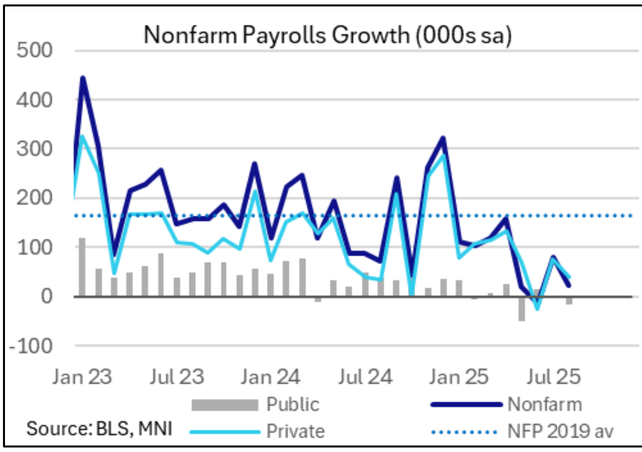
MNI U.S. Macro Weekly

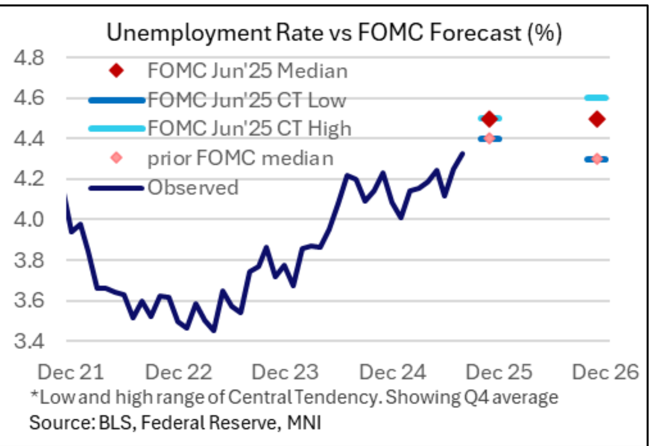
MNI View: Softer Labor Data Opens Way To Fed Cuts

Sep 5, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- A September Fed rate cut now looks assured after the August nonfarm payrolls report surprised on the dovish side for both payrolls employment and the unemployment rate.
- Along with other soft jobs data seen this week (ADP, JOLTS), the report confirmed that there are indeed rising downside risks to employment but also that the "curious" kind of balance in the labor market, per Chair Powell's words at Jackson Hole, remains in play, even as inflation risks linger.
- Powell made those comments in the context of a broader speech suggesting that rate cuts could resume soon, and Fed Funds futures point to 27.5bp of cuts for the Sept 17 decision vs 25bp pre-NFP release.
- Other data seen this week painted a relatively more positive picture of economic activity for the most part. GDP nowcasts suggest above-trend growth in Q3, with services activity (per ISM and PMI) at some of its strongest levels of the year in August.
- Offsetting this were further deterioration in construction and weak signs from the manufacturing sector, which judging from latest ISM Manufacturing and factory orders has been unable to regain traction after tariff-related volatility earlier in the year.
- Similarly, a surprisingly large July trade deficit showed little limited normalization on the external front.
- The last week of Fedspeak ahead of the pre-FOMC blackout period was dominated by current voters, only one of which (Waller) made an explicit case for a September easing. Goolsbee (who spoke after the nonfarm payrolls data), Musalem and Williams sounded more cautious than Waller, though we're not sure any of them would dissent to a cut (though admittedly upcoming CPI data adds some uncertainty).
- While Board of Governors nominee Miran would be almost certain to support a cut, it's unclear whether he will be confirmed by the Senate in time for the Sept 16-17 meeting. On that note, we continue to await news on Governor Cook's ability to participate, which appears to be in the hands of the courts.
- Meanwhile, the latest Beige Book described price pressures remaining modestly/moderately to the upside while labor market conditions have weakened.
- Next week sees key data for both sides of the Fed's mandate, starting with Tuesday's release of preliminary estimates of benchmark payrolls revisions, based off QCEW data for Q1, followed by US PPI Wednesday before CPI inflation on Thursday.





Labor Market: Summer Softening To Spur Fed Action

Most Indicators Point To Uncomfortable Increase In Labor Market Slack

- The August nonfarm payrolls report surprised on the dovish side for both payrolls employment and the unemployment rate. It confirms there are indeed rising downside risks to employment but also that the "curious" kind of balance in the labor market, per Powell's words, remains in play.
- Nonfarm payrolls growth surprised lower (22k vs Bloomberg cons 75k) along with a two-month downward revision of -21k that offered no offset to last month's historically large downward revisions.
- What's more, the 22k increase would have looked a lot worse without a switch to a more favorable seasonal factor – the NSA change in August was the lowest for an August since 2015.
- Three-month seasonally adjusted averages stand at 29k for both nonfarm and private payrolls or a particularly weak -30k for private payrolls excluding the cyclically insensitive health & social assistance.
- These payrolls figures need to be viewed against recent breakeven estimates roughly in a range of 50-100k but with some seeing scope for lower numbers.
- The unemployment rate offers a better guide of labor market balance amidst a sharp decline in labor supply under the Trump administration, something multiple FOMC members mentioned in recent weeks.
- Here, the unemployment rate was on the dovish side at a new recent high of 4.324% after 4.25% in July. Consensus had been for 4.3% but with a skew to a 4.2% print.
- Remember though, the median FOMC member in the June SEP pencilled in an u/e rate of 4.5% in 4Q25.
- From an employment growth perspective, the latest vintage of data suggests that June was the low point (when nonfarm payrolls fell -13k for the first decline since Dec 2020. That chimes with continuing claims data, which increased in late May/early June before stabilizing, as well as ADP private employment.
- As for wages, AHE was on the soft side of expectations in August considering downward revisions to average hours worked. It's seen year-ago growth moderate further to 3.7% Y/Y, albeit stronger at 3.9% Y/Y on a non-supervisory employee basis, and with productivity gains still keeping unit labor costs in check.
- A 25bp cut from the Fed on Sept 17 is more than priced (28bp at typing vs 30bp at one point post-data) whilst markets have shifted to almost pricing three consecutive cuts to year end with a cumulative 72bp.
- Still ahead on the labor front before that FOMC decision, preliminary benchmark revisions next week on Sep 9 with large downward revisions expected (-550k seems to be a minimum view for now).

For more on latest labor market data, see the comprehensive MNI Employment Insight, here.

Payrolls Summary Statistics For August 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Jun	May	Net Surprise
Monthly growth (000s)							
NFP	22	75	-53	-21	6	-27	-74
Private	38	75	-37	-36	-6	-30	-73

	Actual	Cons.	Prior mth	Cycle low		2019 av
U/E rate (%)	4.32	4.3	4.25	3.45	Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.27	0.3	3.69	3.8

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

Growth: Q3 Tracking Estimates Remain Solid

GDPNow Sees Consumption Uptick Offset Softer Net Exports

The Atlanta Fed's GDPNow estimate for Q3 growth edged down very slightly following the latest trade and ISM services data: it's now at 3.00% Q/Q SAAR, vs 3.04% in the last update on Tuesday and 3.47% last Friday (3.3% in Q2).

- In the latest estimate, household consumption is seen a little stronger (2.1% vs 1.7% in previous update, 1.6% in Q2), with equipment investment growth seen at 11.0% (8.9% in previous update, 7.4% in Q2).
- The additional 0.35pp boost to GDP implied by those upgrades largely offsets a 0.41pp drop in the positive contribution estimated by net exports (now 0.28pp after 0.69pp in the previous update, and 4.95pp in Q2). Both export and import growth are seen as weaker vs the prior update, following the July trade data. See table.
- The next full update isn't until Sep 10.

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

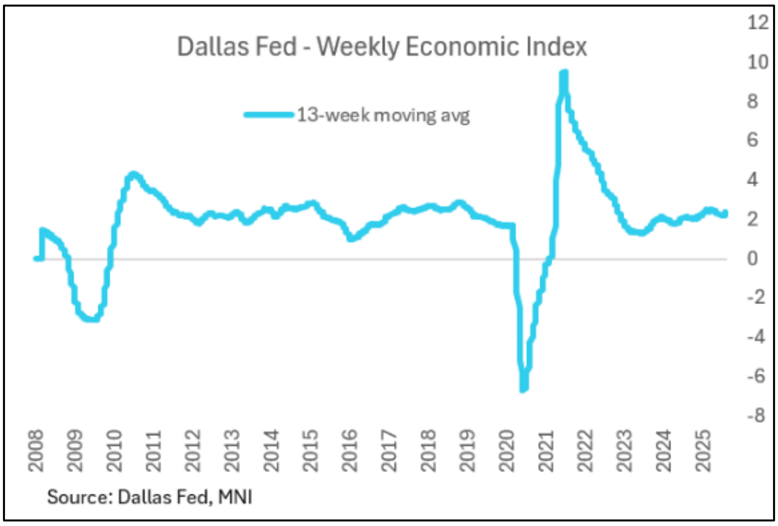
Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
28-Aug	Latest BEA estimate for 25:Q1	-0.5	0.5	23.7	6.0	-2.4	-1.3	-0.6	0.4	38.0	-306	152
28-Aug	Latest BEA estimate for 25:Q2	3.3	1.6	7.4	12.8	-8.9	-4.7	-0.2	-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
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
2-Sep	ISM Manuf. Index, Constr. spending	3.0	1.7	8.9	5.3	-6.8	-5.6	1.4	6.4	-0.1	42	35
3-Sep	M3-2 Manufacturing	3.0	1.7	8.9	5.3	-6.8	-5.6	1.4	6.4	-0.1	42	35
4-Sep	Int. trade, ISM Services, Auto sales	3.0	2.1	11.0	5.4	-6.6	-5.2	1.4	5.7	2.4	15	34

Source: Atlanta Fed

Dallas Fed Weekly Activity Index Suggests Solid Pace Of Q3 Growth

The Dallas Fed's Weekly Economic Index (WEI) continues to portray accelerating strength in economic growth vs a summer nadir.

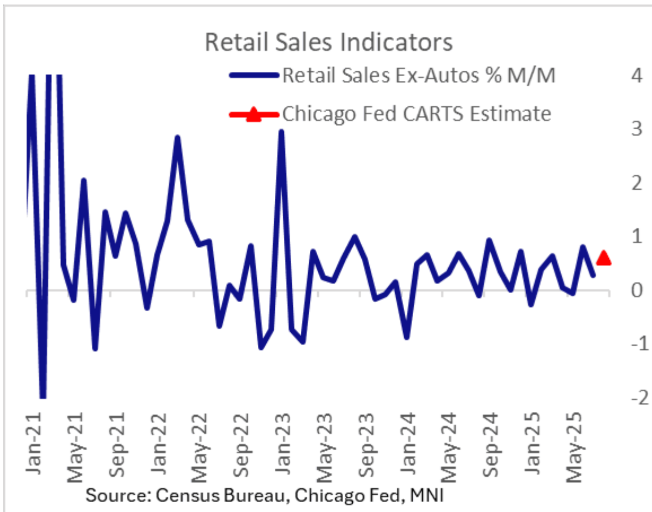
- The latest reading for Aug 30 is for 2.52% 4-quarter real GDP growth.
- That is a slight pullback from 2.61% in the prior week but brings the 13-week (ie quarterly) reading up to 2.38% from 2.32%, for the 6th consecutive weekly acceleration for the fastest rate since mid-May. That compares to 2.07% in Q2.
- If this quarterly pace seen through the first two months of Q3 holds, it would suggest upside risks to the Atlanta Fed's GDPNow estimate for Q3 (of 3.0% Q/Q SAAR - which would represent "just" 2.0% Y/Y growth as represented by the WEI 13-week average), closer to the 3.3% Q/Q SAAR seen in Q2.
- While initial jobless claims data ticked higher in the latest week, potentially accounting for the retracement in the one-week measure, other components including Redbook retail sales remained robust in the latest week.



Chicago Fed CARTS Points To Robust August Ex-Auto Retail Sales

The Chicago Fed's Advance Retail Trade Summary (CARTS) released Wednesday currently estimates August retail sales ex-auto growth of 0.6% M/M (0.3% in real terms). This follows the weekly retail trade index falling 0.2% in the third week of August, after +0.1% the prior week.

- The currently estimated inflation-adjusted 0.3% gain would be the same as July's (which saw a 0.3% nominal rise), and would mark the third consecutive sequential rise after two monthly contractions. July's CARTS estimate was below-consensus and ultimately on the low side at 0.1%.
- The final CARTS estimate will be out September 15, the day before the Census Bureau report.
- Reminder that CARTS "summarizes weekly data on retail transactions & foot traffic, gasoline sales, and consumer sentiment".

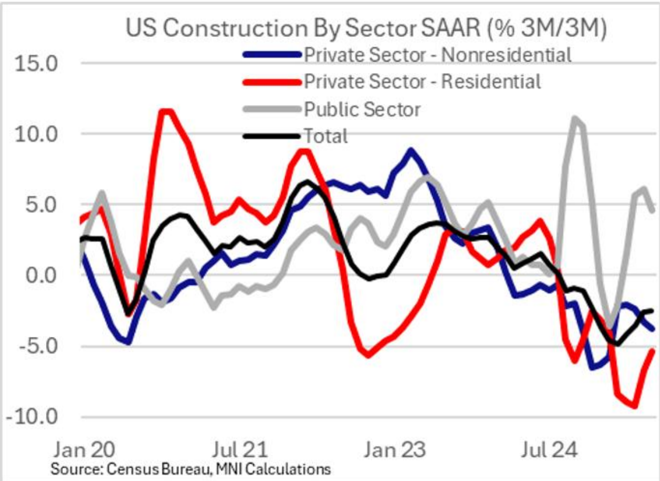


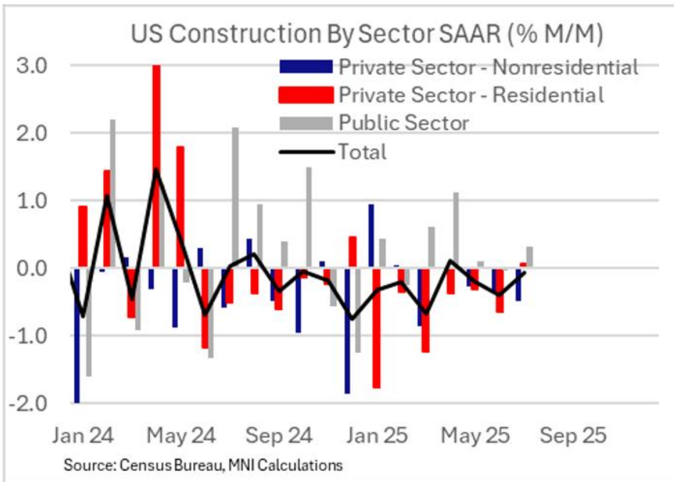
Broad Private Sector Pullback In Construction Continues

Construction spending contracted in August for a 10th month in the last 11, despite residential activity seeing a rare uptick. Overall construction spending came in at -0.1% M/M (in line with consensus, -0.4% prior) in nominal, seasonally-adjusted annual rate terms.

- Private sector activity contracted for the 14th consecutive month (-0.2% after -0.5%). While residential construction - a little more than half of overall private sector construction - ticked 0.1% M/M higher for the first sequential increase of the year (-0.6% prior), nonresidential construction has seen continued deterioration. It contracted 0.5% (after -0.4%) for the worst performance since March, and comes as manufacturing construction fell 0.7% (same as prior).

- Public sector construction, about 1/4 of overall construction, grew for a 5th consecutive month, at 0.3%.
- The overall picture is of a 2.5% 3M/3M annualized rate of contraction for overall construction, a less-weak pace of growth than seen earlier in the year (closer to -5% in March) but with residential leading the "recovery" (-5.4% 3M/3M ann, best since February), and non-residential looking increasingly weak (-3.7%, weakest since February, led by Manufacturing construction at -7.7%).
- After tripling between mid-2021 and mid-2024 (rising proportionally from under 5% of construction to over 10%), the level of manufacturing construction has tailed off and is now at a 21-month low, with overall private sector construction at a 25-month low (and down 5+% from peak).
- Overall, since peaking in December 2023, private nonresidential construction has fallen by 6.9%. About 2/3 of the decline is attributable to a fall in commercial construction, in turn almost all warehousing/general commercial spending; within manufacturing the biggest pullback has been in computer/electronic/electrical which is down 10%.
- In another sign that AI-related spending is helping prop up the economy as a whole: data center spending hit a fresh all-time peak in July, and is up 69% since end-2023 (when overall construction started to decline). The rate of growth has started to slow in recent months but this is still clearly the brightest spot in an otherwise weak construction picture.



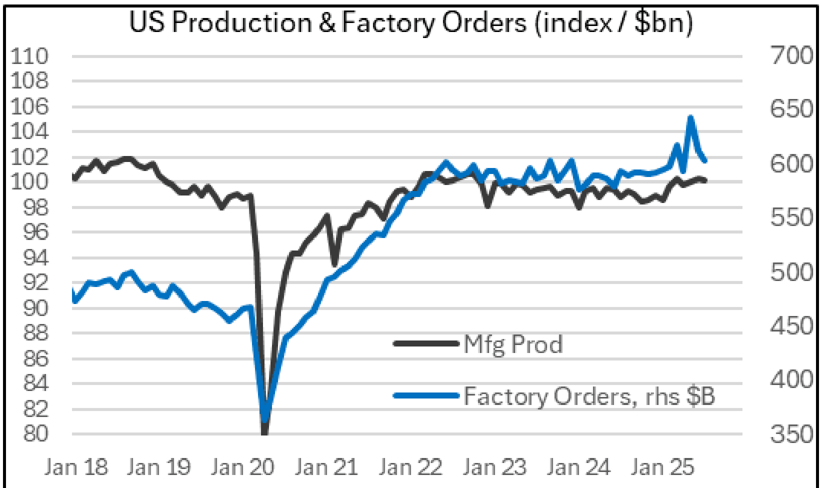


Underlying Factory Orders See Solid July, But Overall Trend Is Moderate

July's full Manufacturers' Shipments, Inventories, & Orders report showed core activity improving but overall settling in below the strong levels seen earlier in the year. In other words, activity is not as bad as it appeared in the post-tariff-front running hangover months of the summer, but likewise there doesn't appear to be an imminent upturn in manufacturing activity or equipment investment.

- While we caution against taking too much signal from month-to-month readings given significant volatility, July factory orders fell 1.3% M/M (-4.8% prior), with ex-transport orders rising 0.6% (0.4%), both exactly in line with consensus expectations.
- That's two consecutive sharp falls in overall manufacturing orders, and three in the last 4, leaving the seasonally-adjusted level at basically the same nominal dollar level it has hovered around since early 2022 (with the exception of the tariff front-running burst earlier this year). On a Y/Y basis, orders are up 3.5%.
- Ex-transportation (which for one thing strips out extremely volatile aircraft orders that have weighed heavily on overall orders the last couple of months) had its biggest rise in 16 months and grew for a 3rd consecutive month, but is up only 0.7% Y/Y. On a 3M/3M annualized basis, this moved back into positive territory for the first time in 4 months, albeit at just 0.7% (also).

- The ex-transport figure echoed the advance durable goods readings released previously which were largely confirmed in this final report, most notably core durable goods orders which rose 1.1% M/M and suggesting that underlying activity was regaining some footing after a weak few months.
- Durable and nondurable goods industries each make up about 50% of total factory orders. Durable orders are up 7.3% Y/Y but fell 2.8% M/M in July (on aircraft), while nondurables growth remained tepid at 0.3% M/M (-0.1% Y/Y).
- The unfilled orders-to-shipments ratio fell from its 15-month high 7.01 in June to 6.87, though inventories-to-shipments edged down to the lowest since October 2022 at 1.56 (1.57 prior).



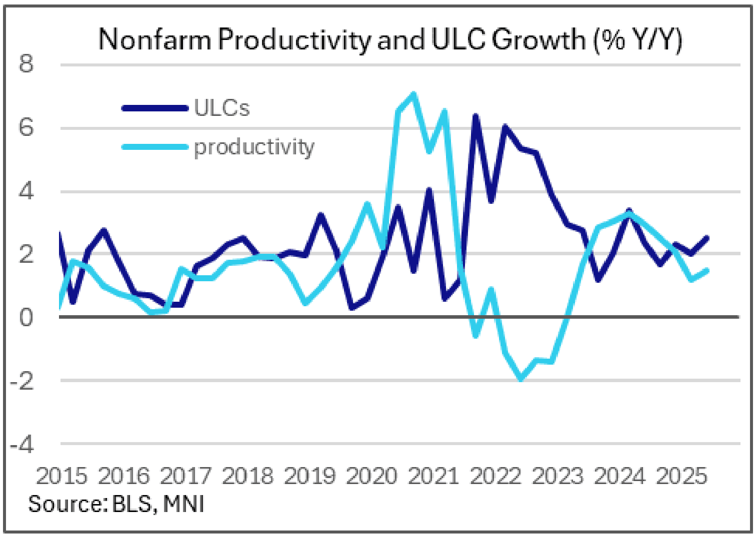
Source: Bloomberg Finance L.P., MNI

Inflation: ULCs Revised Lower

Productivity Gains Keep Lid On Labor-Based Inflation Pressures

Productivity looked a little better in the second quarter after the initial readings were revised: productivity is now recorded as growing 3.3% Q/Q SAAR, up from 2.4% in the initial. Prior (Q1) was unrevised at -1.8%.

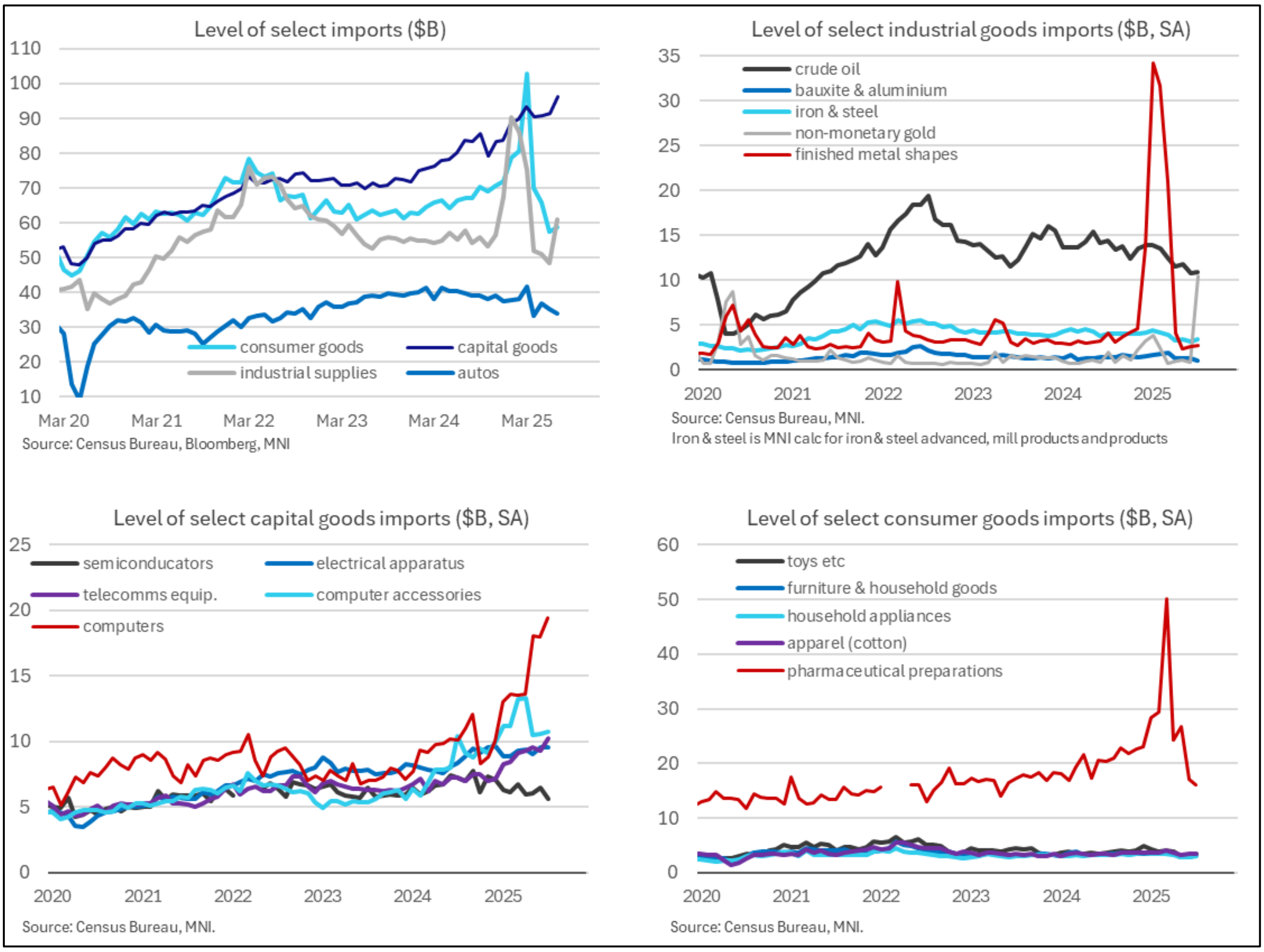
- And Unit Labor Costs were revised down for Q2 in the second reading (1.0% Q/Q SAAR) from the initial reading (1.6%). Again, prior (Q1) was unrevised (6.9%). That's despite an uptick in hourly compensation growth (4.3% vs 4.0% in initial). Overall hourly compensation and wages hit the fastest rate of growth since Q1 2024 but this was offset by the productivity gains.
- Hours worked were revised down to 1.1% from 1.3%, but output growth actually increased vs the previous estimate, at 4.4% (3.7% initial).
- An upgrade in output was implied by last week's upward Q2 GDP revisions, so wasn't a surprise, but the rise was 0.6pp above-expected, with ULCs growth 0.2pp lower than expected.
- ULCs are rising in the 2.0-2.5% Q/Q SAAR range over the last 4 quarters with productivity in the 1.5% range on average.
- Wage growth is probably running a little on the hotter side for comfort in reaching the 2% inflation target on that basis, but the latest quarter's productivity readings and upward revisions thereto will help assuage concerns that the labor market is a source of inflationary pressures.



Trade: Not All That Glitters Is Monetary Gold

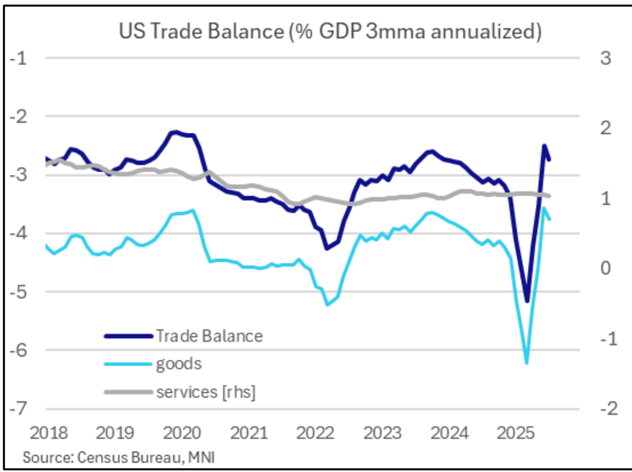
Trade Details Reveal Imports Surprisingly Jumped On Non-Monetary Gold (1/2)

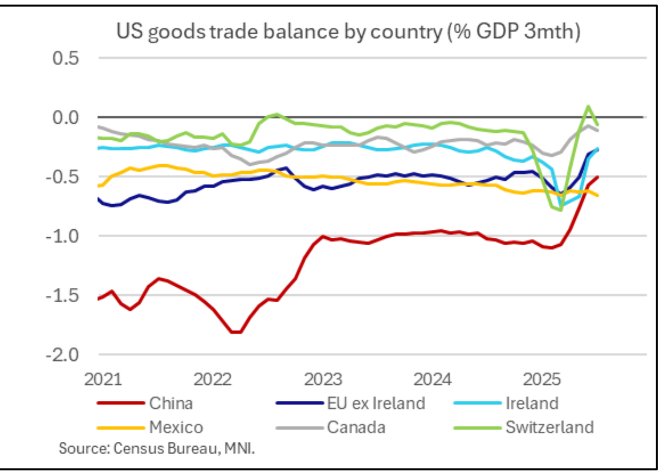
- The goods & services trade balance was close to expectations in July at a deficit of $78.3bn (cons $77.9bn) after a downward revised $59.1bn (initial $60.2bn) in June.
- The goods deficit widened from $85.7bn to $103.9bn whilst the services surplus narrowed from $26.6bn to $25.6bn.
- Today's more detailed release confirmed that the widening in the goods deficit was primarily driven by stronger imports of industrial supplies followed by imports of capital goods.
- More surprisingly though, of the $12.5bn increase in industrial supplies, $9.6bn came from non-monetary gold. This is different to when monetary gold related imports surged in Jan-Mar on tariff front-running caused distortions in GDP tracking (which showed up in "finished metal shapes" and aren't seen as a productive asset and therefore excluded from GDP calculations).
- It's this realization that it wasn't monetary gold driving the rise in imports in July that likely played a role in the 0.41pp downward revision in the net trade component from today's Atlanta Fed GDPNow estimate (from 0.69pp to 0.28pp). GDPNow essentially excludes the broad-based industrial supplies category when assessing the flash trade release published last week.
- As for capital goods, the $4.7bn increase to $91.5bn was more broad-based but led by computers (+$1.5bn to $18.0bn) and telecommunications equipment (+$0.9bn to $9.3bn).



China Has Still Seen The Greatest Correction In Trade Flows Post-Tariffs (2/2)

- Putting the trade data into clearer context, the latest goods and services trade deficit stands at 2.7% GDP on a three-month rolling basis.
- It's still being driven by large tariff-related distortions: the 2.5% GDP in Q2 compares followed 5.1% GDP in Q1 and compares with 3.4% GDP in 4Q24 or 3.1% GDP through 2024 as a whole.
- The goods deficit dominates this, most recently at 3.8% GDP, vs a steady services surplus of 1.0% GDP that has seen little sign of pullback in use of US services in response to US tariff policies.
- Looking by country, China is still the country which has seen the largest change in trade flows, with a US-China deficit worth 0.5% GDP vs 1.1% GDP end-2024.
- It has been a relatively one-directional trade narrowing in the US-China trade deficit, as opposed to the EU and Switzerland which have seen swings on the back of pharmaceutical and monetary gold trade surges.
- Most recently, the 0.6% GDP three-month rolling deficit with the EU compares with a peak of 1.3% GDP in Mar and 0.8% GDP in Dec whilst trade with Switzerland is broadly in balance with 0.0% GDP vs a deficit of 0.7% GDP in Mar and 0.3% GDP in Dec.



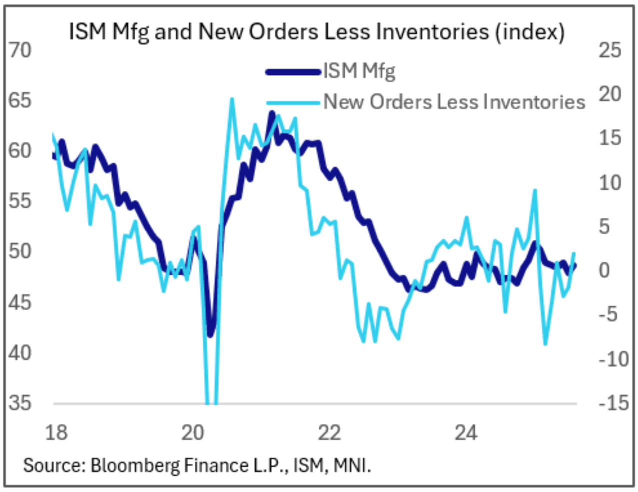


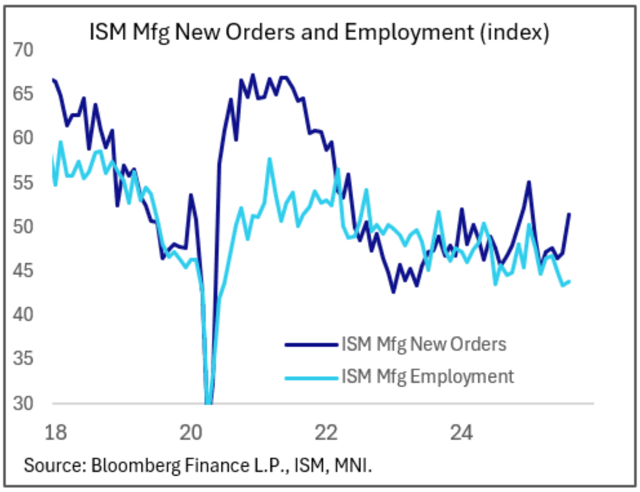
Business Sentiment: Services ISM Impresses More Than Manufacturing

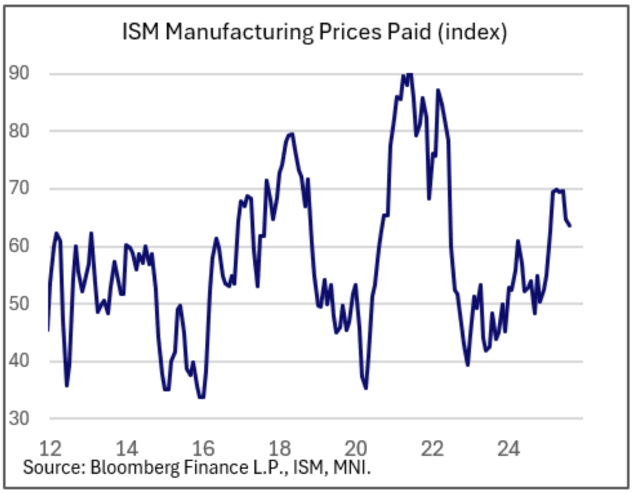
ISM Manufacturing Improves On New Orders, But Tariffs Still Taking Toll

August's ISM Manufacturing report was weaker than expected on the headline figure, with some sub-components telling a slightly more mixed story, and price pressures unexpectedly diminished. Overall the ISM survey continues to portray a manufacturing sector that is failing to convincingly regain traction after the summer's tariff-related policy uncertainty. Indeed, tariffs were mentioned extensively in the sector-by-sector anecdotes in the report, and not in a positive light.

- The headline index ticked up a little less than expected, to 48.7 (49.0 expected, 48.0 prior) for a 6th consecutive sub-50 reading, notably with the improvement in the Employment sub-component disappointing at 43.8 (45.0 expected, 43.4 prior - per ISM, "panelists indicated that managing head counts is still the norm at their companies, as opposed to hiring").
- Additionally, Production took a big step back after 3 consecutive months of solid improvement, dropping to a 3-month low 47.8 (51.4 prior), consistent with negative Industrial Production and dragging on the headline figure.
- Conversely, the brightest note by far was unexpected strength in New Orders, which exceeded 50 for the first time since January (48.0 expected, 47.1 prior), as flagged by a solid performance in regional Fed surveys in this category. That was the biggest upside contributor to the overall ISM headline rise, though the commentary is decidedly less positive than the figure suggests: “Of the six largest manufacturing sectors, two (Food, Beverage & Tobacco Products; and Computer & Electronic Products) reported increased new orders. Despite the index’s move into expansion territory, for every positive comment about new orders, there were 2.5 comments expressing concern about near-term demand, primarily driven by tariff costs and uncertainty."
- Even so, this came as export orders ticked up 1.5 points to 47.6 for a 5-month high, though Imports fell 1.6 points to a 3-month low 46.0, suggesting weak trade dynamics overall.
- Inventories ticked up 0.5 points to reach a 4-month high 49.2, albeit still in contractionary territory. The differential between New Orders and Inventories reached 2 points, the highest since January - potentially indicative of improving future activity.
- Supplier Delivery times slowed (as indicated by the 51.3 reading, up 2 points from July which was the only month this year that indicated quickening delivery times).
- Another key surprise was in Prices Paid which dipped for a 2nd consecutive month, by 1.1 points to 63.7 (65.0 expected, 64.8 prior) - marking a 6-month low albeit still indicative of positive price pressures.
- As the above suggests, this was a very mixed report. The ISM categorizes these subcategories in terms of Demand (2 of 4 indicators improved - New Orders/New Export orders, vs Customers' Inventories and Backlog of Orders contracting at faster rates); Output (Production contracted, but Employment edged up), and Inputs (Supplier Deliveries, Inventories, Prices, Imports) which on net moved further into contraction.

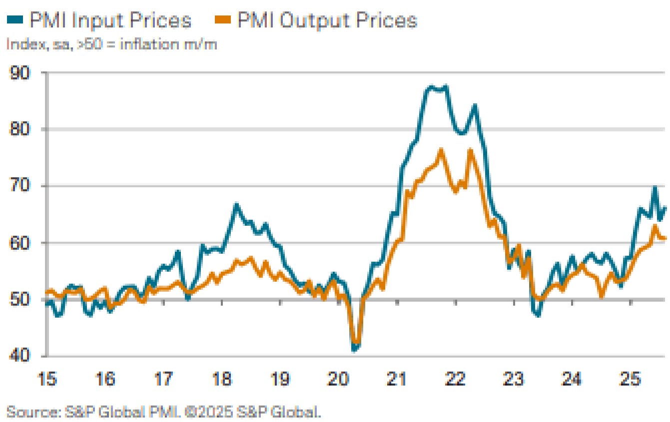






A Still Strong Increase In Final August Mfg PMI Despite Lower Revision

- S&P Global US mfg PMI: 53.0 in Aug final (cons & prelim 53.3) after 49.8 in July.
- As such, it was revised modestly lower but is still the highest since May 2022 after a strong monthly increase.



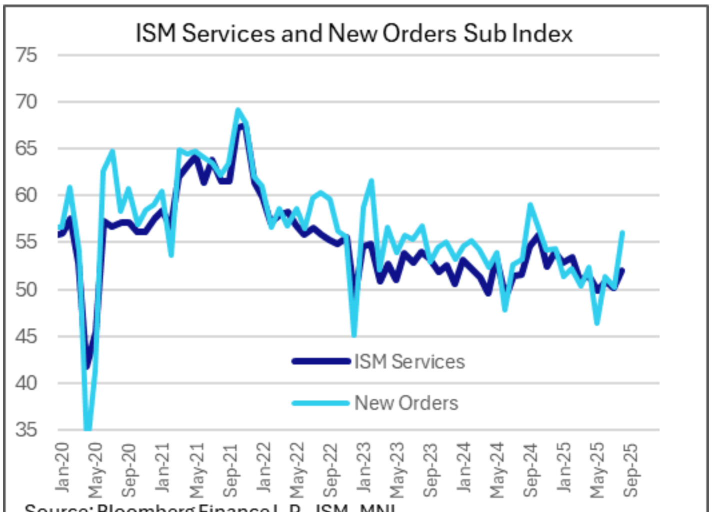
Press release (link) highlights point to a similar story to that from the flash at first glance:

- “US manufacturing operating conditions improved to the greatest degree in over three years during August amid a surge in production and solid growth in new order books.”
- “Firms also took on workers to a greater degree amid evidence of capacity constraints. Inventory building in part fueled the upturn in output, with finished goods stocks rising to the greatest degree in over a year amid worries over prices and supply constraints.”
- “This was again linked to tariffs, which served to raise input costs steeply during August and, in turn, sharply drive up typical selling prices.”

Solid ISM Services Potentially Boosted By Tariff-Related Activity

August's ISM Services report was stronger than expected in most major categories, with the headline index rising to a 6-month high 52.0 from 50.1 prior (and vs 51.0 Bloomberg consensus). This was a solid report but there was still ample evidence of tariff-related effects on business activity: anecdotes suggested front-running may be exaggerating a sharp improvement in new orders and a rise in inventories, and while price pressures moderated slightly, they remain very elevated.

- New orders were a standout in the report at a 10-month high 56.0 (50.3 prior, 51.1 expected), despite a pullback in New Export Orders to a 5-month low 47.3 (47.9 prior). Some anecdotes suggested continued tariff front-running may have been a factor ("Getting merchandise into the U.S. ahead of effective dates of tariff increases"). Indeed, Imports rose 8.7 points to 54.6, highest since January 2024.
- One standout on the downside was that the Backlog of Orders subindex was below 50 for a 6th consecutive month, down 3.9 points at 40.4 for the lowest since May 2009 - there wasn't much explanation provided in the report but the ISM highlighted that this 16-year low was a negative factor.
- Employment improved, but by slightly less than anticipated, to 46.5 from 46.4 (46.7 expected), and thus remaining in contractionary territory for a 3rd consecutive month and 5th month in 6. (One side note, the only "Commodity" listed as being in "short supply" in this report was "Labor — Construction").
- Prices Paid fell a little more than expected from July's 33-month high 69.9, although at 69.2 remains elevated.
- Supplier Deliveries remained above 50, indicating slower supplier delivery performance, but the 0.7 point drop to 50.3 suggested that deliveries were slowing at a lesser rate. The anecdotes were of potential interest from a tariff-hit supply chain perspective albeit mixed ("It appears most manufacturers are finally back to pre-COVID-19 lead times" and "Shortage of a vendor's inventoried goods has affected the on-time delivery of needed supplies.")
- Additionally, Inventories rose 1.4 points to 53.2 (above 50 for 3 consecutive month), with respondents noting potential inventory build ahead of anticipated price increases (one anecdote reported "We have been making strategic buys of critical components to build a safety stock in response to extended lead times and anticipated price increases in the fourth quarter").
- Even so, Inventory Sentiment was up 2.3 points to 55.5, indicating that firms increasingly see inventories as "too high".
- Overall, 12 (of 16) industries reported growth in the month, one more than in July's report. The non-growth exceptions: " Accommodation & Food Services; Management of Companies & Support Services; Other Services; and Construction".



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

Services PMI Follows Manufacturing With Surprise Downward Revision

The services PMI saw a sizeable downward revision in the final August release, leaving a larger decline from a particularly elevated July. Still, at 54.5 in August, it would still leave a marked gap between the 51.0 expected for

ISM Services in August after 50.1 in July - August will be released shortly at 1000ET. Note that this downward revision to services build on the final manufacturing PMI also being tweaked to 53.0 vs a prelim 53.3 although that still marked a strong increase from 49.8 in July.

- S&P Global Services PMI: 54.5 (cons & prelim 55.4) in Aug final after 55.7 in July - the 55.7 in July is the highest since August.
- S&P Global Composite PMI: 54.6 (cons 55.3, prelim 55.4) in Aug final after 55.1 in July

Composite PMI price pressures not as strong as in the flash: "Price pressures remained elevated, despite easing slightly since July." Vs the Flash "Average prices charged for goods and services rose at the sharpest rate since August 2022 as firms passed higher costs on to customers."

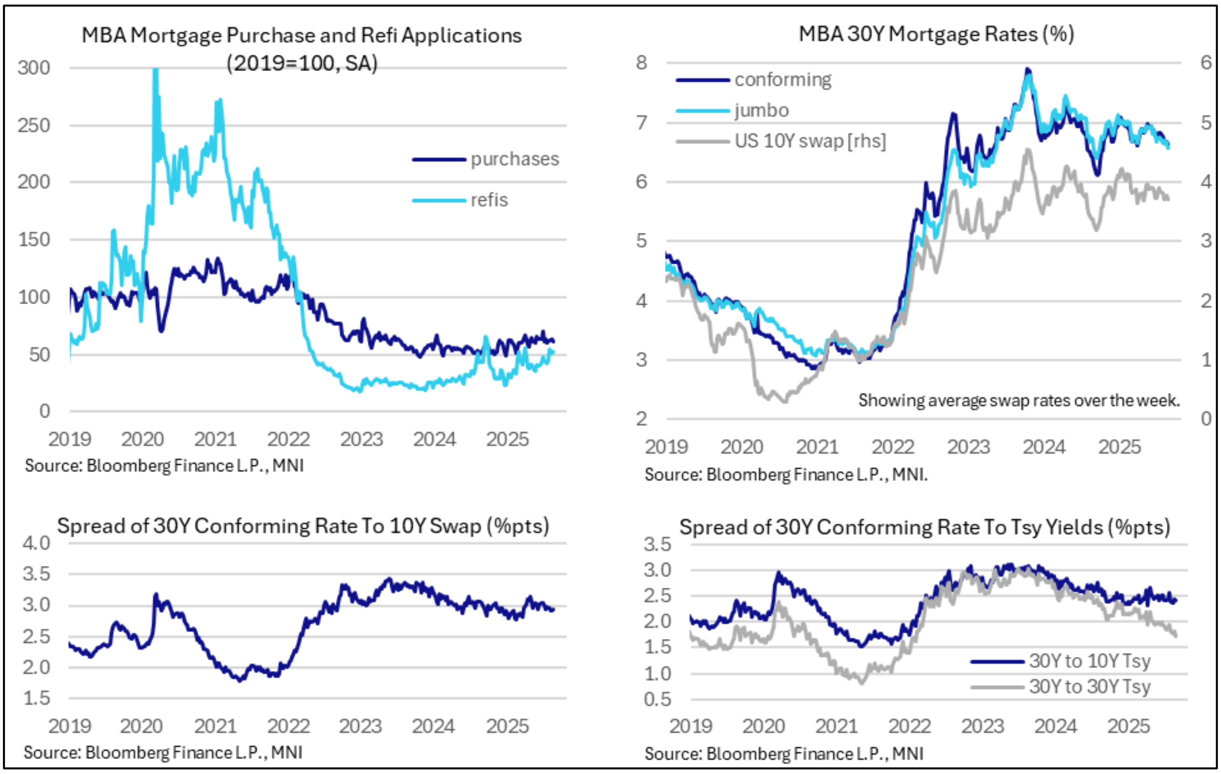
Today's press release highlights:

- "The US service sector continued to expand in August, despite growth softening slightly since July.
- A marked uptick in new business volumes helped to support the latest increase in activity, meaning service providers were also suitably encouraged to add to their payroll numbers.
- That was despite confidence in the outlook remaining relatively subdued and falling to its lowest level in four months amid ongoing worries over tariffs and associated uncertainty.
- Alongside reports of higher employee costs, tariffs also served to push up service providers' operating expenses at an elevated pace. Selling prices were increased steeply in response."

Credit/Household Finances: Little Change

Mortgage Applications Fade Latest Dip In Mortgage Rates

- MBA composite mortgage applications dipped -1.2% (sa) last week, a third consecutive small weekly decline after a refi-driven 11% increase earlier in August.
- New purchase applications -3.1% after 2.2%, refi applications 0.9% after -3.5%.
- Levels relative to 2019 averages: composite 58%, new purchases 61% and refis 52%.
- There wasn’t much sign of a boost from the 5bp decline in the 30Y conforming mortgage rate to 6.64% for a new low since early April’s 6.61% ytd low.
- The spread to average 10Y swap rates over the week meanwhile held at its slightly lower recent levels, between 291-293bp for three weeks now vs the range of 300bp +/-5bp seen mostly since reciprocal tariff announcements in April vs 285bps averaged in Q1. It’s a mild relative easing in lending standards recently.
- US Tsy Sec Bessent has in recent weeks talked on wanting to keep the spread between mortgage rates and treasuries flat or even bring it down. To this end, spreads to 10Y Tsy yields (the usual point of focus) have averaged 240bp over the past month, pretty stable considering they’ve averaged 245bp all year, although that’s down significantly from the closer to 300bp in 2023.



Fedspeak: September Voters Split On The Outlook

- *Gov Waller: Multiple Cuts In Coming Months, How Fast Is The Question (Sep 3)*
- *St Louis's Musalem: Current Rates Appropriate Despite Higher Labor Risks (Sep 3)*
- *Gov Nominee Miran: President Nominated Me Because He Likes My Policy Views (Sep 4)*
- *NY's Williams Maintains Cautious Easing Bias, Says QT Going "Very Smoothly" (Sep 4)*
- *Chicago's Goolsbee Still Undecided On September Cut, Watching Services CPI (Sep 5)*

Gov Waller: Multiple Cuts In Coming Months, How Fast Is The Question (Sep 3)

Fed Gov Waller (permanent voter, dove) sticks to his dovish stance in a CNBC interview, calling for rate cuts to resume imminently in a move toward neutral over the coming months- though he remains uncertain about how quickly the Fed will remove restrictiveness (and has nothing new to add re his Fed Chair candidacy).

- Indeed, Waller restates his case for a cut at the September Fed meeting on the basis of labor market risks, saying "for me, I think we need to start cutting rates at the next meeting, and then we don't have to go in a locked sequence of steps. We can kind of see where things are going, because people are still worried about tariff inflation. I'm not, but everybody else is. So I would say over the next three to six months, we can see multiple cuts coming in, whether it's like every other meeting, every meeting, we'll have to wait and see what the data says and where we are headed."
- He elaborates: "What we want to do is start cutting because [of] the labor market, but we can always adjust the pace depending on how the data comes in. So I kind of use this analogy that, you know, when I was in college, you know, northern Minnesota, I drive home for Christmas. I knew what the ultimate destination was, but how fast I got home depended on the weather, which is the incoming data, and that's kind of where we're at now. We kind of know we want to get towards neutral. We know roughly how much you might want to cut, say, 100, 150 basis points, but how fast we get there is going to depend on the data that comes in."
- He also notes that this outlook depends on one's view of neutral and he suggests that some of his FOMC colleagues' estimates are "much higher" than his: "If your rates are above what you think is neutral, which

for at least half of the committee, is 3% then policy is still moderately restrictive. So my other colleagues have much higher neutral rates, so they think we're barely restrictive."

- Asked on CNBC about his take on current bond market dynamics with long-end yields rising, says that "if there's anything that was worrisome that was driving the 30 (year Treasury yield), you'd think it would also start affecting the 10, but, but it's not. It's kind of anchored there. And... on the short end, the markets are certainly pricing in cuts from the Fed in the next few months, which is probably a reasonable estimate."
- Gov Waller says he hasn't interviewed for the Fed Chair job with Treasury Sec Bessent, and don't have an interview scheduled "at this moment". Asked whether he still considers Lisa Cook to be a Federal Reserve Governor: "Let's see. This is in the courts. This is no longer an issue for me. The courts will be deciding soon how this is going to play out. So I really just don't have any comment."

St Louis's Musalem: Current Rates Appropriate Despite Higher Labor Risks (Sep 3)

St Louis Fed President Musalem (2025 FOMC Voter, hawk) suggests that rates are currently at the right level given economic conditions. He doesn't explicitly argue for a rate hold in September - leaving it uncertain whether he would dissent against the Committee's likely decision to cut 25bp. But it's pretty clear that while he is prepared to ease policy at some point in the future, and he recognizes that the balance of risks is tilting a little more toward missing on the employment mandate, he is comfortable with keeping policy "modestly restrictive" for now.

- In his speech he notes "the current modestly restrictive setting of the policy rate is consistent with today’s full employment labor market and core inflation nearly one percentage point above the Fed’s 2% target... In the coming weeks and months, I will continue to update my outlook and my assessment of the balance of risks to seek a forward-looking path of interest rates that best positions monetary policy for achieving and maintaining maximum employment and price stability for all Americans."
- He notes that "Recent data have further increased my perception of downside risks to the labor market. These include a higher proportion of longer-term unemployed workers, rising unemployment rates for demographic groups that are more sensitive to economic cycles, and substantial downward revisions to payroll growth estimates" as well as the upcoming QCEW benchmark revisions. On inflation, "I expect the effects of tariffs will work through the economy over the next two to three quarters and the impact on inflation will fade after that". with inflation "resum[ing] convergence toward 2% in the second half of 2026".
- Musalem elaborates in Q&A that he is seeing increased risks to the employment mandate, but moderating risks to the inflation mandate: "In terms of the balance of risks, what I've been doing over the last two months is I've been revising my assessment of downside risks to the labor markets slightly higher, as I've seen some deterioration in some of the underlying full employment numbers, and I've been revising my assessment of the risk of persistent above target inflation slightly lower, in part because the pass through so far of tariffs on to inflation has been low, only at around 20% as measured by St Louis economists, and that's 20% of a theoretical full pass through scenario. That's low, but there's still uncertainty. You know, we could have more rounds of tariffs. The pass through could increase over time, and there's only been really three months of data. So May, June and July, data after the tariffs were raised meaningfully and in April, so three months of data."
- Even so, he warns that adjusting policy is currently a balancing act: "Pursuing a balanced approach requires care. For example, putting most of the weight on the labor market goal runs a risk of unwarranted or excessive policy easing, causing a further steepening of the yield curve, a rise in the term premium or an increase in inflation expectations. At the same time, putting most of the weight on the inflation goal runs the risk of not providing enough support to maintain a full employment labor market at a time when downside risks have risen. Again, balance is the key."

Gov Nominee Miran: President Nominated Me Because He Likes My Policy Views (Sep 4)

Fed Gov nominee Miran's independence (or lack thereof) from White House influence is unsurprisingly a central theme in his Senate banking committee nomination hearing.

- He says "I couldn't be more in agreement that independence of the central bank is of paramount importance for the economy, for financial markets, for the long run stewardship of the country, all of those are completely I'm in complete accord with. Look, the President nominated me because I have policy views that I suppose that he liked.... If I'm confirmed to this role, I will act independently, as the Federal Reserve always does, based on my own personal analysis of economic data, my own personal analysis of the effects of economic policies upon the economy, and act based on my judgment of the best economic policy possible. That said, I'm always happy to hear views from every source possible."

- In a line of questioning about his independence from the White House in pursuing policy, Miran suggests that he will return as Chairman of the Council of Economic advisors at the White House once his term is over in January: "I have received advice from counsel that what is required is an unpaid leave of absence from the Council of Economic Advisors. And so, considering the term for which I'm being nominated is a little bit more than four months, that is what I will be taking. As long as that is the advice of counsel I'll follow the law."
- Later he notes that "the term for which I've been nominated is four and a half months. If I am nominated and confirmed for a longer term than just a handful of months, I would absolutely resign."
- Asked whether "anyone in the administration asked you to commit, formally or informally, to lower vote to lowering interest rates", Miran says "no".
- He doesn't have much to say on current policy, merely noting "there has been no detectable increase in the aggregate price level as a result of tariffs." "In my view, the most important job of the central bank is to prevent Depressions and hyperinflations. Independence of monetary policy is a critical element for its success. Given the central bank's outsized role in the economy, it's no surprise that outsiders have opined on its decisions for decades. However, if confirmed, I plan to dutifully carry out my role pursuant to the mandates assigned by Congress. My opinions and decisions will be based on my analysis of the macroeconomy and what's best for its long-term stewardship. The Federal Open Market Committee is an independent group with a monumental task, and I intend to preserve that independence and serve the American people to the best of my ability."
- He briefly mentions Fed balance sheet policy, but in vague terms: "The ultimate composition of the Fed's balance sheet is an open-ended question."

NY's Williams Maintains Cautious Easing Bias, Says QT Going "Very Smoothly" (Sep 4)

In NY Fed President Williams' likely last appearance before the pre-FOMC blackout begins this weekend, there was no explicit support mentioned for a rate cut at the mid-month meeting. To be fair, that's pretty typical for Williams who rarely makes his meeting-by-meeting rate preferences clear, and we highly doubt he would dissent to a September rate cut. And he clearly has an easing bias. However, it does suggest that - barring data surprises - he is currently on the side of fewer cuts through end-year (our guess is that he favors 2 in line with the June SEP median) compared with the most dovish current members of the FOMC (ie Waller, Bowman who see 3).

- On that note, his speech Thursday at the Economic Club of New York is titled "Hat Tip to the Data", in which he says that versus the current "modestly restrictive" policy, "looking ahead, if progress on our dual mandate goals continues as in my baseline forecast, I anticipate it will become appropriate to move interest rates toward a more neutral stance over time. This expectation reflects a delicate balancing of risks to our mandate goals... On the one hand, we need to keep the labor market in balance to ensure that the effects of tariffs do not spill over into a longer-lasting broad increase in inflation. On the other hand, maintaining a stance of 'too restrictive policy for too long' could increase risks to our maximum employment mandate."
- He appears to be increasingly of the mind that tariffs are not feeding through to broader price pressures, and haven't been as big as expected so far, even though he acknowledges that it is too early to draw firm conclusions (citing net tariff receipts as a share of imports only at around 10% so far vs the expected 15-20% eventual effective tariff rate).
- He says "There are clear signs that tariff increases are affecting consumer prices and that trade diversion is taking place... Fortunately, I am not seeing signs of amplification or second-round effects of tariffs on broader inflation trends...And longer-run inflation expectations have remained stable... All in all, I expect tariffs will boost overall prices by a total of between 1 and 1.5%, with these effects continuing through the first half of next year."
- On the labor market front, he emphasizes on the eve of the August nonfarm payrolls release that he will be paying less attention to headline payrolls growth due to an apparent pullback in both supply and demand in the labor market: "First, the labor market is currently in balance and not adding to inflationary pressures. Second, the gradual cooling in the labor market is consistent with the slowing in overall economic growth and my assessment of monetary policy being modestly restrictive. Third, as we are seeing today, when there are sharp changes in labor supply, it can be challenging to assess the rate of job growth consistent

with that of labor supply. I therefore put greater weight on other indicators of the level of labor market conditions in assessing the strength of the labor market."

- Finally, he makes a brief note on Fed balance sheet policy, saying QT is "going very smoothly" but acknowledging that overnight reverse repo facility takeup has fallen to "quite low" levels meaning the level of reserves "is expected to decline more meaningfully going forward as our asset holdings continue to shrink and other liabilities rise. We continue to closely monitor a range of indicators related to the ampleness of reserves."

Chicago's Goolsbee Still Undecided On September Cut, Watching Services CPI (Sep 5)

Chicago Fed President Goolsbee, a 2025 FOMC voter, tells Bloomberg TV that he is "undecided" on a rate cut at the September FOMC, saying he wants "to get more information".

- He plays down the signal from the recent nonfarm payrolls slowdown, due to a potentially softer labor force growth dynamics. He suggests one of the things he will be looking at in the meantime is the August inflation report out next week - and in particular, whether services inflation looks tame.
- He says: "I'm not allowed to speak for the rest of the Fed. I want to get more information. I am still undecided as we are going into this. If it looks like the labor market is deteriorating on grounds of more than just the monthly payroll numbers, I want to emphasize again when you have population growth changing behind-the-scenes, just the aggregate monthly pay off growth is not a great indicator of the business cycle. If we start to see deterioration across all of the four horsemen of truth in the labor market, the unemployment rate, the hiring rate, if we start to see layoffs, we would be nervous on the employment side of the mandate...."
- "To me, until we get more convincing evidence otherwise, I still think we are most likely in a full employment space where we are generating jobs and the economy continues to grow."
- On inflation: "In the last inflation reports we also had this uptick in inflation coming from services. We want to make sure that is more of a blip and not a more ominous indicator...if the inflation numbers come in and they give some indication that the inflation from tariffs is not looking to be an uptick in inflation on services, it does not look to be persistent. It looks to be more like a temporary blip in the arena. That would provide comfort to me that we are still on what I was calling the golden path."

Beige Book: Improved Activity, But Labor And Price Concerns Linger

The Fed's latest Beige Book pointed to a slightly improved assessment of current economic activity in August versus the prior edition in July, with selling price pressures remaining modestly/moderately to the upside. However, expectations were for future price increases (in part due to tariffs), and the latest edition suggests that labor market conditions have weakened. The table below summarizes the region-by-region findings.

District-By-District Descriptions of Current Conditions - Aug 2025 Beige Book

	Econ Act	Employment	Inflation (Selling Prices)
Boston	Expanded slightly	Declined slightly	Increased modestly
NY	Decline slightly	Relatively unchanged	Rose moderately (and accelerating)
Phil	Increased modestly	Unchanged	Increased modestly
Cle	Increased slightly	Unchanged	Increased modestly
Richmond	Grew modestly	Largely unchanged	Moderate
Atl	Decline slightly	Unchanged	Rose moderately
Chicago	Increased modestly	Rose slightly	Rose moderately
Stl	Unchanged	Unchanged	Increased moderately (and accelerating)
Minn	Decline slightly	Declined slightly	Increased modestly
KC	Generally flat	Fell modestly	Rose moderately
Dallas	Expanded modestly	Unchanged	Increased modestly
San Fran	Edged down slightly	Fell slightly	Increased modestly

Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

STIR: Soft Payrolls See Three Consecutive Cuts Eyed To Year-End, Almost 150bp Ahead

- The payrolls report dominated the week's price action, with a large extension of a dovish move throughout the week on soft JOLTS and less so ADP reports (including a swift rally prior to the payrolls report on reports that the BLS was having difficulty with its data retrieval tools).
- Price action since the payrolls report continues makes sense to us, although for now we'd continue to fade any modest expectations for a more aggressive 50bp cut from the FOMC later this month.
- Fed Funds futures point to 27.5bp of cuts for the Sept 17 decision vs 25bp pre-release having pared a shift closer to 30bp in the aftermath (i.e. 20% odds of 50bp cut). Larger moves have been seen further out with now 69bp of cumulative cuts to year-end vs 61.5bp shortly before the release and 72.5bp at one point after the data.
- We wrote in our preview: "With 57.5bp of cumulative cuts priced to year-end, we feel a weak NFP report could see a shift nearer to 75bp of cuts priced. That could either capture a "recalibration"-style approach to the resumption of cuts, roughly mirroring the 50bp start to the Fed's cutting cycle back in September 2024 after a weak July payrolls report, or perhaps more likely the perception of three consecutive cuts with the advantage being less at risk of overly reacting to volatile and revision-prone data."
- Further out, SOFR futures now point to almost 150bp of cuts from current levels.

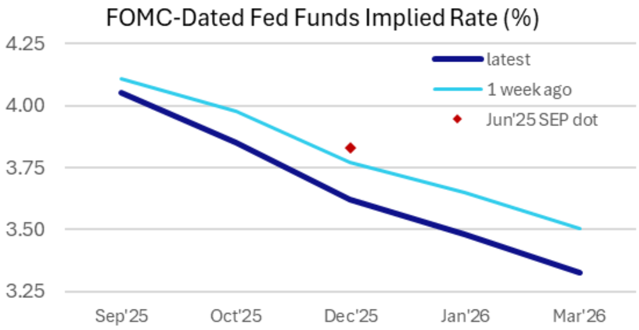
Cumulative Fed cuts by end-2025 (%pt) (Bloomberg Finance L.P.)

FOMC-dated Fed Funds futures implied rates

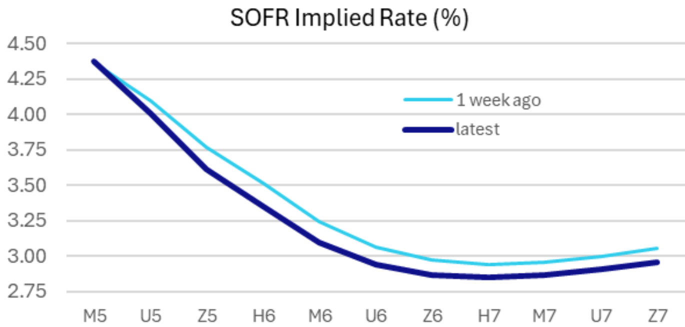
Meeting	Latest			pre NFP (Sep 5)			*chg in rate*	pre Powell (Aug 22)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.05	-28.0	-28.0	4.08	-24.8	-24.8	*-3.2*	4.15	-18.1	-18.1	*-9.9*
Oct'25	3.85	-19.8	-47.8	3.93	-15	-40.2	*-7.6*	4.03	-12	-30	*-18.0*
Dec'25	3.62	-23.2	-71.0	3.71	-22	-61.7	*-9.3*	3.85	-19	-48	*-22.6*
Jan'26	3.48	-13.7	-84.7	3.59	-12	-73.8	*-10.9*	3.73	-11	-60	*-25.0*
Mar'26	3.33	-15.6	-100.3	3.45	-15	-88.5	*-11.8*	3.60	-13	-73	*-27.4*

Source: Bloomberg Finance L.P., MNI.

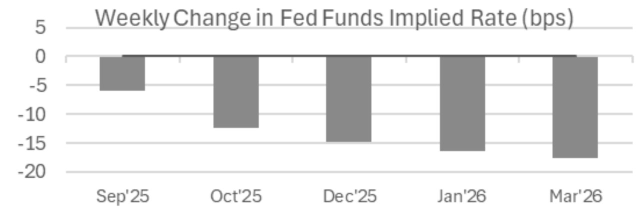
Week-on-week moves:

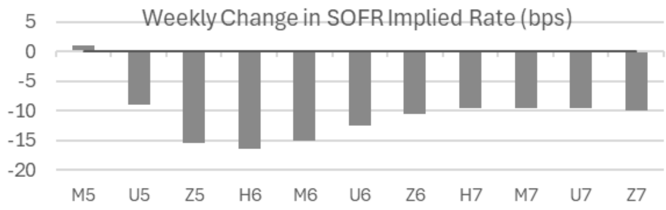


Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.





Analyst Fed View Changes

BofA Switch To 2025 Cuts From One Of The Last Holdouts

BofA have shifted to expecting 25bp cuts in Sep and Dec having previously been one of the holdouts to increasingly dovish calls with a long-held view that the Fed would keep rates on hold through year-end. Post-payrolls, Fed Funds futures shifted beyond pricing a 25bp cut later this month, currently implying 28.5bp for Sept and a cumulative 70bp to year-end.

- BofA write that "The August jobs report is likely to amplify the Fed's concerns about labor market weakness. Job growth was anemic on the month, the u-rate ticked up to 4.3% and weaker-than-expected hours worked led to a slowdown in income growth. There is now clearer evidence of deterioration in labor demand, not just supply."
- Whilst there is "very little precedent" for a cutting cycle where the Fed doesn't cut every meeting, they expect core PCE inflation stopping it from cutting in October (they forecast it likely to hit 3% in August and rise further toward year-end).
- "We stick to our view that the next Fed Chair will lead the FOMC in a more dovish direction. We now look for another 75bp of cuts under the new Chair, for a terminal rate of 3.00-3.25%. We pencil those in for Jun, Sep and Dec 2026. This takes our forecast of cumulative cuts by end-2026 from 100bp to 125bp."
- Note that they had however caveated their previous on-hold view with the following after Jackson Hole: "the risks have obviously shifted meaningfully toward a cut" in September..."The onus is firmly on the data to prevent a cut."

The US Macro Week Ahead: Payrolls Preliminary Benchmark Revision Before PPI/CPI

The BLS on Tuesday will publish preliminary estimates of benchmark revisions, based off QCEW data for Q1. These will give an indication of the actual benchmark revisions on the Mar 2025 level of payrolls due with the Jan 2026 payrolls report released in early February. Bear in mind that the final benchmark estimate tends to nearly always be more negative than the preliminary figure – see historical values to the right. That doesn't mean they can't be large again after last year's historically negative revision that lowered the level of payrolls by ~600k. Initial estimates we've seen look for another large downward revision, with the smallest being worth -550k but with wide ranges higher.

It's followed by US PPI inflation on Wednesday before CPI inflation on Thursday, an unusual ordering that should see core PCE implications dialled in after the CPI release rather than the usual wide range waiting for idiosyncratic PPI details. PPI will be watched more closely than usual this month after a far stronger than expected jump in last month's July report fired a warning short over tariff-based cost pressures starting to feed through. That included a 0.6% M/M increase in our preferred core series of PPI ex food, energy & trade services, which strips out items such as the then booming portfolio management & investment advice category following the strength in equity markets. It's too early to gauge an accurate sense of analyst expectations for August.

CPI inflation on Thursday will then be the last major release ahead of the Sep 17 FOMC decision. Consensus looks for core CPI at 0.3% M/M after the 0.32% M/M in July, another monthly increase comfortably above a pace consistent with 2% inflation. August should in theory start to see the largest tariff impacts along with September and possibly October. Returning to July's report, core goods inflation was softer than expected, at a still solid (by core goods standards) 0.2% M/M for a second month running but about half that of 0.4% expected by analysts. Instead, non-housing core services surprised higher. The latter was a "dangerous" development in the words of a usually dovish Chicago Fed's Goolsbee ('25 voter), who speaking after Friday's payrolls report is still undecided on a September cut whilst looking for August inflation data "to get more information".

Date	ET	Impact	Event
8-Sep	1100	**	NY Fed Survey of Consumer Expectations
8-Sep	1500	*	Consumer Credit
9-Sep	600	**	NFIB Small Business Optimism Index
9-Sep	855	**	Redbook Retail Sales Index
10-Sep	700	**	MBA Weekly Applications Index
10-Sep	830	***	PPI
10-Sep	1000	**	Wholesale Trade
11-Sep	830	***	Jobless Claims
11-Sep	830	***	CPI
11-Sep	1400	**	Treasury Budget
12-Sep	1000	*	Services Revenues
12-Sep	1000	***	U. Mich. Survey of Consumers