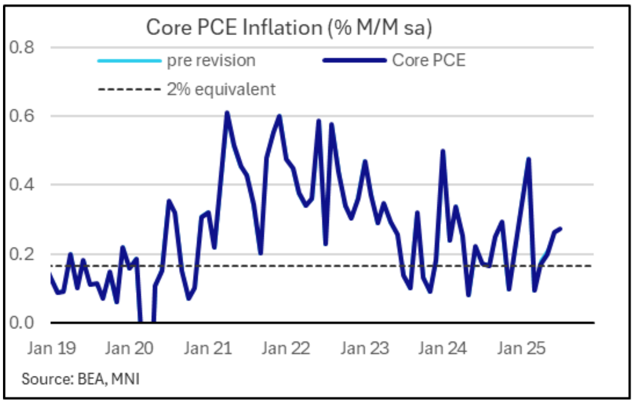
- That meant that the index has been accelerating for 5 consecutive weeks on a 13-week moving average basis, to 2.32% latest - highest since May.
- The latest improvement probably incorporates better weekly initial jobless claims and Redbook Retail Sales data (which feed into the index).
- Either way, the quarterly pace appears to be inflecting upward, suggesting growth momentum is picking up slightly to an above-trend rate Y/Y.

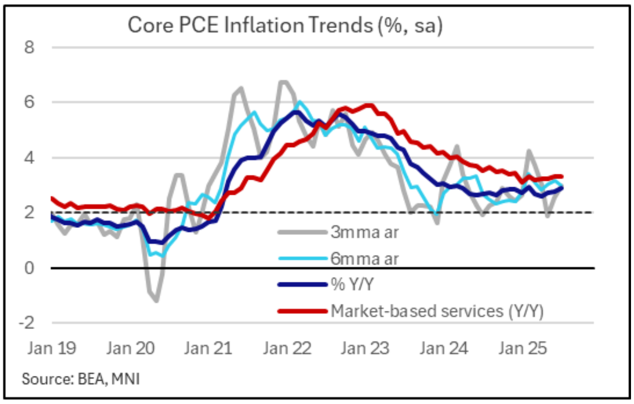
Inflation: Stubbornly Above Target With FOMC Looking For Further Acceleration

Core PCE Inflation Confirms Acceleration Away From Target [1/2]

Core PCE inflation was close to expectations in July as the Y/Y accelerated to 2.9% for its fastest since February as it moves further away from recent lows of 2.6% having stalled above the 2% target. Recent trend rates are a little hotter but the median FOMC member will still need to see a further acceleration to meet their 4Q25 forecasts from June.

- Core PCE inflation was close to expectations in July at 0.27% M/M (MNI av of unrounded estimates 0.28) in July after 0.26% M/M in June (revised from 0.256 to 0.263), with marginal downward revisions coming earlier in Q2.
- The year-ago rate firmed from 2.77% to 2.88% Y/Y (cons 2.9), having recently bottomed at 2.6% Y/Y in Jun 2024 and Apr 2025.
- The median FOMC member expects further acceleration in core PCE inflation ahead, eyeing 3.1% Y/Y in Q4 in the June SEP (revised up from 2.8% in March) in a central tendency range of 2.9-3.4%. Latest three- and six-month run rates of 3.0% annualized in July sat between the Y/Y and this end-year view.
- The six-month run rate is still above the Y/Y, as has been the case for seven months now, but the gap is the smallest since January when it first opened up.



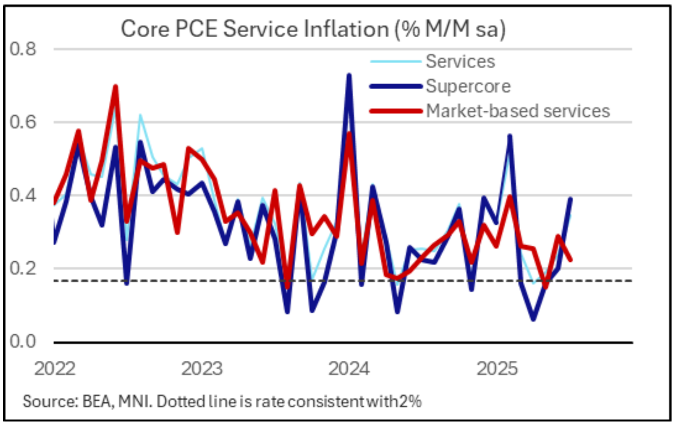


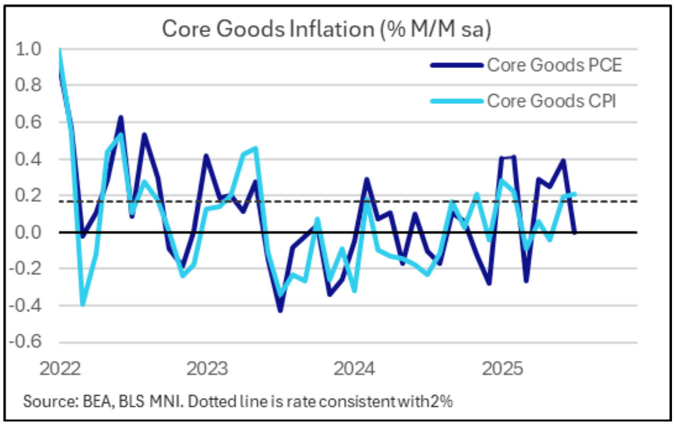
Core PCE Confirms Recent Acceleration In Services [2/2]

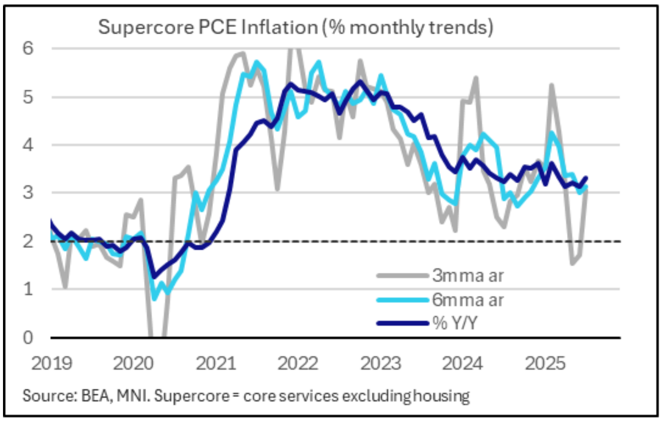
Core goods PCE inflation halted in July after some strong increases whilst core services ex housing accelerated strongly on the month although some of this was in imputed categories. Nevertheless, FOMC members will be watching this latest uptick in services inflation with various service metrics still stubbornly high.

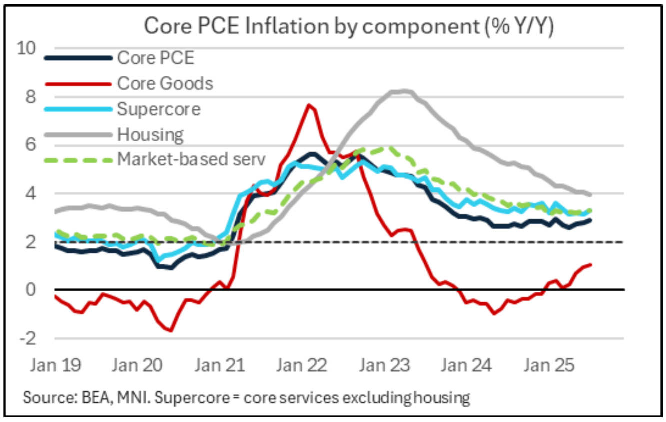
- Within the details, core goods inflation slowed abruptly in July with 0.00% M/M after a strong 0.39% M/M in June (core goods CPI has seen a steadier trend with 0.21% M/M in July after 0.20% in June).
- The core goods year-ago rate firmed to 1.08% Y/Y for its fastest since July 2023 vs -0.2% Y/Y at Dec 2024 prior to the second Trump administration.

- Core services ex housing (supercore) however firmed to 0.39% M/M after 0.20% M/M (initially 0.19%) in June, for its strongest single month since February.
- Supercore year-ago inflation firmed from 3.15% to 3.32% Y/Y for its strongest since March, although both three- and six-month run rates are at least running a little cooler in relative terms at 3.1% annualized.
- Market-based services inflation was more modest at 0.23% M/M after 0.29% (initially 0.27%). It saw the Y/Y hold at 3.3% Y/Y (where it's been for four of the past six months) although the three-month is running at 2.7% annualized (joint softest since Jul 2024) and the six-month at 3.2% (softest since Nov 2024).
- Recall that Chicago Fed's Goolsbee ('25 voter), one of the most dovish FOMC members, said on Aug 21 that he thought the rise in July services inflation was a "dangerous" data point that he hopes is just a blip.



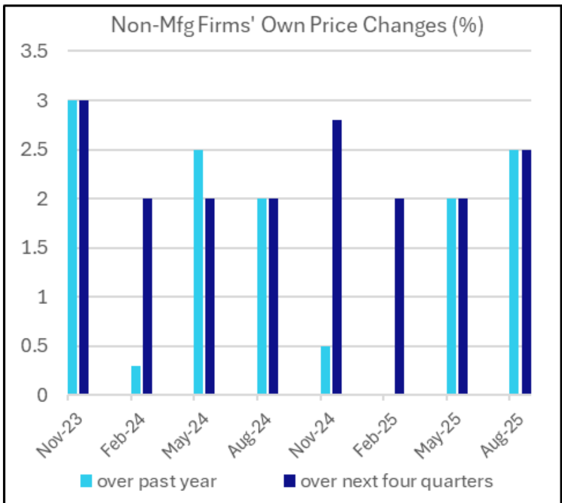




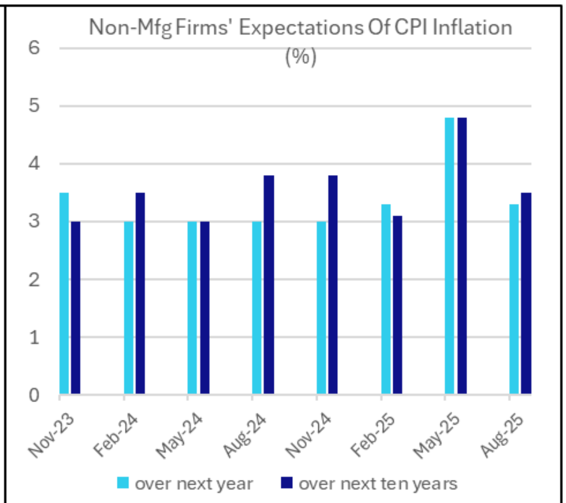


Philly Non-Mfg Firms See Faster Price Increases Despite Sensitivity

- The Philly Fed non-manufacturing survey special questions on inflation expectations show a somewhat similar split in the activity indexes touched upon earlier with their historically large discrepancy between strong firms' own activity and weak regional activity in August.
- The median firm reported increasing its own prices by 2.5% over the past year, up from 2.0% in the May question and having essentially paused annual price increases through end 2024/early 2025. It's the strongest actual increase since the May 2024 survey.
- Own price expectations also firmed from 2.0% to 2.5%, above a typical median of 2% in surveys over the past almost two years but not an unprecedented level.
- Firms' expectations of consumer inflation meanwhile cooled from a particularly strong May release, with those for the next year reverting to 3.3% from 4.8%. Ten-year ahead expectations also cooled to 3.5% after 4.8%, still above the 3.1% in February prior to reciprocal tariff announcements but within ranges.
- Elsewhere, these non-manufacturing firms reported greater price sensitivity over the quarter (59% reported higher sensitivity vs 50% in May) and fewer expect cost changes over the near-term (57% vs 65%). Of those that do expect cost increases, a similar almost two thirds expect those to be higher, with price changes over a median 3 months vs 2.5 months in the May survey.



Source: Philadelphia Fed, MNI



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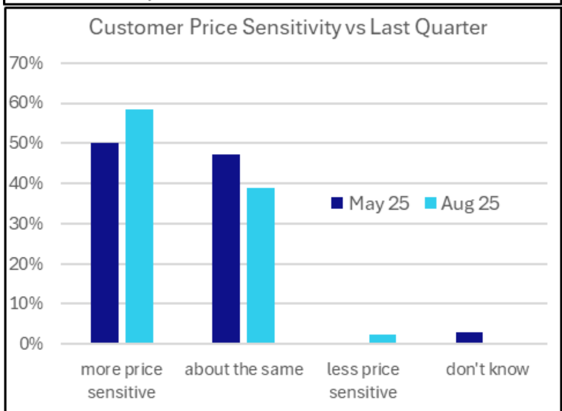
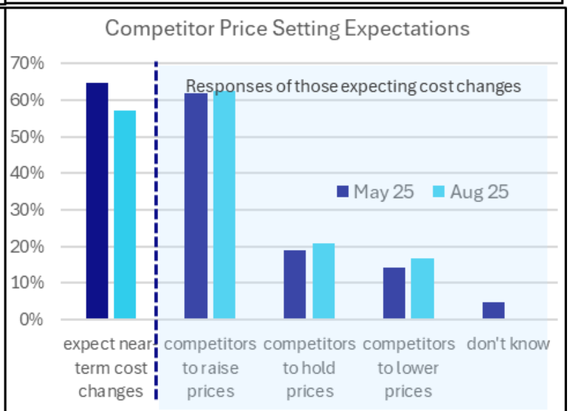


Source: Philadelphia Fed, MNI



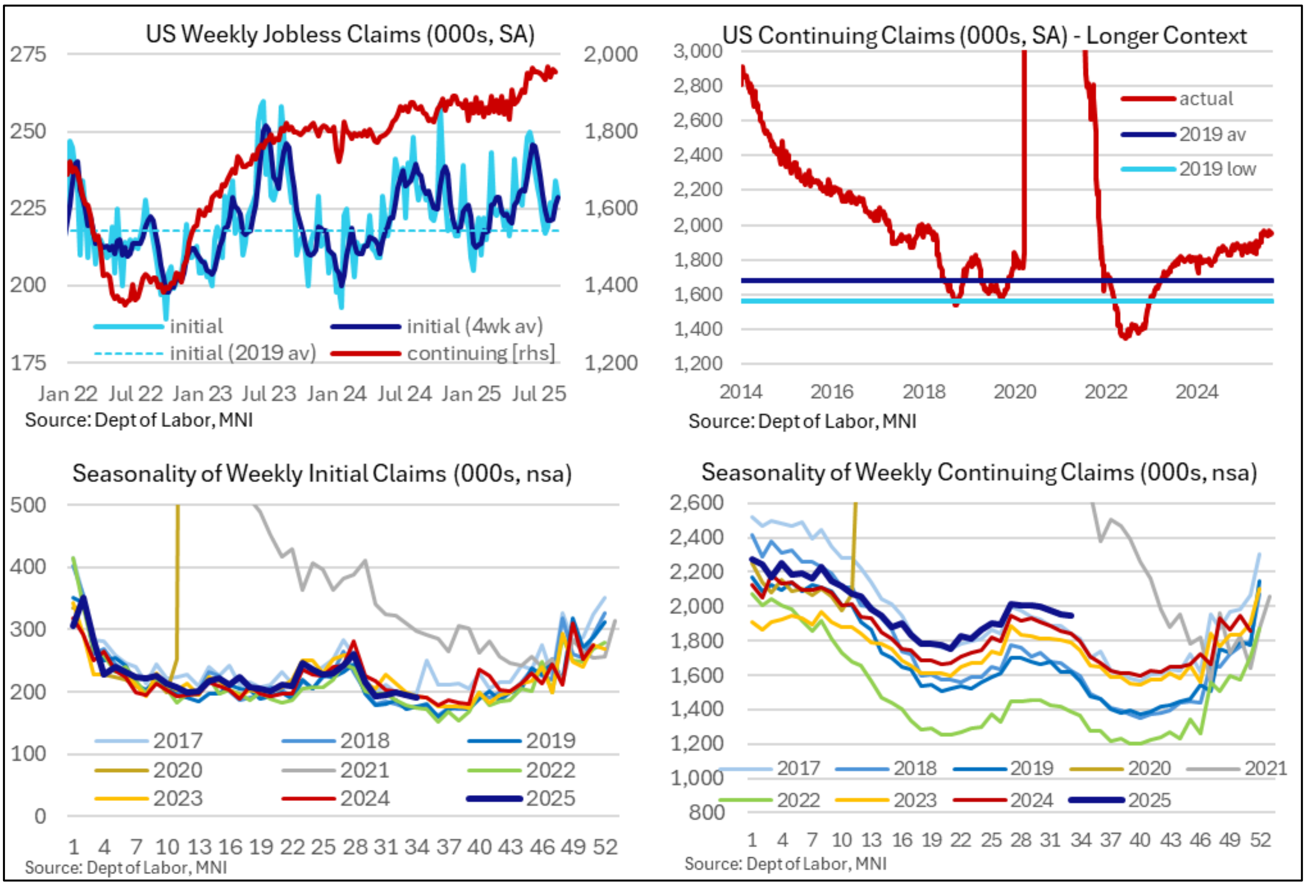
Source: Philadelphia Fed, MNI

Labor Market: Robust Claims vs Slowly Souring Labor Differential

Jobless Claims Marginally Better Than Expected

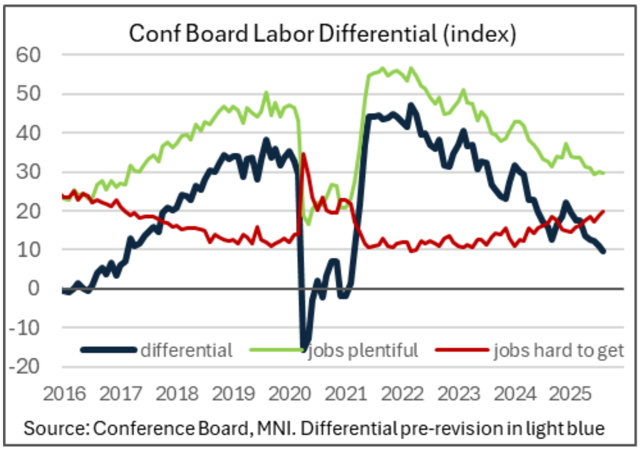
Latest jobless claims data were in line to slightly better than expected, with initial claims trending a little higher but still impressively low whilst continuing claims are broadly plateauing after sharper increases in 1H25. The non-seasonally adjusted level of continuing claims supports this, above levels for recent non-pandemic years but recently maintaining this relative gap rather than pushing higher still.

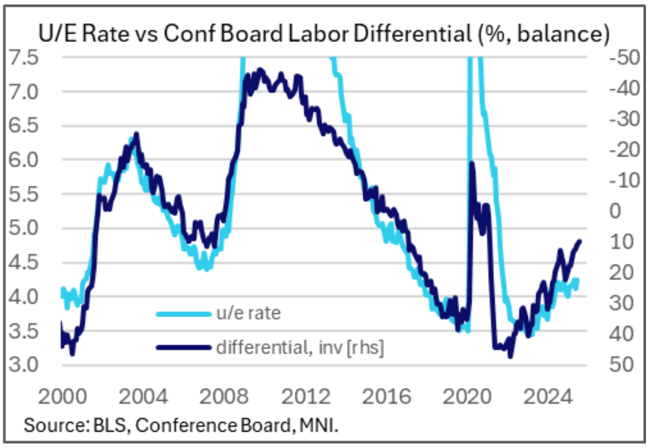
- Initial jobless claims were essentially as expected at 229k (sa, cons 230k) in the week to Aug 23 after a marginally downward revised 234k (initial 235k) the week prior.
- The four-week average increased again to 229k (+3k) for a little further off recent lows of 221k. That's still reasonably close to the 218k averaged through 2019 considering the covered employment pool is some 5.5% higher since then.
- Continuing claims meanwhile surprised lower at 1954k (cons 1966k) in the week to Aug 16, covering a payrolls reference period, after a downward revised 1961k (initial 1972k).
- This is yet another downward revision to the continuing claims, something that has consistently been going on for months, with two initially reported >1970k weeks revised away in August. As things stand, the 1968k from late July is the recent high (last higher in late 2021) having poked above the 1964k in mid-June.
- Payrolls reference period comparisons: initial at 234k vs 221k in July, 246k in June and 226k in May; continuing at 1954k (pre-revisions) vs 1946k in July, 1964k in June and 1907k in May.
- Taking a step back, initial claims are averaging 11k above the 218k in 2019 when the u/e 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, remaining close to the 4.15% averaged for over a year now but with measures such as the Conference Board labor differential implying increases ahead. The median FOMC member penciled in a 4.5% u/e rate for 4Q25 and 4Q26.



Labor Differential Continues To Imply Upward Pressure On U/E Rate

- Within the Conference Board consumer survey, the labor differential edged lower again to 9.7 in August after a marginally downward revised 11.0 (initially 11.3).
- It has declined for eight consecutive months now from a recent peak of 22.2 in December (and having averaged in 22 in 2024). 9.7 is the lowest since Feb 2021.
- Jobs plentiful: little changed at 29.7 after a downward revised 29.9 (initial 30.2)
- Jobs hard to get: led the weakness in the differential with 20.0 after an unrevised 18.9 (initial 18.9). This is the highest perception of jobs being hard to get also since Feb 2021, with a recent low of 14.5% in January and a cycle low of 9.6% in Mar 2022.
- As we often point out, this shouldn't be used for a month-to-month estimate of the unemployment rate but the downtrend in the differential clearly supports a trend increase in the unemployment rate – see charts below.
- The u/e rate at 4.25% in July may not be much higher than the 4.22% in July 2024, having seen a range of 4.0-4.25% since then, but the labor differential has shifted from 17% to 10% in that period.



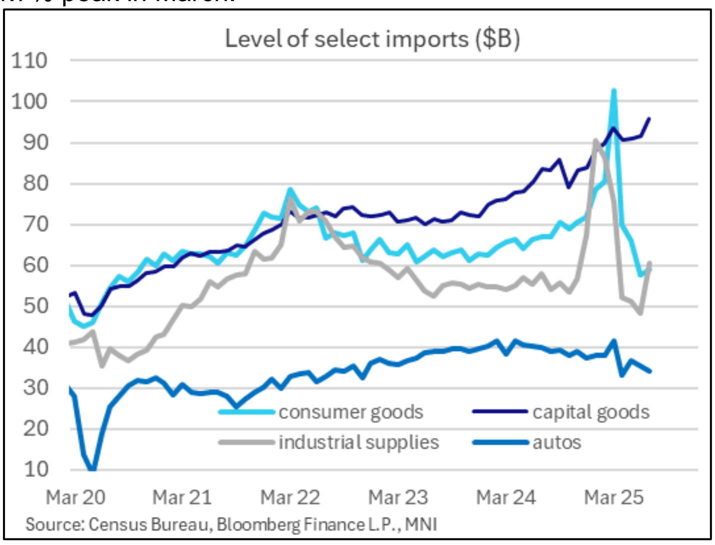


Trade: Big Deficit Widening

Trade Deficit Widens As Industrial, Capital Goods Imports Pick Up

The goods trade deficit widened to an unexpected extent in July's advance report, to $103.6B ($90.2B expected, $84.9B prior). That was the biggest deficit since March's record tariff-induced shortfall, and notably up from a monthly average $89.0B over Q2.

- The driver was imports, which jumped 7.1% M/M for the biggest percentage increase since January; exports were relatively stable with not much to catch the eye (at -0.1% M/M, they declined for a 3rd consecutive month and are now at a 6-month low).
- Breaking down the $18.6B jump in imports (to $281.5B, a 4-month high), around two-thirds of the rise came from the industrial supplies & materials category, which picked up to $60.7B from $48.4B prior for a 4-month high. This 25% M/M rise is reminiscent of increases earlier in the year that were in large part driven by (monetary) gold imports. That may be partly the case again in July looking at a rise in Comex gold inventories, but there may also be other elements at play including copper imports surging amid tariff concerns. We will know more details after next week's full trade release.
- Additionally, capital goods imports rose over $4B to a new nominal record ($95.9B), accounting for most of the rest of the import increase, with the 4.8% M/M rise the fastest since January. Outside of that, consumer goods imports notably ticked up 2.1% for the first increase since March, and autos imports continue to sag.
- This leaves the 3-month moving average trade balance hovering in the high 3% of GDP area, around where it was for most of 2023-2024 before rising above 4% in 2024 and bursting above 6% in Q1 amid tariff front-running.
- It's running at around 4.4% of GDP a 12-month basis, again elevated from the high 3% levels in 2023-24 but down from the 4.7% peak in March.



Business Sentiment: A Mixed Bag

Chicago Business Barometer™ - Slows To 41.5 In August

The Chicago Business Barometer™, produced with MNI slowed 5.6 points to 41.5 in August. This almost fully unwinds the rise seen in July. The index has now been below 50 for twenty-one consecutive months.

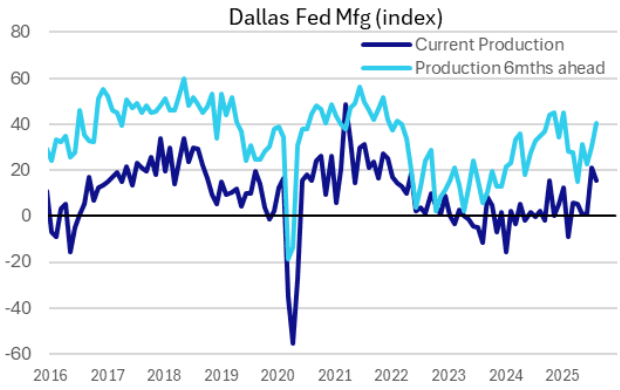
- The decline was driven by a sharp pullback in New Orders, alongside falls in Employment, Production and Order Backlogs. This was partly offset by a rise in Supplier Deliveries.
- **New Orders** dropped 10.8 points. This was the largest fall since September 2023, and was driven by a decrease in the proportion of respondents reporting more new orders and an increase in the proportion reporting fewer new orders.
- **Employment** compressed 5.9 points to the lowest since June 2020. The index has now more than unwound the 8.3-point increase seen in May.
- **Production** softened 3.6 points to the weakest level since December 2024. This marks the fifth consecutive decline in Production.
- **Order Backlogs** eased 1.4 points.
- **Supplier Deliveries** increased 5.8 points. For the second month this year, no respondents reported faster supplier deliveries.
- **Prices Paid** contracted 8.3 points for the second consecutive month. However, the index remains above the 2024 average.
- **Inventories** weakened 2.3 points.
- The survey ran from August 1 to August 11.

Better Activity, Still-Elevated Inflation In Texas Manufacturing Sector

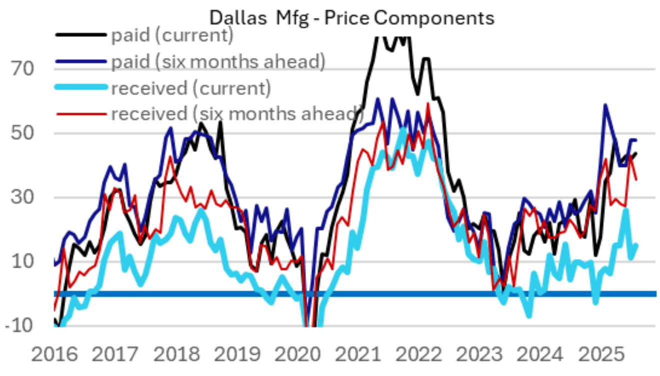
The Dallas Fed's Texas Manufacturing Outlook Survey for August showed continued growth in regional production, albeit with a slightly bigger than anticipated relapse in the overall general business activity index and slightly firmer price pressures. While these readings are volatile month-to-month, they continue to suggest improvement in activity after a tariff-hit period, but price pressures remain elevated (and regional firms still sound extremely concerned about tariff impacts).

- The general business activity index, which is tracked by Bloomberg consensus, missed expectations at -1.8 (vs -0.9 expected, +0.9 prior), which the Dallas Fed characterizes as "indicating little change in activity".
- But this underplayed the broader current strength in activity in the report. The production index, "a key measure of state manufacturing conditions" per the report, fell to 15.3 from 21.3 prior but remained above average, and other measures were also solid. The highlights in that department were new orders, rising for the first time since January (5.8 from -3.6), and shipments rising 12 points to 14.2 for a 3+ year high.
- Forward-looking indicators also suggested improvement (the 6-month production outlook rose to a 7-month high 40.4), while "labor market measures suggested increases in employment and work hours".
- Against this backdrop, price pressures mostly edged higher: current prices paid to a 5-month high 43.7 (up 2.0 points) with priced received at a 2-month high 15.1 (up 4.0 points). 6-month ahead prices paid were basically unchanged at 47.8 (up 0.1 points) albeit a fresh 5-month high, with future prices received pulling back to a 2-month low -12.3 from -4.5.
- Special questions (which also covered services firms ahead of Tuesday's Dallas Fed services release) showed that 48 percent of surveyed businesses "said they've been negatively impacted by higher tariffs this year" (just 2% said they were positively impacted), with more than 70 percent of manufacturing firms noting negative impacts. Note also "Firms negatively impacted by tariffs were mixed on whether they

passed on cost increases to customers (48 percent of firms) versus absorbed costs internally (39 percent of firms)." The anecdotes in the report add some color to these findings - link here.



Source: Dallas Fed, MNI.



Source: Bloomberg Finance L.P., MNI

Richmond Fed Surveys Show Better Activity, With Services Leading (1/2)

The Richmond Fed's 5th District surveys of manufacturing and services firms showed an improvement in current activity across the board, though it was more definitive in the case of services. The Richmond Fed characterized the manufacturing survey as showing activity "remained soft", while that of services "improved slightly". In addition, manufacturing firms reported stronger price pressures than services firms, which may help account for the sectoral divergence.

- The manufacturing composite index rose to a 5-month best -7 in August from an 11-month low -20 prior. New orders stood out with a jump to -6 from -25 prior, marking a 6-month high, while shipments, employment and wages also improved.
- That said, expectations fell sharply, to a 5-month worst -10, from -2 prior, with capex falling as well. Local business conditions indices largely mirrored the aggregate indices.
- The services local conditions composite showed significant improvement: at 6 in August, it marked the highest level since December 2024 and a 5th consecutive month of improvement (-8.0 prior), and expectations also improved for a 5th month, to 11.0 (6.0 prior), marking the highest since January. Revenues rose to 4 from 2 prior, with demand and capex also picking up, with expectations doing likewise across the board.
- The only real soft spot in services was in employment which remained flat, despite a pickup in wages.
- With little further detail or color available aside from the Richmond fed aside from the survey data results, the main conclusion to reach here is that services firms are faring better than manufacturing counterparts in the higher-tariff regime.

Manufacturing Price Pressures More Acute Than For Services (2/2)

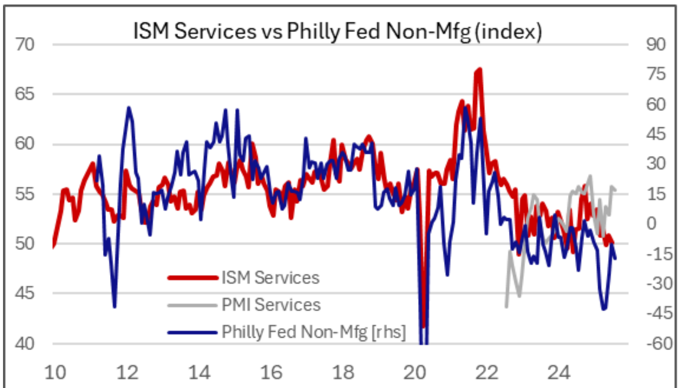
Looking across both the Richmond Fed's services and manufacturing surveys, there was a divergence in indicated price pressures, suggestive of tariffs feeding through to manufacturers more immediately.

- The Richmond Fed's manufacturing prices paid rose to a 28-month high 7.2% (reflecting changes over the prior 12 months), up from 5.7% prior; prices received were relatively steady at 3.1% (3.2% prior anda 2nd consecutive decline). 12-month expected prices paid rose for a 3rd consecutive month to 7.0% (6.0% prior, still below April's 8.0% high), with expected prices received at 4.0% for a 3rd month.
- For services firms, current prices paid ticked down 0.1pp to 5.1% (from 5.2%), with current received up to a 4-month high 3.3% (3.2% prior).
- Expected prices paid pulled back to a 6-monthlow 4.9% (5.2% prior), with expected received up to a 3-month high 3.9% (3.2% prior).

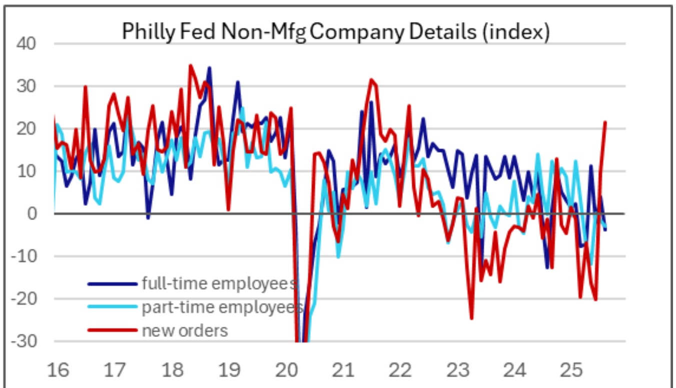
Something For Everyone In Philly Non-Manufacturing Survey, But Inflationary Either Way

The Philly Fed non-manufacturing survey pointed to a stagflationary environment when taking firms views on the regional economy or an outright inflationary environment when focusing on their own firm-level activity. Own-level activity and new orders increased to their highest since Mar 2022 whilst prices received saw their highest since December.

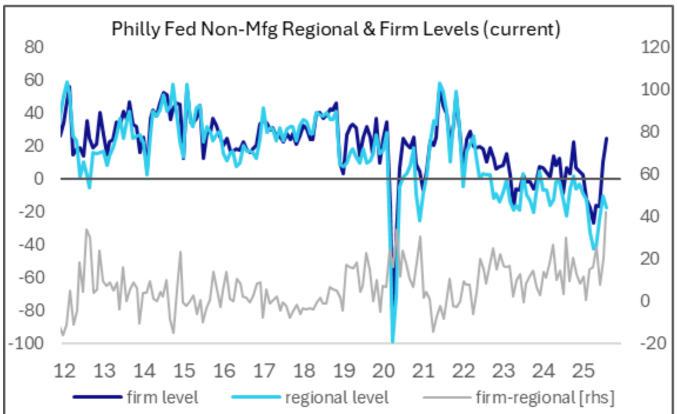
- The Philly Fed non-manufacturing index slipped to -17.5 in August from -10.3 in July after the latter had been its least negative since January.
- However, this index, which appears on screens, is for the assessment of regional activity and it masks what has been a much stronger activity index when firms answer considering their own activity. This firm-level activity index rose from 10.2 to 24.6 for its highest since Mar 2022.
- It's a new recent high in the discrepancy between firms own and regional activity, potentially a sign of uncertainty facing firms.
- This firm-level strength was helped by a 12pt rise in the new orders index to 21.5 (also highest since Mar 2022) whilst the sales/revenues index moved up 6pts to 17.5 (highest since October).
- Employment indexes weren't as encouraging however, with the full-time index falling 8pts to -3.8 as it continued a pattern of alternating between positive and negative readings. 62% of firms reported no change in employment. The average workweek index did however rise 5pts to 17.3 for a third consecutive positive reading.
- Price indexes "suggest widespread increases in prices for inputs and for the firms' own goods and services overall." Prices paid increase 11pts to 43.2 (highest since April) whilst prices for the firms' own prices received index increased 8pts to 20.1 (highest since December).
- As for six-month ahead indexes, the regional activity index did at least increase from -3.9 to 1.3 for its first positive reading since January having troughed at -31.8 in April. The firm-level index meanwhile increased to 21.2 (also highest since Jan) after three months in a narrow range between 11.6-12.3.
- Survey responses collected from Aug 11-21.



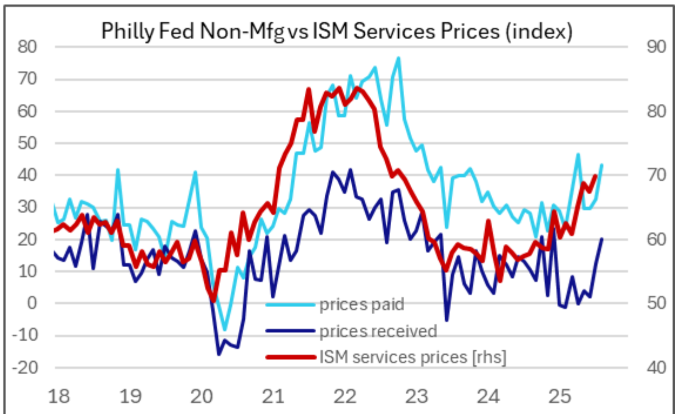
Source: ISM, Philadelphia Fed, S&P Global and MNI.



Source: Philadelphia Fed, MNI.



Source: Philadelphia Fed, MNI.



Source: ISM, Philadelphia Fed, MNI.

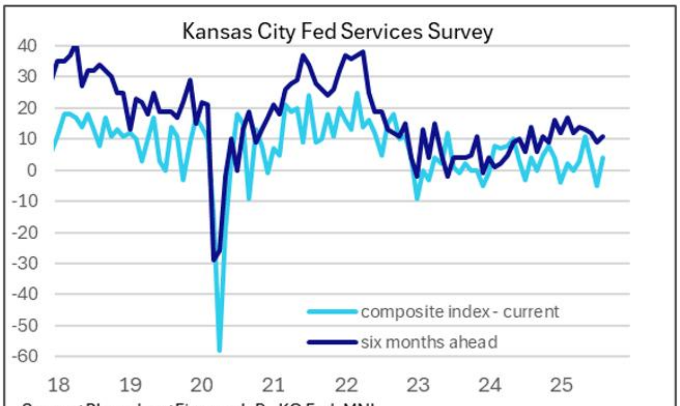
KC Fed Surveys Show Signs Of Improvement

The Kansas City Fed's Tenth District Manufacturing Activity saw the month-over-month composite index remain steady at 1 in August, in line with consensus and unchanged from July's reading which had been a 23-month high.

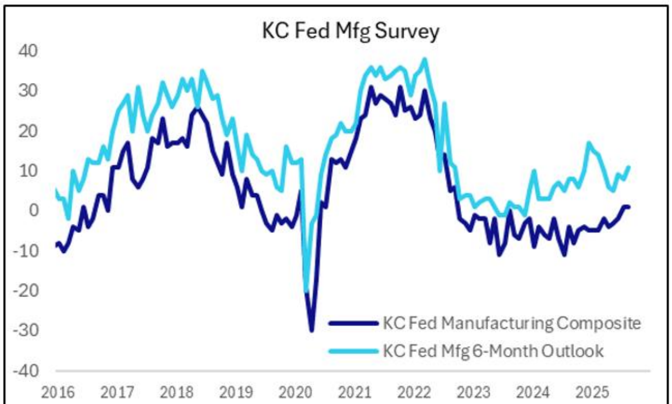
- The overall improvement since Q2 2025 echoes that of regional counterparts, though the latest couple of months have shown that improvement stall - including in the KC region.
- That said, most indices in the KC survey were in positive territory or improved (production ticked up to 0 from -3, employment to 0 from -11), with the exceptions of backlogs, new export orders and inventories.
- Forward-looking indicators improved: the 6-month outlook rose to the highest since February, at 11, vs 8 prior. And new orders rose to 5 from 2, marking the highest since May 2022.
- Price pressures appeared to cool: current prices paid (43 from 47) and expected prices paid (61 after 64) both fell to 3-month lows, though prices received were mixed (current 21 after 18 for a 2-month high; expected 45 after 48 for a 5-month low). Regional Fed surveys have been mixed on the current prices paid front in August, though all remain elevated vs pre-tariff times.

Meanwhile, the Kansas City Fed's Tenth District Services Activity report showed composite index improved to 4 in August from -5, indicating that activity rose "somewhat" for a 3-month high that mirrors improvement in its manufacturing counterpart following weakness earlier in the year.

- The forward-looking outlook improved too, with the 6-month index rising to 11 from 9. As such, July's pullback in both those categories to multi month lows appears to be an outlier, with activity stabilizing in basically the same range it's been in since early 2023.
- The report showed an improvement more or less across the board: "Activity in real estate, wholesale trade, and health services sectors grew, while growth in tourism cooled. Most month-over-month indexes were positive, except access to credit, employee hours worked, and part-time/temporary employment. General revenue/sales jumped from -8 to 5, and employment grew from -6 to 2. Year-over-year growth increased from 1 to 12, and revenues rose from -2 to 16. Capital expenditures inched higher from 6 to 8."
- Input prices ticked up to the highest since April however, with the index up to 45 from 34; expected prices received also picked up to a post-April high 63 from 52 (prices received ticked down slightly, however).



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



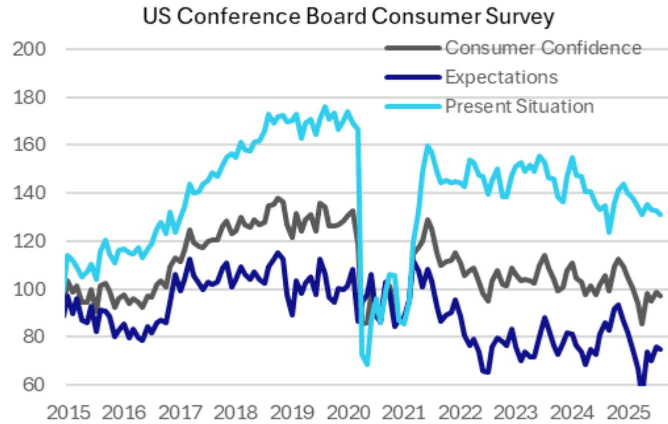
Source: KC Fed, MNI.

Consumer Sentiment: Weaker In August

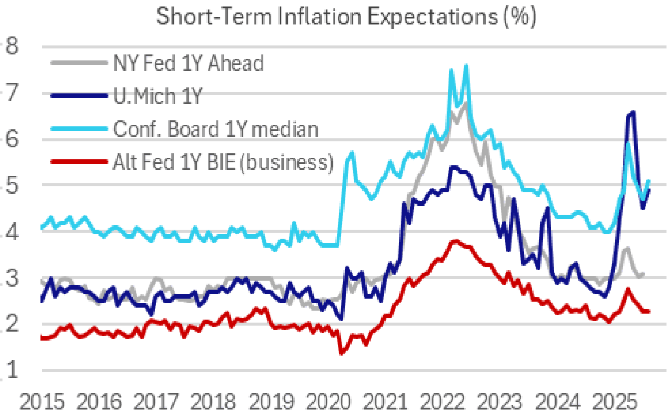
Continued Weak Consumer Sentiment As Inflation Concerns Linger

The Conference Board's survey of consumer confidence showed slightly better than expected sentiment in August, but actually dimmed slightly vs an upwardly-revised July. While "soft" indicators of consumer activity haven't been particularly reliable in gauging actual underlying activity in recent years, by the same token there is no evidence here of an imminent resurgence in consumption.

- The headline consumer confidence composite index of 97.4 was better than the 96.5 expected but meant a decline from an upwardly revised 98.7 in July (97.2 prev est). Similarly, expectations (74.8 vs 76.0 prior) and present situation (131.2 vs 132.8 prior) saw slight relapses in August after improvements both outright and upwardly revised in July.
- The present situation print was a 4-month worst, with evidence of a deterioration in the labor market (as noted elsewhere) helping subdue sentiment. Assessments of families' current and expected financial situations were slightly stronger in August vs July, but outlooks for income prospects were less positive and there was a tickup in expectations of the US facing a recession in the next 12 months.
- It also came alongside a reacceleration in inflation expectations: at 6.2%, the average 12-month ahead expectation is a 3-month high (5.7% prior), with median expectations back above 5.0% (5.1%, 4.7% prior) for the first time in 3 months. The report noted “Consumers’ write-in responses showed that references to tariffs increased somewhat and continued to be associated with concerns about higher prices. Meanwhile, references to high prices and inflation, including food and groceries, rose again in August."
- We note that the UMichigan August survey also saw a slight rebound in 1-year inflation expectations.
- Instead of sharp improvement after seeming relief over policy uncertainty including tariff "deals" made through early August and the passage of the administration's signature fiscal bill in early July (survey cut-off date was Aug 20), the main aggregates appear to be settling into subdued ranges. Indeed as the report notes, the expectations gauge remained below the 80 mark that "typically signals a recession ahead" (it's been <80 for 7 consecutive months now).



Source: Bloomberg Finance L.P., MNI



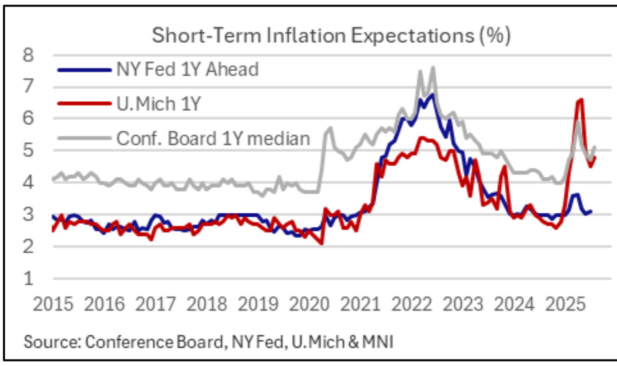
Source: Atlanta Fed, Conference Board, NY Fed, U.Mich & MNI

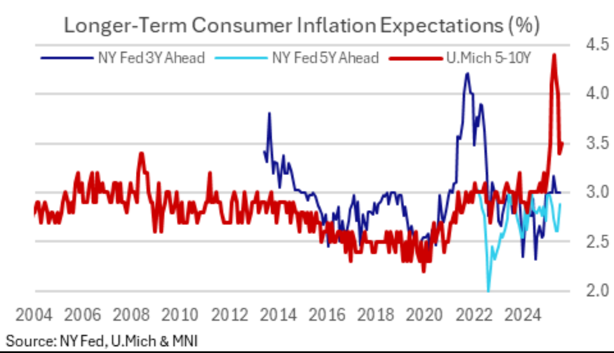
U.Mich Inflation Expectations Trim Latest Pop Higher

The final release for the U.Mich consumer survey in August saw sentiment marked a little lower still whilst initially reported increases in inflation expectations were trimmed.

- U.Mich consumer sentiment: 58.2 in Aug final (cons & flash 58.6) after 61.7 in July
- U.Mich 1Y expectations: 4.8% in Aug final (cons 5.0, flash 4.9) after 4.5% in July
- U.Mich 5-10Y expectations: 3.5% in Aug final (cons & flash 3.9) after 3.4% in July

- The 4.8% for the 1Y in Aug compares with a recent high of 6.6% in May and 2.8% prior to the second Trump administration. Similarly, the 3.5% for 5-10Y compares with a high of 4.6% in May and 3.1% in Dec.
- Recall that the preliminary release had a smaller than usual number of respondents with 512 (smallest since Dec) which is now 1066 as of the final release (albeit still the smallest since Feb).
- Press release highlights:
- “Sentiment now stands about 11% above readings from April and May but remains at least 10% below 6 and 12 months ago. This month’s decrease was visible across groups by age, income, and stock wealth. Moreover, perceptions of many aspects of the economy slipped.”
- "This month, few consumers spontaneously mentioned the recent events at the Bureau of Labor Statistics and the Federal Reserve (interviews closed on Monday, August 25, the day Trump announced he was firing Governor Cook)."

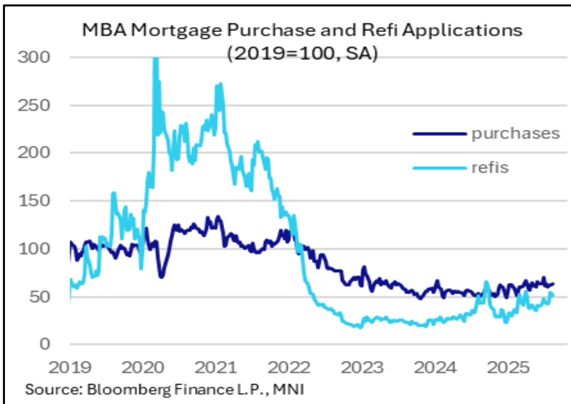


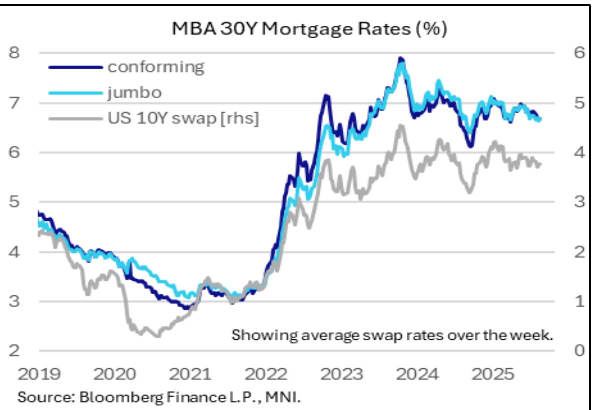


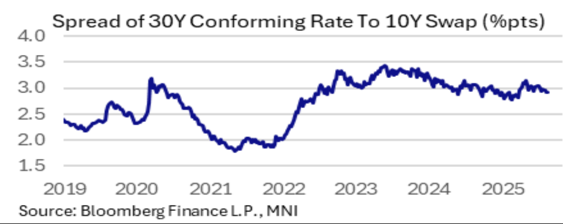
Credit/Household Finances: Little Changed

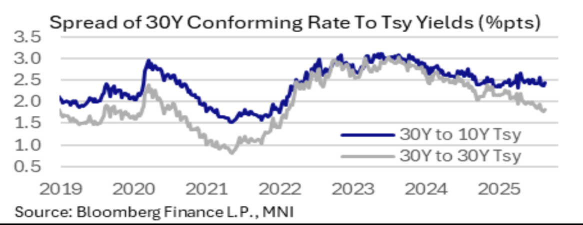
Mortgage Applications Hold Onto Most Of Refi Boost

- MBA composite mortgage applications dipped -0.5% (sa) last week after -1.4% the week prior as they still holds onto most of its refi-driven 11% increase before that.
- New purchase applications increased 2.2%, their largest increase in a month, whilst refi applications fell another -3.5% after -3.1% following the 23% jump before that.
- Levels relative to 2019 averages: composite 58%, new purchases 63% and refis 51%.
- The 30Y conforming rate inched up another 1bp to 6.69% after the 6.67% two weeks prior was the lowest since early April.
- The spread to 10Y swap rates of 291bp saw a second week below the range of 300bp +/-5bp seen mostly since reciprocal tariff announcements in April vs 285bps averaged in Q1.
- Tsy Sec Bessent on Fox Business today said he doesn't want a wider spread on mortgages vs Treasuries as part of discussions around Fannie Mae and Freddie Mac sales. He's not sure on the timing of sales, with potential deal news sometime in September or early October.
- That's similar rhetoric from a couple weeks ago when he said the White House wants to maximise value for the taxpayer and also keep the spread between mortgage rates and treasuries flat or even bring it down.
- Spreads to 10Y Tsy yields (the usual point of focus) have been fairly stable around the 250bp level so far this year (latest 244bp) vs closer to 300bp in 2023. Alternatively, spreads to 30Y Tsy yields have fallen to 176bps most recently amidst 30Y yields holding at elevated levels due to Fed independence concerns.









Fedspeak: Waller Reiterates Cut Call, Others Seem More Cautious

- *Waller Calls For Series Of Interest Rate Cuts*
- *NY's Williams: Labor Market Solid, "At Some Point" Need To Ease Policy*
- *Richmond's Barkin: Modest Economic "Movement" Implies Modest Rate Easing*
- *Dallas's Logan: More Room To Go On Reducing Reserves*

Waller Calls For Series Of Interest Rate Cuts

Federal Reserve Governor Chris Waller said Thursday it's time for policymakers to lower interest rates in coming months in order to support a job market that he described as increasingly weaker. "I anticipate additional cuts over the next three to six months, and the pace of rate cuts will be driven by the incoming data," said Waller in a speech entitled "Let's Get On With It."

- Waller indicated he thinks policymakers could have quite a way to go before rates are closer to neutral levels that neither stimulate nor slow growth. "Based on the median of FOMC participants' estimates of the longer-run value of the federal funds rate, neutral is 125 to 150 basis points lower than the current setting," said Waller. A cut larger than 25 basis points is not needed in September, he added. "That view, of course, could change if the employment report for August, due out a week from tomorrow, points to a substantially weakening economy and inflation remains well contained," he said.

NY's Williams: Labor Market Solid, "At Some Point" Need To Ease Policy

NY Fed President Williams (permanent FOMC voter) on CNBC doesn't sound particularly concerned about the state of the labor market, in particular downplaying the weak nonfarm payrolls growth implied by the July employment report's downward revisions. While not contradicting Fed Chair Powell's apparent Jackson Hole signal of a likely September cut, which was based largely on a shift in the balance of risks to employment, Williams doesn't make the case for a cut here.

- Williams: "I think the state of the labor market is solid. We've definitely seen a slowdown in the pace of hiring, in payroll growth, as you mentioned. I think some of that is really a slowdown in the supply of labor...we're seeing slower supply and slower demand. And the hard thing to do is to figure out well, is, is one slowing more than the other? The test of that is kind of the unemployment rate. The unemployment rate has been pretty, pretty steady, low 4s. Hasn't really changed over the last 12 months. Other indicators, I think, have, I would say, gently softened over the past year, but again, still a solid labor market." Meanwhile, "wage growth continues to be, I would say, consistent with a solid labor market and inflation coming down towards our 2% goal. "
- Asked if he wouldn't "hit the panic button" if payroll growth remained weak, instead paying attention to the unemployment rate, wage growth and other gauges, Williams said "that's absolutely right... [but] if payroll growth became very negative.. that's, I think that's telling you something different." When asked, he doesn't provide an estimate of "breakeven" payrolls gains.
- Asked if he's on board with a rate cut: "in my view, if the economy evolves in the way I hope it will, and that means that inflation, you know, after adjusting for the tariff inflation comes down over the next couple of years, the economy stays in relatively good balance, I do think at some point we need to move interest rates closer to normal or or a neutral stance. We are still in a, I would say, modestly restrictive stance."
- And specifically about a Sept cut: "I definitely think that every meeting is [on the table] from my perspective ... again, the risks are more in balance, and we have to just see how kind of have the data play out."

Richmond's Barkin: Modest Economic "Movement" Implies Modest Rate Easing

Richmond Fed President Barkin (non-2025/26 FOMC voter, leans hawkish) tells Bloomberg that his expectation of "modest movement in the economy" implies a "modest adjustment in rates".

- That said, "I don't know that there will be modest movement in the economy. That's what we're going to have to see when we get there. So, that's my forecast, but the forecast could change."

- On the September decision: "I know I have three-and-a-half weeks before our next meeting... I make the best call I can on the day, with all the information."
- Barkin is almost never explicit about his rate views and the interview writeup is a little unclear as it implies he's talking about activity over the remainder of the year, thereby implying that he may envisage a cut by year-end.
- That said, since the June FOMC meeting we have penciled Barkin in as one of the 7 most hawkish members of the FOMC this year (not seeing any cuts) and one of the 6 most in terms of expected cuts by end-2026: we think he is one the 5 dots in the June SEP that shows a total of 50bp of cuts by then (to 3.9%; there is one dot above that level, at 4.1%).

Dallas's Logan: More Room To Go On Reducing Reserves

Two takeaways from Dallas Fed President Logan's speech on central bank balance sheet policy Monday (which didn't include anything on current monetary policy):

- First, the ex-SOMA manager sees "more room to reduce reserves". While acknowledging what was already in the July FOMC meeting minutes about seeing "some temporary pressure around the tax date and quarter-end in September", Logan says she anticipates market participants will use the standing repo facility if necessary in September. "That will allow us to continue gradually bringing reserves to a more efficient level with market rates close to, but perhaps slightly below, interest on reserves on average over time." This sounds like she is not concerned with the ongoing reduction of reserves warranting a shift in Fed policy in the coming months.
- On this front, she again advocates for further development of so-called "ceiling" tools: "while we have made strides in enhancing the effectiveness of the discount window and Standing Repo Facility, it would be worthwhile to consider further steps, such as increasing or removing limits on the SRF's size or centrally clearing those transactions."
- Second, she suggests that the Fed could shift to overweighting Treasury bills in its portfolio, over time: "it makes sense for the FOMC to hold primarily Treasuries in the long run, as we've repeatedly said we intend to do" and suggests that the Fed could in the long run "make its asset purchases proportional to Treasury issuance. In the medium term, overweighting Treasury bills in our purchases could more expeditiously move our current mix of holdings closer to matching the market."
- However, "the FOMC has made no decisions on the long-run composition of its Treasury holdings, and I look forward to continuing to discuss this topic with my colleagues" - as such this doesn't appear to be an imminent prospect.
- This adds another key update to current FOMC views on balance sheet composition. In June Gov Waller (a possible next Fed chair) concluded in a lengthy speech on the topic: "Though the FOMC has not finalized its desired efficient and effective size and composition of the balance sheet, it seems apparent that today's portfolio should be adjusted. And there are obvious steps to take. We are reducing the size of the balance sheet slowly and need to consider shifting it toward more bills."

STIR: Still Eyeing September And December Cuts

With few market-moving data points this week, implied Fed rate cuts essentially held onto their post-Jackson Hole upward repricing, adding a couple of basis points of easing for good measure heading into the Labor day weekend.

The current path sees a September rate cut priced with nearly 90% implied probability, with 56bp of cuts through end-year (a cumulatively priced second cut in December) and 83bp through March 2026 (3+ cuts).

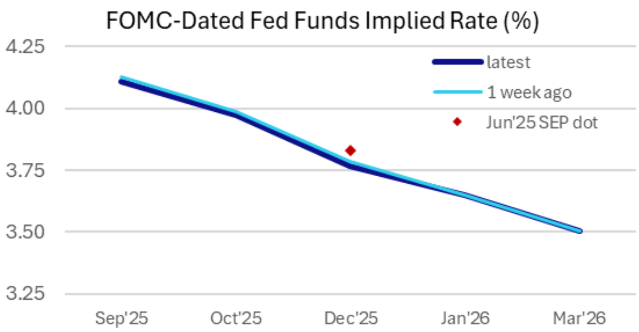
Cumulative Fed cuts by end-2025 (%pt) (Bloomberg Finance L.P.)

FOMC-dated Fed Funds futures implied rates

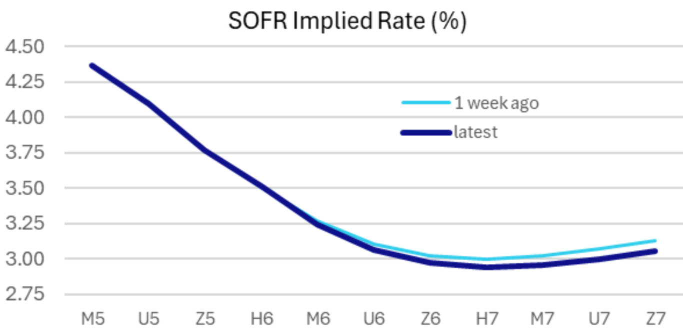
Meeting	Latest			End-last week (Aug 22)			*chg in rate*	pre Powell JH (Aug 22)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.11	-22.1	-22.1	4.12	-21.3	-21.3	*-0.8*	4.15	-18.1	-18.1	*-4.0*
Oct'25	3.97	-13.6	-35.7	3.99	-13	-34.3	*-1.4*	4.03	-12	-30	*-5.9*
Dec'25	3.77	-20.5	-56.2	3.79	-20	-54.4	*-1.8*	3.85	-19	-48	*-7.8*
Jan'26	3.65	-12.0	-68.2	3.67	-12	-66.2	*-2.0*	3.73	-11	-60	*-8.5*
Mar'26	3.50	-14.5	-82.7	3.52	-15	-80.7	*-2.0*	3.60	-13	-73	*-9.8*

Source: Bloomberg Finance L.P., MNI.

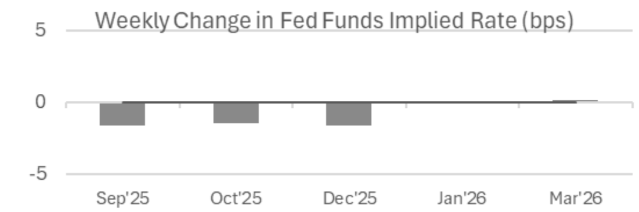
Week-on-week moves:

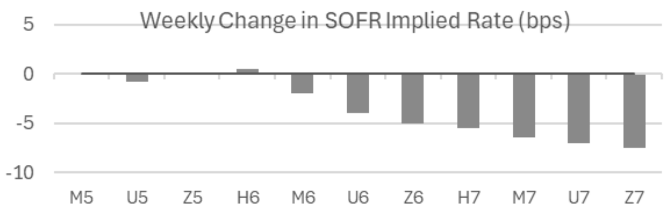


Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.





Analyst Fed View Changes

In the wake of Chair Powell's Jackson Hole Speech, multiple analysts abandoned their calls for the Fed to stay on hold through the rest of the year. The ranks of those who still see no cuts this year is now very small, with just 2 that we are aware of - see below.

- **Morgan Stanley** had previously seen rates steady through March 2026 - but now sees 25bp cuts quarterly starting in September through end-2026 (150bp total) to 2.75-3.00%). "We make the change on account of the shift in tone at Jackson Hole, where Powell revealed more concern about downside risk to labor markets. A September cut is not a certainty. Payrolls of 225k in August and another clear acceleration in tariff-related inflation could keep them on hold."
- **BNP Paribas** analysts abandoned their "on-hold" call for the Fed, and now pencil in 25bp cuts in September and December. Noting that "labor market data over the next few months will take on significantly more weight than the inflation figures," BNP writes that "Chair Powell's speech... made clear that the Fed intends to deliver a "fine-tuning" rate cut at the September FOMC meeting unless the data dictates otherwise. Although we think that a September cut is not quite a done deal, the bar now seems sufficiently high for the data to surprise positively that we shift our longstanding on-hold call for the Fed to a base case for 25bp rate cuts at both the September and December meetings...September may end up being the only rate cut for the year. But we will need to wait for the data to tell us that."
- **Scotiabank** now sees cuts in 2025, vs their previous view that easing would start only in 2026: "[Powell's] sudden turn left a strong sense of capitulation oriented toward shifting the stance to avert the nasty optics of an all-out rebellion on a soon-to-be stacked Board. We're now in totally uncharted territory on the Fed in my view... fifty points of easing by year-end is a minimum expectation and I'd lean toward expecting 75bps of cuts in a trio of back-to-back moves into year-end and another cut in early 2026 after which we'll see as data and developments are digested along the way."
- **Berenberg** was also in the 2025 "on hold" camp since the start of the year, but now expects 25bp cuts in September and October. "That said, a September rate cut is still not a done deal. A lot depends on the August inflation and employment reports...If the Fed does lower interest rates as we now predict, strengthening inflationary pressure while the labour market remains roughly in balance should still ensure that it will keep interest rates on hold from its December meeting onwards."
- **NatWest** now sees 25bp cuts in September and December (previously saw no cuts in 2025), as we covered in a previous note.
- As for the holdouts: **BofA** still sees no cuts through year-end, but said post-Jackson Hole that "the risks have obviously shifted meaningfully toward a cut" in September..."The onus is firmly on the data to prevent a cut." **ABNAmro** likewise maintained its call for no cuts "We will update our Fed view when all relevant data is available."

Elsewhere, multiple analysts now see a cut in September whereas previously they'd seen one later in 2025.

- **Deutsche** pulled forward their next-cut call from December to September (but still see a December cut).
- **Barclays** also pulled forward their view for the next cut to September.
- **Natixis** appears to have shifted its view for the next cut in October to be pulled to September "from this early juncture we think a September hawkish ease is more likely than not (assuming a 25bp cut), but there is still a great deal of time, and data, between now and the September FOMC meeting".
- **SocGen** likewise ("Previously, our base case was just one 25bp cut, and late this year (October or December). However, a rate cut at the next FOMC in September now looks an above 50% probability.")
- **RBC** isn't yet convinced of a cut before December: "While the odds of a rate cut next month are high, we aren't yet convinced it is a slam dunk."

The US Macro Week Ahead: Labor Day, ISM Surveys and Nonfarm Payrolls

Friday's nonfarm payrolls report for August is going to be watched extremely closely after last month's weak July report has subsequently set the tone for price action. The Fed is highly sensitive to downside growth surprises in the labor market. Last month's report was particularly notable for its huge downward revisions of -258k, the largest in at least forty-five years when excluding April 2020 of the pandemic, leaving a picture of a sharp cooling in labor demand. President Trump used the large revisions as justification for the highly unusual decision to fire BLS

Commissioner McEntarfer shortly afterwards. Bloomberg consensus currently looks for nonfarm payrolls growth of 75k, very similar to the 73k in July, but with those two-month revisions also in focus. The unemployment rate should be viewed in equal importance to payrolls growth amidst the sharp decline in labor supply that has been seen concurrently, keeping the labor market in greater balance than would otherwise be the case. The unemployment rate is seen at 4.3% in August after rising to what was technically a cycle high of 4.25% in July but with the rate tracking between 4-4.25% ever since a high of 4.22% back in July last year. Whilst now outdated, the median FOMC forecast from the June SEP had the unemployment rate increasing to an average 4.5% in 4Q25 as part of its profile with 50bp of cuts to year end.

August's ISM Manufacturing report (out Tuesday Sep 2nd 1000ET) is seen by Bloomberg Consensus as showing a slight improvement to 48.9 from July's 48.0. The theme of general improvement is evident in the regional Fed banks' manufacturing surveys, which showed a 5th consecutive month of improvement on aggregate after April's trough, albeit roughly steady from July. Meanwhile for Prices Paid, expectations are for a slight pickup to 65.0 from 64.8 prior. This looks to be on the low side versus the recent increase in regional Fed input prices indices: after a near 5-point pullback in July, we wouldn't be surprised by a rebound back toward the high 60s mark. For ISM Services, out Thursday Sep 4th, it’s still a little early to gauge consensus (currently 50.8 vs 50.1 in Jul), but we wouldn’t be surprised to see similar dynamics overall as for Manufacturing.

In terms of Fed commentary, we will hear from Board Governor nominee Stephen Miran in his congressional nomination hearing, as well as current FOMC voters Musalem and Williams, and non-voter Kashkari. We also get the latest edition of the Fed Beige Book.

Date	ET	Impact	Event
02 Sep	0945	***	S&P Global Manufacturing Index (final)
02 Sep	1000	***	ISM Manufacturing Index
02 Sep	1000	*	Construction Spending
03 Sep	0700	**	MBA Weekly Applications Index
03 Sep	-	***	Domestic-Made Vehicle Sales
03 Sep	0855	**	Redbook Retail Sales Index
03 Sep	0900		St. Louis Fed's Alberto Musalem
03 Sep	1000	**	Factory New Orders
03 Sep	1000	***	JOLTS jobs opening level
03 Sep	1000	***	JOLTS quits Rate
03 Sep	1000	**	Factory New Orders
03 Sep	1330		Minneapolis Fed's Neel Kashkari
03 Sep	1400		Fed Beige Book
04 Sep	0815	***	ADP Employment Report
04 Sep	0830	***	Jobless Claims
04 Sep	0830	**	Trade Balance
04 Sep	0830	**	Non-Farm Productivity (f)
04 Sep	0830	**	Trade Balance
04 Sep	0945	***	S&P Global Services Index (final)
04 Sep	0945	***	S&P Global US Final Composite PMI
04 Sep	1000	***	ISM Non-Manufacturing Index
04 Sep	1000		Fed nominee Stephen Miran
04 Sep	1205		New York Fed's John Williams
05 Sep	0830	***	Employment Report