mni

All Signal, No Noise

MARKET ANALYSIS

MNI U.S. Macro Weekly

MNI View: Navigating Murky Waters

October 10, 2025 – By Tim Cooper and Chris Harrison

Executive Summary

- The federal government shutdown that began October 1 is all but certain to extend through the middle of the month, with prediction markets eyeing just a one-in-three chance it'll be concluded by Oct 22.
- The actual economic fallout is not expected to be extensive (yet), but it's left the data schedule somewhat lacking. What readings we have received don't really change the underlying narrative.
- We will have to wait indefinitely to get the September Employment report but jobless claims (cobbled together from state-level readings) continue to portray a low-hiring, low-firing labor market, and various higher-frequency measures of economic activity suggest that growth maintained an above-potential pace at least through early October even as consumer confidence remains limp.
- We, as well as the Fed and market participants, are increasingly eyeing "Alternative" data sources that are mainly private-sector indicators that offer insight into trends in key areas of the economy, including the Labor Market, Retail Sales/Consumer, Inflation, Housing, and Economic Activity. Our calendar - linked to below - includes some of these indicators and the document includes expected release dates and links.
- With data proving limited in its market-moving ability, the standout move in the week was a strong rally in US rates Friday on President Trump threatening more extensive tariffs on China. A 25bp Fed rate cut at the end of the month remained assured, particularly with only limited data to dissuade.
- The biggest headline out of the September FOMC minutes release is that "most" participants "judged that it likely would be appropriate to ease policy further over the remainder of this year". But that's not a surprise given the Dot Plot, and the minutes also arguably had a bit of a cautious tone, as it portrayed a Committee that is wary but not overly concerned about the state of the labor market.
- The list of potential Fed chairs was whittled down to 5 per reports, with NEC director Hassett considered a narrow favorite over Blackrock Fixed Income CIO Rick Rieder and ex-Fed Gov Warsh, with current Fed Board members Waller and Bowman slightly behind per prediction markets.
- As we went to press, the Fed announced that next week's Industrial Production data will be postponed (was due to be published next Friday Oct 17) as the data "incorporate a range of data from other government agencies, the publication of which has been delayed as a result of the federal government shutdown." We won't be getting September CPI as scheduled on Oct 15, but at least the BLS announced it will publish the data on Oct 24.
- As such next week we'll be looking at some under-covered data points, including the Redbook weekly and Chicago Fed's CARTS retail sales data (in lieu of the Census Bureau retail sales report), with a little more focus than usual on regional Fed manufacturing indices (NY, Philadelphia).
- Once again, the dearth of tier-one data leaves Fed commentary in focus ahead of the pre-FOMC blackout period: highlights for us are Philadelphia Fed President Paulson making her first comments on monetary policy on Monday since being appointed in the summer, while as always Chair Powell bears watching on Tuesday (we also hear from Bowman, Waller, Collins, Miran, Schmid, and Musalem).
- Additionally we get the latest Beige Book which was already key given the FOMC was already increasingly focused on anecdotal information as it attempts to navigate murky economic waters.

MNI Guide To U.S. Data Releases In Shutdown - Update Through Oct 23

We've updated our calendar of upcoming data releases through Oct 23, including identifying which reports are expected to be postponed if the federal government shutdown continues.
https://media.marketnews.com/Shutdown_Guide_Oct9_2025_Update_c95abd06be.pdf

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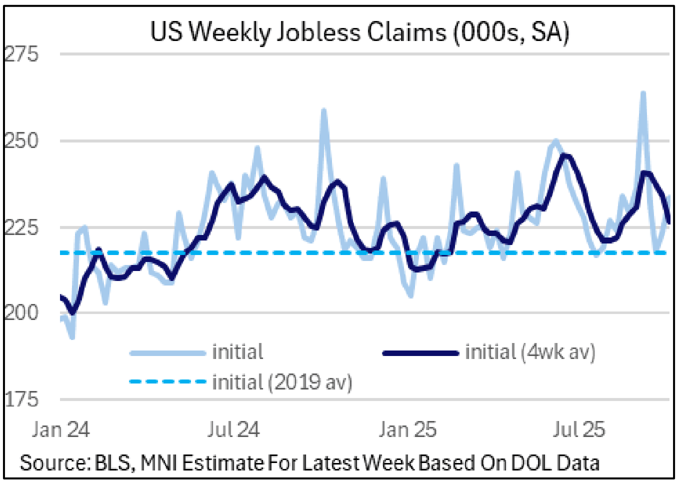
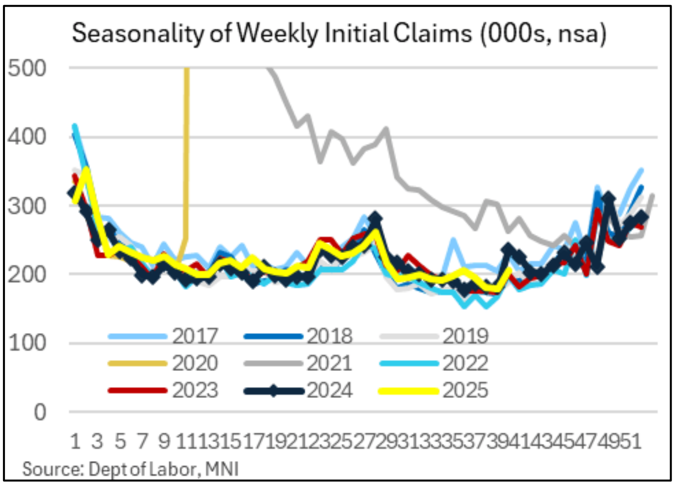
Labor Market: Nothing Too Untoward In Claims

Initial Claims Tick Up For A Second Week To 233-234k, Per MNI Estimates

MNI estimates based on state-by-state data that initial jobless claims in the Oct 4 week of 233-234k (unrounded 233.5k) on a seasonally adjusted basis, a notable rise from 224k (estimated) the prior week.

- If confirmed that would mark a second (unofficial) consecutive weekly increase and the largest rise in a month, as well as the the highest number of claims in 4 weeks.
- However, the higher claims weeks of late August/early September mean that the 4-week moving average continues to descend, to 227k in the latest week vs 234k prior, for a 7-week low.
- Also, there is likely to be a downward revision to those early September readings due to the identified Texas claims fraud that will very likely be revised at some point.
- As such excluding that Texas effect, overall claims have been hovering in a 217-237k range for the last 16 weeks, suggestive of a "low firing" labor market.
- MNI had estimated 223-225k initial claims in the prior week, dependent on the outcomes of Arizona, Massachusetts and US Virgin Islands claims which hadn't been published. While the Virgin Islands is still outstanding, the AZ and MA numbers were close enough to our estimates.
- This week, Hawaii (a relatively small state) and Massachusetts haven't reported. We assume the prior week's uptick was the usual seasonal norm for MA, and in the Oct 4 week it leveled off; however that assumption likely means that risks to our estimate are tilted slightly to the upside.
- One standout in the current week was Missouri whish saw a 3.9k uptick in claims (NSA), the largest rise since January and outside of the seasonal norms, though (obviously) no explanation was provided.
- The overall national NSA rise was 27.1k (to 206k), most since early June, though this was not outside of the seasonal norm.
- Note that these recent estimates are calculated from state-level claims data released later on Thursday along with already known BLS seasonal factors for national jobless claims.



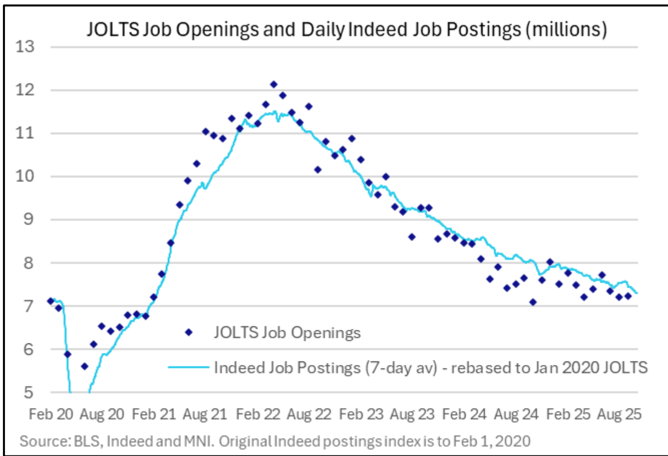


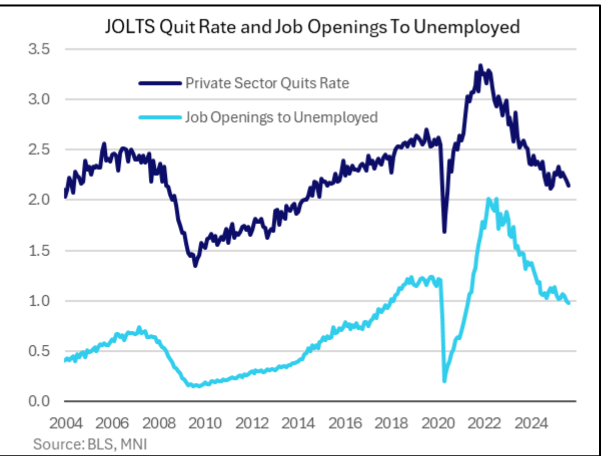
Continuing Claims Look To Have Increased Only Modestly Last Week

- Adding to our earlier comments on initial jobless claims, MNI estimates that continuing claims stood at a seasonally adjusted 1923k in the week to Sep 27.
- That's crudely using a four-week moving average for some missing states, whilst GS (1924k) and JPM (1927k) are a little higher.
- We tentatively estimate this to have been a second weekly increase in continuing claims from ~1909k two weeks prior in the week to Sep 13. If accurate, the latter would be its lowest since May (and a downward revision from 1926k in the last official data), holding off recent cycle highs in the 1960k's.
- Combined with still healthy initial jobless claims figures when allowing for Texas fraud, and these releases broadly point to a continuation of a low fire, low hire labor market.

Indeed Job Postings Point To Further Modest Decline In Vacancies

- Markets are having to increasingly turn to alternate indicators to gauge latest momentum with the lack of government data under the shutdown.
- With the labor market watched most acutely, we will run through a series of useful indicators as the FOMC increasingly looks at broader metrics of labor market balance.
- Indeed, Wednesday's FOMC Minutes provided a helpful checklist of indicators in lieu of / in addition to the headline nonfarm payroll change figure: "the unemployment rate, the ratio of job vacancies to unemployed workers, wage growth, the percentage of unemployed workers who find a job, the quits rate among employed workers, and the layoff rate."
- Related to this second point, Indeed job postings have recently seen a renewed softening in daily data up until Oct 3, falling to fresh lows since early 2021.
- These postings are ~2.5% lower than end-Aug – the latest period we have from the more comprehensive JOLTS report, in a figure that was roughly as expected at 7.2mln openings for little change from July.
- In the JOLTS data up until August, a trend decline in job openings coupled with a push higher in unemployment had seen the two move back in line, with a ratio of 1.0 in both July and August. This ratio peaked at a historically high 2.0 in Mar/Jul 2022 before moderating thereafter. The pace of moderation had been much slower since mid-2024 however, with an average 1.1% through Jun 2024-2025, having returned to a range seen pre-pandemic (0.9 in 2017, 1.1 in 2018 and 1.2 in 2019).
- With the ratio now at the low end of this range, there will be some concern that Indeed job postings have pushed lower since then, although as you can see from the chart below, it looks within ranges if basing off JOLTS levels in early 2020 when the Indeed postings data are first available.



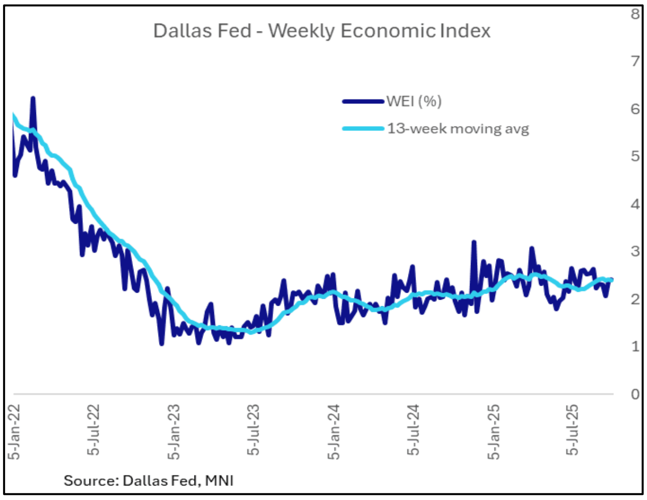


Growth: Robust

Dallas Fed's Weekly Growth Gauge Stays Robust Through First Days Of Q4

The Dallas Fed's Weekly Economic Index (WEI) came in at 2.42% for the week ended Oct 4, up from 2.37% the prior week. While the 13-week (ie quarterly) moving average dipped to 2.40% from 2.42%, this was the 4th consecutive week above 2.4% for the first time in 5 months.

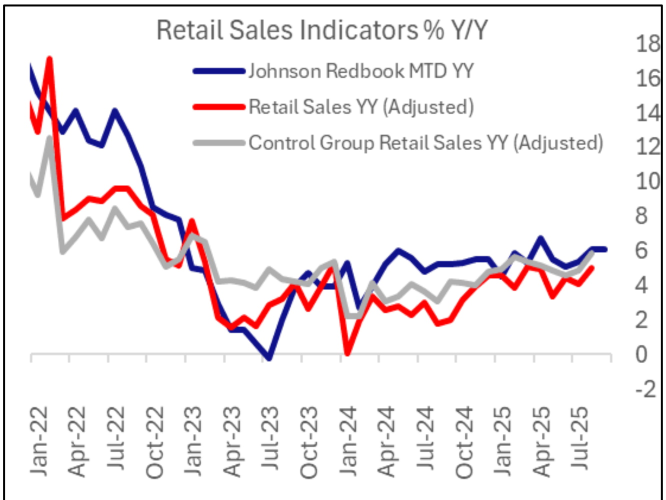
- The series is built primarily on private-sector weekly indicators though initial/continuing jobless claims are "imputed from the non-missing data and will be replaced with the actual data when it is available."
- This series remains robust and is scaled to 4-quarter (ie %Y/Y) growth. As such it largely accords with the Atlanta Fed's GDPNow (pre-gov't shutdown) estimate of real GDP growth north of 3% Q/Q SAAR in Q3, with momentum continuing into Q4.



Redbook Points To Robust Q3 Retail Sales Momentum, Official Data Or Not

Johnson Redbook Retail Sales rose by 5.8% Y/Y in the week ending Oct 4, bringing growth in the full month of September to 6.1% Y/Y (under their methodology, the month has 5 retail weeks). That's slightly softer than the 6.3% targeted by retailers but would still represent robust sales through the end of Q3.

- Additionally, their preliminary target for October growth (based on retailers' plans) is 5.7% Y/Y.
- It's still uncertain of course, but with every day of the federal shutdown that goes by, it's less and less likely we get the September Census Bureau retail sales report as scheduled on Oct 16.
- In the meantime we will be using proxies such as the Redbook index and the Chicago Fed CARTS index (which uses still-available data including payment card transactions, retail foot traffic, gasoline sales, and consumer sentiment to proxy retail sales ex-autos). These, plus Wards Automotive September sales, have all shown robust activity in the month consistent with a continued uptick in activity (a rough estimate is that nominal ex-autos/gas sales could post around 6% 3M/3M quarterly annualized growth for Q3, the strongest momentum seen since mid-2024).
- The Redbook report also notes: "As Amazon's annual 48-hour Prime Big Deal Day sales kick off on October 7th, several major retailers have also announced significant promotional sales in advance of Prime Day. Discount stores have performed well throughout the week, buoyed by essentials such as food and household supplies. Looking ahead, October consists of four weeks, ending November 1st on the retail calendar, and includes two major holiday events: Columbus Day and Halloween."



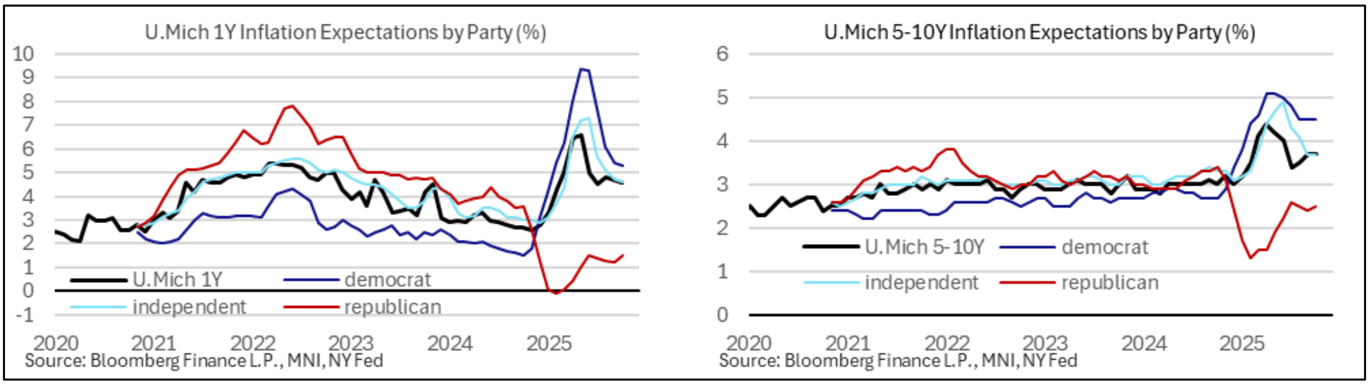
Source: Census Bureau, Johnson Redbook, Bloomberg Finance L.P., MNI

Consumer Sentiment: Mixed But No Large Surprises

No Real Surprises In Preliminary U.Mich Survey For October

The preliminary U.Mich consumer survey for October was broadly as expected, with consumer sentiment holding steady and revealing little impact from the federal government shutdown whilst inflation expectations were also little changed.

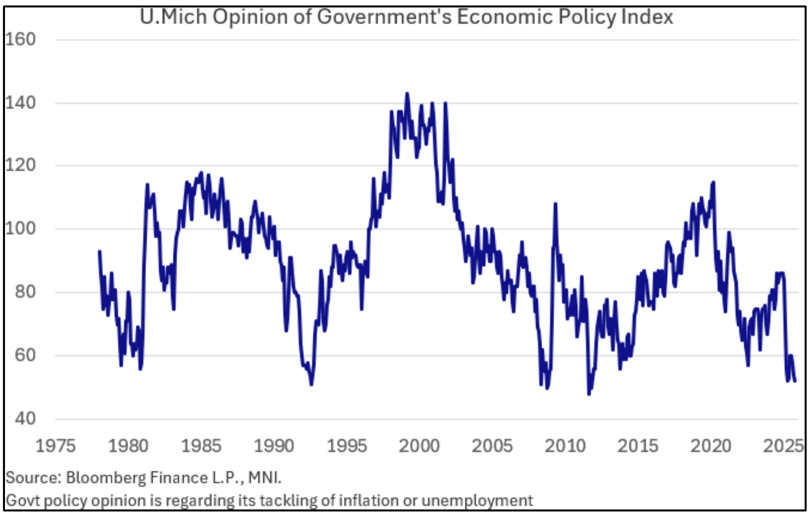
- U.Mich consumer sentiment was mildly stronger than expected as it held "virtually unchanged" at 55.0 (cons 54.0) in the preliminary October release after 55.1 in September.
- "Improvements this month in current personal finances and year-ahead business conditions were offset by declines in expectations for future personal finances as well as current buying conditions for durables."
- The inflation expectations metrics were close to consensus estimates but are prone to revisions come the final release which appears related to sensitivity to when those of differing political affiliation submit their results.
- 1Y inflation expectations: 4.6% (cons 4.7) after 4.7% in September.
- 5-10Y inflation expectations: 3.7% (cons 3.7) after 3.7% in September.
- The press release notes that "Inflation expectations for both time horizons are about midway between the readings seen a year ago and the highs seen this year in April and May in the wake of the initial announcements of major tariff changes."
- More broadly, note that "interviews reveal little evidence that the ongoing federal government shutdown has moved consumers' views of the economy thus far."
- Note also that the 603 responses for this preliminary survey is higher than some recent months but it could be double this come the full release.

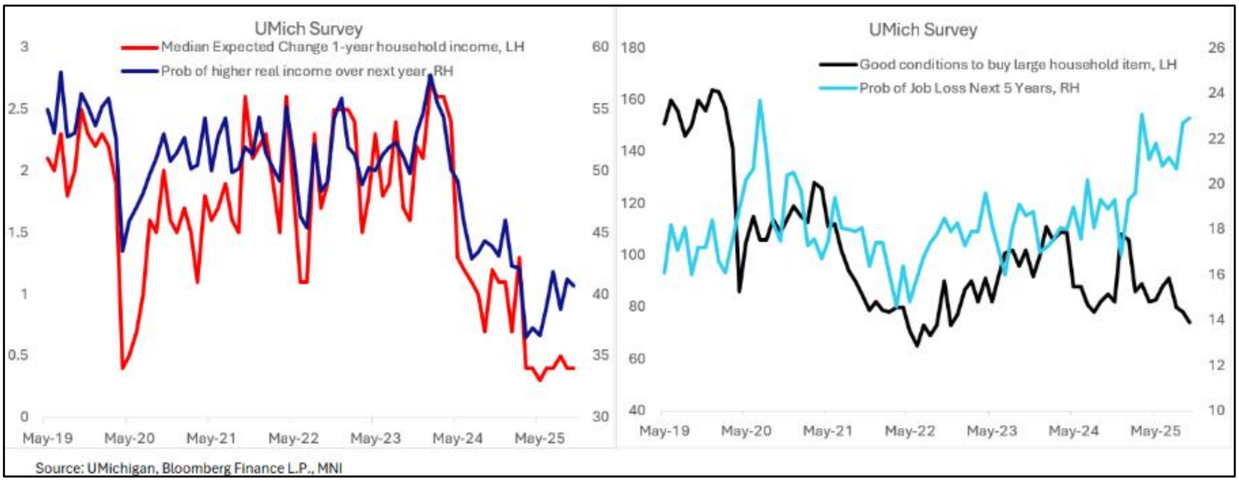


UMichigan: Consumers Increasingly Concerned About Jobs, Gov't Policy

Among the dozens of indicators underlying the flat sentiment reading in October's preliminary UMIchigan consumer survey (slightly better current conditions/slightly weaker expectations), a few areas of interest that generally show weak conditions in the labor market and purchasing sentiment:

- A 3rd consecutive drop in the net opinion of the government's economic policy, to 52 from 54, marking the lowest since April which had been the lowest since 2011. This came amid the federal government shutdown (though the report notes "interviews reveal little evidence that the ongoing federal government shutdown has moved consumers' views of the economy thus far") as well as continued concerns over inflation and, increasingly, jobs.
- Perceived probability of job loss in the next 5 years ticked up to 22.9% from 22.7%, for the highest since March, then before that in July 2020 and March 2009.
- A continued deterioration in the index for "good time" to buy large household durables fell to to 74, lowest since November 2022, from 78 prior. Buying conditions for vehicles and homes remained subdued.
- Median expected change in 1-year household income remained in the 0.4-0.5% area for a 5th consecutive month, levels consistent with the bottom of the pandemic in 2020. The implied probability of higher real income over the next year fell to 40.7 from 41.2, actually better than the Q2 lows - presumably as inflation expectations were pared from the highs.
- All that being said, there was a wealth effect offset to weak job and income expectations: the probability of adequate retirement income remained elevated (46%) with 56% expecting stock markets to rise in the next year, and the current value of stock market investments at all time highs. While year-ahead expectations for home values was flat (1.9%), 5Y expectations oddly equaled the series high at 5.3%.
- For all that, there wasn't much difference in sentiment shifts among the three income brackets though the highest-income were the most positive (bottom third 50.5, middle third 53.3, top third 61.9).
- The usual partisan splits prevailed, with consumer sentiment near all-time lows at 36.3 for Democrats and 53.9 for independents, but ticking up to near post-2020 highs for Republicans at 98.2.



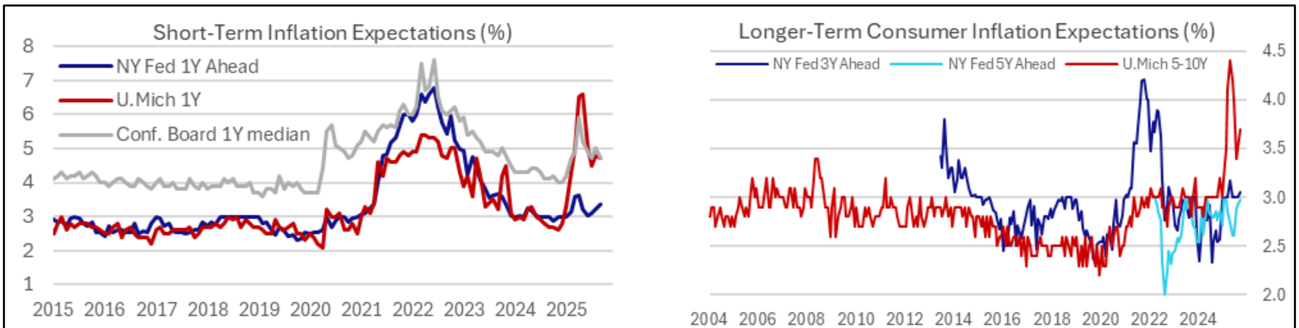


Source: UMichigan, Bloomberg Finance L.P., MNI

Consumer Inflation Expectations Firm Mildly In September - NY Fed

The NY Fed consumer survey (link) saw inflation expectations on balance increase in September. 1Y and 3Y expectations remain comfortably rangebound whilst the 5Y approach is at the high end of its short historical range.

- 1Y inflation expectations increased 20bps from 3.2% to 3.4% for its highest since April.
- 3Y inflation expectations edged up 5bps on an unrounded basis to 3.05% although remains broadly unchanged having averaged 3.02% since December.
- 5Y inflation expectations edged up 5bps to 2.97% for its highest since February.
- The report showed that more households report being better off than a year ago but the outlook for the labor market deteriorated.
- Specifically on labor: "Despite a small rebound in the expected job finding rate, labor market expectations continued to deteriorate with consumers reporting lower expected earnings growth, greater likelihoods of losing jobs, and a higher likelihood of a rise in overall unemployment."
- However, note that whilst the mean perceived probability of finding a job in the next three months if one's current job was lost rebounded somewhat from a series low of 44.9% in August to 47.4% in September" it still remained "well below the trailing 12-month average of 51.0%."



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

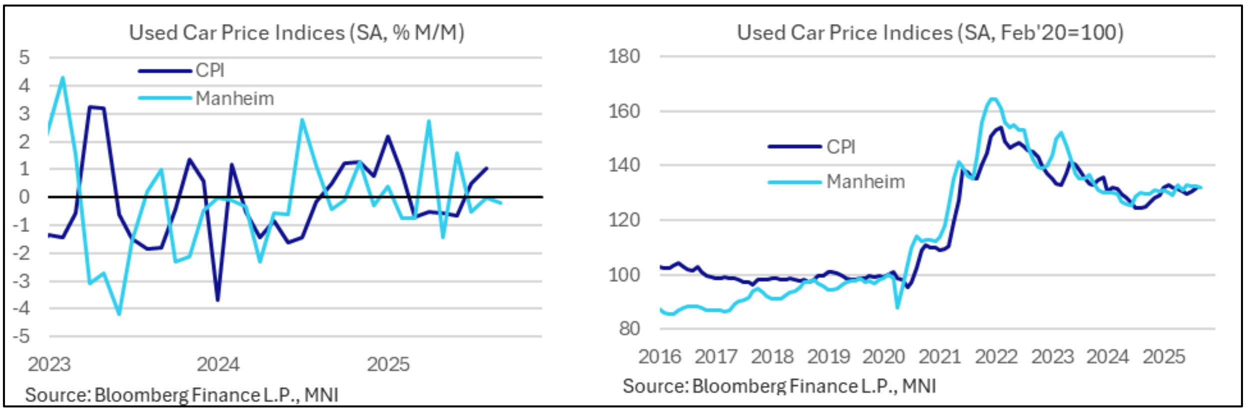
Source: NY Fed, U.Mich & MNI

Inflation: Car Prices Dip In A Quiet Week For Realized Inflation Data

Manheim Car Prices A Little Softer, Downside For CPI

- Manheim used vehicle prices were softer than thought earlier in September, now seen to have dipped -0.2% M/M in the full month release vs a 0.05% M/M increase in the mid-month version.
- It follows a flat August, in what are relatively small moves after -0.5% in July, 1.6% in June, -1.4% in May and 2.8% in April.

- Typical lags from recent months suggest downside to CPI used car prices after what was a broadly as expected 1.0% M/M increase back in August (for whenever September might be released) whilst latest Manheim data suggest further weakness beyond that.

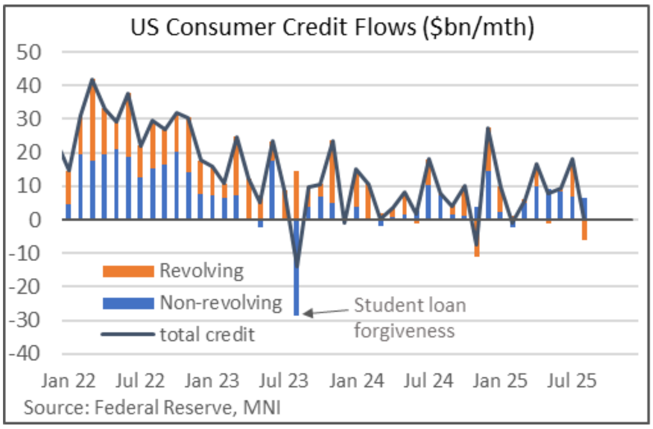


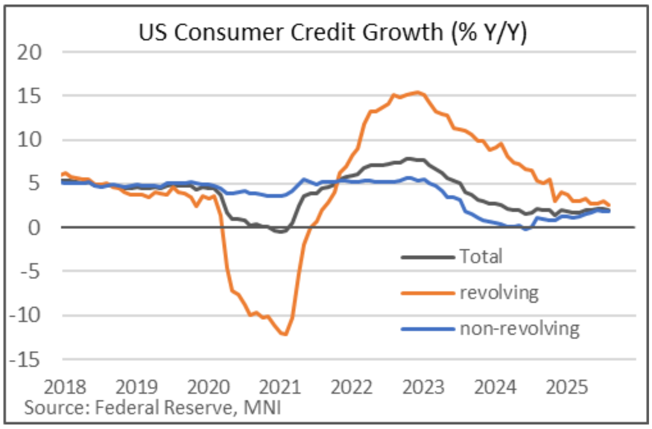
Credit/Household Finances: Slower Borrowing

Consumer Borrowing Slows, Not Major Tailwind For Consumption

The Fed's latest consumer credit report shows a sharp slowdown in the growth of total credit, to a 6-month low of $363M M/M (or 0.1% M/M). It was well below the $14.0B expected and follows July's $18.0B rise (4.3% M/M) gain, which was upwardly revised from $16.0B.

- The pullback was driven by a $6.0B drop in revolving credit outstanding, the biggest decline in 9 months, partially reversing a $11.2B rise in July. Non-revolving credit continued to rise steadily, by $2.3B (slowest in 4 months but around the prior 6-month average of $1.9B). Recall that revolving makes up 25% of overall consumer credit, largely made up of credit cards; nonrevolving credit is basically made up of student and auto loans.
- The month-to-month readings continue to be volatile but overall consumer credit is showing signs of steadying out, with Y/Y of 2.0% basically the same pace as the prior 4 months, albeit this belies a notable slowdown in revolving credit (2.6% in August weakest since Q3 2021).
- We wouldn't rush to conclusions from these data though overall it continues to appear that credit is not a strong tailwind to consumption.
- On a 3M/3M annualized basis, credit growth is running at 2.2%, which is not particularly impressive compared with nominal GDP rising roughly 6% in the quarter. It suggests a fairly limited credit impulse in terms of contribution to overall activity, versus a solidly positive set of readings in Q2.

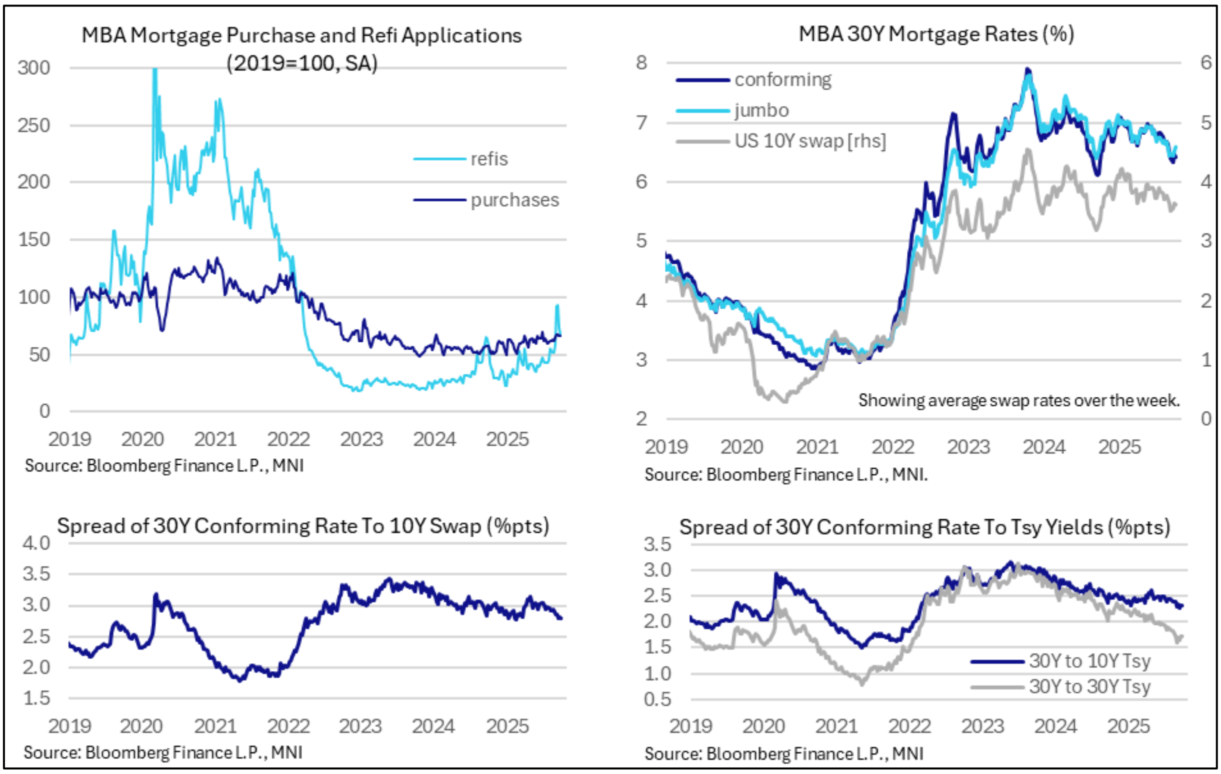




Mortgage Applications Continue To Unwind Refi Jump

- MBA composite mortgage applications fell -4.7% (sa) last week as they continued to chip away at the refi-driven jump in the first half of September.

- Composite applications were -4.7% after -12.7% the week prior, following a 30% increase in the week to Sep 12 and 9% before that in the week to Sep 5.
- Refis were -7.7% after -20.6% and with respective earlier gains of 58% and 12%, whilst new purchase applications were -1.2% after -1.0% and gains of 2.9% and 6.6%.
- Levels relative to 2019 averages: composite at 68% vs a recent three plus year peak of 82% in September, refis at 68% and new purchases at 66%.
- A small decline in 30Y mortgage rates didn't offer much support on the week, easing to 6.43% (-3bp) after a 12bp increase the previous week. The 6.34% seen in the week to Sep 19 was the lowest since Sep 2024 after a 35bp decline in four weeks starting late August.
- Interestingly, the 30Y mortgage to 10Y Tsy yield spread continues to hover marginally above 230bp having eased modestly since US Tsy Sec Bessent in August talked on wanting to keep the spread between mortgage rates and treasuries flat or even bring it down. These are some of the lowest spreads since Mar 2022.
- The spread to 10Y swap rates meanwhile has averaged 280bp for three weeks now, a tightening from the 300 +/-5bp range seen for some time since reciprocal tariff announcements in April. It's a little below the 285bp averaged in Q1.



Fed Positions: Fed Chair List Narrows Back Down To 5

CNBC Sources On Fed Chair Pick See Rieder More Seriously Considered

- CNBC reports that US Tsy Bessent has narrowed down the list of Trump's Fed chair candidates to five with initial interviews now concluded. See the full piece here.
- Another round of interviews with the five is planned in the coming weeks and months, whilst "The individual selected by Trump could be nominated to the Fed - though not necessarily as chair - by January."
- "The remaining list of candidates includes Fed Vice Chair for Supervision Michelle Bowman, Fed Governor Christopher Waller - along with Kevin Hassett, the director of the National Economic Council."
- "Former Fed Governor Kevin Warsh and Blackrock Fixed Income CIO Rick Rieder also made the cut."
- Most of these names aren't a surprise whilst Rieder has seen a sharp climb in betting prospects to 23% (+16pps) according to Kalshi.

- Hassett is still favorite at 30% (-2pp) whilst Warsh is seen at 19% likelihood (+4%) and Waller unchanged at 17%, the latter having in August seen as the top contender before more recently falling out of favor after calling for a measured approach to rate cuts.
- Back to the piece: "The officials said no candidate was leading the pack, but they confirmed recent reports that Rieder had impressed the Secretary. [] While not decisive, the officials suggested it could be a plus that Rieder, among the five remaining candidates, never worked at the Fed."

Fedspeak: Maintaining Pre-September FOMC Tone

Our preview to the September FOMC minutes includes a comprehensive recap of Fed commentary prior to October 8 - https://media.marketnews.com/Fed_Mins_Prev_Oct2025_74107957d7.pdf

- Since the September meeting, FOMC participants have largely followed their own pre-meeting scripts albeit most expressed a slightly more dovish tilt in keeping with the shift in the broader Committee's perception of the balance of risks. All participants acknowledged that recent labor market indicators have signalled rising risks to that side of the dual mandate, and largely noted that tariff impacts on inflation were more limited than foreseen, though the conclusions differed on what that means for monetary policy.
- Below is MNI's assumptions of the 2025 rate dot submissions.
- A majority of the 12-member FOMC voters – including 7 of 8 permanent voters – are likely to see at least another 2 cuts this year. Waller, Bowman, and (especially) Miran are the strongest proponents of further cuts, but Powell, Jefferson, Cook, and Williams are all likely in the camp of two further cuts. The latter are joined by Kashkari and Daly, and, in an assumption, Paulson who is yet to speak on monetary policy since joining the FOMC this summer.
- Since the Minutes we've heard from Barr (the exception among permanent voters in not eyeing further 2025 cuts, we think) and Waller, leaving Cook and Paulson (who we hear from on Monday Oct 13) as the last of the 19 who haven't communicated their monetary policy views since the meeting.

MNI Assumption Of 2025 Dot Submission		2025	Jun SEP
	4.500		
Hammack	4.375	1	7
	4.250		
Bostic, **Musalem**, **Schmid**, **Barkin**, **Logan**, **Barr**	4.125	6	2
	4.000		
Goolsbee, **Collins**	3.875	2	**8**
	3.750		
Powell, **Jefferson**, Cook, **Williams**, **Kashkari**, **Waller**, **Bowman**, **Daly**, Paulson	3.625	**9**	2
	3.500		
	3.375		
	3.250		
	3.125		
	3.000		
Miran	2.875	1	
	2.750		
	2.625		
	2.500		
	2.375		
	MEDIAN	**3.6**	3.9

Bolded = have spoken on monetary policy views since last FOMC; Green = current FOMC voter. Table: Medians bolded. Source: Federal Reserve, *Gov Waller: Labor Market Not Tight, But Notable GDP Vs Payrolls Disconnect (Oct 10)*

In his first comments on monetary policy since the September FOMC meeting, Gov Waller (dove, permanent FOMC voter and reportedly a Fed Chair finalist) interviewed on CNBC Friday unsurprisingly affirmed his view that the Fed should follow through with a series of cuts in light of developing labor market weakness (saying the labor market is "not tight in any way, shape or form"). While it's clear he's among the most dovish members on the Committee, eyeing 2 more rate cuts this year, he doesn't advocate too aggressive an easing: "I'm still in the belief we need to cut rates, but we need to kind of be cautious about it."

- He elaborates: "You're seeing this very weak labor market, but GDP growth seems pretty good", and if growth is as close to 4% as forecast by some "you can't have negative job growth". As such, "something's got to give - either the labor market rebounds to match the GDP growth, or that GDP growth is going to pull back. So whichever way that goes, it's got to affect what you do with policy....So that's where the caution comes in ... we want to move in a certain direction. I want to move towards cutting rates, but you're not going to do it aggressively and fast, in case you make a big mistake on which way things go."
- Re markets pricing sequential cuts: "That's fine. That's what the SEP kind of signals". And asked whether a 25bp cutting pace was appropriate: "yeah, because you can always adjust as you go, as the data comes in. If you went 75 tomorrow, then you have a bit of a problem."
- Within the labor market data itself, he points to a variety of indicators as evidence that the labor market is not tight, mitigating risks of second-round inflation effects from tariffs: "If you have negative job growth, that's not maximum employment when you're shrinking your hiring. If there truly were shortages [in the labor market], then you would see wages going up, vacancies would be going up. Lots of things would be signaling a tight labor market. None of that exists in public data, government data, or in the private sector data. So the labor market is not tight in any way, shape, or form. And if that's the case, you're not going to get the typical thing that people are afraid of with, like tariff type inflation, is that there's a second round knock on effect."
- Asked about Gov Miran's view that there was no evidence tariffs were generating inflation, Waller disagrees: "No, we see we see it in various measures", and notes that there's about a 40% passthrough of tariffs to consumers, but reiterates that they should have a one-off impact on the price level.
- Waller wasn't particularly concerned about a lack of data availability in the government shutdown, with his philosophy being: "use what you have when you have it".

Musalem Open-Minded To Further Easing But Limited Room To Do So (Oct 10)

St Louis Fed's Musalem ('25 voter), one of the more hawkish FOMC members, broadly keeps to his position in the committee - we had seen him as likely one of the six dots looking for no further cuts this year after the 25bp last month. He is open-minded to further easing but there is limited room to do so.

- Paraphrasing: "I supported a 25bp cut in September as a way to provide insurance against labor market weakening, while continuing to lean against inflation. I now perceive monetary policy as somewhere between modestly restrictive and neutral. Looking ahead, I am open-minded about a potential further reduction in interest rates to provide further insurance against labor market weakening. I believe we have to tread with caution because there is limited room for further easing before mon pol could become overly accomodative. I believe mon pol should continue to lean against persistence in inflation, whether that comes from tariffs, a lower growth in labor supply or for any other reason."

Other Bloomberg headlines:
- "FED'S MUSALEM: RIGHT NOW, MANDATES SEEM LIKE THEY'RE IN TENSION
- MUSALEM: INFLATION IS MATERIALLY ABOVE OUR TARGET
- MUSALEM: ONLY 10% OF INFLATION WE'RE SEEING IS TARIFFS
- MUSALEM: EXPECT TARIFF INFLATION IMPACT TO FADE IN 2-3 QUARTERS
- MUSALEM: I EXPECT LABOR MARKET TO SOFTEN SOME, IN ORDERLY WAY" - bbg

Appropriate To Bring Rates Back To Neutral Setting – Williams (Oct 9)

NY Fed's Williams (permanent voter) has given an interview with the NYT noting that a less dire inflation outlook gives the Fed flexibility to shore up the labor market (link). He thinks it's appropriate to bring rates back to a neutral setting, which he last week indicated could be around a nominal 2.75% or 2.75-3.0% in slightly broader ranges that he's offered in the past. These remarks firm up the likelihood that he was one of the nine dots looking for further 25bp cuts in Oct and Dec following September's cut (the median view). It's possible that he was one of the three dots looking for a further three cuts in 2026 to 2.75-3.0% or failing that one of four looking for two cuts. Only two dots were more dovish, at 2.5-2.75%, whilst the median looked for one 2026 cut to 3.25-3.5%.

- He believes the Fed has the flexibility to shore up the labor market because the inflation outlook doesn't appear as dire as it did earlier in the year.
- From the piece: "Mr. Trump's tariffs have raised some consumer prices, Mr. Williams said, but he expects the impact on inflation to fade over time despite the president's new import taxes on products like furniture and drugs." He added "I don't see any signs of second-round effects or factors that could be amplifying the effects of tariffs on inflation."
- "The risks of a further slowdown in the labor market is something I'm very focused on,"
- Also from the piece: "If the economy evolved as expected — inflation moving up to around 3 percent and the unemployment rate inching up beyond its current 4.3 percent — he would back "lower rates this year, but we'll have to see exactly what that means."
- He said it was appropriate to bring rates back to a neutral setting but didn't convey urgency to cut rates rapidly. He said last week that his model estimate points to a real neutral rate of 0.75%, i.e. a nominal 2.75%, but has also mentioned 1% in recent months.
- A shutdown-driven lapse in official government data won't deter him from wanting to take action at coming meetings. There is specific mention of private-sector providers and surveys both from the Fed and from external sources like the Conference Board or the ISM as being informative.

Gov Barr: Uncertainty Means FOMC Should Move Cautiously (Oct 9)

Gov Barr's speech on "The Economic Outlook and Monetary Policy" Thursday appears to confirm MNI's assumption that he was the most hawkish of the 8 permanent voters on the FOMC as of the September meeting. More specifically, he's probably one of the 7 on the 19-member FOMC who don't see further cuts this year, and the only permanent voter in that category. He calls for a "cautious" approach on adjusting rates and unlike many of his colleagues, doesn't suggest that some further easing toward a more neutral stance is warranted.

- Overall, "Common sense would indicate that when there is a lot of uncertainty, one should move cautiously.. I believe that principle applies now, and that the FOMC should be cautious about adjusting policy so that we can gather further data, update our forecasts, and better assess the balance of risks. If we see inflation moving further away from our target, then it may be necessary to keep policy at least modestly restrictive for longer. If we see heightened risks in the labor market, then we may need to move more quickly to ease policy. The FOMC can, and I believe would, act forcefully to stabilize the economy if necessary. I think a cautious approach will help us to balance the risks to both sides of our mandate as we continue to assess the economic outlook."
- He says that "I believe the Federal Reserve's price stability goal faces significant risks". He points out the latest FOMC median projections show that PCE is not expected to return to target until end-2027, which would mark the longest period above 2% since a 7-year period that began in 1993. "two more years would be a long time to wait for a return to our target, and that possibility weighs on my judgment for appropriate monetary policy."
- He's "skepical" of the notion that tariff-related inflation should be looked through as a one-off, with pre-tariff inventory buildups for instance dampening the immediate effect on prices. And "the so far modest impact of tariffs on inflation probably means a much longer-lasting rachet upward, potentially affecting expectations in a way that makes the job of taming inflation harder...I am skeptical of assurances that we should fully "look through" higher inflation from import tariffs. While, in principle, tariffs are a one-time increase in prices and should not sustainably raise inflation, that may not be the case if prices keep rising month after month and affect expectations. There has been nothing "one-time" or predictable about these tariff increases, which have ratcheted upward this year on particular countries and particular sectors in a series of steps. At

some point, businesses and consumers could start to make pricing, spending, and wage decisions based on their belief in higher future inflation, thereby driving a cycle of persistence."

- That said, he acknowledges - as has much of the broader Committee - that a softer labor market could mean that those inflation risks are mitigated. And "even if the labor market is still roughly in balance, the fact that this balance is being achieved from simultaneous slowing in labor supply growth and in hiring suggests that the labor market is more vulnerable to negative shocks...experience shows that when labor markets turn down, it can happen suddenly. With job growth near zero for the past several months, the labor market could decline precipitously if the economy is hit with another shock."

Gov Barr: Have To Weigh Inflation Vs Jobs Risks At October Meeting (Oct 9)

Gov Barr's key comments in a post-speech Q&A Thursday:

- Asked whether he worries if cutting rates will exacerbate inflation pressures, Fed Gov Barr says "Do I worry that cutting rates might exacerbate the problem with inflation? Yes, that's one of the things that I'm worried about. I think we need to be it's one of the reasons I think we need to move cautiously...if we didn't have any concerns at all about the labor market, we wouldn't need to cut interest rates in that environment."
- He adds: "We have to decide at our next meeting: do we move down another step which might help on the labor market side, but might present additional risks on the inflation side? That's what makes the choice very difficult. "
- On the restrictiveness of policy, he tends to agree with most of his colleagues that it's "modestly" restrictive: "I think right now, our policy is probably modestly restrictive, even though, if i were to take my long run estimate, i would say it was quite restrictive. but given the shocks we're experiencing in the economy right now, I'd say it's modestly restrictive, and I think you can see that in lots of areas, including labor demand which we've been talking about."
- However, given the cautious tone of his speech, he apparently doesn't see the need to remove that that restrictiveness quickly.
- Likewise, on the Fed's balance sheet, Barr doesn't show any urgency in slowing/halting QT, with various administrative tools able to handle deviations in the policy rate as reserves are drawn down: "I think thus far, balance sheet runoff has gone quite smoothly. It kind of operates in the background. One of the things that's really important as we get feel our way towards ample and get to that right level of reserves in the system, is that we have really good ceiling tools in place, so that if we see significant upward pressure on our rate because we've gotten too close, those ceiling tools can kick in and keep our policy rate where we want it to be. So the two policy tools, ceiling tools that we have are the discount window, which are broadly use in the banking system, and the standing repo facility... And those two ceiling tools, if they're operating effectively, are ways of ensuring that even if we get a little too close, that rates stay effective, and then we can adjust back to where a little above ample needs to be, so that we can maintain that.. My own view is that over the longer run, it would be really helpful to have the standing repo facility also centrally clear repo as a way of making sure it moves with the market."
- On services inflation pressures: "ariff effects are directly related to services inflation. So for example, if you look at auto repair, a big component of services inflation and Auto Repair are the goods inputs to the services you need to buy the parts, and that goes into services inflation, even though the goods going up in prices. So there's some areas where there's a clear link. I don't think we're seeing kind of a generalized spill over into services, but it's hard to hard to know for sure. "

FOMC Minutes: Cautious Undertone

The biggest headline out of the September FOMC minutes release is that "most" participants "judged that it likely would be appropriate to ease policy further over the remainder of this year". But this isn't a surprise when looking at the Dot Plot that emerged from the meeting that showed 12 of 19 members eyeing at least one further cut. By the same token, it's not a surprise that "Participants expressed a range of views about the degree to which the current stance of monetary policy was restrictive and about the likely future path of policy".

- Even so, if anything the Minutes come off as slightly hawkish in the sense that there were "a few participants" that "stated there was merit in keeping the federal funds rate unchanged at this meeting or that they could have supported such a decision. These participants noted that progress toward the

Committee's 2 percent inflation objective had stalled this year as inflation readings increased and expressed concern that longer-term inflation expectations may rise if inflation does not return to its objective in a timely manner."

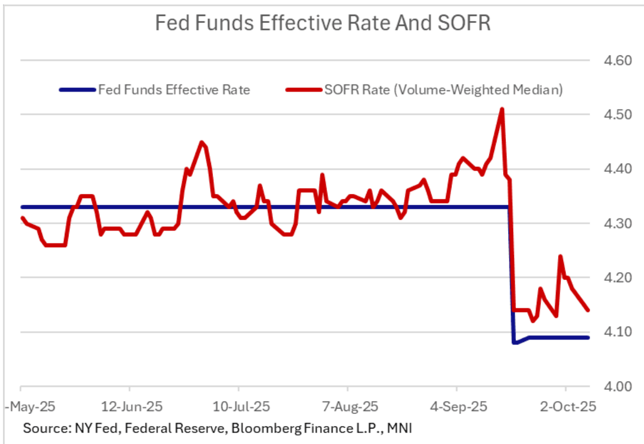
- To be sure, this almost certainly doesn't include any of the 8 permanent voters who are really driving the decisions. The better question is whether this includes 2025 voters Schmid and Musalem who ultimately went along with the decision but probably don't see any more cuts for the rest of the year. The other obvious candidates are Hammack and Logan, which presents a slightly different hawkish perspective given that they vote in 2026.
- Additionally "participants generally judged that upside risks to inflation remained elevated". That sentence is also making headlines though it should be taken into the context of the rest of the paragraph: "participants generally judged that upside risks to inflation remained elevated and that downside risks to employment were elevated and had increased. Participants noted that, in these circumstances, if policy were eased too much or too soon and inflation continued to be elevated, then longer-term inflation expectations could become unanchored and make restoring price stability even more challenging. By contrast, if policy rates were kept too high for too long, then unemployment could rise unnecessarily, and the economy could slow sharply."
- This is similar to what Powell said at the press conference: "In the near term, risks to inflation are tilted to the upside and risks to employment to the downside—a challenging situation. " And while the prior phrasing re keeping rates too low/high for too long didn't appear in official meeting communications, Powell noted this in his Sep 23 speech: " If we ease too aggressively, we could leave the inflation job unfinished and need to reverse course later to fully restore 2 percent inflation. If we maintain restrictive policy too long, the labor market could soften unnecessarily."
- The codification of these risks to policy-setting in the Minutes gives the release a cautious undertone.

Not Overly Concerned On Jobs, But Checklist Eyed: The Minutes also portray a Committee that is cautious but not overly concerned about the state of the labor market, merely that the risks to the downside had increased relative to upside inflation risks. Participants "generally expected that, under appropriate monetary policy, labor market conditions would be little changed or would soften modestly", while noting that weak payrolls gains in recent month likely reflected "declines in growth of both labor supply and labor demand". The discussion in the outlook notes "several" participants saw a lower breakeven payroll gains rate.

- And the Minutes provide a helpful checklist of labor market indicators participants are watching in lieu of / in addition to the headline nonfarm payroll change figure: "the unemployment rate, the ratio of job vacancies to unemployed workers, wage growth, the percentage of unemployed workers who find a job, the quits rate among employed workers, and the layoff rate."
- Judged by those metrics, "Participants generally assessed... these indicators did not show a sharp deterioration in labor market conditions." That said, downside risks to employment were seen to have risen when looking at "a number of indicators, including the following: low hiring and firing rates, which are evidence of less dynamism in the labor market; concentrated job gains in a small number of sectors; and increases in unemployment rates for groups that have historically shown greater sensitivity to cyclical changes in economic activity, such as those for African Americans and young people."
- Additionally, the economic growth outlook appeared too downbeat given subsequent upward revisions to Q2 GDP growth including domestic demand ("Regarding the household sector, participants noted that lower consumption growth had contributed to the slowdown in the growth of economic activity in the first half of the year.")
- The inflation commentary in the Minutes reflected the broader view that "upside risks to inflation had either diminished or not increased". "Participants generally expected that, given appropriate monetary policy, inflation would be somewhat elevated in the near term and would gradually return to 2 percent thereafter."
- That didn't mean complacency was widespread. "A majority of participants emphasized upside risks to their outlooks for inflation, pointing to inflation readings moving further from 2 percent, continued uncertainty about the effects of tariffs, the possibility that elevated inflation proves to be more persistent than currently expected even after the inflation effects of this year's tariff increases fade, or the possibility of longer-term inflation expectations moving up after a long period of elevated inflation readings." Additionally "a few ... emphasized that progress of inflation toward the Committee's 2 percent objective had stalled, even excluding the effects of this year's tariff increases."
- But "Some participants remarked that they perceived less upside risk to their outlooks for inflation than earlier in the year." And "Although participants generally assessed that this year's tariff increases had put

upward pressure on inflation, some remarked that these effects appeared to have been somewhat muted to date relative to expectations from earlier in the year."
- There also seem to be echoes of commentary by doves Waller and Miran: "A few participants suggested that productivity gains may be reducing inflation pressures. A couple of participants expressed the view that, excluding the effects of this year's tariff increases, inflation would be close to target."

Slowly Starting To Eye QT Endgame: One subject we thought might be included in the September meeting discussion is balance sheet policy, and indeed it got a few mentions. The most interesting finding here is that the SOMA deputy manager (Julie Ann Remache, who recently gave a speech at end-September on on how to identify a reserve regime shift from "abundant" to "ample") said that with QT running at the current pace and overnight reverse repo facility usage remaining "very low", reserves were expected "to be close to the $2.8 trillion range by the end of the first quarter of next year if runoff were to continue at the current pace."

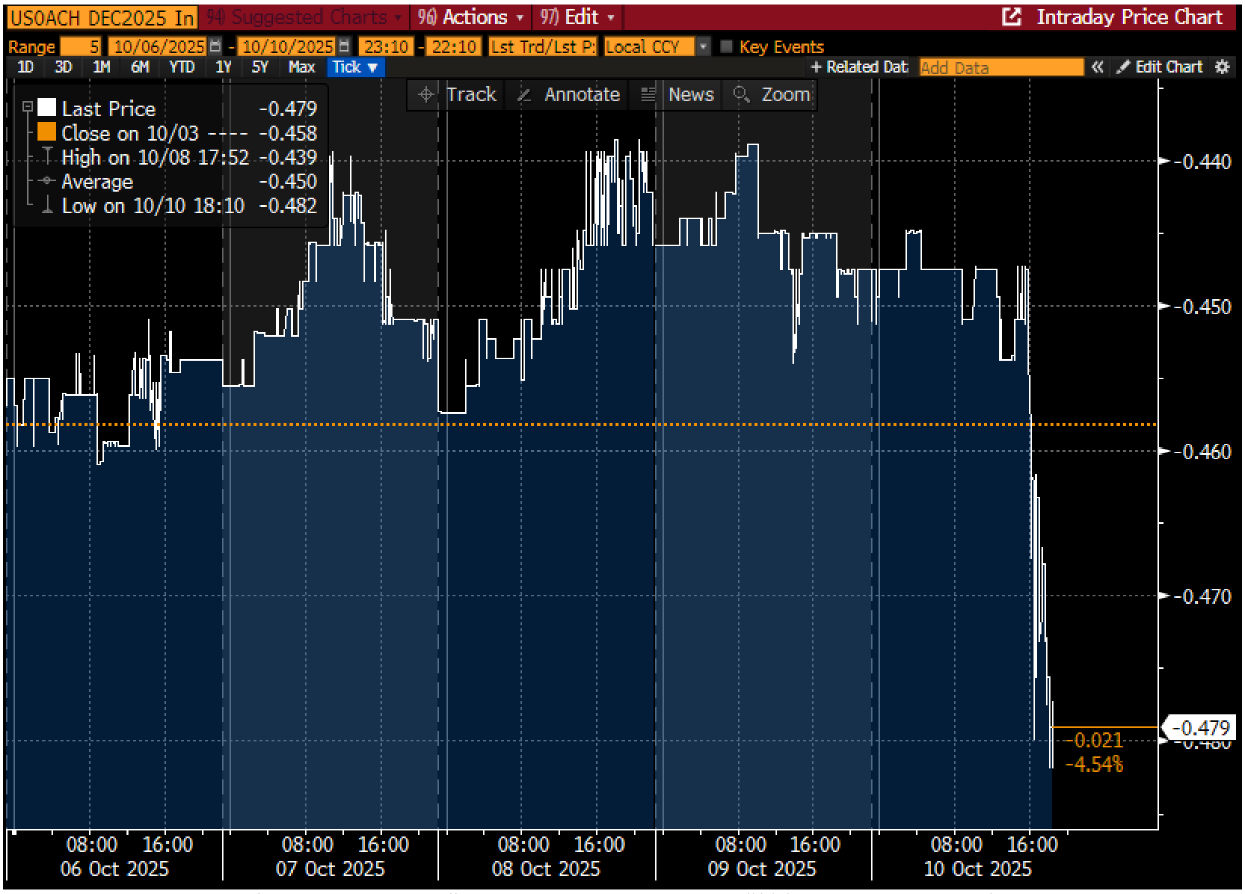


- That's a level that would probably be considered by most on the FOMC to be in or near "ample" territory (Gov Waller in July identified $2.7T as a "rough" guess).
- Remache also noted that re the rise of repo rates in the intermeeting period crescendoing alongside the mid-September tax date, "There were some signs of slight upward pressure on rates in the federal funds market but not enough to move the effective federal funds rate. While key indicators remained consistent with abundant reserves, money market rates were expected to continue to increase over time relative to administered rates and to eventually pull the effective federal funds rate higher." The Staff discussion also notes that "On September 15, the Secured Overnight Financing Rate temporarily printed above the minimum bid rate at the SRF amid $1.5 billion in take-up at the facility. Amid these movements in secured rates, the effective federal funds rate remained unchanged relative to the interest rate on reserve balances."
- Note that the Fed funds rate did subsequently rise 1bp relative to the norm starting Sept 22 (9bp above the lower bound of the range at 4.09%, as opposed to 8bp; or, 6bp below IORB of 4.15%, as opposed to 7bp).
- As for the FOMC's views on the matter, they weren't really changed much since July - at least in comparing the Minutes to both meetings. As such it didn't seem like there was much more urgency in considering a shift in QT policy, despite the aforementioned warnings of a shift higher in the Fed funds rate.
- The September minutes: "Several participants remarked on issues related to the Federal Reserve's balance sheet and implementation of monetary policy. A few participants stated that balance sheet reduction had proceeded smoothly thus far and that various indicators pointed to reserves remaining abundant. Nevertheless, with reserves declining and expected to decline further, they noted that it was important to continue to monitor money market conditions closely and evaluate how close reserves were to their ample level. In that context, a few participants noted that the SRF would help keep the federal funds rate within its target range and ensure that temporary pressures in money markets would not disrupt the ongoing reduction in Federal Reserve securities holdings to the level needed to implement monetary policy efficiently and effectively in the Committee's ample-reserves regime."

STIR: Trump-China Tensions Dominate The Week

US rates markets rallied strongly Friday on Trump threatening more extensive tariffs on China and possibly withdrawing from his face-to-face meeting with China President Xi.
- Fed Funds implied rates 2bp lower on the day for Dec, 5bp lower for Mar and 7bp lower for Jun.
- Cumulative cuts from 4.10% effective: 24bp Oct, 47bp Dec, 59.5bp Jan, 70.5bp Mar, 77bp Apr and 91bp Jun.
- SOFR futures trade between 2.5 ticks higher for the Z5 through to +7.5 in U7 and Z7.

- It sees the implied terminal yield 6.5bp lower on the day at 3.02% (SFRH7), which if maintained would be back to the 3.025% close seen after last week's soft ADP report. It roughly points to 110bps of cuts ahead.



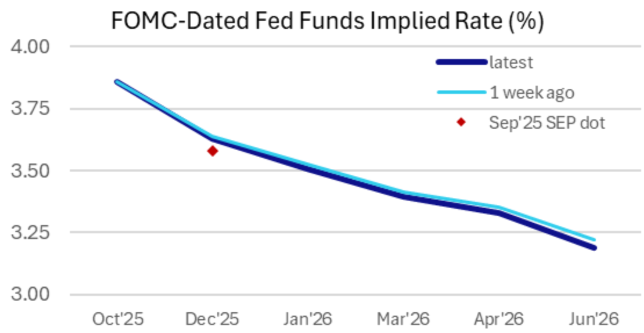
Change in Fed Funds effective rate with Dec 2025 meeting (%t) (Bloomberg Finance L.P.)

FOMC-dated Fed Funds futures implied rates

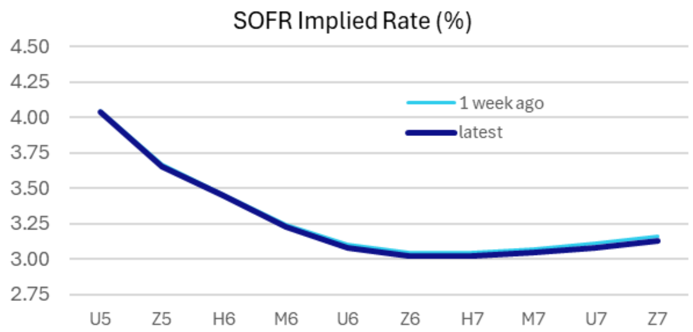
Meeting	Latest			pre Powell (Sep 17)			*chg in rate*	pre FOMC announce (Sep 17)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.10			4.08				4.08			
Oct'25	3.86	-24.2	-24.2	3.84	-24	-23.6	*1.4*	3.88	-20	-20	*-2.0*
Dec'25	3.63	-22.9	-47.1	3.61	-24	-47.3	*2.2*	3.65	-23	-43	*-2.4*
Jan'26	3.51	-12.2	-59.3	3.47	-14	-61.3	*4.0*	3.52	-13	-56	*-1.6*
Mar'26	3.40	-11.0	-70.3	3.32	-15	-75.8	*7.5*	3.39	-14	-69	*1.1*
Apr'26	3.33	-6.9	-77.2	3.25	-8	-83.5	*8.3*	3.30	-8	-78	*2.5*
Jun'26	3.19	-14.0	-91.2	3.09	-16	-99.2	*10.0*	3.15	-15	-93	*3.8*

Source: Bloomberg Finance L.P., MNI. . Calculations based off an assumed effective rate of 4.08% after the Sep 25bp cut (incl. for an easier pre-meeting comparison)

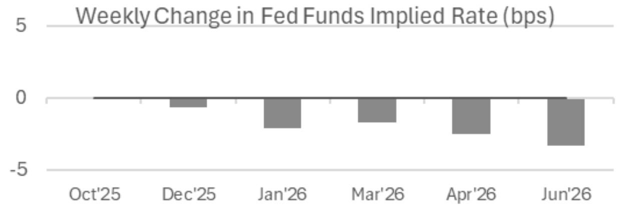
* Note that the Oct rate is taken from FOMC-dated OIS rather than Fed Funds owing to an incorrect FF feed

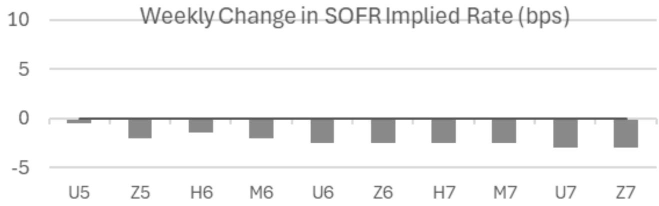


Source: Bloomberg Finance L.P., MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg Finance L.P., MNI.





The US Macro Week Ahead: …

Below is the week's data schedule, with MNI's annotation of whether or not data will be postponed. We'll be looking at some under-covered data points as well, including the Redbook weekly and Chicago Fed's CARTS retail sales data (in lieu of the Census Bureau retail sales report), with a little more focus than usual on regional Fed manufacturing indices (NY, Philadelphia).

Once again, the dearth of tier-one data leaves Fed commentary in focus: highlights for us are Philadelphia Fed President Paulson making her first comments on monetary policy on Monday since being appointed in the summer, while as always Chair Powell bears watching on Tuesday (we also hear from Bowman, Waller, Collins, Miran, Schmid, and Musalem). The pre-FOMC blackout period starts next Friday night.

mni

Guide To U.S. Data Releases In Federal Government Shutdown

Data will not be released
Data unlikely to be released, some uncertainty
Data to be released until further notice

Release schedule assuming shutdown continues. Updated: Oct 10 3:30pm ET

Date	**Time (ET)**	**Impact**	**Event**	**Provider**
Tue, Oct 14	600	**	NFIB Small Business Optimism Index	NFIB
Tue, Oct 14	855	**	Redbook Retail Sales Index	Johnson-Redbook
Wed, Oct 15	700	**	MBA Weekly Applications Index	MBA
Wed, Oct 15	830		Chicago Fed CARTS Ex-Autos Retail Sales Est	Chicago Fed

Wed, Oct 15	830	**	Empire State Manufacturing Survey	NY Fed
Wed, Oct 15	830	***	CPI	BLS (Dept of Labor)
Wed, Oct 15	1400		Fed Beige Book	Federal Reserve
Thu, Oct 16			Zillow Rental Inflation	Zillow
Thu, Oct 16	830	***	Jobless Claims	BLS (Dept of Labor)
Thu, Oct 16	830	***	Retail Sales	Census Bureau (Dept of Commerce)
Thu, Oct 16	830	***	PPI	BLS (Dept of Labor)
Thu, Oct 16	830	**	Philadelphia Fed Manufacturing Index	Philadelphia Fed
Thu, Oct 16	830	***	Retail Sales	Census Bureau (Dept of Commerce)
Thu, Oct 16	1000	*	Business Inventories	Census Bureau (Dept of Commerce)
Thu, Oct 16	1000	**	NAHB Home Builder Index	NAHB
Thu, Oct 16	1030	**	Natural Gas Stocks	EIA (Dept of Energy)
Thu, Oct 16	1130		Dallas Fed Weekly Economic Index	Dallas Fed
Thu, Oct 16	1200	**	DOE Weekly Crude Oil Stocks	EIA (Dept of Energy)
Thu, Oct 16	1200	**	US DOE Petroleum Supply	EIA (Dept of Energy)
Fri, Oct 17	TBD	***	Weekly Initial / Continuing Jobless Claims Estimates Derived From State-Level Data	Analysts / Dept of Labor Data
Fri, Oct 17	Morning		Manheim Used Vehicle Values	Manheim Auctions
Fri, Oct 17	830	**	WASDE Weekly Import/Export	Dept of Agriculture
Fri, Oct 17	830	***	Housing Starts	Census Bureau (Dept of Commerce)
Fri, Oct 17	830	**	Import/Export Price Index	BLS (Dept of Labor)
Fri, Oct 17	915	***	Industrial Production	Federal Reserve
Fri, Oct 17	1300	**	Baker Hughes Rig Count Overview - Weekly	Baker Hughes
Fri, Oct 17	1600	**	TICS	Dept of Treasury