

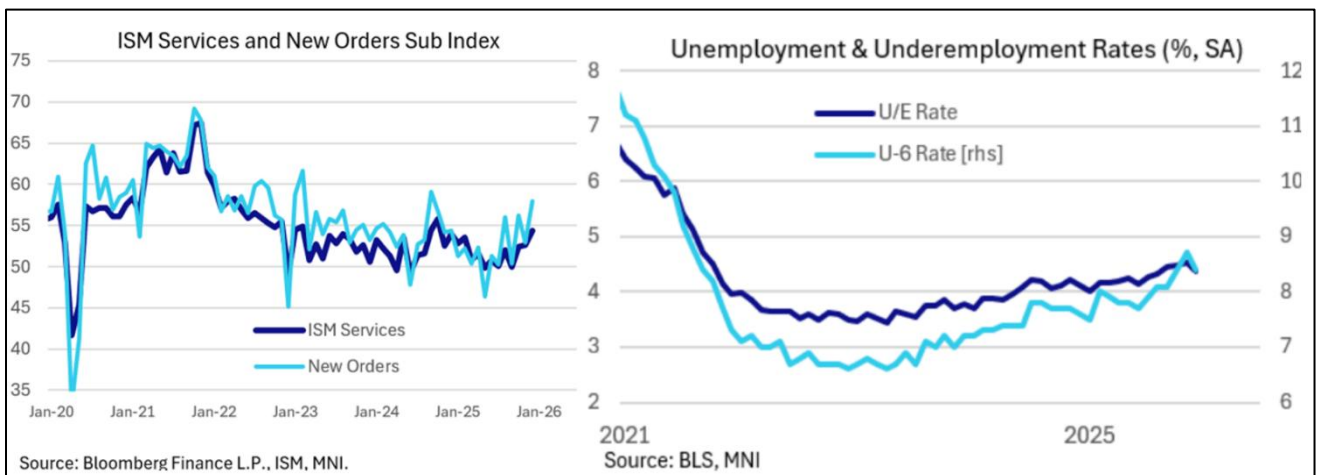
MNI U.S. Macro Weekly

MNI View: Activity Hums While Labor Market Stutters

January 9, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- Jobs growth may have disappointed in December's Employment Situation report, but the drop in the unemployment rate saw near-term rate FOMC cut prospects trimmed further (January cut = no chance) after hawkish shifts throughout the week.
- A next Fed cut is still fully priced for June, only just at 25.5bp, the first meeting under a new Chair.
- Most labor market data remains concerning but activity is still robust, not least because recent productivity growth was shown this week to be stronger than expected. Additionally while manufacturing activity remains moribund, December's ISM Services report was meaningfully stronger than expected, with the headline PMI index surprisingly jumping to a 14-month high.
- A 5+% real GDP handle in Q4 as implied by the Atlanta Fed tracker may be misleadingly high due to distorted October trade data, but domestic final demand looks to have been roughly as strong at the end of the year as it was through its resilient middle.
- The top-tier data schedule carries on Tuesday with the December CPI report amid a broader set of inflation prints, including delayed October and November PPI data (Wednesday) and Import/Export Prices for November (Thursday).
- Also due to garner attention is the "advance" retail sales report which is likewise on the slightly stale side, being only for November (alternative measures of retail activity have signalled a solid end-of-year). And we should also mention a possible Supreme Court ruling on Wednesday on the legality of the White House's IEEPA tariffs.
- Consumer price inflation is set to pick up on a sequential basis from November's suspiciously weak price prints, with early consensus pointing to 0.3 to 0.4% M/M rises in both headline and core CPI after an average increase of 0.1% M/M over November and October.
- However, continued data distortions including "payback" effects mean that an inflation acceleration in December shouldn't be taken at face value (more in our week-ahead section) and is unlikely to settle any debates within the FOMC on the outlook for price pressures.



Labor:

NFP Recap: Lower U/E Rate Counters Tepid Jobs, Quality Concerns Linger

- Nonfarm payrolls growth was softer than expected in Dec at 50k (cons 70k) and with a larger downward surprise for private payrolls at 37k (cons 75k).
- The solid two-month downward revisions (-76k for NFP) were concentrated back in Oct (-68k) and driven by the private sector with -70k of which -51k was in Oct.
- Latest three-month trends: nonfarm -22k over three months and 15k over six months, private 29k over three months and 43k over six months.
- Private payrolls continued to see a large contribution from the cyclically insensitive health & social assistance sector: strip this out and private payrolls would have averaged -19k over the past three months, with only one of the past eight months seeing net job creation.
- Colder than usual early December weather likely weighed although we suspect the impact is modest.
- The household survey meanwhile showed several signs of improvement from November's, even if that largely just reversed some weakness seen on survey- and government-shutdown related distortions.
- The unemployment rate fell back to 4.375% in Dec after a downward revised 4.54% in Nov (initially 4.56% with rounded figures on screens exaggerating the move) and 4.49% in Oct (initial 4.50). Seasonal adjustment factors were updated in annual revisions covering the past five years.
- The u/e rate averaged 4.47% in Q4 (using an interpolated value for Oct) to match the 4.5% the median FOMC participant forecast in the Dec SEP. Seven FOMC members had looked for 4.6-4.7% across Q4.
- Some notable findings with the household survey include the biggest drop in unemployment since Mar 2022 (-278k after increasing a cumulative 176k over Sep-Nov) and temporary layoffs falling 73k after a 158k two-month increase.
- Average hourly earnings meanwhile were on the solid side as they increased at 0.325% M/M, considering perceived skew to downside risks to consensus of 0.3% and an upward revision. However, growth of 3.8% Y/Y and 4.0% annualized in Q4 won't trouble the Fed from a unit labor cost angle with productivity still increasing rapidly.
- Data quality concerns are still elevated though, particularly with the household survey response rate barely increasing from November's record low.
- Jobs growth may have disappointed but the drop in the u/e rate has seen near-term rate FOMC cut prospects trimmed further after hawkish shifts throughout the week on data and oil prices. It sees a cumulative 12.5bp of cuts priced for Apr vs 14.5bp pre NFP and 18.5bp prior to Wednesday's strong ISM services report. A next cut is still fully priced for June, only just at 25.5bp, the first meeting under a new Fed Chair.

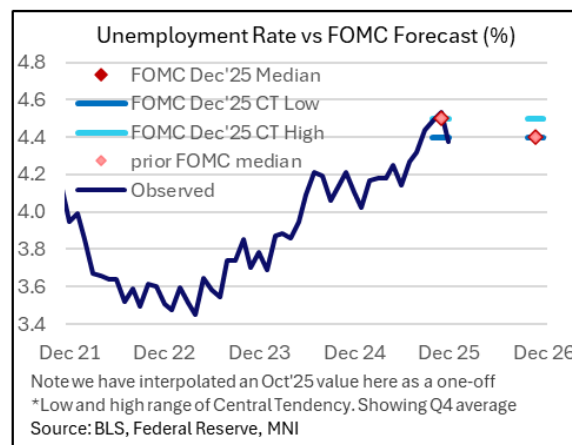
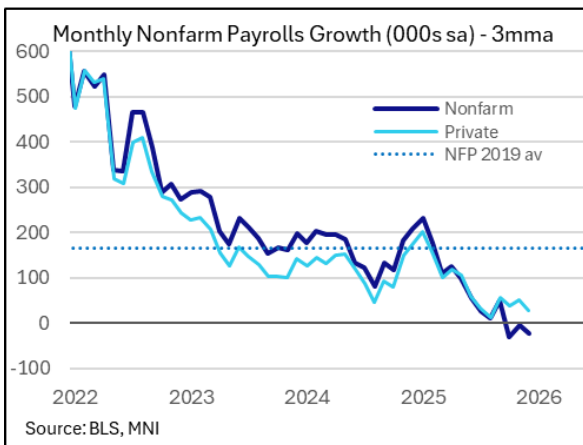
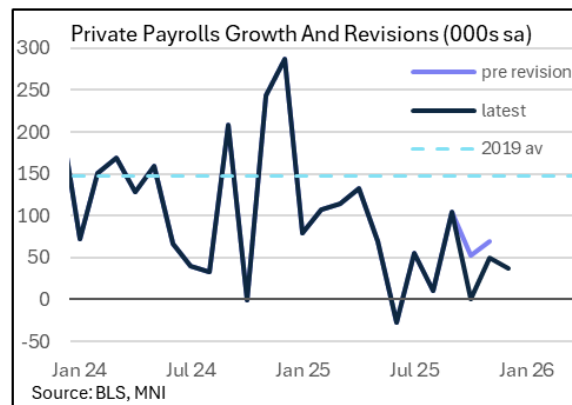
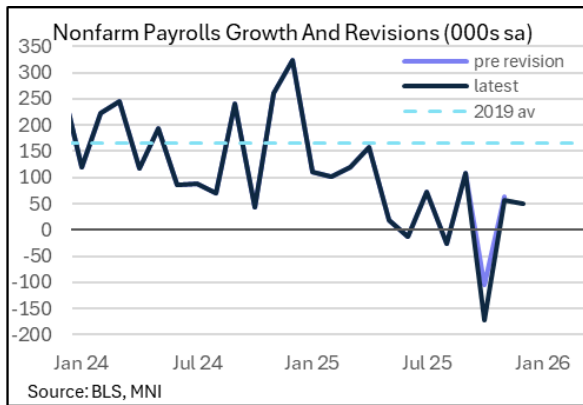
Payrolls Summary Statistics For December 2025

	Actual	Cons.	Surprise on mth	2-mth Rev	Nov	Oct	Net Surprise
Monthly growth (000s)							
NFP	50	70	-20	-76	-8	-68	-96
Private	37	75	-38	-70	-19	-51	-108

	Actual	Cons.	Prior mth	Cycle low	2019 av	
U/E rate (%)	4.38	4.5	4.54	3.45	Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.33	0.3	3.76	3.6

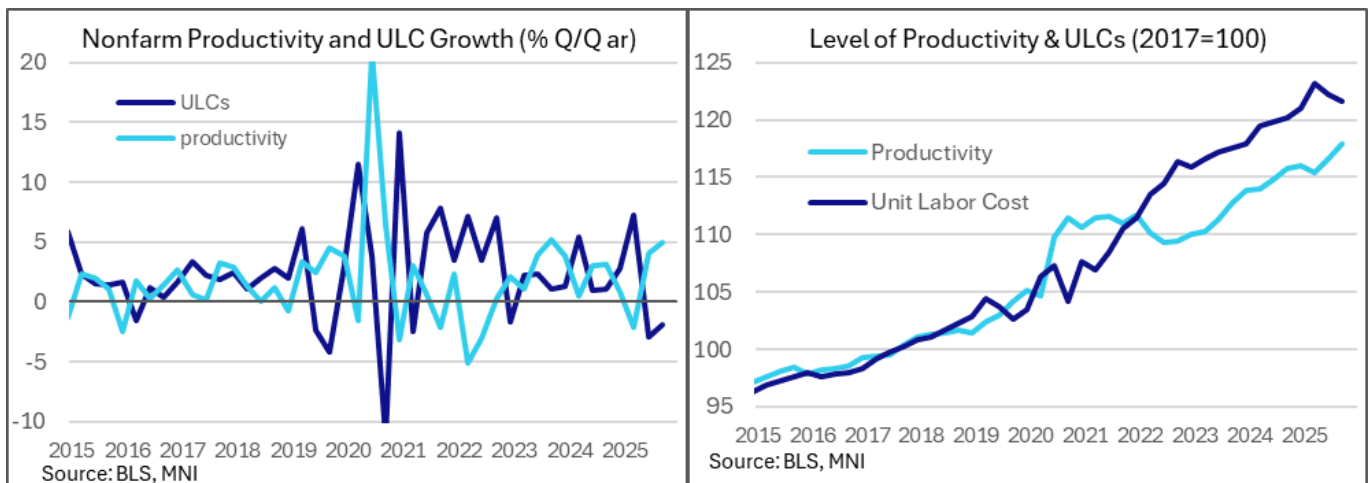
Source: Bloomberg Finance L.P., BLS, MNI



Productivity Pickup Will Assuage Fed Inflation/Growth Tradeoff Concerns

Unit labor costs came in substantially weaker than expected in the preliminary Q3 estimate, with a big downward revision to Q2 pointing to bigger downside pressures than expected. This should reinforce the Fed's assessment that the labor market is not a source of meaningful upside contribution to inflation, and as per Chair Powell's comment in December on recent productivity gains, "you can sustain higher growth without more job creation" ([as our latest Fed exclusive notes \("MNI POLICY: Fed Warms To Productivity Step-Up, Rethinks Risks"\)](#)).

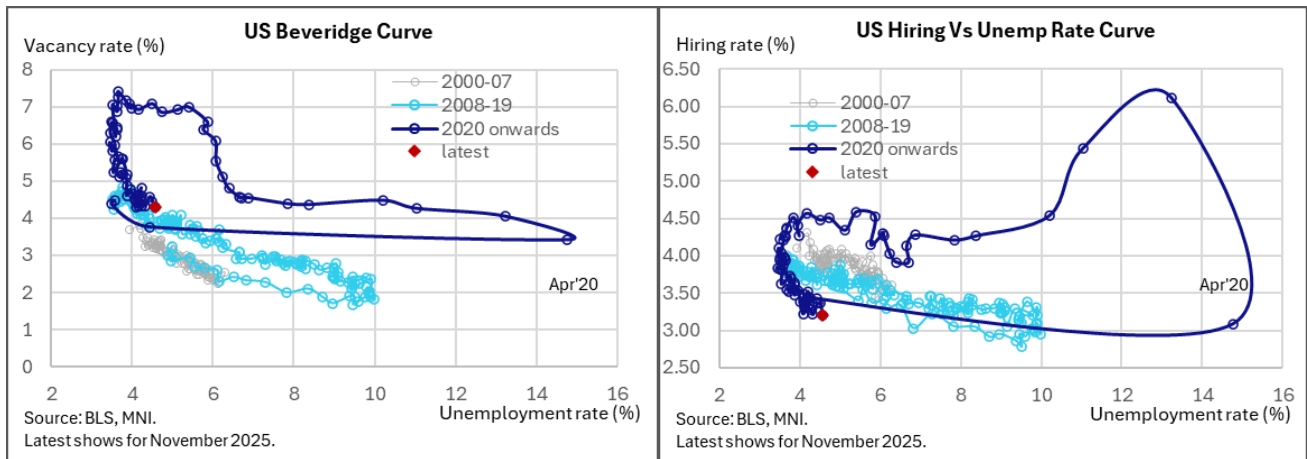
- ULCs fell 1.9% Q/Q SAAR in Q3, below the -0.1% expected, while Q2 was revised down to -2.9% from +1.0% prior. That's the first back-to-back drop since 2019, and means that ULCs are running at the slowest Y/Y pace since Q3 2023 (1.2% albeit on a seasonally-adjusted comparison).
- The good news here is that it's been entirely driven by nonfarm business sector labor productivity gains: +4.9% Q/Q SAAR in Q3 after an upwardly revised 4.1% in Q2 (3.3% prior), which while well-anticipated given the combination of known variables (strong GDP growth and weak job gains), is a welcome development as one of the best 2-quarter periods for productivity in years. Putting a finer point on it, output rose 5.4% in Q3 with hours worked up 0.5%.
- Indeed this meant the Q3 ULC fall came despite a 2.9% Q/Q SAAR increase in hourly compensation (unit labor costs are the ratio of hourly compensation to labor productivity).
- The latest report also contained revisions back to 2020 as part of September's annual national accounts update; this brought an upward revision to annualized productivity growth since that time by 0.1pp to 1.9%. Productivity has been growing 2.3% annualized over the last 2.5 years, vs 1.4% in the half-decade before the pandemic.



Shift In Hiring/Unemp Rate Curve Suggests Glacial Labor Market

The latest JOLTS report was further evidence of the labor market's current "low hiring, low firing" dynamics - continuing to highlight the recent unusual relationship between hiring and unemployment.

- The Beveridge Curve - which plots the inverse relationship between the vacancy rate against the unemployment rate - appears to be on a relatively normal trajectory, after seeing an almost vertical slope in the recovery from the pandemic. The recent dynamic here has been roughly consistent with the post-GFC, pre-pandemic relationship with the level of the unemployment rate. Continuing on this slope would suggest that a further decline in vacancies will go hand-in-hand with a steady rise in the unemployment rate in coming months. (Fed Chair Powell said in November that "You're at a place where further declines in job openings might very well show up in unemployment. You've had this amazing time where you came straight down, but I just think you're going to reach a point where unemployment starts to go up.")
- But an ongoing puzzle is in the hiring rate's relationship to the unemployment rate. Hiring fell to a post-pandemic low in November, at a rate that in previous economic periods this century would have been substantially higher unemployment. To cite some extremes: hiring rates of this level post-GFC came alongside unemployment rates touching 10% (a true extreme: April 2020 unemployment neared 15% at a hiring rate (3.1%) close to the current hiring level). At The very least we would have expected an unemployment rate in November of 7-8% or higher, vs the 4.6% actual.
- It's not entirely clear what's going on here: some of this is driven by lower government hiring, with the rate dropping to 1.21% (lowest since the early 2010s, ex-pandemic) from 1.46% prior, though the private sector hiring rate was down sharply too (3.55% after 3.69%), not quite a multi-decade (ex-pandemic) low due to a 3.54% figure in August but still depressed.
- Some of it may be attributable to previous pandemic-related over hiring (with layoff data and business survey anecdotes alike suggesting that employers are hoping attrition rather than firing can reduce the workforce where necessary), and some by uncertainty including over the potential for AI to cheaply replace entry-level/low-skilled jobs.
- With openings continuing to easily eclipse hirings, there may be some sort of mismatch going on here too, with employers unable or unwilling to pay higher reservation wages and/or worker skills not meeting the required standard.
- Whatever the reason, the hiring/unemployment curve has settled into a similar near-vertical pattern as seen in the Beveridge Curve through much of the 2021-2023 period. If the recent relationship continues, it could mean that an even worse hiring environment does not necessarily mean a major jump is impending in unemployment, entrenching the "low hiring, low firing" environment.
- That being said, in both the cases of vacancies and hiring, there has been a steady deterioration that points to a continued loosening in the labor market. If the hiring/unemployment curve recalibrates to historical experiences, however, the rise in joblessness could accelerate.



Growth

Atlanta Fed Estimates 5+% Growth In Q4, Though Just Steady Final Demand

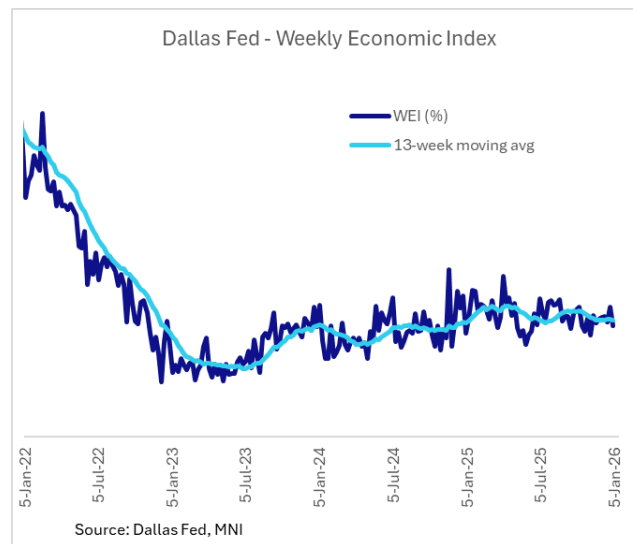
The Atlanta Fed's GDPNow Tracker has soared to +5.4% Q/Q SAAR for Q4, from 2.9% prior, after the release of today's surprisingly small trade deficit for October (-\$29B vs -\$59B expected).

- That compares to Q3 GDP growth of 4.3% and 3.8% in Q2, and would be the fastest pace of growth since Q4 2021.
- The implied final domestic demand growth (final sales to domestic purchasers, which excludes net exports and inventories) is just 2.6% however, which would be a slowdown from 3.0% in Q3 albeit roughly level with Q2's 2.5%.
- Indeed net exports (+2.0pp) and inventories (0.9pp) are the 2nd and 3rd biggest expected drivers of the headline figure, though we wouldn't be too quick to dismiss the 2.1pp contribution expected from personal consumption expenditures which would mark a very solid pace after Q3's 2.4pp contribution (growth rates of 3.5% and 3.0%, respectively).

Notable Pullback In Early 2026 Growth In Dallas Fed Weekly Index

The Dallas Fed's latest Weekly Economic Index estimates 2.13% Y/Y GDP growth in the week to Jan 3 (scaled to 4-quarter GDP growth), a sharp pullback from 2.49% the prior week for the softest since early November. This dragged down the 13-week (ie quarterly) moving average growth rate to 2.24% from 2.26% prior, and actual 2.33% expansion in Q3.

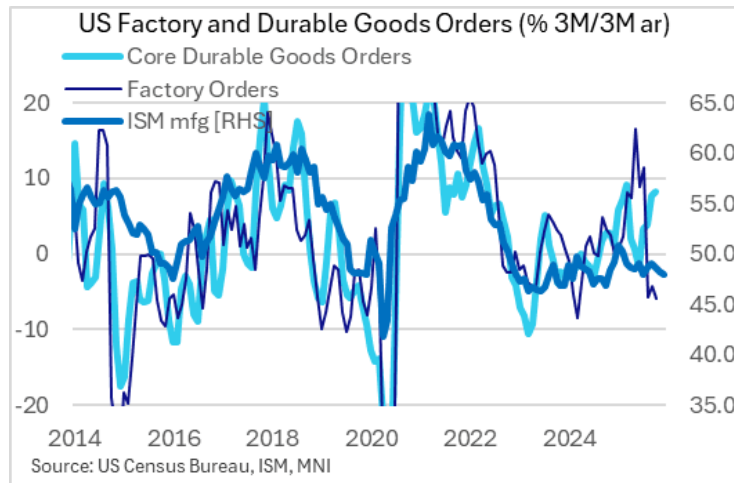
- That marked the weakest quarterly rate since early August. If expressed in % Q/Q SAAR terms as US GDP normally is, this rate of growth would be consistent with roughly 1.5% growth, though this will change over the quarter as the Y/Y base of comparison shifts.
- Of course we still don't have Q4 data, but the Dallas Fed's WEI was consistent with about 1.6% growth in that quarter,
- That tells a very different story to the Atlanta Fed's (now 5.4%) and Bloomberg consensus (1.0%). However the WEI is probably better at capturing domestic conditions as it doesn't contain a net trade component that is distorting the Atlanta Fed's accounting to the upside.
- Indeed the implied final domestic demand growth in Q4 GDPNow is closer to 2.6%, which helps bridge the gap to the Dallas Fed's measure in suggesting slightly cooler underlying growth in Q4 than in Q3.



Factory Orders Remain Both Soft And Volatile, But Core More Solid

The delayed October Factory Orders data was roughly in line with expectations with a 1.3% M/M contraction (-1.2% M/M expected, +0.2% prior) whose weakness was heavily influenced by volatile aircraft orders (by comparison, ex-transport orders were down 0.2% M/M). We take more signal for the macro outlook from the relatively solid core data but overall manufacturing sector activity continues to look soft, with equipment investment implications mixed.

- This had been presaged by the preliminary Durable Goods report which showed a 2.2% M/M contraction (confirmed in today's final data) with ex-transport durables up 0.1% (rev from 0.2%), with nondefense and defense aircraft down 20% M/M and 32% M/M respectively.
- Looking just at ex-transport manufacturing orders, there's been a slowdown in growth to 1.8% 3M/3M (around 3% the prior 2 months), with overall orders down 6.0% on that basis (weakest since early 2024). Overall in nominal terms, the level of factory orders is basically flat since mid-2022.
- The saving grace is in core durable goods orders momentum which has actually been accelerating, to an 8.3% 3M/3M growth rate in October, one of the fastest in recent years (and on another metric, was up 6.4% Y/Y). So while broader factory orders are weak, we attribute a large chunk of this to volatility.
- From a sectoral perspective, computers/electronics remain a key upside driver (outside of aircraft), up 3.8% Y/Y, perhaps reflecting AI-related buildout, with machinery goods up 4.2% Y/Y.
- Of course this data is lagged due to the government shutdown and various manufacturing activity surveys (including ISM and regional Feds) point to a potential slowdown in the latter months of the year.
- Somewhat strangely, the Census Bureau is due to publish the advance November data on January 26 but the final just three days later on January 29. But we are beginning to catch up on these data after the government shutdown (though December's postponed data is yet to be rescheduled).

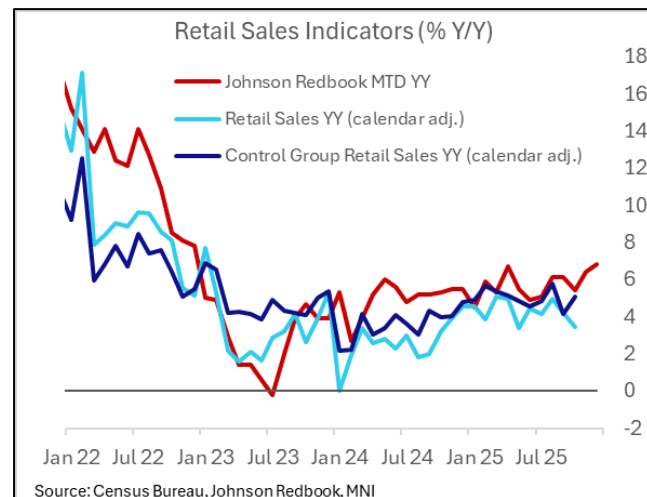


Consumer:

Best Redbook Growth In 3 Years Points To Solid End-2025 Retail Sales

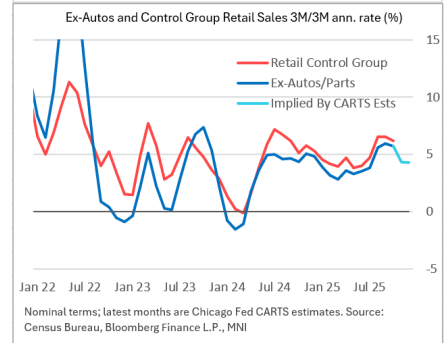
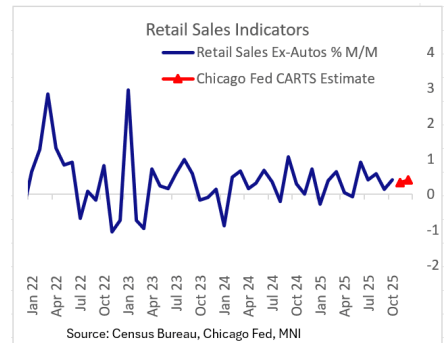
Retail sales rose by 6.8% Y/Y in December per the Johnson Redbook index, following a 7.1% Y/Y increase in the week ending Jan 3 (which marks the end of the retail month).

- This was above the 6.5% targeted by retailers and the best month in Y/Y growth terms since December 2022 (all figures, like the Census Bureau's "official" retail series, are in nominal terms).
- Next week we get the Census Bureau's delayed report for November retail sales, with the December release still not officially scheduled. But so far between indicators such as Redbook and an above-expected gain in light vehicle sales per Wards Automotive data, the latter months of 2025 look to have been solid.
- Per the anecdotes on the last retail week of December: "Clearance sales and New Year's shopping drove post-Christmas activity, as consumers exchanged gifts, redeemed gift cards, and sought bargains. Retailers reported fewer returns as shoppers researched purchases and followed budgets. Discount retailers observed a return to typical spending patterns, with an emphasis on necessities.
- Redbook notes that retailers are targeting 6.3% Y/Y growth in January. "January, a four-week month and the fiscal year-end for most retailers, is transitional and promotional, usually with lower sales as merchants clear holiday and winter stock to make room for spring inventories."



Chicago Fed CARTS Another Sign Of Solid Consumption At End-2025

The Chicago Fed Advance Retail Trade Summary (CARTS)'s preliminary estimate for December ex-auto retail sales growth is 0.4% M/M. That would be a pickup from the 0.3% M/M estimated in November (their est is unchanged) though we don't get the Census Bureau report for November until next week. It also brings the pace back up to the 0.4% actually posted in October (which CARTS accurately estimated).

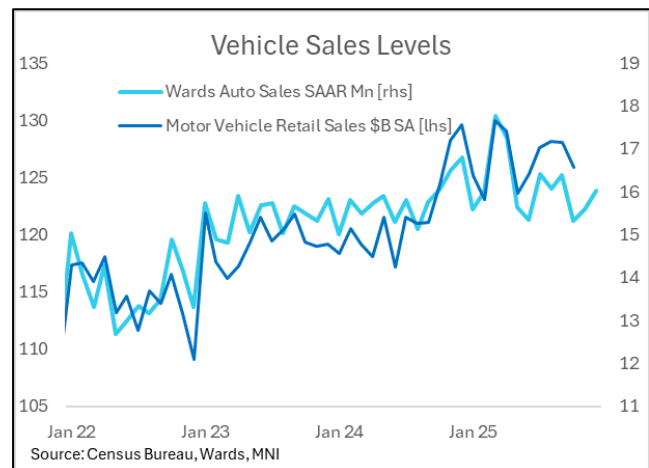


- This is a fairly close approximation of nominal growth in the Retail Control Group. While the 3M/3M growth rate in ex-auto sales implied by CARTS is set to slow in Q4 to the low-mid 4% area, it's only after one of the strongest quarters in years (close to 6% growth), which in turn was flattered by soft April/May readings subduing the Q2 base of comparison.
- Figures are nominal (real growth was just 0.2% M/M in Dec after a flat Nov and +0.6% Oct) but there appears to have been a "soft landing" to consumption at end-year.
- The final CARTS estimate for the month will be out next week (Jan 14) though we don't yet have a scheduled date for the December Census Bureau release.
- That said with Redbook and light vehicle sales also pointing to a solid December, consumption did not appear to be weakening meaningfully as we headed into 2026.

Light Vehicle Sales Solidify To End 2025, Should Bolster PCE Estimates

Light vehicle sales picked up to 16.02 million in December (on a seasonally-adjusted, annual basis in volumes) from 15.60 million in November, beating expectations by over 200k. The data from Wards Automotive suggests a slightly stronger end to the sales year for autos, after a dropoff following expiring electric vehicle subsidies at the end of September. However that still means a fall from 17.2 million sales in December 2024.

- As the largest single category of monthly retail sales, the data should help bolster expectations for overall December retail activity and concurrent PCE/GDP, after October Census Bureau retail sales showed a 5-month worst 1.7% M/M dropoff in vehicle sales in the latest data for October (was +0.4% ex-autos) which had been presaged by the Wards data.
- The official series is well behind schedule due to last year's federal government shutdown: Census Bureau advance retail sales data for November is out on Jan 14.

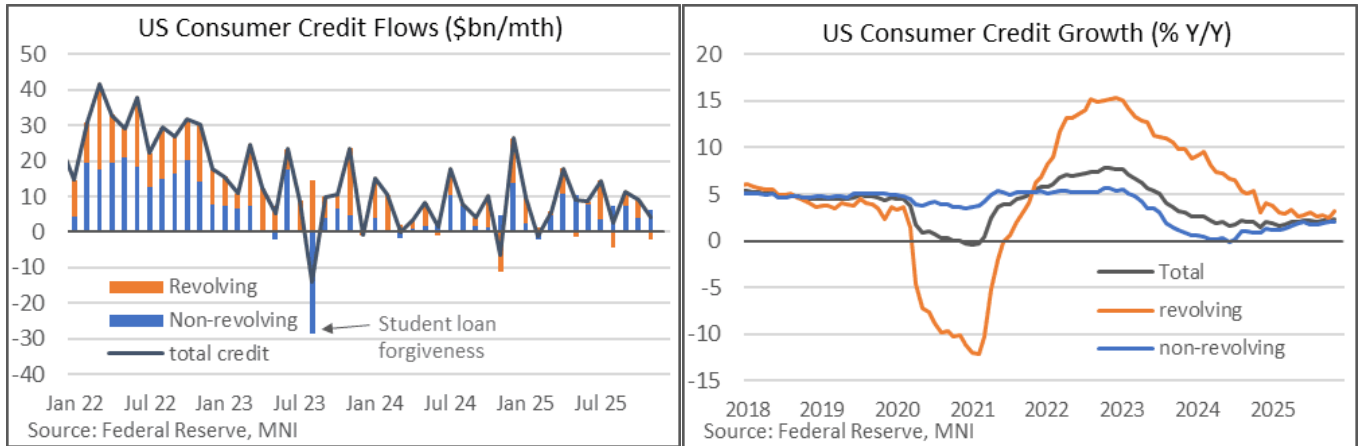


Revolving Credit Pulls Back Slightly, Little Impact On Consumption

Consumer credit grew at a lower-than-expected rate in November, rising \$4.2B vs the \$10.1B expected (all on a seasonally-adjusted basis). The 1.0% annualized rise consisted of a 1.9% drop in revolving credit (-\$2.0B) offset by a 2.0% rise in non-revolving (+\$6.3B).

- (Revolving makes up 25% of overall consumer credit, largely made up of credit cards; non-revolving credit is basically made up of student and auto loans.)
- The pullback in revolving credit could be a sign of diminishing consumer dynamics but this is only really at the margins; credit growth has not been a major driver of consumption in this cycle.

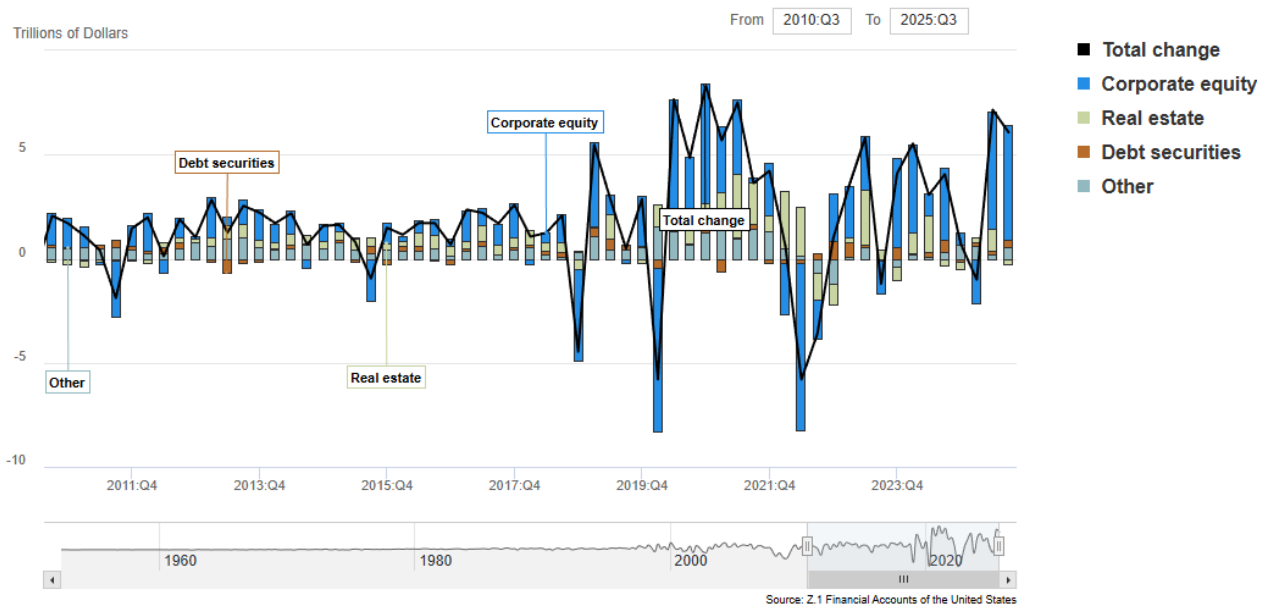
- Nonetheless consumer credit appears to be inflecting slightly higher, with the total up by 2.3% Y/Y - the most since early 2024. On that basis, revolving credit rose at the 2nd-fastest (3.2% Y/Y) pace of the year, with non-revolving (+2.1%) edging up to the fastest since mid-2023.
- With the economy growing by well above these levels in nominal terms, this still means that consumers are deleveraging, with total credit as a % of GDP set to post continued 12+ year lows, albeit largely led by non-revolving as opposed to revolving.



Household Net Worth Increased By 20% GDP In Q3

- Further evidence of the tailwind behind the upper portion of the "k-shaped economy", household net worth increased by \$6.06T in Q3 after a \$7.15T increase in Q2.
- It was again dominated by corporate equity exposure, rising \$5.5T after \$5.65T in Q2.
- This 3.5% Q/Q increase in net worth is equivalent to 19.5% of annualized nominal GDP in Q3 after 23.5% GDP in Q2.

Changes in Net Worth: Households and Nonprofit Organizations, 1952 - 2025



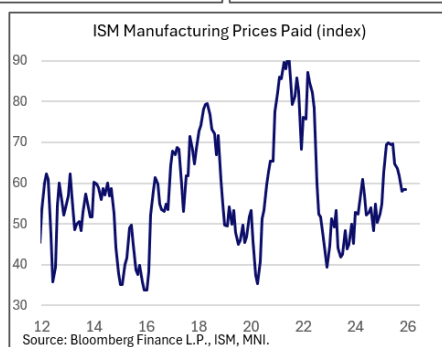
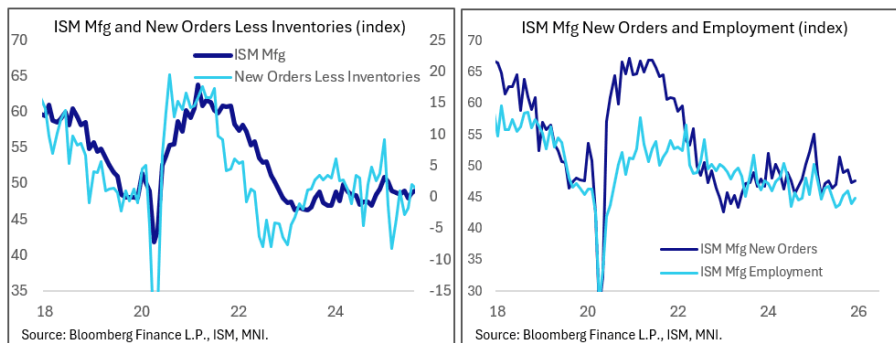
(Source: Federal Reserve)

Business Sentiment:

Tariff Concerns Abound In Limp ISM Manufacturing Activity Data

The ISM Manufacturing report for December was relatively steady vs November and in line with broad expectations, quietly falling to a 14-month low (Oct 2024) in showing continued softness in activity with price pressures steady at a high level.

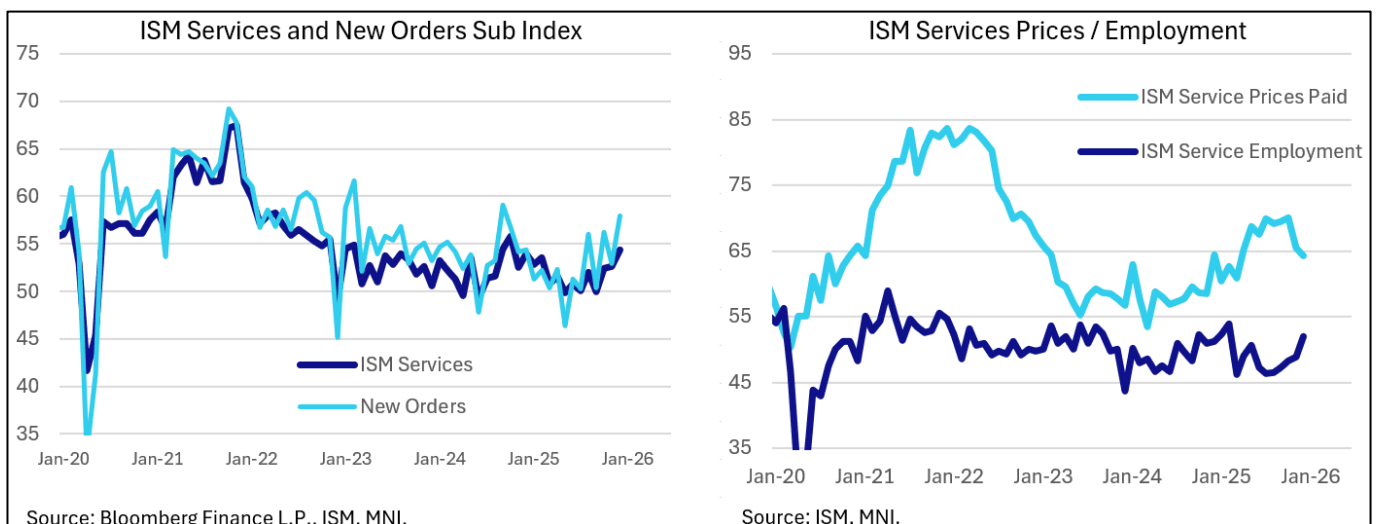
- The headline PMI reading was a little weaker than the consensus of analysts had anticipated at 47.9 (48.4 expected, 48.2 prior), though MNI had signaled that some deterioration should be unsurprising given poor regional Fed surveys and a dip in the S&P PMI for the month.
- This marked a 10th consecutive sub-50 reading indicating contraction in sector activity, and the sub-indices pointed to softer production but a potential bright spot in improved demand vs November. Reflecting the fairly flat headline reading, the sub-indices were relatively steady: New Orders +0.3 to 47.7, Production -0.4 to 51.0. Two standouts were backlogs up 1.8 to 45.8 with inventories down 3.7 to 45.2.
- In trade, the volatile imports reading was down 4.3 points to a 7-month low 44.6 due to "Tariff-related pricing pressures" per the report, but conversely export orders were up 0.6 to a 9-month best 46.9 despite "softer international orders tied to tariffs and ongoing uncertainty around U.S. economic policy".
- Attention as always was on the employment category which ticked up 0.9 to 44.9, suggesting a slower pace of contraction in manufacturing jobs. That said "For every comment on hiring, there were three on reducing head counts. Companies continued to focus on accelerating staff reductions due to uncertain near- to mid-term demand. The main head-count management strategies remain layoffs and not filling open positions."
- Additionally prices paid were steady at 58.5, defying consensus eyeing an uptick (58.7 expected, 58.5 prior) though again this suggests continued elevated pressures due in large part to tariff policy ("The Prices Index reading continues to be driven by increases in steel and aluminum prices that impact the entire value chain, as well as tariffs applied to many imported goods.") The lack of an increase is consistent with regional Fed indices and the S&P PMI which showed a pullback in inflationary pressures albeit at high levels.
- The anecdotal comments from various respondents were universally negative, with many citing soft demand and price pressures due to tariffs (that aren't able to be fully passed on, impacting margins). On New Orders, "For every positive panelist comment about new orders, 1.3 comments indicated concern about near-term demand, driven by tariff costs and other uncertainties."



Broad-Based Strength In ISM Services With Better Orders, Jobs

December's ISM Services report was meaningfully stronger than expected, with the headline PMI index surprisingly jumping to a 14-month high 54.4 (52.2 consensus, 52.6 prior). This was a strong report across the board, with all four major subindices in expansionary territory (Business Activity, New Orders, Employment, Supplier Deliveries) for the first time since February 2025, and a further downtick in price pressures.

- There was a note of caution in the ISM writeup, including "seasonality" as a common theme in respondents' comments: "Respondents frequently mentioned impacts related to the holiday season and activity increases related to end-of-year activities or preparation for 2026".
- But there is no question that the improvements in activity were broad-based, and with regard to seasonality we would point out that in any case 2025's Dec and Nov Services PMIs were slightly higher than they were in the equivalent months of 2024. We would expect an upward appraisal of expectations of economic activity at end-year as a result, beginning with the latest Atlanta Fed GDPNow update.
- A major standout here was New Orders hitting a 15-month high 57.9 (52.6 consensus, 52.9 prior, and alongside a 15-month high in New Export Orders), reversing November's surprisingly large drop and boding well for future activity. Business Activity/Production rose 1.5 points to 56.0, the highest reading of the year, despite some mixed anecdotes on demand.
- And in a positive sign for December nonfarm payrolls, Employment surprisingly returned to expansionary territory for the first time since May 2025 and at the fastest pace since February 2025 at 52.0 (49.0 consensus, 48.9 prior). (That said, the anecdotes were not entirely positive, and the index largely due to more stability rather than greater hiring).
- Supplier Deliveries fell 2.3 points to 51.8 (slower indicates faster deliveries), though Backlogs fell sharply (by 6.5 points to 42.6) and Inventories rose slightly (0.8 points to 54.2).
- The crowning touch was a bigger-than-anticipated moderation in Prices to 64.3 (64.9 consensus, 65.4 prior), lowest since March 2025 (ie prior to the tariffs announced on "Liberation Day" in April), though this is still very elevated by historical standards.
- This was the first time since April that the ISM reading eclipsed the S&P PMI, and it was the biggest such gap since February.



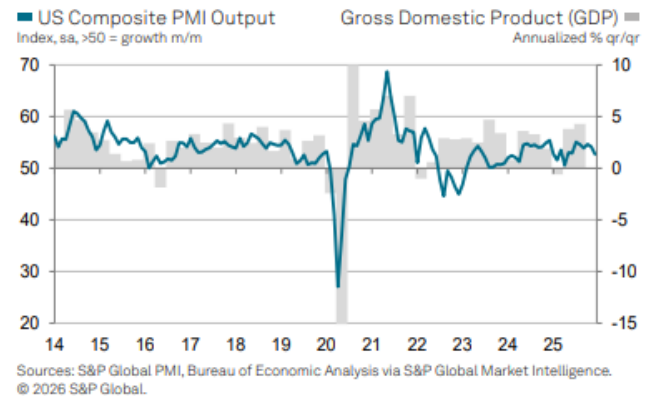
Final Service PMI Trimmed In Dec With Input Cost Inflation String Reduced

The final S&P Global US services PMI was revised lower for December for a joint low with June and last lower in April after wide-ranging tariff announcements. New orders saw their weakest increase in over eighteen months (chiming with the 20-month low in the flash release) whilst services inflation was revised a little softer but still clearly very strong (operating expenses increased by their most since last May vs the steepest in over three years in the flash). The composite points to downward momentum in Q4 real GDP growth after the strong 4.3% annualized in Q3.

- Services PMI: 52.5 in Dec final (flash and cons 52.9) after 54.1 in Nov.
- Composite PMI: 52.7 in Dec final (flash 53.0) after 54.2 in Nov.
- The downward revision for services is in contrast to the unrevised final manufacturing reading reported last week.

Opening highlights from the S&P Global press release ([link](#)):

- “The US service sector continued to expand at the end of 2025, according to the latest PMI data from S&P Global.
- However, with new business inflows rising to the weakest degree in over a year-and-a-half, growth of activity faltered and was the lowest since last April. Confidence in the outlook also weakened, whilst employment volumes stagnated, failing to rise for the first time since last February.
- Tariffs and higher labor-related costs meanwhile drove typical operating expenses up to the greatest degree since last May. Firms passed on their higher costs by raising selling prices at a quicker pace.”

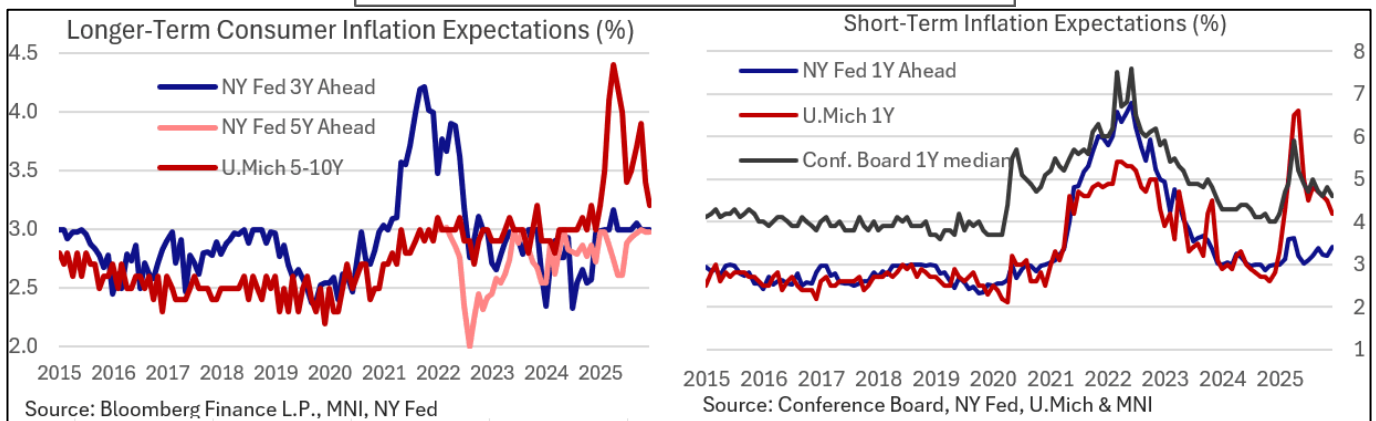
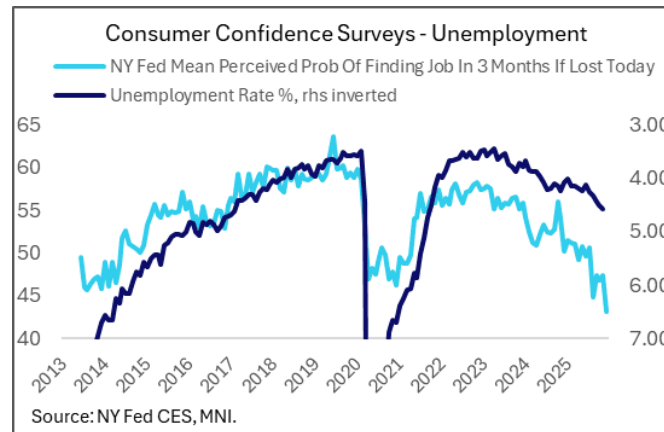


Consumer Sentiment:

Labor Market An Increasing Concern In NY Fed Consumer Survey

The NY Fed's December Survey of Consumer Expectations showed a notable series-worst employment indicator, alongside a slight uptick in short-term inflation expectations. On net the report probably adds to the case for early 2026 Fed rate cuts on the basis of downside labor market risks, given that medium-term inflation expectations remained steady.

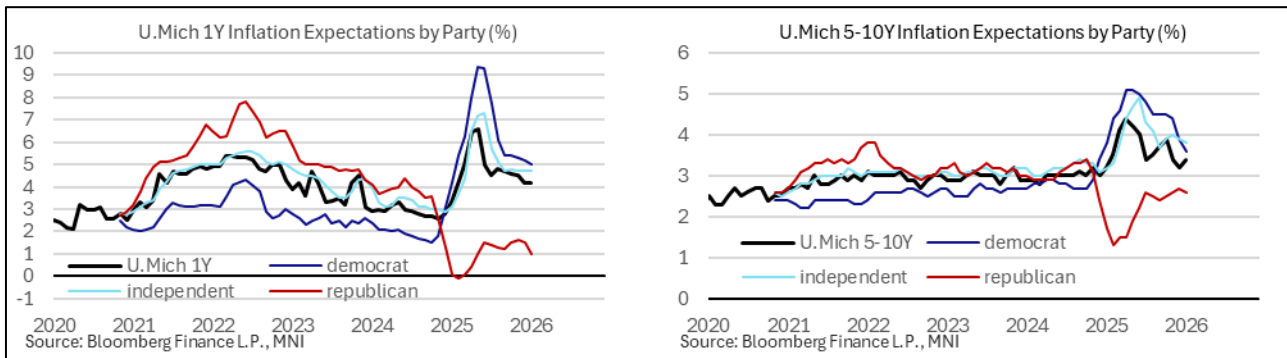
- The standout here was the deterioration in confidence in the labor market. The mean perceived probability of finding a job if one's current job was lost fell by 4.2ppts to 43.1%, a new series low (and now well below pandemic levels), while the mean perceived probability of losing one's job in the next 12 months increased by 1.4ppts to 15.2%, above the 12-month trailing average of 14.3%.
- These are indicative of further softening in the labor market, particularly on the hiring side (job separation expectations remained within recent ranges), echoing other consumer surveys including UMichigan and Conference Board.
- Inflation expectations were relatively contained: one-year-ahead ticked up from 3.20% to 3.42%, but this was largely within recent ranges; more importantly we would argue, 3-year-ahead and 5-year-ahead were steady at 3.00%/2.98% respectively.
- Another aspect that was relatively worrying: debt delinquency expectations ("Mean probability of not being able to make minimum debt payment over the next three months") rose to 15.3%, highest since April 2020 and on a clear uptrend.



U.Mich Consumer Sentiment Firms Slightly, Inflation Exp Steady To Higher

Consumer sentiment increased for a second month in January according to the preliminary U.Mich survey, despite long-term inflation expectations firming. This preliminary survey had a higher number of responses than we've recently seen but there are still plenty more responses to be collected and we're still mindful of what in the past has appeared to be susceptibility to the timing of responses from those with differing political views.

- U.Mich consumer sentiment increased to 54.0 (Bloomberg cons 53.5) in the preliminary January report after 52.9 for its highest since Sep 2025.
- 1Y inflation expectations surprisingly held steady at 4.2% (cons 4.1) at its joint lowest since Jan 2025.
- 5-10Y inflation expectations meanwhile surprisingly firmed to 3.4% (cons 3.3) after 3.2% to reverse the 0.2pp drop in December.
- There were a higher number of respondents in this preliminary release, with 855 vs figures typically nearer the 500s. This typically finishes the full monthly report with somewhere between 1000-1200 responses.
- From the U.Mich press release on sentiment: "Consumer sentiment inched up for the second straight month and reached its highest reading since September 2025. Improvements in January were seen among lower-income consumers, while sentiment fell for those with higher incomes. All told, while consumers perceived some modest improvement in the economy over the past two months, their sentiment remains nearly 25% below last January's reading. They continue to be focused primarily on kitchen table issues, like high prices and softening labor markets. Although consumers' worries about tariffs appear to be gradually receding, they remain guarded about the overall strength of business conditions and labor markets. Note that more than 90% of interviews for this release were collected prior to the capture of Maduro in Venezuela."
- Preliminary survey ran Dec 16-Jan 6.

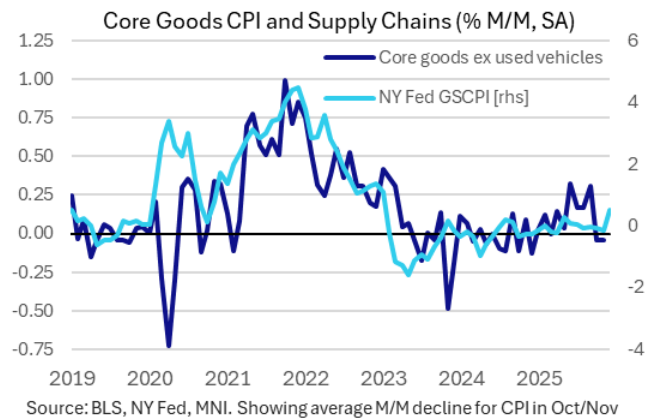


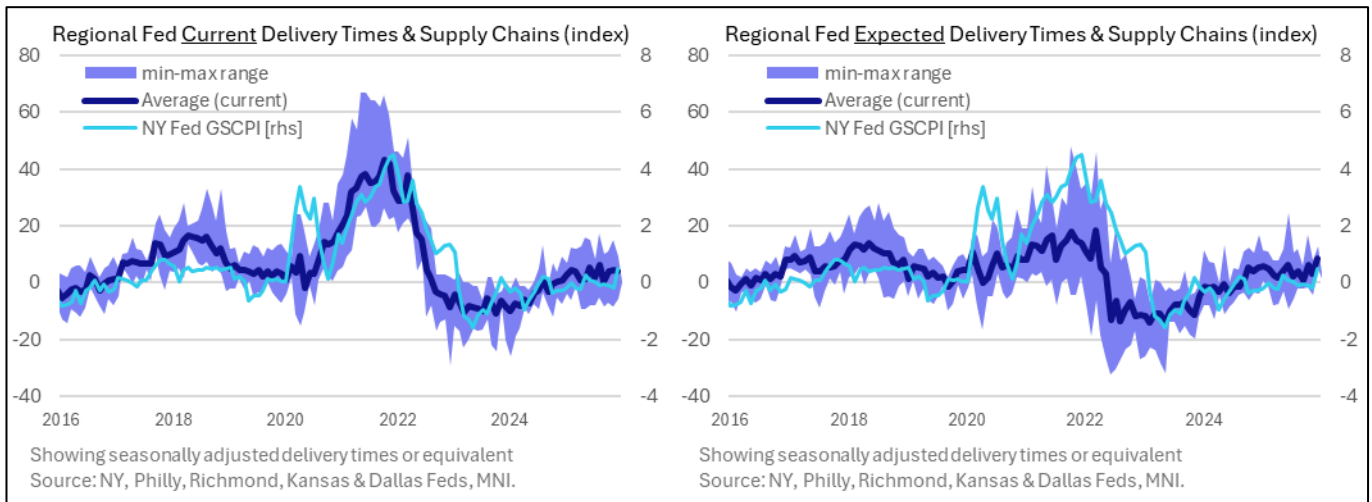
Inflation:

Highest Supply Chain Pressures In Nearly 3 Years – NY Fed

Having shown little impact from tariff policy earlier in 2025, the NY Fed's GSCPI has increased to its highest (more acute supply chain pressures) since 2023. It's hard to pin this down on a certain variable although we note that separate regional Fed manufacturing surveys pointed to their highest value for six-month ahead delivery times expectations since 2022.

- The NY Fed's GSCPI increased to +0.51 standard deviations above average in December after -0.17 in Nov, its first positive reading since July and the highest since Jan 2023.
- It's still low by post-pandemic standards when it peaked at a huge 4.5 standard deviations above average in Dec 2021 and averaged 2.4 through Feb 2020 to Jan 2023, but is nevertheless a swift increase after little sign of reaction to tariffs under the second Trump administration.
- The relationship between this index and core goods ex used vehicles has broken down recently, with some solid ~0.3% M/M increases for the latter through Jun-Sep before a pullback to a surprisingly soft cumulative decline of -0.08% between Sep-Nov in last month's highly unusual report.
- It's hard to know the driver behind this quick increase in the index. It's clearly not the Baltic Dry Index whilst its computation methodology covering various PMI releases makes it harder to estimate.
- We note that, whilst not included in the GSCPI, that an average of five regional Fed manufacturing surveys showed delivery time indexes sticking to recent ranges at 4.1 in Dec after 4.4 in Nov and 4.1 in Oct (diffusion index here) but six-month ahead expectations did increase 5pts to 8.4 for its highest since Mar 2022.
- One other technical factor to consider: "Due to the government shutdown, four datapoints are missing from the October and November revisions. These are the BLS Air Freight Indexes for Europe and Asia (inbound and outbound)."



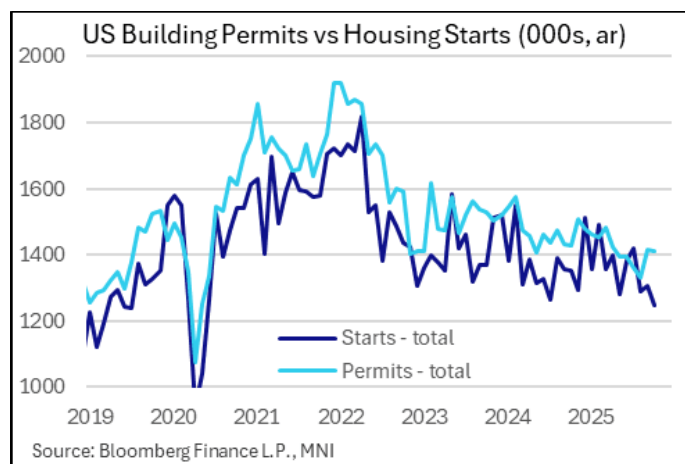


Housing: Some Upside Momentum But Still Soft

Mixed Housing Data Suggests Stabilization, But Bounce Remains Elusive

Building permits picked up strongly in the shutdown-delayed and combined September/October residential construction report, though actual starts softened considerably. These figures are quite stale though appear to support the notion evidenced in other data that housing market activity was gaining some traction in the latter months of the year albeit at still weak levels.

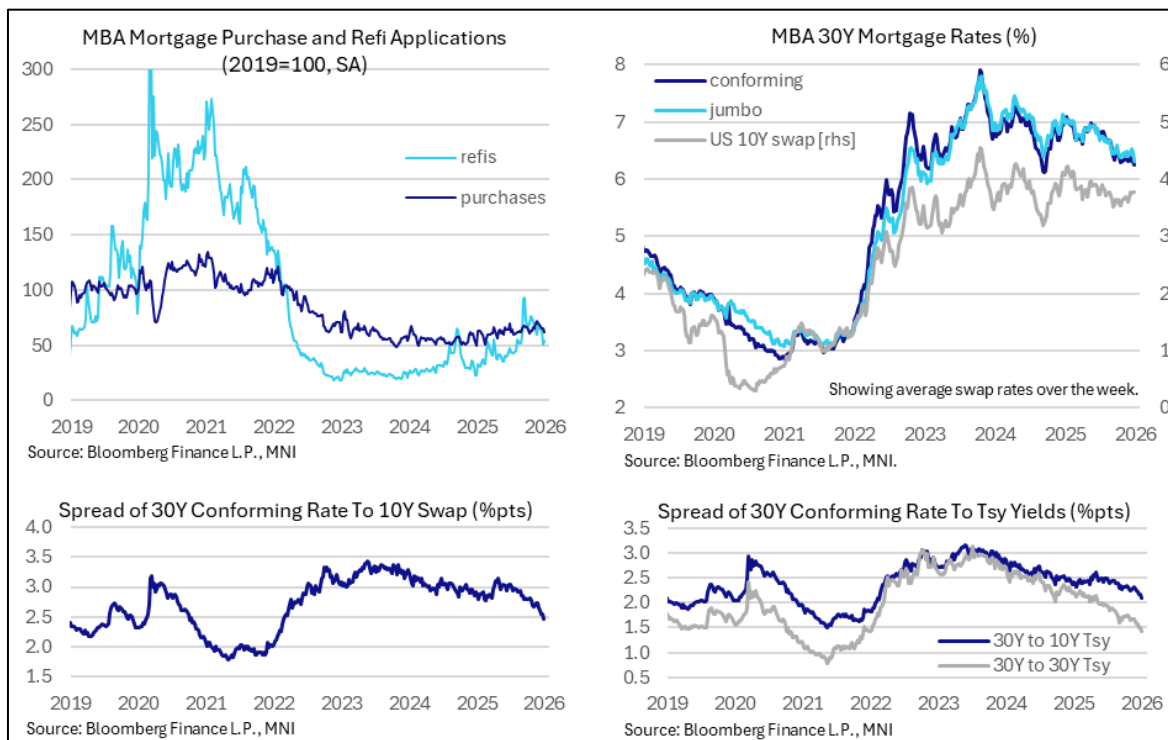
- The 1,415k / 1,412k building permits figures for Sept/Oct respectively represented a considerable jump from 1,330k in August and marked the first back-to-back months above the 1,400k mark since March/April. As such the year/year deterioration - -1.1% in October - was slightly less worse than earlier in the year (-9.9% in August for example) albeit still 25+% below peak levels seen in 2021. It's been driven by multi-unit permitting, which had the best back-to-back gains (averaging 536k over the 2 months) since 2023 though these are still weaker than the post-pandemic peak.
- Actual starts deteriorated however, with 1,246k in October representing a post-May 2020 low and down from 1,291k in August. Here, the multi-family story was substantially weaker, with a 22% M/M contraction to 372k.
- We take the permits figures as the more meaningful, in part because they are a better leading indicator. Indeed the softness in permits in July-August presaged the dip in starts.
- There's a case to be made that better sales activity suggests a pickup in residential construction in the coming quarters, with mortgage rates coming down and homebuilder confidence (per NAHB) ticking up. But given still-poor affordability we would be that the sector is better characterized as being in a period of stabilization after a significant pullback.



Mortgage Demand Slips Again Over Holidays Despite Spread Tailwind

MBA mortgage applications fell further over a two-week update although the data should be taken with caution over the holiday period. With that caveat in mind, there was another notable narrowing in mortgage swap rate spreads.

- The two-week update saw MBA composite applications increase just 0.3% in the latest week after a -10% drop in the week to Dec 26 around Christmas (all seasonally adjusted).
- The details include renewed weakness for new purchases as they continue to reverse earlier optimism seen in the second half of November. New purchase applications fell -6.2% after -0.1% for a cumulative 14% decline since late Nov.
- Refi applications meanwhile increased 7.4% after a heavy -19.6% the previous week.
- These weekly values should be taken with caution around the holiday period but for now, it sees composite applications at 56% of average 2019 levels for their lowest since August.
- New purchases stand at 61.5% (lowest since mid-Oct) and refis stand at 53.9% after the 50.2% the week prior was its lowest since Aug.
- This two-week weakness came despite a further decline in mortgage rates, including -7bp in the latest week to 6.25%, lowest since the three weeks between 6.13-15% in Sep 2024 and last lower in early 2023.
- A yet further narrowing in mortgage rate to funding spreads is helping lower mortgage rates, with the 30Y conforming to 10Y swap rate spread lowered again to 247bp last week vs 255bp in the previous update for fresh lows since early 2022.
- It compares with the peak of 315bp in May in post-tariff disruption, 285bp averaged in 1Q25 and 302bp averaged in 2024.

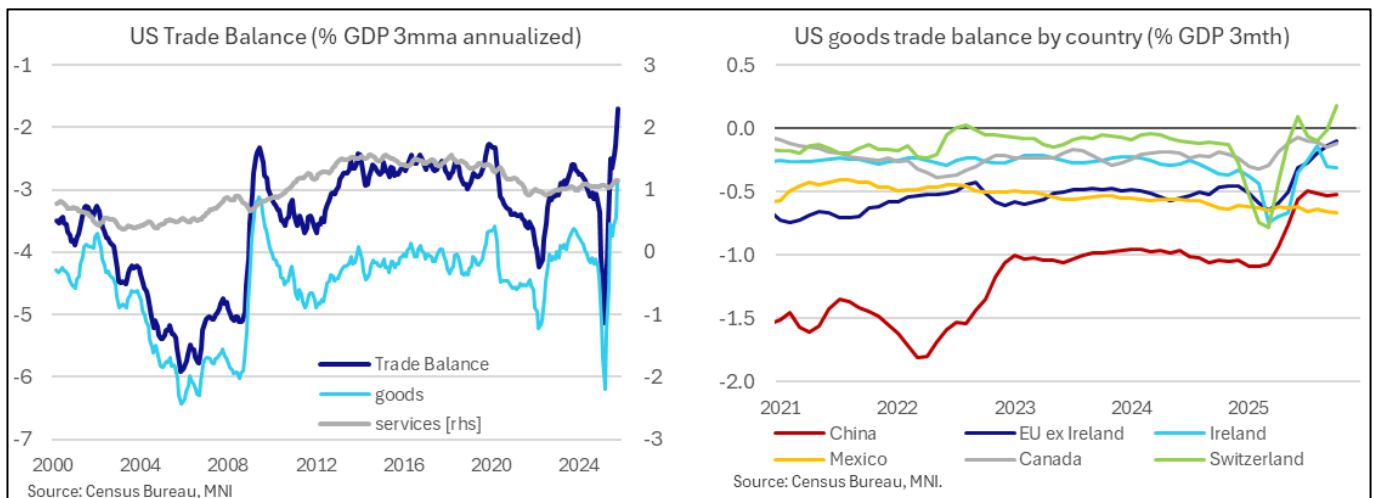


External

Trade Deficit Sees Smallest % GDP Tracking In At Least 25 Years [1/2]

The goods & services trade deficit was far smaller than expected in October, in a report still catching up after the government shutdown. Taking at face value, the three-month rolling goods & trade deficit of 1.7% GDP is the smallest in at least the past twenty five years.

- The goods & services trade deficit surprised at just \$29.4bn in October (sa, cons \$58.7bn) after a downward revised \$48.1bn (initial \$52.8bn) in September.
- We get into the many details at play in part two, but taking at face value it left a goods & services trade deficit equivalent to just 1.7% GDP on a three-month rolling basis.
- This deficit peaked at 5.1% GDP in March on tariff front-running whilst for recent historical context it averaged 3.4% GDP at the end of 2024 and 2.7% GDP at end-2023.
- The goods deficit has narrowed to 2.9% GDP vs 3.4% GDP in Q3, 3.5% GDP in Q2 and 6.2% GDP in Q1 whilst the services surplus has increased slightly to 1.2% GDP vs 1.1% GDP in recent quarters.
- Comparing the latest three month-rolling goods balances with those from end-2024, the largest adjustments have come from China at +0.5pp (deficit halved from 1.0% to 0.5% GDP), the EU ex Ireland at +0.4pp (deficit from 0.5% to 0.1% GDP) and Switzerland at +0.4pp (deficit of 0.3% GDP to a surplus of 0.2 GDP).
- USMCA partners have seen relatively little change however, with the Canadian balance improving by just 0.1pp (deficit from 0.2% to 0.1% GDP) and the balance with Mexico actually widening 0.1pp (deficit from 0.6% to 0.7% GDP).

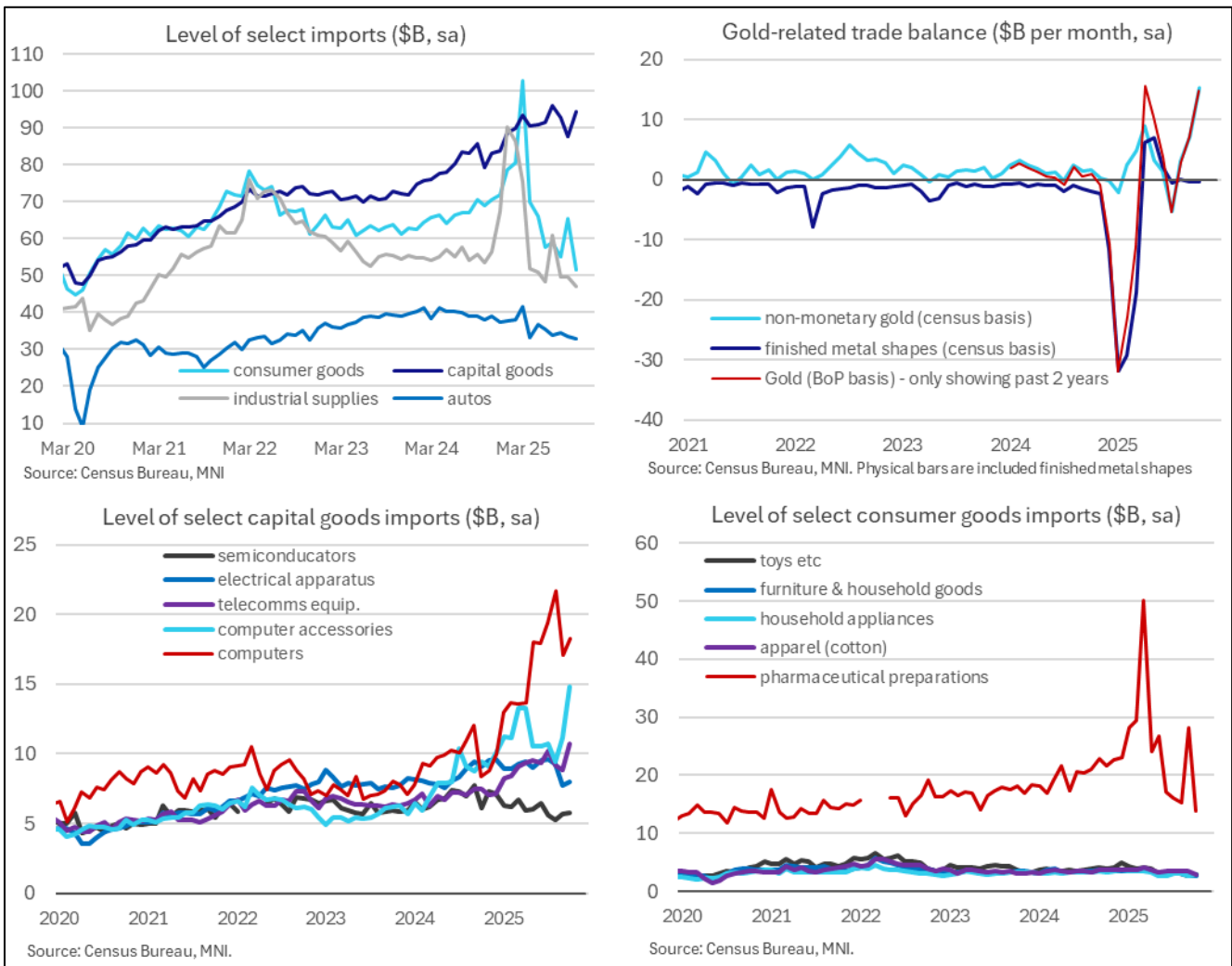


Gold Export Jump Doesn't Add To GDP Tracking, But Weak Pharma Imports Do [2/2]

The sharp narrowing in the October goods deficit was driven by a combination of another jump in gold exports along with imports falling heavily in the unwind of a pharma surge. This concentration in gold exports won't feed through into GDP (confirmed by GDPNow trimming its export contribution to a still solid 0.66pp vs 0.70pp) but the drop in imports clearly helps from a GDP perspective (now seen adding 1.3pp to GDP vs dragging -1.0pp in prior tracking). The pharma-heavy nature of the import drop makes it hard to get a sense of underlying domestic demand in latest data although capital goods did bounce strongly.

- The surprise narrowing in the goods & services trade deficit in October to \$29.4bn (sa, cons \$58.7bn) after a downward revised \$48.1bn (initial \$52.8bn) was driven by the goods deficit shrinking to \$59.1bn after \$78.3bn. The services surplus was little changed at \$29.8bn from an upward revised \$30.2bn (initial \$26.2bn).
- Goods exports increased 3.8% M/M in Oct after an even stronger 5.6% whilst imports fell -4.5% M/M after 0.9%.
- Export strength is largely confined to precious metals. Non-monetary gold exports increased further to \$17bn from \$10bn in Sep and \$4bn in Aug (2024 average \$3bn) whilst other precious metals increased to \$5.0bn from \$1.4bn (2024 average \$0.9bn).
- The moves were likely linked to October at the time a large increase in gold prices in the middle of the month. Comex gold inventories fell 4.5% between end-Sept to end-Oct whilst silver inventories fell 9%.

- Import weakness meanwhile was dominated by consumer goods declining \$14bn (-21% M/M after 19%) vs the \$12bn for all goods imports. It's an unwind of a latest pharma surge (-51% after 84%, shifting from \$15bn in Aug to \$28bn in Sep and \$14bn in Oct).
- This is most likely trade with Ireland, with ECB's Lagarde previously citing weight loss drug shipments after the previous surge in Irish exports although it clearly proving difficult to forecast month-to-month. Broader tariff front-running had also been hugely at play here earlier in the year.
- Capital goods were a rare source of import strength in the report, bouncing 8% M/M after -6%. There were across-the-board increases here amongst some of the key categories we look at after a more mixed September.
- Computer accessories stand out, increasing 33% to \$14.8bn (averaged \$11.7bn in 1H25 and historically more like \$5bn), whilst computer imports chipped away at September's sharp drop to a still elevated \$18.3bn (averaged \$15bn in 1H25 and historically closer to \$8bn). Semiconductors held within their \$5-6bn range seen through 2025.



Fed Personnel Considerations: Chair Pick Coming Soon

- Trump told the New York Times in an interview published Jan 8 that he has made up his mind on the next Fed chair pick (not new rhetoric having said as such back in Nov). "I haven't talked about it with anybody."
- US Tsy Sec Bessent touts models suggesting 2.5-3.25% Fed rates. He expects Trump Fed Chair pick right before or after Davos (Jan 19-23) noting that Blackrock's Rieder hasn't been interviewed yet.
- Trump described Kevin Hassett as "certainly one of the people that I like". Polymarket sees Hassett (36%) slightly lagging Kevin Warsh (41%). Fed Gov. Waller is in third place (12%).



Who will Trump nominate as Fed Chair?



\$156,426,160 Vol. Dec 31, 2026

Kevin Warsh 41% Kevin Hassett 36% Christopher Waller 12.3% Rick Rieder 4.0%

Polymarket



Fedspeak: Dividing Lines Continue To be Drawn

- Governor Miran told MNI he sees substantial rate cuts in 2026, eyeing 150bp of cuts
- Kashkari ('26 voter) sounded patient on future cut prospects, seeing policy as pretty close to neutral
- Barkin ('27 voter) was measured in a speech, noting that after some "insurance" cuts, policy is close to neutral and with the dual mandate variables finely balanced. He called the December payrolls report "encouraging".
- We summarize estimates of end-2026 rate projections by FOMC member.

Recapping A Divided FOMC At The Start Of The Year:

2026 Dot Plot Assumptions See Fine Split On Multiple Cut Prospects (1/2)

Taking into account comments from several FOMC participants since the December Dot Plot projections were released, MNI's compilation of end-2026 funds rates by member is below (A digest of Fed commentary after the December meeting through the FOMC Minutes is [here](#).) As usual there is a lot of educated guesswork involved in placing the 19 dots though we do have a couple of members at both ends of the table who have been pretty specific on their views. 2026 voters' names are in green, and the key theme here is that the bulk of the current voters (9/12) see at least 1 cut this year though there is a fine split (6/6) between those who see 2 or more cuts and those who see 1 or fewer.

- Recall that the median "dot" was at 3.375%, implying rates 25bp lower by year-end from the current rate of 3.625%. We start at the "top" of the table. 6 estimates in the 2025 dots assumed no December rate cut (from 3.875%). Those 6 we think were: Bostic, Goolsbee, Hammack, Kashkari, Logan, and Schmid.
- **3 End-2026 Dots At 3.875%:** Of the December "dissenters", we think Bostic, Hammack, and Schmid also penciled in no cuts in 2026 from that level. Bostic said on Dec 16 that he would have preferred to hold rates in December and didn't pencil in any cuts in 2026, which we assume to mean a steady 3.875% rate throughout. Hammack said on Dec 12 that "we've got policy that's in that range of neutral...I would prefer to be on a slightly more restrictive stance". And having dissented at the final meetings of 2025 in favor of a hold, it stands to reason Schmid is in favor of holding through the next year.
- **4 End-2026 Dots At 3.625%:** Here we place Collins and Musalem, neither of whom dissented against the December cut when they were voters, but who appear to have a fairly high bar to subsequent cuts. Kashkari and Logan, who do vote this year, could possibly be interchanged with one of the 3.875% Dots but either way they are reluctant to cut this year. Indeed Kashkari said this week he already saw policy as neutral.

- **4 End-2026 Dots At 3.375%:** We've placed current voters Barr, Cook and Paulson here, as well as 2027 voter Barkin. The hardest call here is Paulson who has expressed openness to modest additional cuts by year-end should the data cooperate, so could be a notch lower in the table.

Core Of FOMC Leadership On Dovish Side Of 2026 Median (2/2)

Continuing on with the dovish end of the table:

- **4 End-2026 Dots At 3.125%:** We think this level (suggestive of 2x 25bp cuts this year) contains key FOMC leaders Powell and Williams, with Jefferson alongside though Williams is probably the biggest risk to a higher Dot (he said on Dec 19 "I don't personally have a sense of urgency to need to act further on monetary policy right now because I think the cuts we've made have positioned us really well"; possibly he could be swapped with Paulson though we tend to believe he and Powell are closely aligned on getting rates down toward 3% over the coming quarters. Daly's inclusion here on the dovish side of the median reflects her apparent concern over the labor market going into the December meeting though we haven't heard from her since.
- **2 End-2026 Dots At 2.875%:** Both Goolsbee and Waller have suggested they are in the 2.9-3.1% range for end-year rates. Goolsbee said on Dec 12 that despite his December dissent, "if you look at the dot plot, I'm one of the most optimistic folks about how rates can go down in the coming year", pointing to a figure lower than the median (and implies that he envisaged fairly aggressive cuts this year to the tune of 100bp when he filled in his Dot Plot). Gov Waller said on Dec 17 that his 2026 rate dot submission was below the FOMC median at "about three", saying "maybe we're 50 to 100 basis points off of neutral" - we split the difference and put him at 75bp of easing.
- **1 End-2026 Dot At 2.375%:** We haven't heard from Gov Bowman in a while but as one of the biggest advocates of rate cuts on the FOMC we assume she is well below the median voter for end-2026 rates.
- **1 End-2026 Dot At 2.125%:** We know Gov Miran had a 2.1% end-2026 rate in his projections, because he told MNI on Jan 5 that he penciled in an implied 150bp of rate cuts in December's projections vs 100bp in his September forecast. "My previous dot was preconditioned upon the Fed pursuing the right policy, and as long as we keep policy at what I think of as materially too tight, we're reducing my growth expectations in the future," he told MNI. "That requires looser policy now to offset that."

MNI Assumption Of December 2025 Dot Submission For End-2026

Hammack, Schmid, Bostic

Collins, Kashkari, Logan, Musalem

Barkin, Barr, Cook, Paulson

Jefferson, Powell, Daly, Williams

Goolsbee, Waller

Bowman

Miran

	end-2026
3.875	3
3.750	
3.625	4
3.500	
3.375	4
3.250	
3.125	4
3.000	
2.875	2
2.750	
2.625	1
2.500	
2.375	
2.25	
2.125	1
MEDIAN	3.4

Green = 2026 FOMC voter. Table: Median bolded. Source: Federal Reserve, MNI

Pre-NFP*Richmond's Barkin: Economy Resilient, Policy Now Within Neutral Ranges (Jan 6)*

Richmond Fed President Barkin (not a 2026 FOMC voter but votes in 2027)'s [speech on the economic outlook Tuesday](#) is typically guarded on the expected path of policy rates. We would still expect Barkin is in line with the FOMC 2026 median implying 1 rate cut this year though he's not in any rush to ease.

- Barkin takes a measured approach in his speech, noting that after some "insurance" cuts, policy is close to neutral, with the dual mandate variables finely balanced.
- Barkin says "As the labor market has softened in the past year, the FOMC cut rates further in the fall and to a level now within the range of its estimates of neutral. Think of it as taking out a bit of insurance. But going forward, policy will require finely tuned judgments balancing progress on each side of our mandate. Unfortunately, for the last three months, we've been operating without data or with low-quality data that are hard to put much weight upon. That makes our task a bit more challenging. So, I'm looking forward to digging in and learning as clean data start to come in over the coming weeks."
- "Both sides of our mandate bear watching. Unemployment remains low on a historic basis but has ticked up. Inflation has come down but remains above target. With the hiring rate low, no one wants the labor market to deteriorate much further; with inflation above target now for almost five years, no one wants higher inflation expectations to get embedded. It's a delicate balance."
- He doesn't see much of an impact from tariffs on consumer prices, largely because "consumers, exhausted by higher prices, have pushed back". He also seems concerned that demand and job growth are "narrow" (AI spending/wealthy consumption, and private sector job growth dominated by healthcare/social assistance). Overall though he seems to take the view that the economy is resilient until proven otherwise, especially as fiscal stimulus is on its way and "uncertainty is bound to diminish" vs a "foggy" 2025.. "resilience has been enabled by strong underlying dynamics. Consumers have jobs. Real wages are increasing. Asset values keep growing. Corporate earnings and earnings outlooks remain strong. In those circumstances, it's hard to imagine consumers and businesses moving to the sidelines."

MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026 (Jan 5)

Federal Reserve Board Governor Stephen Miran told MNI on Monday the FOMC needs to cut interest rates substantially this year because underlying inflation is near target and a hesitancy to lower borrowing costs has already unduly damaged the labor market. Recent weakness in the labor market, which saw the jobless rate increase to a four-year high of 4.6% in November, could have been prevented by more consistent monetary support from the central bank, Miran said in an interview. "I would say the labor market has been on a trajectory of gradual weakening, in large part because of Federal Reserve policy," he said. [Full article here](#)

Minn's Kashkari: Policy Neutral, Data Will Dictate Next Rate Direction (Jan 5)

Minneapolis Fed President Kashkari, a 2026 FOMC voter, sounds patient on the prospect of future rate cuts in comments made Monday on CNBC. Overall based on his first remarks since the December FOMC meeting, we would continue to characterize his stance as just the 3rd most hawkish of this year's 4 rotating presidential voters (less hawkish than Cleveland's Hammack and Dallas's Logan, more hawkish than Philly's Paulson). Back in November he said that he wouldn't have supported the October rate cut, and we assume this meant he didn't support December's cut either.

- It sounds like if early-2026 inflation tariff passthrough from businesses does not prove to be too alarming, then he could plausibly support further cuts because there is a risk that unemployment could "pop" higher going forward.
- But he's also in no hurry to ease because the labor market looks relatively steady amid a consistently more resilient economy than had been expected, inflation remains too high, and he sees policy as around neutral already. Indeed he implies that the scope for cuts is limited and that he wouldn't rule out support for the next move being a hike depending on how the data unfolds.
- "The economy has proven to be far more resilient than I had expected...that tells me monetary policy must not be putting that much downward pressure on the economy. My guess is we're pretty close to neutral right now." On balancing the Fed's dual mandate risks, Kashkari says that the FOMC needs to see more

data before determining which of the inflation or the labor market mandates is at bigger risk of being missed, and then "move from a neutral stance whatever direction is necessary" (note the "direction" appears to be a matter of debate for him).

- He says "I think the inflation risk is one of persistence, that these tariff effects take multiple years to work their way all the way through the system, whereas I do think there's a risk that the unemployment rate could pop from here... We have two sides of our mandate... inflation is slowly trending down. The unemployment rate has gone from 3.6% to 4.6% so we're moving in the wrong direction on the labor market."
- Kashkari's outlook on the economy appears to consist of more-of-the-same on growth and the labor market. But he also echoes comments from other FOMC members in scrutinizing whether businesses will pass through tariffs to clients via price resets at the start of the year. He characterizes the main inflation debate on the FOMC as whether tariff-related price increases are persistent or a one-off.
- On inflation, "I've got a lot of confidence that housing services inflation... should continue to come down. Non housing services should be tied to wages, and wage growth is slowly trending down, so it's going to be slow... the tariff induced goods inflation - are we going to see a repricing in January of this year? A lot of businesses have said, there could be a repricing this year as they reset prices, that's something that we're going to need to watch."
- On growth, Kashkari reiterates that it keeps "surprising me how resilient growth is, and my expectation is the economy will probably continue doing what it's been doing, which is pretty resilient, pretty decent growth." On the labor market: "My expectation has continued low hiring but low firing."

Post-NFP Remarks:

Richmond's Barkin: Unemployment Downtick A Welcome Development (Jan 9)

Richmond Fed President Barkin (2027 FOMC Voter) told reporters including MNI Friday that the December payrolls report was "encouraging", with the unemployment rate downtick to 4.4% in the month coming as a welcome development in a labor market environment characterized by modest and balanced supply and demand.

- "This fine balance between a modest job growth environment with a modest labor supply environment seems to be continuing and that was encouraging, Some of it is uncertainty, a lot of it is productivity. But it's hard to find businesses outside of the AI ecosystem or health care that are talking about hiring, and that's very consistent with what I saw today."
- Speaking on the intersection of today's jobs numbers and the strong recent productivity data shown in this week's report: "businesses are going to have to make a call as to whether they can sustain the productivity, and they're going to need to hire to meet demand. That's the upside case. The downside is they're convinced that demand will falter, in which case you reduce jobs equivalently."

STIR: Jobs Report Seen Cementing No Further Cuts Under Powell

- Jobs growth may have disappointed in Friday's Employment Situation report but the drop in the unemployment rate saw near-term rate FOMC cut prospects trimmed further after hawkish shifts throughout the week on data and oil prices.
- The current market-implied path sees a cumulative 12.5bp of cuts priced for Apr vs 14.5bp pre NFP and 18.5bp prior to Wednesday's strong ISM services report.
- A next cut is still fully priced for June, only just at 25.5bp, the first meeting under a new Fed Chair.

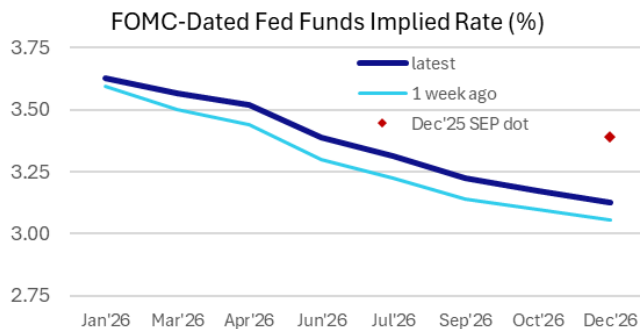
FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Jan 9)			chg in rate	pre ISM serv/JOLTS (Jan 7)			chg in rate
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	bp	%	step (bp)	cum. (bp)	bp
Effective	3.64			3.64				3.64			
Jan'26	3.63	-1.2	-1.2	3.61	-3	-2.8	1.6	3.60	-4	-4	3.0
Mar'26	3.57	-6.2	-7.4	3.54	-8	-10.3	2.9	3.51	-9	-13	5.4
Apr'26	3.52	-4.9	-12.3	3.49	-4	-14.7	2.4	3.46	-6	-18	6.0
Jun'26	3.39	-12.7	-25.0	3.36	-13	-28.1	3.1	3.31	-15	-33	8.2
Jul'26	3.31	-7.7	-32.7	3.28	-8	-36.0	3.3	3.23	-8	-41	8.6
Sep'26	3.23	-8.8	-41.5	3.20	-8	-44.4	2.9	3.13	-9	-51	9.3
Oct'26	3.17	-5.3	-46.8	3.15	-5	-49.2	2.4	3.08	-5	-56	9.0
Dec'26	3.13	-4.6	-51.4	3.10	-5	-54.2	2.8	3.03	-5	-61	9.5

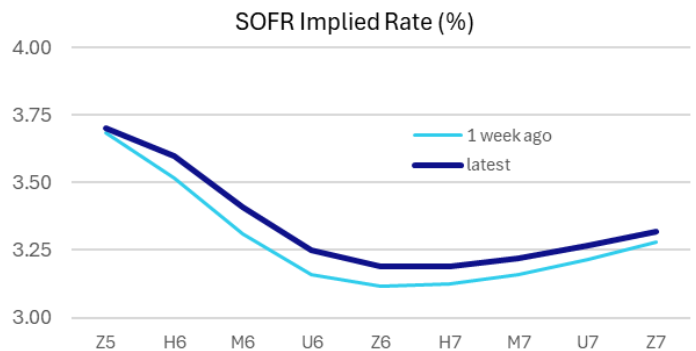
Source: Bloomberg Finance L.P., MNI.

Assuming same EFRR-target lower bound spread from latest fix going ahead

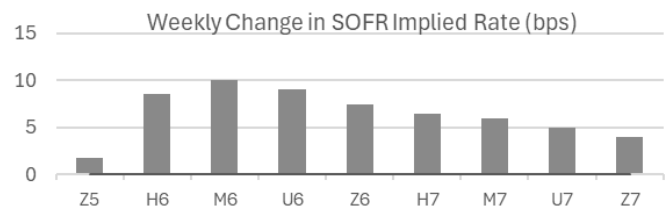
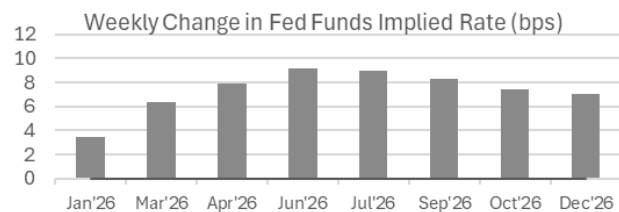
Weekly changes:



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: Inflation Week Comes With Some Data Caveats

The top-tier data schedule carries on Tuesday with the December CPI report amid a broader set of inflation prints, including delayed October and November PPI data (Wednesday) and Import/Export Prices for November (Thursday). Also due to garner attention is the “advance” retail sales report which is likewise on the slightly stale side, being only for November (alternative measures of retail activity have signalled a solid end-of-year). We should also mention a possible Supreme Court ruling on Wednesday on the legality of the White House’s IEEPA tariffs.

Consumer price inflation is set to pick up on a sequential basis from November’s suspiciously weak price prints, with early consensus pointing to 0.3 to 0.4% M/M rises in both headline and core CPI after an average increase of 0.1% M/M over November and October. However, distortions mean that an inflation acceleration in December shouldn’t be taken at face value. Few analysts took the shutdown-delayed October/November report either literally or seriously, given the unusual data collection period (incorporating late November holiday discounting in key goods categories) and “carry-forward imputation” due to the cancellation of the October survey (which for one thing meant October inflation was assumed to be zero in housing, which is the largest CPI category).

The unwinding of these distortions mean that the December core CPI readings are likewise set to see some upside payback on a M/M basis, and as a result the details are set to be met with some skepticism once again. The most obvious upward distortion will be in categories that reflected discounting in late November but will see price bounces in December (including fares and apparel). It will also impact the many price categories that are calculated on a bimonthly basis that won’t have an October to compare to, meaning that their inflation rates could be exaggerated to the upside as the BLS resorts to a comparison to the previous bimonthly period (ie a 4-month price change vs August). Due to methodological reasons, a “payback” effect is not expected to affect the key housing CPI categories until April 2026, however. All of the above means that reading the details of the report will be even more critical than usual, and any extreme results are likely to be downplayed.

Date	ET	Impact	Event
13-Jan	600	**	NFIB Small Business Optimism Index
13-Jan	830	***	CPI
13-Jan	855	**	Redbook Retail Sales Index
13-Jan	1000	***	New Home Sales
13-Jan	1400	**	Treasury Budget
14-Jan	700	**	MBA Weekly Applications Index
14-Jan	830	***	PPI
14-Jan	830	*	Current Account Balance
14-Jan	830	***	Retail Sales
14-Jan	1000	***	NAR existing home sales
14-Jan	1000	*	Business Inventories
15-Jan	830	***	Jobless Claims
15-Jan	830	**	Import/Export Price Index
15-Jan	830	**	Empire State Manufacturing Survey
15-Jan	1600	**	TICS
16-Jan	915	***	Industrial Production