

MNI U.S. Macro Weekly

MNI View: Mind The Gap

October 17, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- Fed Chair Powell and Gov. Waller support measured easing whilst talking on the discrepancy between weak labor and stronger activity indicators, ahead of the media blackout starting this weekend before the Oct 28-29 FOMC meeting.
- Waller sounded marginally less dovish whilst Gov Miran was even more dovish, citing a new risk from US-China trade tensions and an urgent need for more neutral policy.
- Powell indicated that we may be near an end for QT "in coming months", in line with MNI expectation.
- State-level jobless claims data pointed to initial claims at a healthy ~218k seasonally adjusted in the week to Oct 11, albeit with a wider error band with some larger states missing in latest data. The broad release still chimes with a "low fire, low hire" characterization of the labor market.
- Arguably the joint most important release along with claims, the Fed's Beige Book pointed to weaker growth conditions and a subdued labor market but with price pressures building again. We deem it the joint most inflationary Beige Book of 2025 along with June judging by the dispersion of price descriptions.
- The NY Fed's Empire State survey showed strong manufacturing activity and rising price pressures, but the Philly Fed survey saw a sharp drop in sentiment. Services activity from the NY Fed was notably weak.
- After three steady days for markets, Thursday saw a sharp deterioration in risk sentiment on US regional bank concerns before a sizeable recovery on Friday.
- A 25bp rate remained fully priced for the Oct 29 FOMC decision throughout but we saw up to 20% odds of a 50bp cut in December before receding. There are currently back-to-back 25bp cuts fully priced for the two meetings left this year, building to 100bp by mid-2026.
- Next week's macro focus will be the delayed September CPI report on Friday. Bloomberg consensus sees headline CPI at 0.4% M/M and core CPI at 0.3% M/M, the latter after a slightly stronger than expected 0.35% M/M in August. US Tsy Sec Bessent has also indicated he will meet China Vice Premier He in Malaysia a week Saturday.

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

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

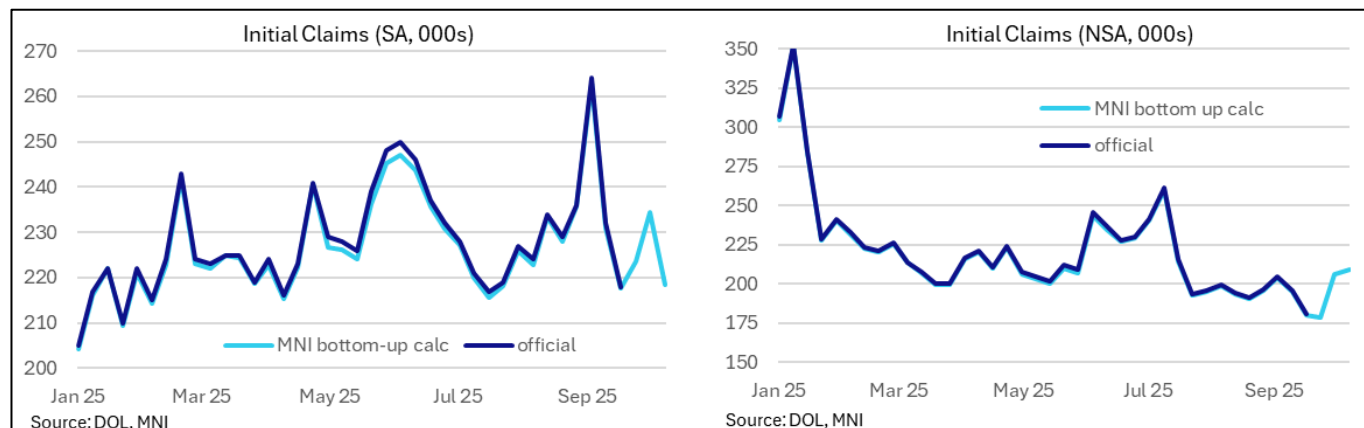
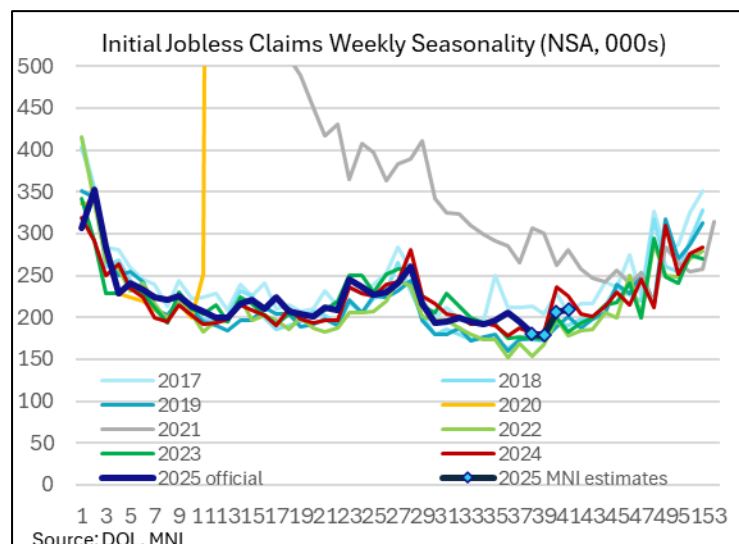
Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

Labor Market: Robust Jobless Claims By Recent Standards

Initial Claims Likely At A Healthy Level Last Week

MNI estimates for initial jobless claims from state-level data suggest a further decline in the four-week average of seasonally adjusted claims, back towards levels that have been associated with historical labor market tightness.

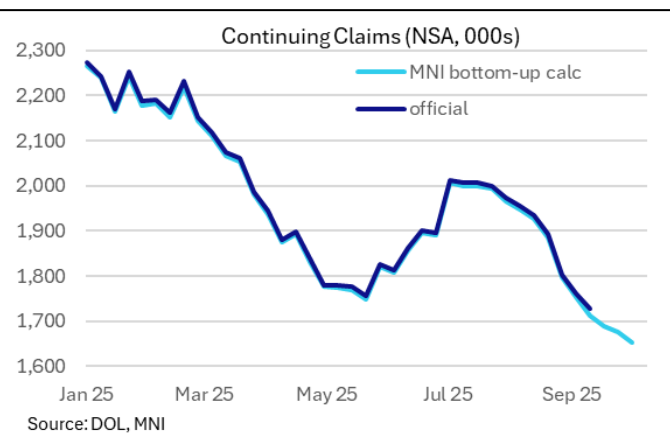
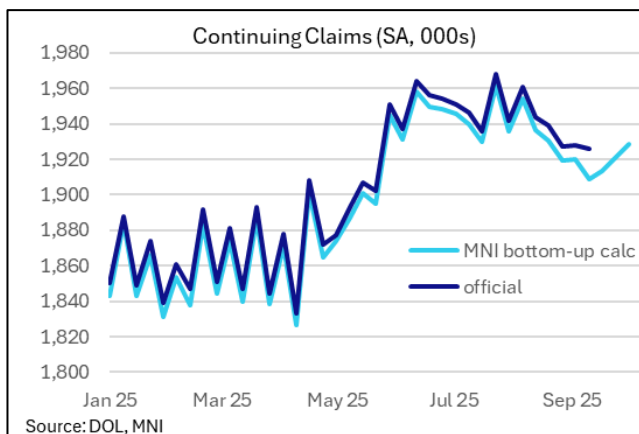
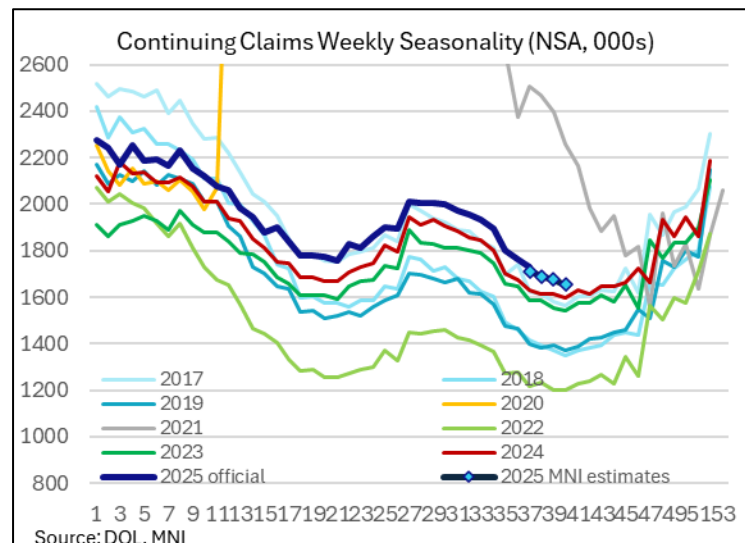
- MNI estimates initial jobless claims at a seasonally adjusted 218k in the week to Oct 11, down from 234k in the week to Oct 4 (revised slightly from an initial estimate of 233k).
- As should now be familiar under the government shutdown, this uses the state-level data released yesterday afternoon ET with pre-released seasonal factors.
- There is a wider error band to estimates this week. Massachusetts again hasn't reported this week (for context, 5.1k claims in the previous week). However, whilst Hawaii has reported this time (1.2k in latest data), some larger states haven't with Arizona (2.8k previous week), Nevada (2.7k previous week) and Tennessee (3.1k previous week) all missing.
- Note that when it comes to using last year's seasonal pattern for estimates, Tennessee was likely impacted by Hurricanes Helene and Milton around this time of year, suggesting our estimate could err on the higher side.
- Taking 218k as a given, it would see a further encouraging decline in the four-week average to 223.5k. That's down from a recent peak of 241k in the four-week average of the official series back in early September.
- Much of this prior increase looks to have been down to Texas fraud. Whilst there haven't been revisions to that previous spike, Texas claims are at least back running at more typical levels (a non-seasonally adjusted 16.4k last week vs 32k in early September).
- As we like to reference for a comparison with past periods of labor market tightness, initial claims averaged 218k through 2019.
- Note that when looking at the seasonality chart below, the uptick around this time last year should be viewed in light of those aforementioned hurricanes. The latest claims data look in keeping with pre-2024 trends more broadly.



Continuing Claims Remain Off June/July Cycle Highs

Continuing claims remain somewhat elevated by recent year standards but off recent cycle highs. We see the combination as a continuation of a low fire, low hire labor market without any notable deterioration being seen.

- MNI estimates continuing claims at a seasonally adjusted 1929k in the week to Oct 4, a small uptick from our estimate of 1920k in the week to Sep 27 (a small downward revision from our initial estimate of 1923k).
- Whilst it's another small increase from what we calculate to have been 1909k in mid-September, it's still below recent cycle highs around 1960k's in June and July.
- That push higher to those levels came with a marked slowdown in hiring at the time, with the continuing claims trend since then implying a stabilization and modest improvement but still chiming with soft hiring conditions.
- Combined with still healthy initial jobless claims figures and these releases broadly point to a continuation of a low fire, low hire labor market.



MNI US Employment Report, Oct 2025: Labor Market Stays Soft

<https://media.marketnews.com/USNFP Shadow Employment Report eed4130116.pdf>

With the BLS's nonfarm payrolls report for September delayed indefinitely, MNI has compiled a "Shadow" Employment Report that assesses latest developments via the data we do have for the month.

- Alternative private sector indicators of jobs growth paint a mixed picture on the extent of the latest additional softening beyond that seen in latest BLS payrolls data to August.
- With ratios keenly watched by FOMC members, various unemployment rate metrics point to further increases including to new recent highs in the Chicago Fed's final indicators report.
- State-level jobless claims data look contained though, with the labor market still best characterized as in a low fire, low hire state [note that the section on weekly claims within this link has been superseded by the the above discussion on claims for the latest week]

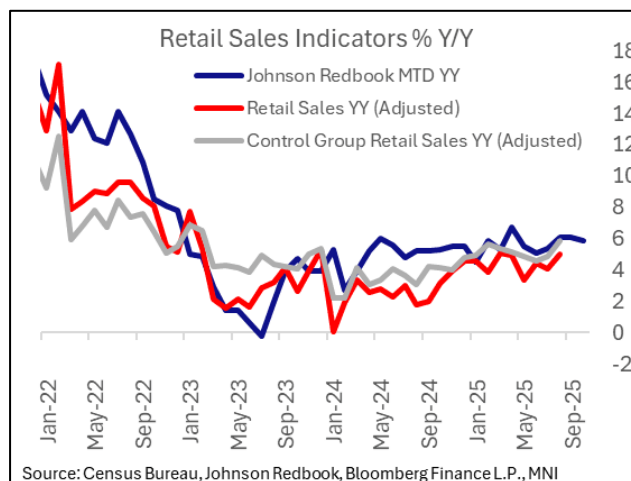


Growth: Solid Retail Spending Tracking But With Some Warning Signs

Redbook Retail Sales Start October Solidly, But Anecdotal Warning Signs

Retail sales rose by 5.9% Y/Y in the week ending October 11, per the latest Johnson Redbook index. As such that's the same as month-to-date (the September calendar for retailers ended Oct 4, October's ends Nov 1).

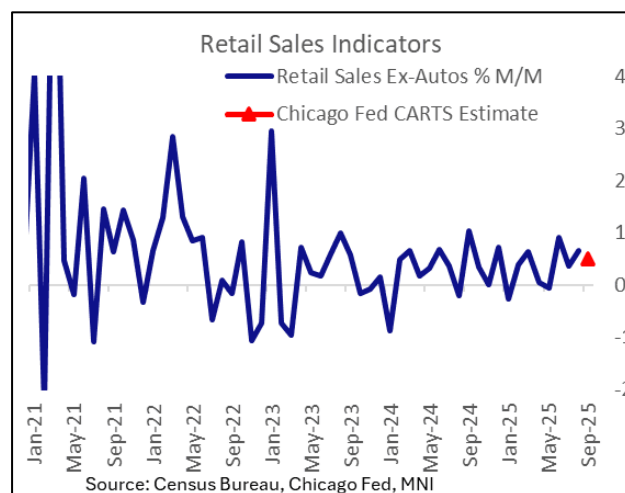
- Despite the seemingly robust headline growth figure, his report carried with it one of the more notable anecdotes of caution due to macroeconomic factors, which points to softer discretionary spending.
- From the report: "As retailers launched promotions to compete with Amazon's Prime Big Deal Days sales, October 7-8, and the Columbus Day promotion, shoppers began stockpiling basic apparel and essential items while also getting a head start on holiday shopping. This behavior indicates that consumers are being cautious amid concerns about employment, the cost of living, and the general impact of tariffs, leading them to prioritize essential purchases over discretionary spending. October is a critical month for retailers striving to meet quarterly sales targets, with key merchandise themes centering on mid-fall seasonal apparel, Halloween, winter sports, and early holiday shopping. Merchants reported that sales in these categories are beginning to gain momentum."
- We won't get the September Census Bureau retail sales report on Oct 16 as scheduled due to the federal government shutdown, though we continue to note that private-sector data for that month was solid including Redbook's 6.1% Y/Y. The Chicago Fed's Advance Retail Trade Summary (CARTS) should provide its final estimate for September Retail sales ex-auto on Wednesday (the prelim estimate was 0.3% M/M, pointing to softer sequential gains but a strong Y/Y rise.



Chicago Fed CARTS Points To Solid Core Retail Sales In Sept

The Chicago Fed's Advance Retail Trade Summary (CARTS)'s final estimate for September Retail sales ex-auto is 0.5% M/M, an improvement from their 0.3% preliminary estimate. The inflation-adjusted estimate is 0.2% M/M.

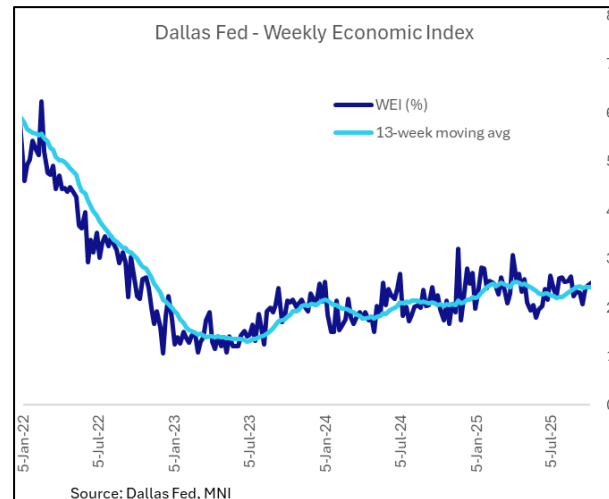
- The Census Bureau's official reading for August was 0.7% M/M, so this would mark a modest deceleration, but the strong performance over the last 4 months would see the quarterly rate of growth (3M/3M annualized rate) of 6.4%, the fastest since October 2023.
- Excluding autos offers a rough approximation of the Control Group reading which came in at 0.74% M/M in August (ex-autos unrounded was 0.66%), so if CARTS is close to the mark then this bodes well for another solid Census Bureau advance report whenever we get it. It was due out on Thursday October 16 but is postponed indefinitely due to the federal government shutdown.
- As such it also bodes well for core PCE goods purchases in Q3, albeit these are nominal and not in inflation-adjusted terms.



Dallas Fed Weekly Index Sees Growth Tick Up, But Data Gaps Mounting

The Dallas Fed's Weekly Economic Index (WEI) jumped to its strongest in 7 weeks in the week ending Oct 11, at 2.51% vs 2.45% prior (all scaled to 4-quarter, ie Y/Y growth). This brought the 13-week (ie quarterly) moving average up to 2.42% from 2.40% prior, the 4th consecutive week above 2.4%.

- That's roughly consistent with Q/Q SAAR GDP growth of 3%.
- While this is one of the non-federal government indicators still being published amid the shutdown and has been decent at mirroring the Atlanta Fed GDPNow estimates this year in signalling robust growth of late, there is a fairly significant caveat to the latest estimate: "Initial claims for unemployment insurance, electricity output and fuel sales are missing for the week ended Oct. 11 and continuing claims for unemployment insurance are missing for the week ended Oct. 4."
- Given the absence of some of the weekly data upon which the WEI is based, it's difficult to read too much into it for the next couple of weeks at least.

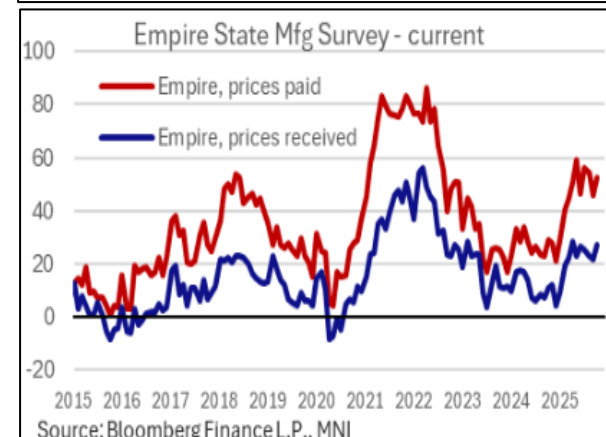
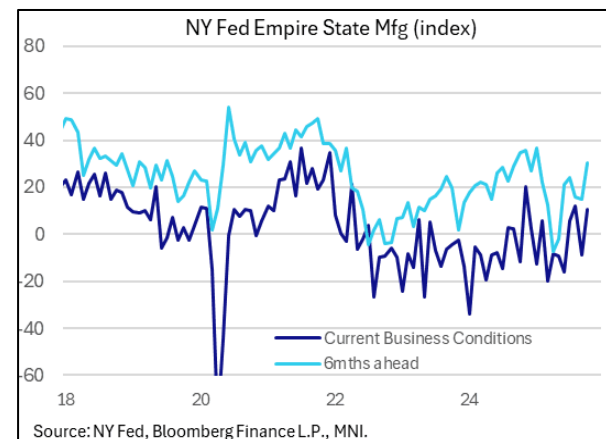


Business Sentiment: Fed Regional Surveys Paint A Mixed Picture

Empire Starts Oct Manufacturing Data On Solid Note (And Firm Prices)

The NY Fed's Empire State Manufacturing Survey handily beat expectations with a headline General Business Conditions reading of 10.7 in October (-1.8 expected, -8.7 prior), starting the month's regional Fed manufacturing readings on a strong note (albeit accompanied by higher inflation pressures).

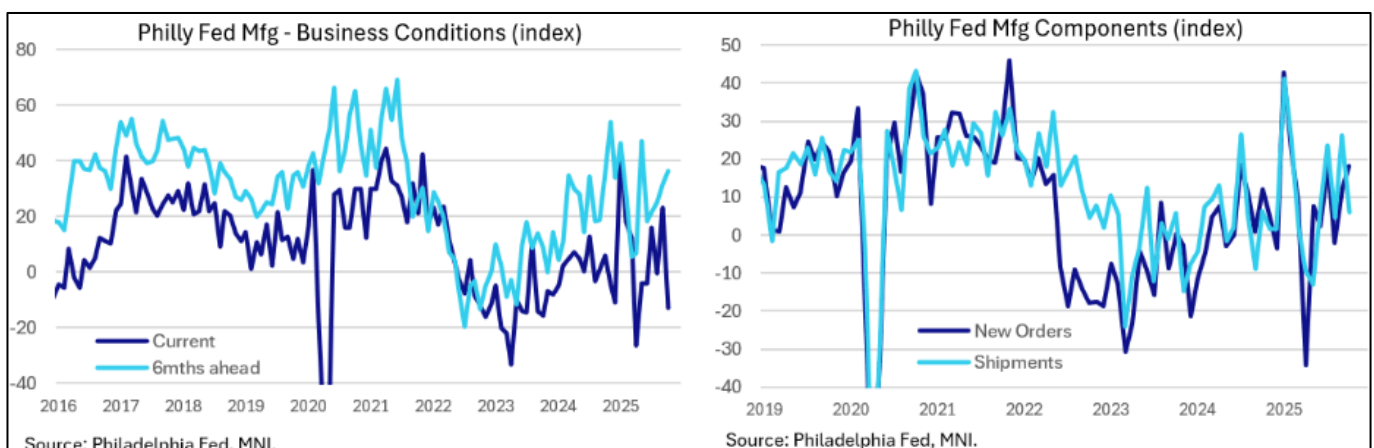
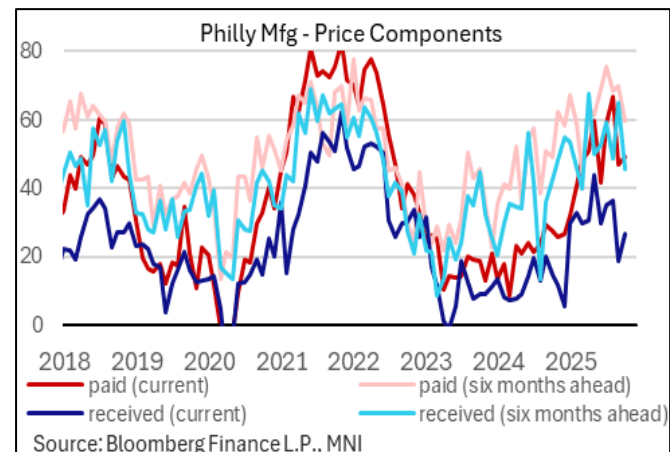
- This was the 2nd highest reading since November 2024 and came after an unexpected pullback in September to a 3-month low. It brings the overall reading back into typical mild expansionary territory (5-year lookback z-score of 0.7).
- The subindices were also solid: New Orders to 3.7 after -19.6 prior, Employment to a 3-month high 6.2 after -1.2 prior, and Shipments to 14.4 after -17.3. And there was optimism evident in the 6-month outlook of 30.3, up from 14.8 prior for a 9-month high, with forward-looking expectations for New Orders and Shipments markedly higher.
- Along with the better activity however came stronger price pressures: current prices paid rebounded to 52.4 from 46.1 prior (which had been a 7-month low), with expected prices paid 6-months ahead rising to 65.0 from 57.8 for a fresh 5-month high.
- Notably, current prices received jumped to 27.2 from 21.6 for a 6-month high, suggestive of manufacturers passing along input price increases (6-month-ahead prices received ticked up 0.6 points to 43.7 also for a 6-month high, suggesting those increases are expected to be sustained).



Philly Manufacturing Sees Historic Reversal, But Details Less Negative

The Philadelphia Fed's Manufacturing Business Outlook Survey's general business conditions index showed one of the sharpest month-to-month deteriorations in series history in October, falling 36 points to a 6-month low -12.8 (expectation had been for a reading of positive 10.0).

- This series has become increasingly volatile in recent months, following September's surprise 23.5 point jump to the highest since January, and stands in contrast to a sharp increase in the neighboring NY Fed's survey in October (19 points to 10.7), making the underlying signal harder to discern. Either way, the index saw its third biggest monthly drop going back to 2000: to put into perspective, the prior two were October 2008 (global financial crisis), and April 2025 (tariff "Liberation Day").
- That said, the report was merely somewhat mixed opposed to deeply contractionary, and should probably reflect a reversion from an unusually strong prior month.
- The actual level of -12.8 was - excluding April - the lowest since October 2023. The 6-month ahead outlook improved to a 5-month high 36.2 (31.5 prior), with new orders rising to 18.2 from 12.4, and number of employees relatively steady at 4.6 vs 5.6 prior (avg workweek dipped slightly). Shipments were the big driver of the downside, plummeting over 20 points to 6.0, while unfilled orders were a little less negative.
- And expectations across the categories were higher (employment merely steady), with a sharp jump in Capex (25.2 from 12.5).
- Inflation remained stubborn though: current prices paid ticked up to 49.2 from 46.8 with received up to 26.8 from 18.8, reversing September's drop. On the more optimistic side, 6-month ahead prices retreated to their lowest since March: paid at 59.8 from 69.8 prior, with received down to 45.7 from 64.8, suggesting less concern over future inflationary pressures.

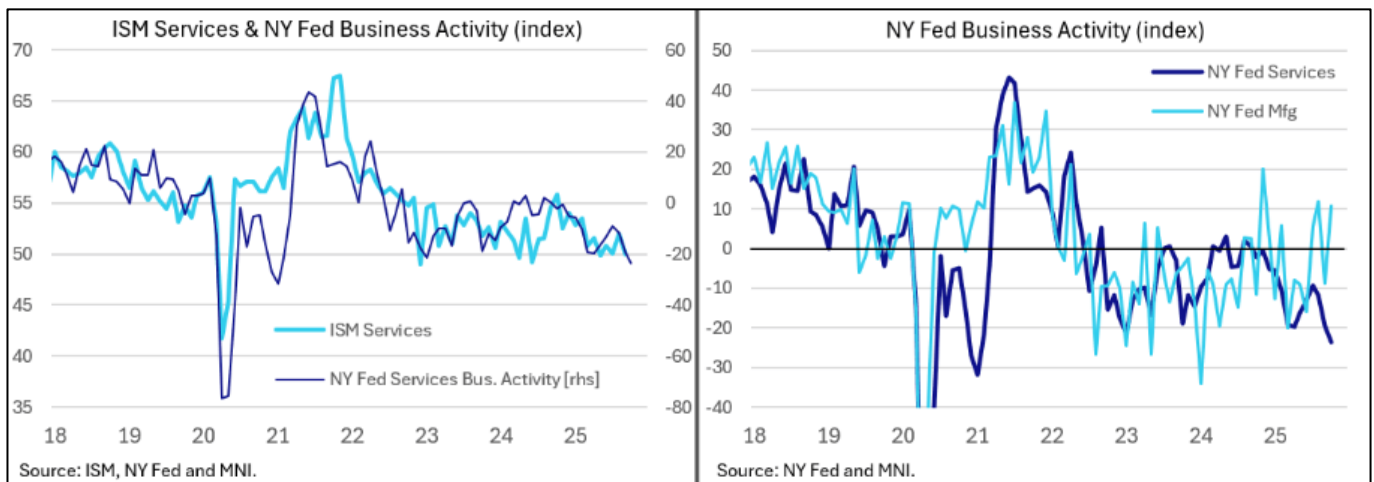
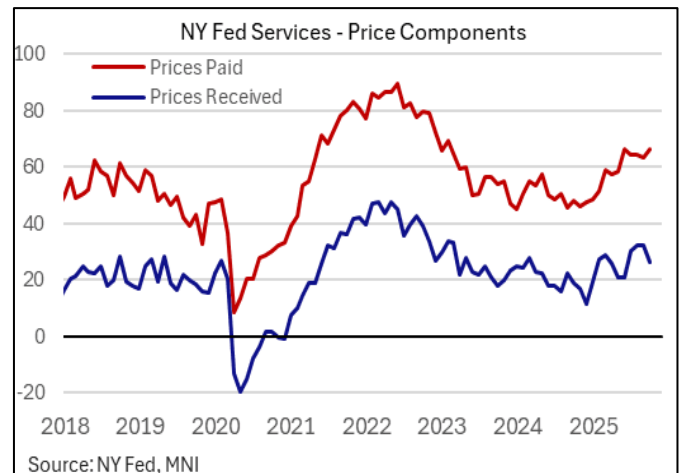


Poor NY Fed Services Report A Warning Signal For Activity

The New York Fed's Business Leaders Survey showed a sharp pullback in activity in October, with the headline business activity index dropping to -23.6 from -19.4. That marks the lowest reading since January 2021, and the 3rd consecutive month of deterioration.

- The survey was weak across the board, with the business climate moving more negative, and various sub-categories also poor: "Employment edged lower, and wage growth remained modest. Supply availability continued to worsen....On the whole, firms were slightly pessimistic about the outlook."

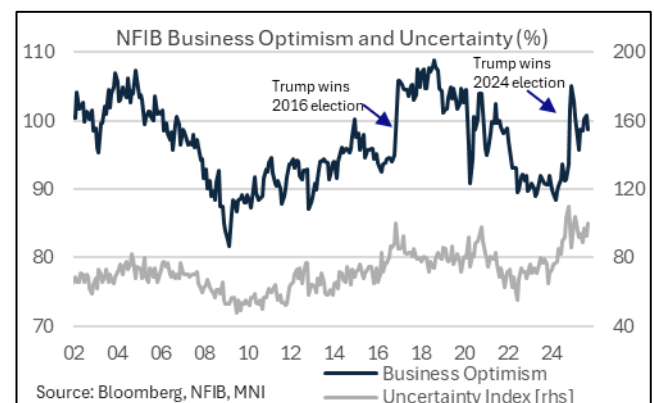
- The latest NY Fed submission to the Federal Reserve Beige Book reflected weakness through the September reporting period, but this now seems to have worsened. "Activity in the service sector continued to decline moderately this period. Firms in the retail, leisure and hospitality, and business services sectors reported moderate declines, and firms in the information sector reported a particularly sharp contraction."
- We would never want to read much into a single report. But this is the first regional Fed services survey of the month, and with government data in short supply, this is a bit of a warning signal for near-term activity. The general direction of the NY Fed survey tends to align with broader national ISM Services trends. And the decoupling with manufacturing - which in the corresponding NY Fed survey fared better in October - is also an interesting development.
- The current prices paid gauge rose to 66.4 from 63.2, fully reversing 3 consecutive declines to post the highest since June (and 2nd highest since early 2023). Prices received however pulled back, to 26.4 from 32.2 for a 4-month low. We caution not to read too much into month-to-month moves but overall it seems that regional services firms haven't been able to aggressively raise prices paid by clients. The NY Fed Beige Book entry noted of the broader regional business sector, "The pace of price increases was mostly unchanged; selling prices continued to rise moderately while input prices again rose strongly."



Small Businesses See Stronger Price Pressures In Sept After A Soft Aug

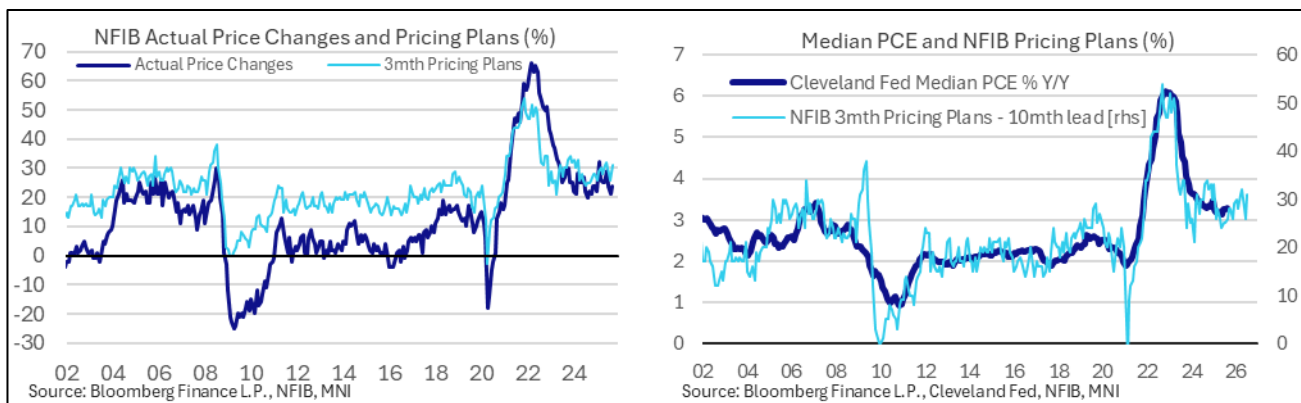
The NFIB small business survey saw a small decline in business confidence in September, with supply chain and inflation issues taking more prominence again after a dovish August report. Of note, the share expecting to increase prices over the next three months ticked back close to recent highs seen in June, more clearly consistent with above target inflation.

- The NFIB small business optimism index surprisingly fell 2pts in September to 98.8 (cons 100.6) after 100.8 in August, its first decline in three months for its lowest since June.
- From the overview ([link](#)): "While most owners evaluate their own business as currently healthy, they are having



to manage rising inflationary pressures, slower sales expectations, and ongoing labor market challenges. Although uncertainty is high, small business owners remain resilient as they seek to better understand how policy changes will impact their operations.”

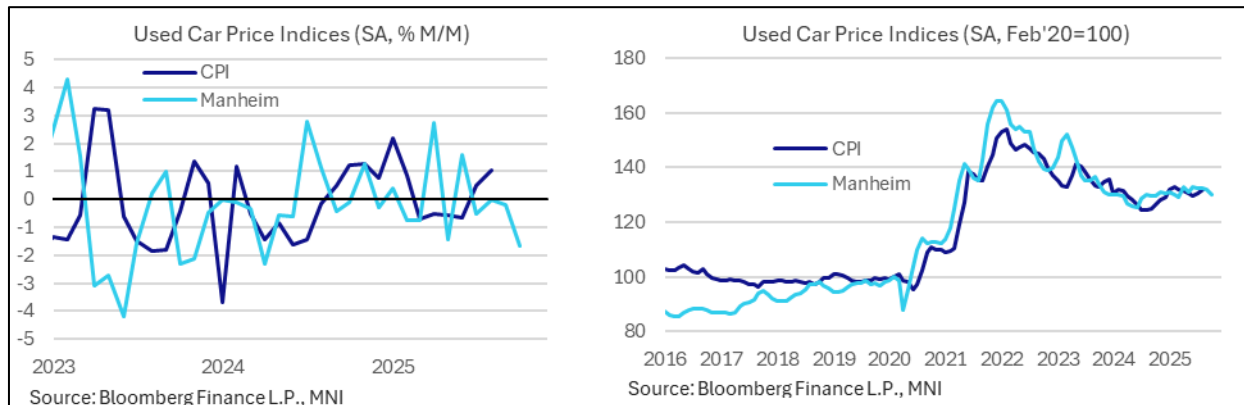
- “Supply chain and inflation issues stood out as a key problem in the report.” Indeed, price metrics bounced in this latest September survey after a dovish backdrop to August’s report.
 - Specifically, the net share raising average selling prices compared to three months ago bounced back 3pts to 24% after the 21% reported in August was the lowest since Oct 2024. It averaged 23% in 2024 or ~12% pre-pandemic.
 - The net share expecting to increase prices over the next three months meanwhile increased 5pts to 31%, close to June’s recent high of 32% after the 26% in August was its joint lowest since Sep 2024. This series averaged 28% in 2024 and 22% pre-pandemic, although it does of course remain far below some sustained readings in the 50s in 2021/22.
- “In September, 64% of small business owners reported that supply chain disruptions were affecting their business to some degree, up 10 points from August.”
- The already released jobs figures ([link](#)) had noted that “a seasonally adjusted 32% of all small business owners reported job openings they could not fill in September, unchanged from August. The last time unfilled job openings fell below 32% was in July 2020. [...] A seasonally adjusted net 16% of owners plan to create new jobs in the next three months, up 1 point from August and the fourth consecutive monthly increase. Hiring plans are at their highest level since January.”



Inflation: Used Car Price Pipeline Looks Soft

Manheim Used Car Prices Slip In Mid-Month Estimate

- Manheim wholesale used vehicle prices fell -1.6% M/M from September in the first 15 days of October, as usual on a mix-, mileage- and seasonally adjusted basis.
- It leaves a gain of just 0.4% from the full month of Oct 2024.
- From the press release ([link](#)): “Wholesale values started to show weakness in late September, and that has carried over into the first half of October, as price depreciation trends start to get back to normal levels,” said Jeremy Robb, deputy chief economist for Cox Automotive. “Declining retail sales in late September typically signal that we could see softer wholesale demand, a pattern holding at Manheim. While October typically shows the year’s strongest depreciation, current weekly declines are running higher than normal for this month, giving back some of the unusual price strength we maintained through most of 2025.”
- It follows -0.2% M/M in the full month of September, 0.0% in Aug and -0.5% in July.
- This latest provisional weakness clearly won’t show up in next week’s September CPI report, but the lags from this wholesale data suggest downside risks for CPI used car prices for Sept compared to what was a 1.0% M/M increase in August, with a pipeline of softer prices ahead.

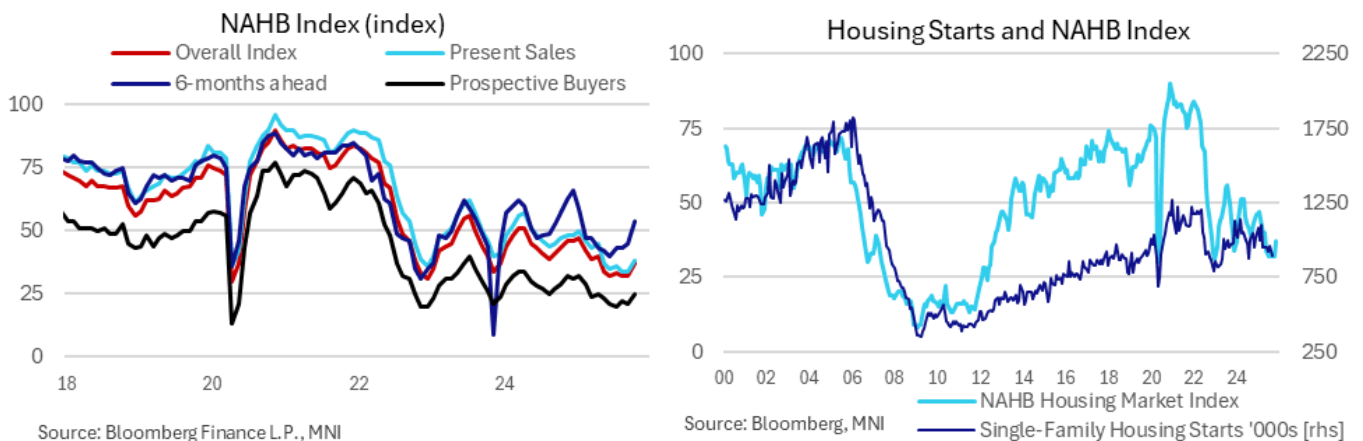


Housing & Household Finances: Firmer Homebuilder Sentiment vs Mortgage Applications Pulling Back

Homebuilder Sentiment Jumps, But Still Points To Soft Housing Activity

The NAHB/Wells Fargo Housing Market Index showed a strong improvement in October, to a 6-month high 37 (33 expected) from 32 the prior 2 months - with strong underlying metrics. While this is "soft" data, it's one of the most positive housing market-related reports seen in months.

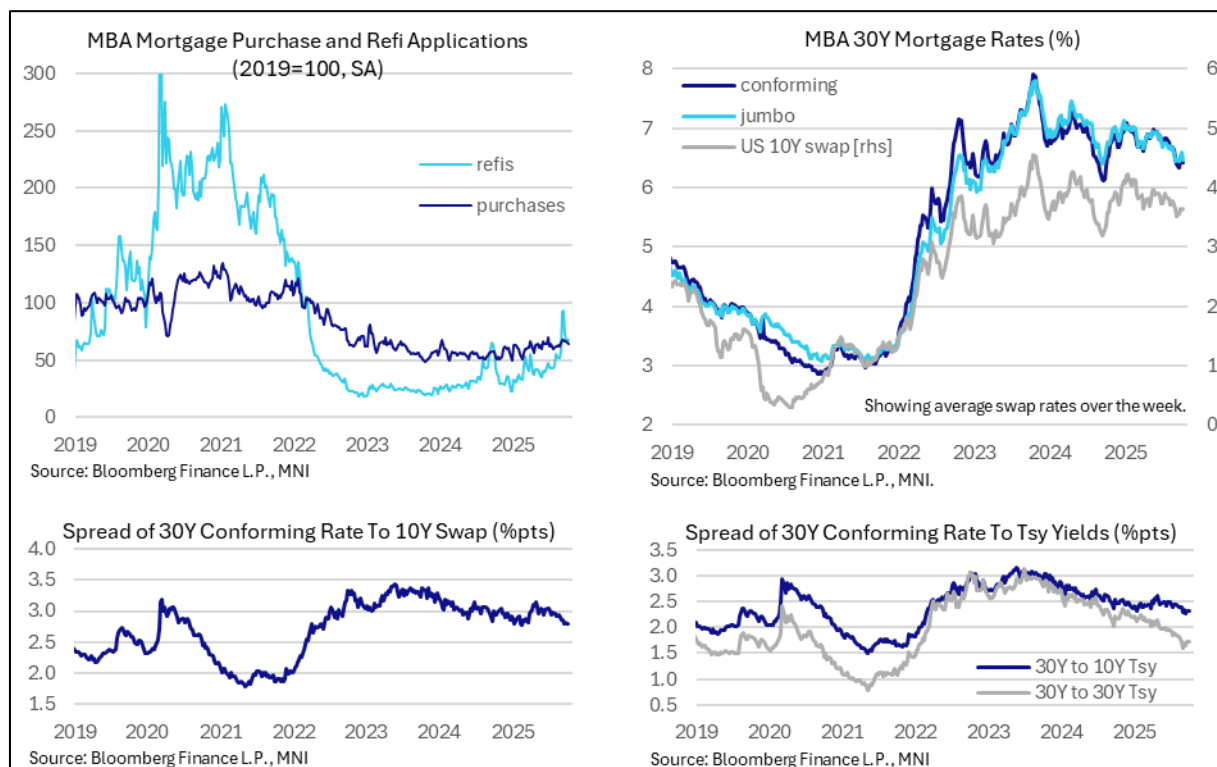
- The index of future sales rose 9 points to 54, a 9-month high, with present sales up 4 points to 38 (6-month high) and prospective buyer traffic up 4 points to 25 (joint 8-month high). All of these saw the biggest monthly rises since January 2024.
- The 4 US regional indices all improved by the standout was the Northeast which jumped 11 points to 55 for a 9-month high.
- The report noted 38% of builders cut prices in the month (around recent norms of 37-39%) and the use of sales incentives was 65% (unchanged from Sept), though the average price cut rose to 6% after averaging 5% for several months previously. That's the biggest price reduction since Oct 2024.
- In the absence of Census Bureau residential construction data during the shutdown, the NAHB - which has historically been a leading indicator for single-family housing starts - suggests a stabilization of activity at a still-weak level (a jump in starts in July looks to have been an anomaly that relapsed in August).



Mortgage Applications Ebb Lower, Spread Tightening Slows

MBA composite mortgage applications continued to retrace the refi-driven surge back in the first half of September, most recently with only a small decline. Tighter spreads have been offering a small tailwind from a trend sense but progress looks to have slowed recently.

- Composite applications fell -1.8% (sa) last week after -4.7% and -12.7%, backtracking a 30% jump in the week to Sep 12 and 9% in the week to Sep 5.
- New purchases led the latest decline, with -2.7% after -1.2%, compared to refis of -1.0% after -7.7%.
- They remain elevated by recent month standards, courtesy of refis, but are unsurprisingly still depressed historically.
- For context: composite applications sit at 67% of 2019 levels, with 64% for new purchases (a recent high of 67%) and 67% for refis (recent high of 93%).
- 30Y conforming mortgage rates inched 1bp lower to 6.42%, a little above mid-September's recent low of 6.34%.
- A narrowing in mortgage spreads is supporting in a trend sense, with the 30Y mortgage to 10Y swap rate spread at 279bps. It's hovered around the 280bp mark for a month now, down from 300 +/-5bp seen for some time since reciprocal tariff announcements in April and little below the 285bp averaged in Q1.
- On a related note, 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 but haven't seen any further downward progress recently.

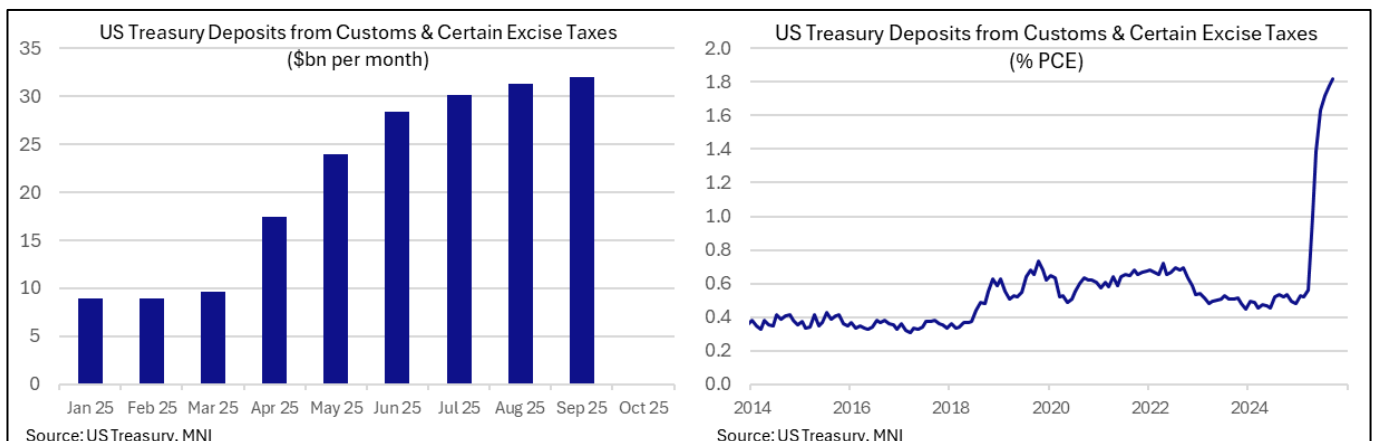
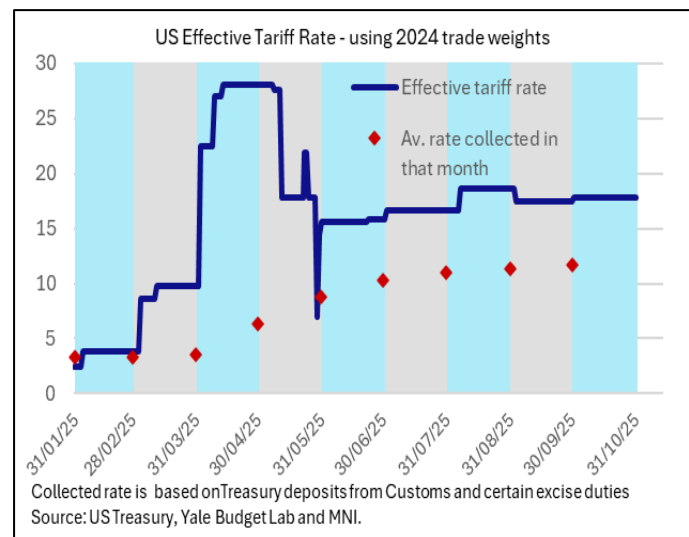


External: Tariffs Back Into Play

Taking Stock Of Realized Tariff Rates After US-China Tensions (1/2)

- President Trump on Friday (Oct 10) threatened new 100% tariffs on China and the imposition of its own export controls on "any and all critical software" on Nov 1 following China's earlier export curbs on its rare earth metals.
- Trump has since appeared to downplay these threats, posting on Truth Social on Sunday "Don't worry about China, it will all be fine! Highly respected President Xi just had a bad moment."
- The speed with which apparent watering down of rhetoric has come after high tariff threats suggests low likelihood of effective tariff rates pushing north of 25% as was the case in April after Chinese retaliation to reciprocal tariffs sparked a surge in a tariff rate of 145%. This of course is in a static sense as such levels of tariff rates are broadly seen as halting trade between the two countries.

- Nevertheless, it's worth taking stock of latest tariff rates from both proposed rates and actual collection of customs duties.
- The latest Yale Budget Lab report from Sep 26 had an effective tariff rate of 17.4% at end-Sept, expected to have increased to 17.9% into October.
- Customs duties meanwhile have seen a stalling in progress in recent months, up to \$32bn in September (\$384bn annualized) after \$31.3bn in Aug and \$30.0bn in Jul. For context, this was in the \$8-9bn region prior to the second Trump administration.
- It leaves an implied tariff rate either side of 11.5% depending on which period of trade you use for the denominator vs closer to 11.25% in Aug or 3.0% back in Dec.
- Alternatively, customs duties have increased by 1.3pps to ~1.8% of personal consumption expenditure, with most of this cumulative increase having come by June when it was worth an additional 1.1pp. These figures give an idea of the system-wide impact, whilst Goldman Sachs analysis in the second part of this post goes into detail as to how much might actually show up in consumer prices.



Goldman On Tariff Passthrough Estimates (2/2)

- Goldman Sachs write that the customs duties implied US effective tariff rate “had risen by 9pp through August, or by nearly 11pp net of frontloading effects.”
- “Following recent tariff increases on some products and countries and hints of exemptions for others, we now expect it to rise by 12pp in total in 2025 and by another 3.5pp or 15.5pp in total through 2026, a bit less than we previously assumed.”
- They estimate that foreign exporters are “absorbing some of the tariff cost, unlike in 2019, though some of the decline likely reflects underreporting of import value to evade tariffs”. Meanwhile, passthrough to consumer prices has reached “55% after six months, meaningfully lower than at the same point in 2019.”
- They estimate that “US consumers would eventually absorb 55% of tariff costs, US businesses would absorb 22%, foreign exporters would absorb 18%, and 5% would be evaded.” US businesses are likely bearing a larger share currently though.
- GS estimate that “tariff effects have raised core PCE prices by 0.44% so far this year”. Their forecast, which assumed peak passthrough will rise from 55% to 70% “implies a further 0.6% boost from tariffs through next year”. That leaves core PCE inflation at 3.0% Y/Y in Dec 2025 and 2.4% in Dec 2026.
- To give an idea of sensitivity, core PCE inflation would be 3.1% and 2.7% respectively if passthrough peaks at 100%, or 2.9% and 2.2% if passthrough holds at 55%.

Fed Beige Book: Weaker Growth Conditions And Subdued Labor But Price Pressures Building Again

The openings to the intro paragraphs:

- "Economic activity changed little on balance since the previous report"
- "Employment levels were largely stable in recent weeks, and demand for labor was generally muted"
- "Prices rose further during the reporting period"

Overall economic activity looks to have been weaker on balance than prior: while the same number of districts (4) reported declining activity, this time 5 saw little/no change in activity (2 prior) and just 3 reported growth (vs 6 prior). The employment picture was relatively unchanged with little dynamism evident, while inflation pressures appeared a little stronger at least from a breadth perspective.

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

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

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

Beige Book: Inflation Pressures Picking Back Up Again After Softer Summer

- This was arguably the most inflationary Beige Book of 2025, certainly joint with June which saw 8 (of 12) districts characterize inflation pressures as "moderate".
- After June, pressures eased off in the subsequent two Beige Books. But in October's, 7 saw inflation as "moderate" (Boston, Philadelphia, Richmond, Atlanta, Chicago, St Louis, Kansas City) with 1 (Cleveland) reporting "robust" price pressures.
- Tariff pressures on prices were relatively similar to the prior report's, with passthrough impacts varied.
- The national-level description of inflation: "Prices rose further during the reporting period. Several District reports indicated that input costs increased at a faster pace due to higher import costs and the higher cost of services such as insurance, health care, and technology solutions. Tariff-induced input cost increases were reported across many Districts, but the extent of those higher costs passing through to final prices varied. Some firms facing tariff-induced cost pressures kept their selling prices largely unchanged to preserve market share and in response to pushback from price-sensitive clients. However, there were also reports of firms in manufacturing and retail trades fully passing higher import costs along to their customers. Waning demand in some markets reportedly pushed prices down for some materials, such as steel in the Sixth District and lumber in the Twelfth District."

Inflation - Nature of reported price increases plus passthrough & tariff considerations:

	Distribution of price increases		Passthrough	Tariffs
	Moderate	Modest		
Jan 15, 2025		Modestly overall, from flat to moderate		Some noted potential for higher tariffs to contribute to 2025 price increases
Mar 5, 2025	Moderately in most districts but several reported uptick in pace vs previous		Multiple districts noted difficulty passing input costs on to customers...	... but most expected tariffs to raise future prices. Isolated reports of pre-emptive increases
Apr 23, 2025	Six characterized as moderate	Six characterized as modest (on net similar to March)	Most businesses expect to pass through additional costs but reports of margin compression with tepid demand in some sectors	Adding tariff surcharges or shortening pricing horizons amidst trade policy uncertainty
Jun 4, 2025	Eight characterized as moderate	Two characterized as modest, one steady, one slightly	Contacts that plan to pass along tariff-related costs expect to do so within three months	All District reports indicated that higher tariff rates were putting upward pressure on costs and prices
Jul 16, 2025	Seven characterized as moderate	Four characterized as modest, one eased, one steady	"Many firms" passed on at least a portion of cost increase though some held off due to customer price sensitivity	All Districts report businesses experiencing modest-to-pronounced input cost pressures related to tariffs, especially for raw materials in manufacturing and construction
Sep 3, 2025	Six characterized as moderate	Six characterized as modest	"Some firms" reported passing through entire price increases to customers, others described at least some hesitancy to pass through	"Nearly all districts" reported tariff-related price increases, many contacts seeing as "especially impactful on the prices of inputs"
Oct 15, 2025	Seven characterized as moderate (and one "robust")	Two characterized as modest, one "slightly", one "mostly unchanged"	Passthrough "to final prices varied." "Some firms" kept prices unchanged to maintain market share/ price-sensitive clients; some manufacturing and retail firms "fully passing higher import costs along"	"Tariff-induced input cost increases were reported across many Districts"

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

Beige Book: Labor Market Remains Subdued

Compared with the previous Beige Book, October's arguably shows a slight improvement on the labor market front, though considerably weaker than earlier in the year - mirroring broader employment data.

- Just 2 regional Fed banks (Philadelphia, Cleveland) of 12 reported increases in employment, albeit that was better than August/September's report which saw only 1. Three saw decreases, with 2 "slightly" (Minneapolis, KC) and one outright "declined" (Dallas). 7 regions saw no change in employment.
- The Beige Book's national-level description of labor market conditions: "Employment levels were largely stable in recent weeks, and demand for labor was generally muted across Districts and sectors. In most Districts, more employers reported lowering head counts through layoffs and attrition, with contacts citing weaker demand, elevated economic uncertainty, and, in some cases, increased investment in artificial

intelligence technologies. Employers that reported hiring generally noted improved labor availability, and some favored hiring temporary and part-time workers over offering full-time employment opportunities. Nevertheless, labor supply in the hospitality, agriculture, construction, and manufacturing sectors was reportedly strained in several Districts due to recent changes to immigration policies. Wages grew across all reporting Districts, generally at a modest to moderate pace, and labor cost pressures intensified in recent weeks due to outsized increases in employer-sponsored health insurance expenses."

Labor market - The distribution of Districts reporting increases, no change or decreases in headcount:

	Increase	No Change	Decrease
Jul 17, 2024	Most saw flat or up slightly, a few saw modest growth		
Sep 4, 2024	5 (slight or modest)	Generally flat or up slightly	
Oct 23, 2024	More than half reported slight or modest	The remainder reported little or no change	
Dec 4, 2024	Employment levels were flat or up only slightly across Districts		
Jan 15, 2025	6 (slight)	6	
Mar 5, 2025	4 (slight)	7	1 (slight)
Apr 23, 2025	1 (modest), 4 (slight)	4	3 (slight)
Jun 4, 2025	1 (modest), 2 (slight)	7	2 (slight)
Jul 16, 2025	1 (modest), 6 (slight)	3	2 (slight)
Sep 3, 2025	1 (slight)	7	3 (slight), 1 (modest)
Oct 15, 2025	2 (slight)	7	2 (slight), 1 ("declined")

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

Fedspeak: Activity and Labor Data Aren't Telling The Same Story

Fed Chair Powell and Governor Waller – reportedly on the shortlist for the next Fed Chair position – gave detailed appearances this week before the media blackout starts ahead of the Oct 28-29 FOMC meeting. They both note that activity and labor data aren't telling the same story.

- Powell (voter) largely stuck to the status quo in terms of signalling another 25bp rate cut at the end of October. He echoed other speakers including Gov Waller last week in saying that the activity and labor market data aren't necessarily telling the same story, and future policy could depend on how that discrepancy plays out.
- Powell on 'supplementary' private sector data: "in the employment space, there's some pretty good substitutes, less so in the inflation space and in the economic activity space."
- Waller (voter) continued to advocate for a measured approach to easing monetary policy in an appearance on Bloomberg TV. He doesn't think a lot has changed since his "Let's Get On With It" speech from six weeks ago although he did hint at a more cautious approach beyond October, something that was stated a little more clearly in a speech later that day. Beyond October, "I will be looking for how the solid GDP data reconcile with the softening labor market."
- Outright dove Miran (voter) sees more downside risk than a week ago after renewed US-China trade tensions and sees it as being even more urgent to get to a more neutral policy setting.

- Boston Fed's Collins ('25 voter) confirmed our guess that she was one of the dots looking for one more cut this year.
- St Louis Fed's Musalem ('25 voter) stuck to his hawkish stance with limited room to cut rates before policy becomes overly loose.

Powell Keeps October Cut On Track, Notes Jobs Vs Activity Divergence [1/2] (Oct 14)

In what is among the very last major FOMC communications before the pre-meeting blackout period begins Friday night, Chair Powell's commentary Tuesday largely maintains the status quo in terms of signalling another 25bp rate cut at the end of October.

- In his written remarks, he says "based on the data that we do have, it is fair to say that the outlook for employment and inflation does not appear to have changed much since our September meeting four weeks ago" when of course they cut rates 25bp eyeing "Rising downside risks to employment". Though in a slightly less dovish note, "data available prior to the shutdown, however, show that growth in economic activity may be on a somewhat firmer trajectory than expected."
- In Q&A, Powell repeats his September commentary that "there really isn't a risk free path" with some danger of inflation persistence but "the labor market has demonstrated pretty significant downside risks as payroll jobs have declined in both the supply and demand for for labor has declined quite sharply".
- On the risks of easing: "if we move too quickly, then we may leave the inflation job unfinished and have to come back later and finish it. And if we move too slowly, there may be unnecessary, painful losses in the employment market."
- He echoes other speakers including Gov Waller last week in saying that the activity and labor market data aren't necessarily telling the same story, and future policy could depend on how that discrepancy plays out: "Even subsequent to the September SEP, we've seen economic activity data which are surprising to the upside... you do have a bit of a tension there between the labor market data that we see very low levels of job creation. And yet people are spending. So economic activity is strong. And... we're going to have to see how that plays out.... if economic activity were stronger, then that would tend to support labor market activities in hiring. And so we'll have to see how that works out."
- Commenting on nonfarm payroll "breakeven" growth, Powell notes that a figure "I'm not going to try to give you a pinpoint number, but... the standard error around these things is, you know, 50,000 plus or minus, something like that... I think the range of plausible numbers... probably does go below zero... it's clearly come down a great deal."
- He points to the Beveridge Curve to suggest that "further declines in job openings might very well start to show up in unemployment."

Powell Eyeing Incoming Inflation Data, "Alternative" Jobs Numbers [2/2] (Oct 14)

Powell in Q&A discusses what data the FOMC is looking at amid the federal gov't shutdown, pointing out that you can for example "add up" state jobless claims reports "and get a pretty decent estimate", and ADP payrolls.

- "I will say generally the alternative data that we look at is better used as a supplement for the underlying governmental data, which is the gold standard. And it won't be as effective as the main course as it would have been as a supplement.... in the employment space, there's some pretty good substitutes, less so in the inflation space and and in the economic activity space."
- On missing federal government data, Powell suggests that "we're going to make our decisions according to the FOMC schedule, but I think it will be a lot better once we start getting, for example, the September employment report is going to be very important report, and we're not on track to have that, there would still be time for us to get that. We will get, of course, the September inflation, the CPI and PPI reports. So that's a positive. But, you know, we don't comment on fiscal matters, but from our standpoint, we'll start to miss that data, and particularly the October data. If this goes on for a while, they won't be collecting it, and it could become more challenging"
- Further to his speech commentary on the balance sheet, Powell says on what they're watching for when considering ending QT: "So we have a we have a nice spider chart and five main indicators, one of which is repo levels. And I think overall what they're showing is that we're still at ... abundant reserves... a little bit above ample reserves. So but we're beginning to see ... a little bit of tightening in money market conditions,

particularly repo rates have moved up.... the pace of runoff is now very, very slow. So we're going to be watching all those factors very carefully. And we're not so far away now. But there's a ways to go."

- Asked if the Fed would look at any specific action on MBS to address mortgage rates or housing affordability, Powell says the Fed doesn't target housing prices.

Waller Continues To Advocate Measured Easing Approach (Oct 16)

Fed Governor Waller (permanent voter, dove) continues to advocate for measured approach to easing monetary policy in an appearance on Bloomberg TV. Notable excerpts (partly paraphrased):

- When asked about whether his view has changed from his speech entitled "[Let's Get On with It](#)" from Aug 28: "In the last six weeks, I don't think a lot has changed. All the private sector data, including the Beige Book yesterday, is telling us the same story. The labor market is weak but growth is on the stronger side, which is a puzzle now because you cannot have a strong growing economy and zero jobs growth. Either numbers start coming back down or the labor market rebounds."
- Q: *Do you continue to reduce rates as you wait to see what is going on?*
- "That's exactly what I've been arguing. We don't know which way this will break. If the labor market rebounds there's less pressure for cutting rates, if growth comes back down there's more pressure. You don't want to make a mistake so the way to avoid that is to go cautiously or carefully. Do a 25bp cut and wait to see what happens and then get a better idea of what to do but if you've already started the process you've provided some initial support for the labor market that you feel is necessary."

His answers throughout the interview also broadly confirmed an appearance on CNBC on Friday, although with added mention of yesterday's Beige Book. On Friday, he 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."

Waller Sees All Sources Suggesting Labor Market Is Weak (Oct 16)

Waller on Bloomberg TV when questioned on the view that equities at all-time-highs and improved financing conditions can see renewed upside risk: "If all these loose financial conditions are going to cause a boom and excess in the US we should start seeing some of that in the labor market. We're not seeing it. There's so much speculation on AI that it's kind of overshadowing everything else that's going on. My job is unemployment and price stability. I think inflation will be ok, it's going up but some of the tariff effects will come back off. But my job is about the labor market and it's not good."

Q: *Is there any inflation out there right now that you see that you're concerned about?*

- Waller: We have various ways to trying to tease out the tariff effects. Our estimate is that inflation is running at about 2.5% and we are not seeing anything that will explode. All this tension on AI is the ignoring the fact that other stuff is softening demand. That's why I'm not really worried about the AI stuff. If it did really cause problems in energy, when thinking about future inflation just look at core and not headline.

Q: *At the end of the month you might not get the labor market report. How difficult is it and can you even provide an outlook meeting-by-meeting in this environment?*

- Waller: "I have this joke that for those who think we are too data dependent you are going to find out what non-data-dependent policy looks like. We do have lots of data, lots of labor market indicators that tell us the same story- the labor market is weak. We're getting this conflicting data about GDP. The Beige Book came out and it was not like everything is rosy and booming. There could still be inventory pull-forward in the GDP numbers and we might see it start to pull off at the end of the year. On the tax bill, there was a lot incentives for business fixed investment but that implies equally for AI and non-AI. At the end of the day you're still deciding on AI or non-AI investment and AI is winning, so I don't know how much of a help that will be for non-AI sectors."

Gov Waller: 100-125bp Of Further Cuts Dependent On Continued Labor Weakness (Oct 16)

Gov Waller's now-customary pre-FOMC meeting blackout speech laying out his monetary policy views is titled "Cutting Rates in the Face of Conflicting Data" ([link](#)). There's nothing really new versus what he's said in prior

recent appearances, and indeed, he noted earlier today that not much has changed in the landscape since his last speech in late August.

- The punchline is that "I believe that the FOMC should reduce the policy rate another 25 basis points at our meeting that concludes October 29." That is a well-established, well-known view of his, and he's clearly a 3-cutter for 2025 (Sep, Oct, Dec) in the September Dot Plot. However he is a little more cautious going forward: "But beyond that point, I will be looking for how the solid GDP data reconcile with the softening labor market."
- He remains unconcerned with the impact of tariffs on inflation, eyeing labor market risks: "Tariffs have modest effects on inflation, but with underlying inflation close to our goal and expectations of future inflation well anchored, I believe we are on track toward the FOMC's 2 percent goal. As a result, my focus is on the labor market, where payroll gains have weakened this year and employment may well be shrinking already."
- With those in mind, he points to a further 100-125bp of rate cuts to get to neutral (implying a range of 2.75-3.00% or 3.00-3.25%), albeit in a data-dependent fashion: "What I would want to avoid is rekindling inflationary pressure by moving too quickly and squandering the significant progress we have made taming inflation. On the other hand, if the labor market continues to soften or even weaken and inflation remains in check, then I believe the FOMC should proceed to reduce the policy rate toward a neutral level, which I judge is about 100 to 125 basis points lower than it is today. The labor market has been sending some clear warnings lately, and we should be ready to act if those warnings are validated by what we learn in the coming weeks and months."
- He says he sees "a conflict right now between data showing solid growth in economic activity and data showing a softening labor market. So, something's gotta give—either economic growth softens to match a soft labor market, or the labor market rebounds to match stronger economic growth. Since we don't know which way the data will break on this conflict, we need to move with care when adjusting the policy rate to ensure we don't make a mistake that will be costly to correct. I believe that how that process plays out in the coming months will have a significant impact on the path of monetary policy." This is similar to comments he's made previously.
- As for the recent government data drought, "Although private-sector data alternatives are available and a helpful complement to official statistics, they are less informative when they stand alone. The delay in the September employment report in particular makes it harder to know whether the labor market is continuing to soften or is stabilizing." He's been looking at both private sector data and business contact anecdotes.

Miran Urges Faster Fed Cuts As China Trade War Heats Up, Doesn't Think Convincing Colleagues (Oct 15)

Federal Reserve Governor Stephen Miran said Wednesday the intensification of U.S.-China trade tensions over the past week create more urgency to cut interest rates.

- "There's now more downside risks than there was a week ago, and I think it's incumbent upon us as policymakers to recognize that should be reflected in policy," he said. "With the change to the balance of risks, I think it becomes even more urgent that we get to a more neutral place in policy quickly."
- Miran has said he would like the fed funds target range to fall to just under 3% by year-end, 75 bps lower than the median FOMC member.

He doesn't think he is yet convincing FOMC colleagues the economy needs faster and larger interest rate cuts to catch up with a lower neutral rate.

- "I don't think I'm yet at the point where I'm convincing large swaths of the economy of my underlying view, because I think that a lot of people want to see it in the data," Miran said at a Nomura Research Forum in Washington. "For me, it's important to set policy based on the forecast." (See: MNI POLICY: Fed Set To Keep Cutting Rates Despite Missing Data)
- "Monetary policy should be forward looking and not backward looking. And sort of the excessive data dependence is just a symptom of either not having a forecast or not having confidence in your forecast," said Miran. He added that he is "making progress convincing people that there are some channels they haven't considered," including population growth and immigration.

Musalem Reiterates Hawkish Stance, Notes Consumption Tailwinds (Oct 17)

- St Louis Fed's Musalem ('25 voter, hawk) broadly reiterated recent comments around there being little room to ease monetary policy before it becomes overly loose, with policy somewhere between modestly restrictive and neutral.
- "I could support a path with an additional reduction in the policy rate if there are further risks to the labor market that emerge," and if the risks for persistent inflation remain contained, Musalem said Friday during an event in Washington. "I do think we need to not be on a preset course."
- He added "right now, I think it's particularly important to go meeting by meeting"
- He also offered color on what have been tailwinds for consumption across income spectrums:
- **"*MUSALEM: LOWER-INCOME HOUSEHOLD CONSUMPTION IS PRETTY STRONG**
- ***MUSALEM: LOWER-INCOME HOUSEHOLDS ARE TAKING ON CREDIT TO SPEND**
- ***MUSALEM: WEALTH EFFECT IS BOOSTING HIGHER-INCOME HOUSEHOLDS"** - bbg
- The St Louis Fed team estimates the breakeven job growth rate is between 30-80k.
- The data don't suggest an imminent labor market deterioration although there is increasing risk of higher unemployment. Broadly, the labor market is around full employment.

Boston Fed's Collins Still Sees "A Bit" More Easing This Year (Oct 14)

The key takeaways from Boston Fed President Collins's (2025 FOMC voter) speech on "Assessing The Balance Of Risks In The Economy" Tuesday ([link](#)) are in the image below, very similar to her speech on September 29 but with greater depth to her arguments.

- We still peg Collins as a "one more cut" submission in the September SEP, though there is an argument she is one of the median 9 (of 19 members) who sees 2 more cuts. In particular, she again notes scope for normalizing policy "a bit further" this year; having previously described the September 25bp cut as "a bit of easing", it would stand to reason she is referring to 25bp moves in both instances. Additionally she says she could envisage a scenario where no further cuts this year are warranted.
- The key passage on monetary policy: "with inflation risks somewhat more contained, but greater downside risks to employment, it seems prudent to normalize policy a bit further this year to support the labor market. Importantly, even with some additional easing, monetary policy would remain mildly restrictive, which is appropriate for ensuring that inflation resumes its decline once tariff effects filter through the economy. But policy is not on a pre-set path, and I can envision scenarios where appropriate policy calls for holding rates steady later this year and into next, as we assess effects of the recent policy actions and get more information. Going forward, my policy decisions will continue to be guided by my best assessment of all available data, their implications for the outlook, and the evolving risks."
- Similar to her previous appearance, Collins says Tuesday "While I see inflation risks as somewhat more contained than I previously thought, downside risks to the labor market have likely risen."
- She again highlights the slower growth in both labor supply and demand, pointing to a 40k "breakeven" rate of payrolls growth. She says however that the "broad-based slowdown in hiring raises the risk that labor demand may fall short of supply, which could eventually lead to a more substantial increase in the unemployment rate than we have seen so far this year."
- She notes "a few reasons to expect further price pressures from tariffs going forward", while "Overall, my baseline economic outlook is relatively benign. I see continued growth in activity, little further rise in the unemployment rate, and inflation remaining elevated this year and into early 2026 as tariffs are passed through more fully, before resuming its decline".
- "while that is my baseline view, I do not rule out scenarios featuring higher and more persistent inflation, more adverse labor market developments, or both."
- She sees inflation expectations as "relatively stable". And "a softer labor market with strong productivity growth reduces the risk of inflationary pressures from wage growth." "But all of this warrants careful attention, and a lack of comprehensive price data (given the government shutdown) will complicate assessing the inflation environment."

Boston's Collins One Of 5 (of 12) Holdouts To Oct+Dec Cuts (Oct 14)

As we noted earlier, Boston Fed President Collins (who votes in the next 2 meetings) is likely one of the 2 FOMC members who only saw 1 more cut this year in her September Dot Plot submission - she confirms it in Q&A: "a bit more easing, perhaps another 25 basis points of easing might be appropriate."

- And it sounds like she might support a cut in October, before seeing a pause thereafter: "having changed in September, if we were to make an additional change, I could also see scenarios where it would then be appropriate to hold over time."
- As such back-to-back October / December cuts look to be supported by 7 of 12 2025 FOMC members, with all four regional presidents eyeing either one or no more cuts. The core of the Committee including all on the Board except for Barr will support cuts though as it stands, and we think the bar is fairly high for the holdouts to dissent.

Philadelphia's Paulson: 2 More Cuts This Year, More Uncertainty Over 2026 (Oct 13)

In her first commentary on monetary policy since becoming Philadelphia Fed president in the summer, Anna Paulson (non-2025 FOMC voter, votes in 2026) [said in a speech](#) Monday that with rates "modestly restrictive now", she sees easing through year-end in line with the September SEP median - in other words, two more cuts by year-end. That's in line with MNI's assumption of her view.

- For 2026, when she is an FOMC voter, she sounds far less certain: "But first, what about next year? I see two important questions for monetary policy to grapple with in 2026. The first question is: What is the neutral policy rate? And the second question is: How quickly should policy move to neutral? My short answer to these questions is: I don't know, and because I don't know, we should proceed cautiously."
- Her current view on the economy: "The latest available data suggest an economy that is doing pretty well, although inflation remains elevated...Job gains have slowed markedly but labor supply and demand appear to be slowing more or less in tandem, leaving overall conditions in a rough balance...labor market risks do appear to be increasing — not outrageously, but noticeably. And momentum seems to be going in the wrong direction."
- She sees tariffs as largely having a one-off impact on inflation: "My base case is that tariffs will increase the price level, but they won't leave a lasting imprint on inflation. And, given this base case, monetary policy should look through tariff effects on prices" though "I do still expect some additional goods inflation over the next few quarters, due in part to current tariffs working their way through and also to new tariffs that have been announced."
- Overall, "Given my views on tariffs and inflation, monetary policy should be focused on balancing risks to maximum employment and price stability which means moving policy towards a more neutral stance."
- And on neutral rates and the path ahead: "there are a wide range of plausible estimates of the neutral policy rate, and I think we will need to feel our way there, paying close attention to what economic developments tell us about the stance of policy. The ability to go slowly and assess is particularly valuable as we get closer to neutral. We will be better positioned to go slowly in the future if we adjust policy in the near term in a way that better aligns labor market and inflation risks. I anticipate that 2026 will see growth near potential, and inflation rising and then subsiding as tariffs, together with current and past monetary policy restrictiveness, work their way through. If the economy evolves as I expect, the monetary policy adjustments we make this year and next will be sufficient to keep labor market conditions close to full employment."

Philly's Paulson: 2026 "Long Way Off" In Rate Views (Oct 13)

Asked in Q&A if she's in line with the Dot Plot median for 3.4% rates at end-2026 (when she is an FOMC voter) as well as her stated view that she agrees with the FOMC median estimate for 2 more cuts the rest of this year, Philly Fed's Paulson doesn't reveal much, saying "I think next year we're going to have to really evaluate the data as it comes in. We're going to have to see what happens, both with inflation and with employment and with growth. Right? I mean, I think next year is a long way off right now."

- On where she sees the neutral rate: "We're really going to have to feel our way."

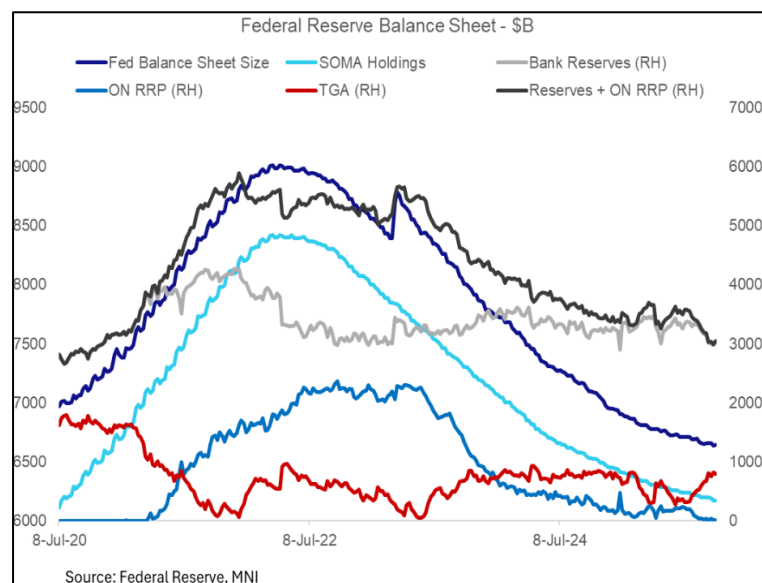
- Asked if she saw potential for rate hikes in 2026 if inflation proves to be stickier than anticipated (always a tricky question), Paulson says: "I mean, I think you can never say never about that. If inflation shows a burst of, you know, shows some life, then the Fed's going to have to react appropriately, whether that's keeping the policy rate at current levels or whether that's increasing, it is going to depend on what the data say. But I think we need to be open to doing what it takes to achieve both of our mandates."
- Paulson says the NABE survey estimate of breakeven payroll employment (the pace of job gains that is needed to keep the unemployment rate steady) of 75,000 nonfarm payroll jobs "sounds really reasonable... I would suspect that it's lower than 75,000".
- She says "I know it's [the breakeven rate] lower than it was before... it's going to be within the standard of error. That includes some things that are negative. And so I think that's going to be another reason why I think it's really important to look at ratios rather than those job flow numbers. Because when you've got supply and demand changing at the same time, it's really hard to assess...we've got structural things going on, at the same time that cyclical things are going on. And so that's why I'm going to be looking at some of those ratios."

Specific Balance Sheet Considerations

Powell: May Be Near QT End "In Coming Months", In Line With MNI Expectation (Oct 14)

Chair Powell's speech Tuesday, titled "Understanding the Fed's Balance Sheet", is largely focused as the title suggests on the Fed's balance sheet policy. He gives the clearest sign yet that the balance sheet runoff which started in June 2022 and has reduced the SOMA portfolio by \$2.2T is nearing an end. He says: "Our long-stated plan is to stop balance sheet runoff when reserves are somewhat above the level we judge consistent with ample reserve conditions. We may approach that point in coming months, and we are closely monitoring a wide range of indicators to inform this decision."

- This shouldn't be considered a major surprise. We wrote last Thursday after the release of the NY Fed's latest Survey of Market Expectations that consensus was still for reserves levels to fall below \$2.9T by early 2026, with balance sheet runoff still expected to conclude in early 2026.
- And the September FOMC minutes showed the SOMA deputy manager noted at the meeting reserves were expected "to be close to the \$2.8 trillion range by the end of the first quarter of next year".
- We took that as a fairly clear signal that the Fed is beginning to eye the end of QT by early 2026, with reserve management purchases restarting the balance sheet rebuild later in the year.
- Powell's comments are clear confirmation that this is a decision that will be discussed at the upcoming October meeting, potentially with an announcement coming in December or perhaps January.



Gov Waller: Reserves At Ample, Have To Eye Balance Sheet Composition Next (Oct 16)

In a post-speech Q&A, Gov Waller appears to agree with the conclusion of QT soon, as suggested by Chair Powell on Tuesday. Eyeing the distinction between "ample" and previously "abundant" reserves, Waller says:

- "I think we're at the point where ... we run an ample reserves to ensure that there's sufficient liquidity in the banking system... we had an excessively large balance sheet due to quantitative easing. We ended that. We've been on a quantitative tightening policy since May of 2022, and we're basically back to where we think we should be just for ample... QE really distorted the maturity structure of our balance sheet, and our

next choice - even though we get the level right - our next job is to try to get the composition right and that'll take some time."

- Waller - once something of a balance sheet "hawk" who saw the level of ample reserves "roughly" as low as \$2.7T vs the ~\$3T currently - making such commentary points to fairly widespread acceptance on the FOMC that a decision to end QT could be made soon, especially with Powell giving a strong steer to a shift in the coming months.
- On rates, Waller is asked whether rates should continue to be reduced as the Fed waits to assess the incoming data, and he reiterates his view that it's important to ease first and then "see what happens":
- "That's exactly what I've been arguing. We don't know which way this will break. If the labor market rebounds there's less pressure for cutting rates, if growth comes back down there's more pressure. You don't want to make a mistake so the way to avoid that is to go cautiously or carefully. Do a 25bp cut and wait to see what happens and then get a better idea of what to do. But if you've already started the process you've provided some initial support for the labor market that you feel is necessary."

STIR: Regional Bank Reaction Dominates

What had been a very steady weak for US rates markets was dominated in the second half of Thursday by a sharp deterioration in global risk sentiment on US regional bank concerns. October 25bp rate cut odds were steady throughout the period although the risk-off saw 15-20% odds of a 50bp cut in December before paring the move somewhat.

- Fed Funds cumulative cuts from an assumed 4.11% effective rate: 25bp Oct, 51bp Dec, 64.5bp Jan, 78bp Mar, 85.5bp Apr and 100bp Jun.
- SOFR implied yields are currently at 2.93%, off yesterday's close of 2.89%, having intraday started to eye cycle lows from Sep 2024 when anticipated the aggressive start of the Fed's easing cycle at the time.

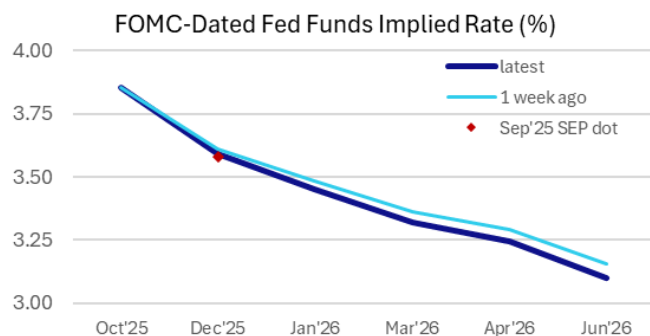


Change in Fed Funds effective rate with Dec 2025 meeting (%) (Bloomberg Finance L.P.)

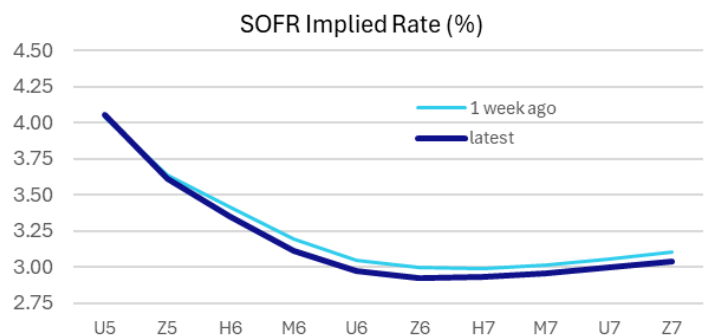
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre Powell (Oct 14)			chg in rate bp	pre U.Mich (Oct 10) & China tension			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.10			4.1				4.10			
Oct'25	3.85	-24.8	-24.8	3.86	-24	-24.2	-0.6	3.86	-24	-24	-1.0
Dec'25	3.59	-25.9	-50.7	3.61	-25	-49.1	-1.6	3.65	-21	-45	-5.5
Jan'26	3.45	-14.0	-64.7	3.48	-13	-62.3	-2.4	3.54	-11	-56	-9.0
Mar'26	3.32	-13.2	-77.9	3.35	-12	-74.6	-3.3	3.44	-10	-66	-12.0
Apr'26	3.24	-7.8	-85.7	3.28	-8	-82.3	-3.4	3.38	-6	-72	-13.5
Jun'26	3.10	-14.2	-99.9	3.14	-14	-96.3	-3.6	3.24	-14	-86	-13.7

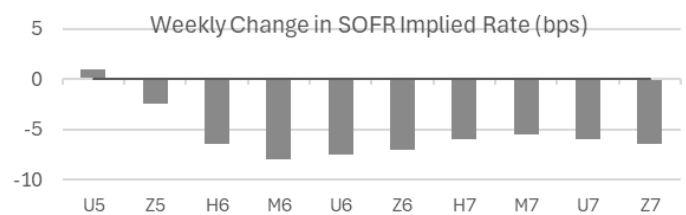
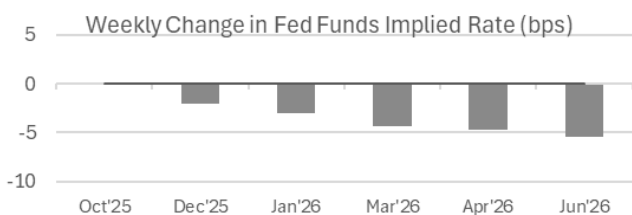
Source: Bloomberg Finance L.P., MNI.



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: Delayed CPI Report

The September US CPI report will be released on Friday, delayed amidst the government shutdown but with the BLS making a special exception on social security payment considerations. Bloomberg consensus looks for headline CPI inflation at a rounded 0.4% M/M after 0.38% back in August and for Y/Y inflation to firm two tenths to 3.1% for what would be its highest since May 2024. Core inflation is seen at a rounded 0.3% M/M after 0.35% in August (exceeding the median unrounded estimate of 0.31%) and 0.32% in July. It's expected to see core CPI inflation hold at 3.1% Y/Y having in August increased to its highest since February. Core details should see focus on both goods and services angles: underlying goods inflation has clearly firmed in recent months on tariff pressures although the median increase has currently seen a peak back in June, whilst services will be watched for any spillover after some strong recent non-housing readings. The report will come within the FOMC blackout period ahead of the Oct 28-29 decision, with a 25bp cut fully priced and likely needing a large surprise to alter this. As for broader inflation details, Fed Chair Powell this week confusingly suggested that we will have the September PPI report but the BLS had previously said "No other releases will be rescheduled or produced until the resumption of regular government services".

The below calendar of the US macro week ahead is taken from MNI's latest shutdown guide:
https://media.marketnews.com/Shutdown_Guide_Oct9_2025_Update_c95abd06be.pdf

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

Tue, Oct 21	830	**	Philadelphia Fed Nonmanufacturing Index	Philadelphia Fed
Tue, Oct 21	855	**	Redbook Retail Sales Index	Johnson-Redbook
Wed, Oct 22	700	**	MBA Weekly Applications Index	MBA
Wed, Oct 22	1030	**	DOE Weekly Crude Oil Stocks	EIA (Dept of Energy)
Wed, Oct 22	1030	**	US DOE Petroleum Supply	EIA (Dept of Energy)
Thu, Oct 23	830	***	Jobless Claims	BLS (Dept of Labor)
Thu, Oct 23	830	**	WASDE Weekly Import/Export	Dept of Agriculture
Thu, Oct 23	1000	***	NAR existing home sales	NAR
Thu, Oct 23	1030	**	Natural Gas Stocks	EIA (Dept of Energy)
Thu, Oct 23	1100	**	Kansas City Fed Manufacturing Index	KC Fed
Thu, Oct 23	1130		Dallas Fed Weekly Economic Index	Dallas Fed
Fri, Oct 24	TBD	***	Weekly Initial / Continuing Jobless Claims Estimates Derived From State-Level Data	Analysts / Dept of Labor Data
Fri, Oct 24	945	***	S&P Global Manufacturing Index (Flash)	S&P Global
Fri, Oct 24	945	***	S&P Global Services Index (flash)	S&P Global
Fri, Oct 24	1000	***	New Home Sales	Census Bureau (Dept of Commerce)
Fri, Oct 24	1000	***	U. Mich. Survey of Consumers	UMichigan
Fri, Oct 24	1300	**	Baker Hughes Rig Count Overview - Weekly	EIA (Dept of Energy)