

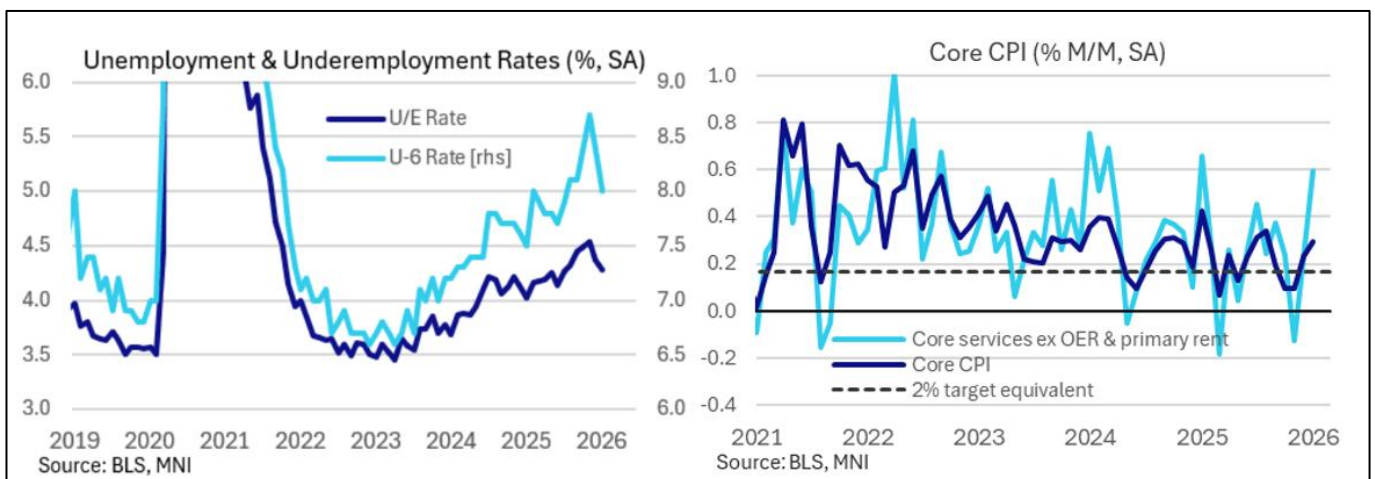
MNI U.S. Macro Weekly

MNI View: Solid Week For The Dual Mandate

February 13, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- Overall, it was a solid week for the dual mandate variables. January’s nonfarm payrolls emboldened the FOMC hawks and all but eliminated the chances of a cut at the next meeting in March, but the more-moderate-than-expected January inflation data were probably enough to keep the Fed’s easing bias alive.
- The BLS Employment report for January was stronger than expected, rebutting various alternative indicators that either surprised lower or were outright soft in the past two weeks.
- And while the 130k payrolls gain and lowest unemployment rate since July came with some caveats, multiple analysts pushed back their expectations for the resumption of the Fed easing cycle beyond March.
- Having received some reassurance on the “full employment” side of the Fed’s dual mandate, January’s inflation report relieved some concerns on the “price stability” goal, with sequential headline and core CPI measures below-expected, though among other issues underlying the figures were a core goods pickup and an expansion of inflation breadth (and opinions vary on the ultimate PCE implications).
- December’s roundly weaker than expected retail sales data also carried a dovish tone, leading to a downward revision to Q4 personal consumption expenditures and raising new concerns about the momentum of consumption going into 2025.
- A patient approach is still expected, at least under Powell’s Fed. A next cut is still not fully priced for June and instead is seen in July, building to 62.5bp of cuts over 2026 vs 60.5bp pre-CPI and 59bp pre-NFP.
- In the upcoming holiday-shortened week, we get the minutes to the January Fed meeting which while stale after the latest data will be watched for the discussion on heightening the bar to further easing.
- The coming week’s data releases are backloaded, with the advance Q4 national accounts release and December personal income and outlays report both on Friday.
- Analysts currently eye a 2.8% annualized increase for real GDP growth in Q4 - some moderation in GDP growth is expected therefore after the 4.4% in Q3 and 3.8% in Q2, but of greater pertinence is domestic demand which is tracking at a softer 2.3% annualized according to GDPNow,
- December core PCE inflation is expected to be on the strong side, with analyst unrounded estimates on balance eyeing a slightly ‘low’ 0.4% M/M. In terms of inflation pressures when thinking about subsequent nominal numbers, they could have remained firm in January as well, with an admittedly unusually wide range of 0.19-0.49% M/M for core PCE inflation seen after the January CPI report.



Labor: Robust NFP Report Defies Softer Alternative Indicators

See the full MNI Employment Insight here: <https://mni.marketnews.com/4af7NV3>

The BLS nonfarm payrolls report for January was far stronger than expected, going against various alternative indicators that either surprised lower or were outright soft in the past two weeks.

- Nonfarm payrolls rose 130k (sa, cons 65k) after negligible two-month revisions of -17k (mainly in Nov).
- Private payrolls saw a larger beat at 172k (sa, 68k cons) and a two-month revision of +49k. A little of that gloss was taken off by particularly strong 124k rise from health & social assistance, a cyclically insensitive category that has been a lifeline for private sector job creation.
- The benchmark revision saw cumulative payrolls growth revised down by -862k in NSA terms (-898k SA) over the twelve months to March 2025, its largest downward and absolute revision in recent history.
- That was towards the more negative end of expectations but within a margin of error. Still, private sector ex health & social assistance payrolls are now estimated to have declined by a heavy -326k across 2025 (and that's with the benchmark revision only going to March) vs an already tepid 20k increase previously.
- Sticking with NSA details, nonfarm payrolls 'only' fell by -2.65mln in January after -2.91mln in Jan 2025 (revised from -2.83mln due to the benchmark revision) and -2.89mln in Jan 2024.
- The Household Survey was anticipated to provide a cleaner read on current labor market conditions in January than the much-revised Establishment Survey, but whether it accomplished that is questionable.
- There were clearly strong signs, such as the unemployment rate of 4.283% not just below the consensus of 4.4% and 4.375% prior, but also the lowest since July. However, a response rate of 64.3% is the 3rd lowest in history, with only the prior 2 surveys having been lower. Unlike the Establishment survey, the BLS notes, "The severe weather did impact the collection of household survey data", and that is reason enough to take the results with a grain of salt.
- The release drove a sizeable front-loaded hawkish reaction after a firmly dovish build-up following the previous week's slew of weak labor indicators (all reviewed below) and more recently Trump administration comments ahead of the release plus weak retail sales data.
- A next Fed 25bp cut has tilted back to being fully priced for July rather than June whilst a second 25bp cut is still fully priced for December.
- It also spurred multiple analyst view changes, eyeing later cuts or none at all, including from CIBC, Citi, Commerzbank, ING, Natixis, TD Securities and Wells Fargo.
- Initial Fedspeak has stuck to previously drawn lines: hawks Hammack and Schmid welcomed the report and don't support near-term rate cuts whilst outright dove Governor Miran still sees many reasons to cut.
- Market attention immediately turns to January CPI on Friday but with another round of February NFP and CPI reports due before the next FOMC meeting on March 17-18.

Payrolls Summary Statistics For January 2026

	Actual	Cons.	Surprise on mth	2-mth Rev	Dec	Nov	Net Surprise
Monthly growth (000s)							
NFP	130	65	65	-17	-2	-15	48
Private	172	68	104	49	27	22	153

	Actual	Cons.	Prior mth	Cycle low	2019 av	
U/E rate (%)	4.28	4.4	4.38	3.45	Apr'23	3.67

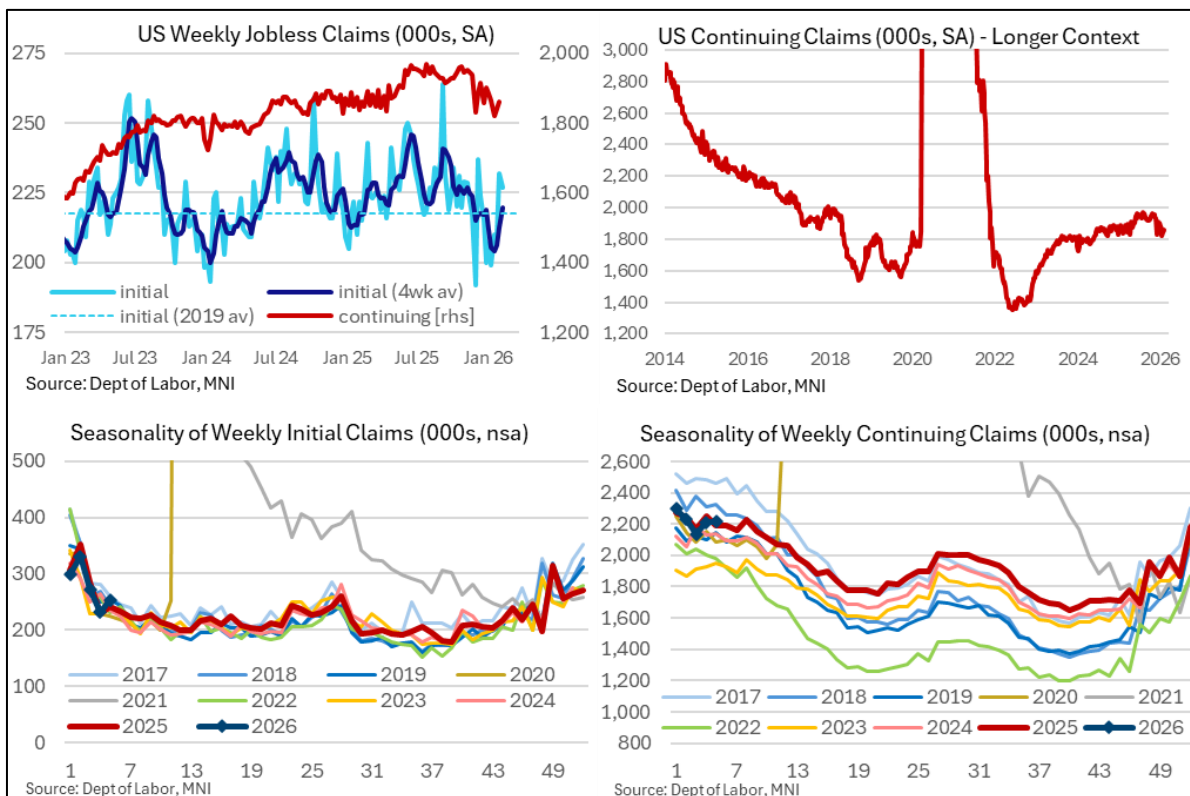
	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.41	0.3	3.71	3.7

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

Initial Claims Off Recent Lows, Continuing Still Lower Than 2H25

Weekly jobless claims surprised a little higher on both an initial and continuing basis. Initial claims still dipped a little after last week's surprisingly large increase in what looks like a reversal of weather disruption, although residual seasonality more broadly looks to explain recent trends (both lower and now higher).

- Initial claims were a little higher than expected at 227k (sa, cons 223k) in the week to Feb 7 after a marginally upward revised 232k (initial 231k).
- Recall that last week's upside surprise for initial claims looked to have been boosted by severe winter weather in the last weeks of January, and there are tentative signs that this might have faded in this latest week.
- There was some reversal of those states which saw the largest increases in the prior week: Pennsylvania saw -3.3k after +5.3k, Missouri -2.9k after +2.8k and Illinois -2.3k after +2.2k. These state-level details are in NSA terms as always, so some caution is needed, but they compared with national initial claims falling by 4.6k in NSA terms.
- There is still likely some residual seasonality at play though, having biased initial claims lower in December and January (the 4-week average hit a recent low of 204k up to Jan 17) before tilting higher again into February (220k latest 4-week average) and potentially beyond.
- Continuing claims were also a little higher than expected at 1862k (sa, cons 1850k) in the week to Jan 31 after a marginally downward revised 1841k (initial 1844k).
- Whilst it sees continuing claims extend their lift off a recent low of 1819k two weeks prior in the week to Jan 17, they are still comfortably lower than prior payrolls reference weeks including 1914k in Dec, 1944k in Nov and 1957k in Oct.
- Non-seasonally adjusted levels of continuing claims had for much of last year been tracking right at the top of ranges seen in previous years, before dropping somewhat back more into ranges so far in 2026, as indeed was the case in early 2025.



Inflation: Softer Than Feared, With Caveats

Sequential CPI Pressures Softer Than Expected

- January brought softer-than-expected CPI data across the board for the most part. An upside beat in supercore was notable but explicable. The Y/Y changes for headline and core CPI came in line/a little softer than expected.
- Headline % M/M was 0.17% vs 0.29% unrounded MNI median, with core at 0.30% below the 0.36% median.
- On the headline side, energy and food were each in softer-than-expected territory M/M, helping drive the downside "miss".
- Note that while the NSA series were not revised in this report (so prior Y/Y readings were unchanged), the annual revision of seasonal factors means December (prior) % M/M readings in this table have been slightly revised.

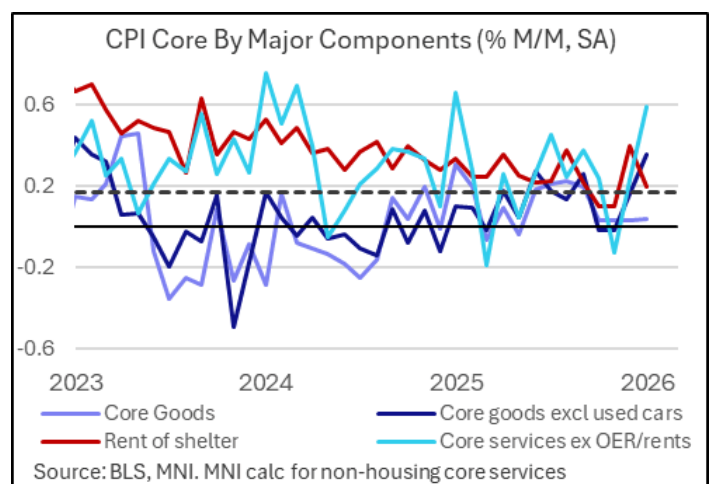
Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Headline		Core	Headline		Core	Supercore	Food	Energy	gasoline
	NSA Index	NSA Y/Y	NSA Y/Y	SA M/M	SA M/M	M/M	M/M	M/M	M/M	
Jan	325.252	2.39	2.50	0.17	0.30	0.59	0.19	-1.47	-3.2	
Jan (median)	325.549	2.48	2.57	0.29	0.36	0.50	0.3	-0.9	-2.4	
Jan (mean)	325.513	2.48	2.54	0.29	0.33	0.54	0.2	-0.8	-2.5	
Bbg consensus	325.514	2.5	2.5	0.3	0.3					
Dec (actual)	324.054	2.68	2.64	0.30	0.23	0.23	0.66	0.34	-0.32	

Used Car CPI Drop Disguises Broader Core Goods Pressures

A look under the hood for the driver of the overall CPI downside suggests that another downside "miss" for core goods prices was entirely responsible - but this is not necessarily indicative of an inflationary reprieve for core goods.

- Core goods CPI printed barely positive for a 2nd consecutive month (+0.04% M/M), driven by used cars coming in notably weaker than anticipated (-1.8%, vs +0.3% expected, -0.9% prior).
- However, that meant that ex-used vehicles core goods CPI was pretty punchy, at 0.36% M/M, up from 0.16% prior for the fastest since early 2023.
- New vehicles were basically a non-factor, rising 0.15% after 0.01%, a 5th consecutive month below 0.2%; household furnishings rose 0.3%, softer than the 0.5% recorded in Dec, and medical care commodities fell 0.1% on a slight downtick in medicinal drug prices.
- Recreational commodities picked up sharply though, to 0.6% after 0.1%, with video/audio products jumping to 2.2% (-0.3% prior) among other gains. Other products that were flat/negative in December showed gains this month, including education/communication commodities, alcoholic beverages, and "other" goods. Apparel was roughly in line but a little on the higher side at 0.3% (0.2% expected, 0.3%).
- On the services front, housing was pretty much right on target with rents at 0.25% M/M (0.27% prior) and OER 0.22% (perhaps a touch lower than expected, and 0.31% prior).
- But supercore jumped to a 1-year high 0.59% M/M from 0.23% prior, higher than the median expectation.



- This came as airfares surprisingly accelerated 6.5% M/M, from a downwardly revised 3.8% prior -had been 5.2% before the seasonal adjustment revision which partly accounts for the surprisingly high sequential figure in January. Lodging prices were also revised down (2.2% Dec, had been 2.9%) yet still came in on the soft side in January (-0.1% vs expectations of closer to +1.0%).
- Other jumps of note include communications (+0.5% after -1.9%) and professional medical care (0.8% after 0.4% for the highest since July 2025, though vehicle insurance (-0.4%) was well-behaved after having not received data in this category for the prior 3 months).

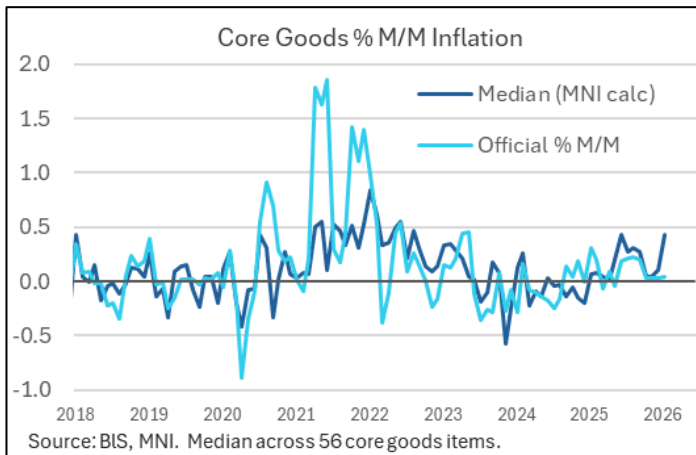
Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core	Supercore Core goods			Core services					
	SA M/M	M/M	M/M	used cars M/M	apparel M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	
Jan	0.295	0.59	0.04	-1.84	0.31	0.39	0.22	0.25	-0.10	6.52
Jan (median)	0.36	0.50	0.33	0.3	0.2	0.40	0.28	0.26	0.9	2.0
Jan (mean)	0.33	0.54	0.27	0.0	0.2	0.41	0.27	0.26	1.2	2.4
Bbg consensus	0.3									
Dec (actual)	0.239	0.23	0.03	-0.87	0.33	0.27	0.31	0.27	2.18	3.76

Underlying Core Goods Inflation Matches Previous Mid-2025 Peak

Our calculation of median core goods inflation accelerated in January to 0.44% M/M, matching the previous peak back in June in what had previously looked like the largest tariff impulse landed in mid-2025. It does however follow a weak Q4 patch with government shutdown-driven distortions.

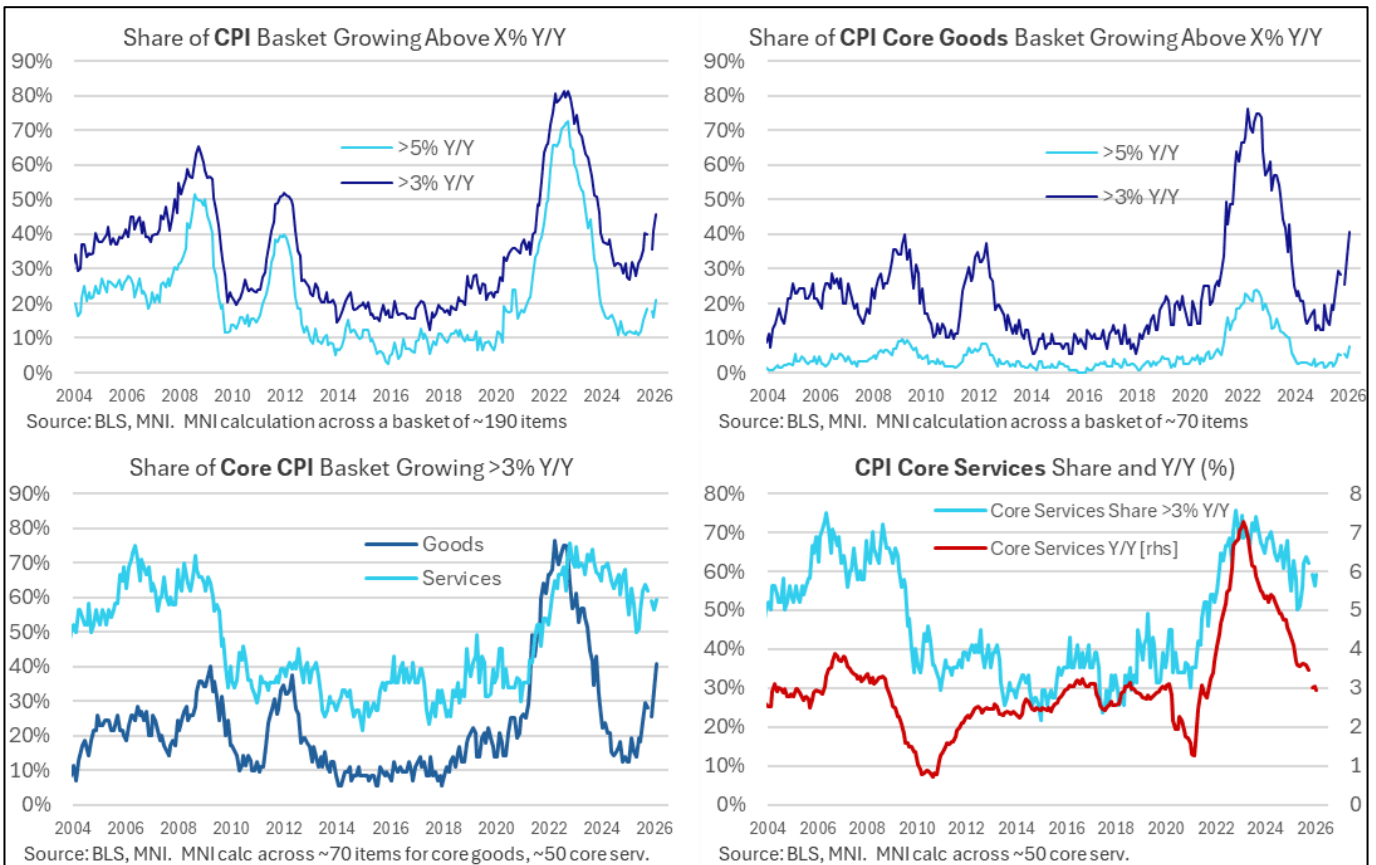
- Adding to our earlier post on “Used Car CPI Drop Disguises Broader Core Goods Pressures”, our calculation of median core goods inflation chalked up a firm 0.44% M/M increase.
- This accelerated from a moderate 0.10% M/M in December and an average increase of just 0.04% M/M across Oct/Nov in shutdown-disrupted figures (not least with the later than usual November survey period catching holiday discounts before surprisingly limited bounceback in December).
- In contrast, the actual core goods inflation series increased only 0.04% M/M in January after 0.03% M/M in Dec and an average 0.03% M/M across Oct/Nov. Indeed, whilst core goods was 0.04%, core goods ex used cars was strong at 0.36% M/M.
- Before that Q4 soft patch, our median averaged a solid and quite consistent 0.28% M/M through Q3 (revised down from 0.31% with today’s seasonal adjustment revisions) after peaking at 0.43% M/M in June (0.44 pre-revision).
- As such, it suggests some renewed upward pressure in underlying core goods inflation rather than what looked like a previous peak impulse from tariff cost pressures coming back in June, with this latest print suggesting broader usage of start-of-year price resets.
- The 0.44% M/M for median core goods inflation is notable compared to the 0.07% from Jan 2025, 0.12% in Jan 2024 and 0.33% in Jan 2023. Go back further and you’re in the peak inflationary period of late 2021/early 2022 when the median saw 0.84% M/M in Jan 2022 whilst the two Januarys before that averaged a more typical 0.08% M/M.
- We compare with previous Januarys on both residual seasonality grounds (although our understanding is that’s more related to core services rather than goods) and the fact that whilst we try and choose seasonally adjusted series, many of these detailed categories are only available on a non-seasonally adjusted basis.



Almost Half Of CPI Basket Increased 3% Y/Y Or Faster In January

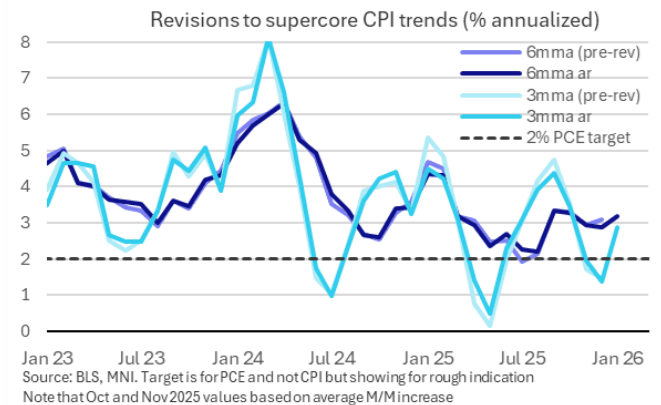
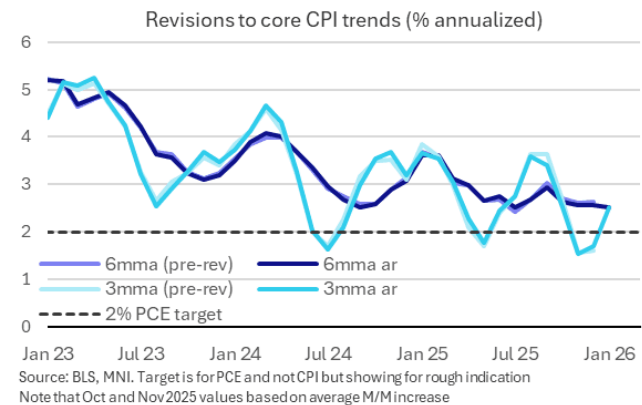
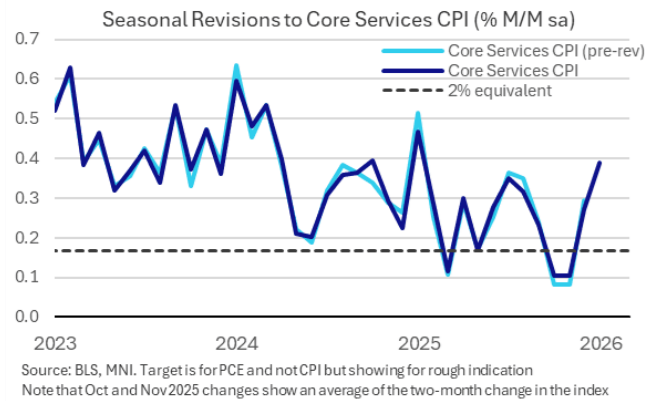
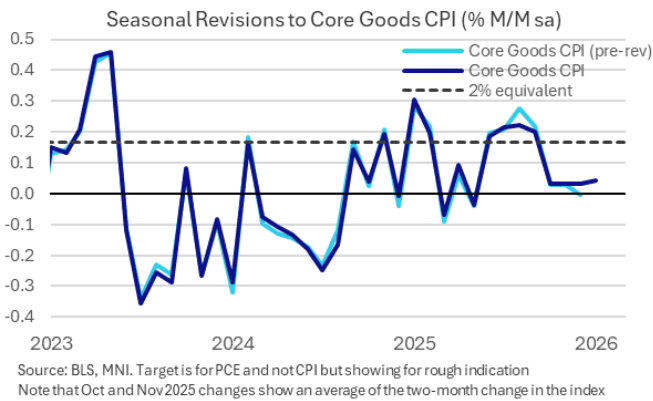
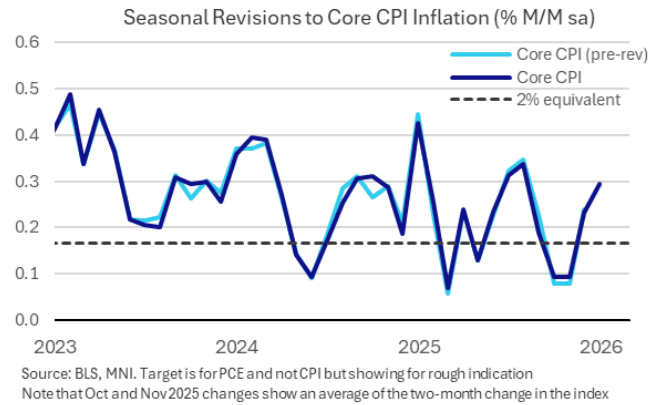
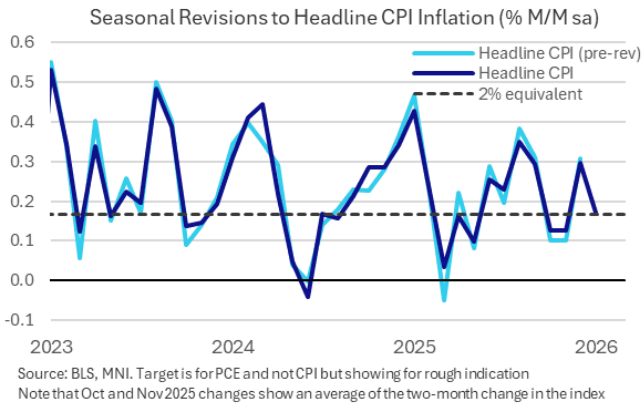
Start-of-year price resets appear to have helped see a further increase in the breadth of inflationary pressures within core goods in January, with an estimated 41% of core goods items rising 3% Y/Y or faster vs 13% a year ago.

- 46% of ~190 items across the **CPI basket** saw price increases of 3% Y/Y or higher in January, up from 41% in Dec, 36% in Nov and 40% in Sep. It's a fresh high since Nov 2023.
- This share averaged 24% in 2019 or 19% over a longer 2015-19 period.
- Whereas the increase in the share back in December was concentrated in the 3-4% bracket, the January appears driven by those in the >5% bracket, up from 16% to 21% for its highest also since Nov 2023. It started 2025 at 12%.
- Within the core basket, 41% of **core goods** items increased at least 3% Y/Y in Jan vs 33% in Dec, 25% in Nov and 28% in Sep for a fresh high since Oct 2023. It started 2025 at 13% and averaged 18.5% in 2019 or 12% over 2015-19.
- **Core services** saw a smaller increase which only offset December's dip, rising back to 59% from 56%. It most recently peaked at 64% in August and compares with historical averages of 38% in 2019 or 34% in 2015-19.



Latest CPI Trends: Core CPI Run Rates In Line With 2.5% Y/Y

- **Core CPI 3-month:** 2.52% annualized over the latest three months to January, following 1.70% to December (1.61% first reported) and 3.42% to September (3.64%).
- **6-month:** 2.52% annualized over the latest six months to January whilst the run rate to Dec was trimmed slightly from 2.63% to 2.56%.
- Latest run rates are in line with the 2.50% Y/Y in January, as always taken from the NSA series and so unrevised with this update. That has cooled from 2.64% in December for a fresh low since Mar 2021 but of course is still biased lower due to treatment of rent series during the government shutdown.
- **Supercore CPI** meanwhile stood at 2.88% annualized over the three months to Jan after 1.38% in Dec (1.46% initially) and 4.38% in Sept (vs 4.75%).
- The six-month supercore rate increased to 3.2% annualized from a downward revised 2.9% (3.1% initially) for its highest since October.
- All of the above trend rates are reliant on interpolating the October index level.



Only Modest CPI Seasonal Adjustment Revisions

- Core CPI at 0.30% M/M in January after 0.23% M/M in Dec (0.24% M/M first reported).
- Minimal revisions from the new seasonal adjustment factors, with headline and core CPI a touch weaker in Dec, slightly stronger over that two-month average across Oct-Nov and then weaker in Sep.
- Within core, services led the downward revision to Dec (-0.02pps to 0.27% M/M) whilst core goods was revised 0.03pps higher but only to 0.03% M/M.
- The new factors appear to have slightly dampened down on Jan residual seasonality patterns, with the Jan 2025 increase trimmed from 0.45% M/M to 0.43% M/M, led by core services being trimmed by 0.05pps for its most across the year.
- See the table below:

CPI Annual Seasonal Adjustment Revisions

% M/M	Headline			Core		
	Revised	Prior	chg	Revised	Prior	chg
Jan 25	0.43	0.47	-0.04	0.43	0.45	-0.02
Feb 25	0.23	0.22	0.01	0.25	0.23	0.03
Mar 25	0.03	-0.05	0.08	0.07	0.06	0.01
Apr 25	0.16	0.22	-0.06	0.24	0.24	0.00
May 25	0.10	0.08	0.02	0.13	0.13	0.00
Jun 25	0.25	0.29	-0.03	0.23	0.23	0.01
Jul 25	0.23	0.20	0.03	0.31	0.32	-0.01
Aug 25	0.35	0.38	-0.03	0.34	0.35	-0.01
Sep 25	0.30	0.31	-0.02	0.19	0.23	-0.04
Oct 25	0.13	0.10	0.02	0.09	0.08	0.02
Nov 25	0.13	0.10	0.02	0.09	0.08	0.01
Dec 25	0.30	0.31	-0.01	0.23	0.24	-0.01

Source: BLS, MNI. Colour grading on individual scales

Note: Oct and Nov 2025 M/M values show average of two-month change

CPI Annual Seasonal Adjustment Revisions

% M/M	Core goods			Core services		
	Revised	Prior	chg	Revised	Prior	chg
Jan 25	0.30	0.28	0.02	0.47	0.51	-0.05
Feb 25	0.20	0.22	-0.02	0.29	0.25	0.03
Mar 25	-0.07	-0.09	0.02	0.11	0.11	0.01
Apr 25	0.09	0.06	0.03	0.30	0.29	0.01
May 25	-0.04	-0.04	0.00	0.17	0.17	0.00
Jun 25	0.19	0.20	-0.01	0.28	0.25	0.02
Jul 25	0.21	0.21	0.00	0.35	0.36	-0.01
Aug 25	0.22	0.28	-0.05	0.32	0.35	-0.03
Sep 25	0.20	0.22	-0.02	0.23	0.24	-0.01
Oct 25	0.03	0.03	0.00	0.10	0.08	0.02
Nov 25	0.03	0.03	0.00	0.10	0.08	0.02
Dec 25	0.03	0.00	0.03	0.27	0.29	-0.02

Source: BLS, MNI. Colour grading on joint scales

Note: Oct and Nov 2025 M/M values show average of two-month change

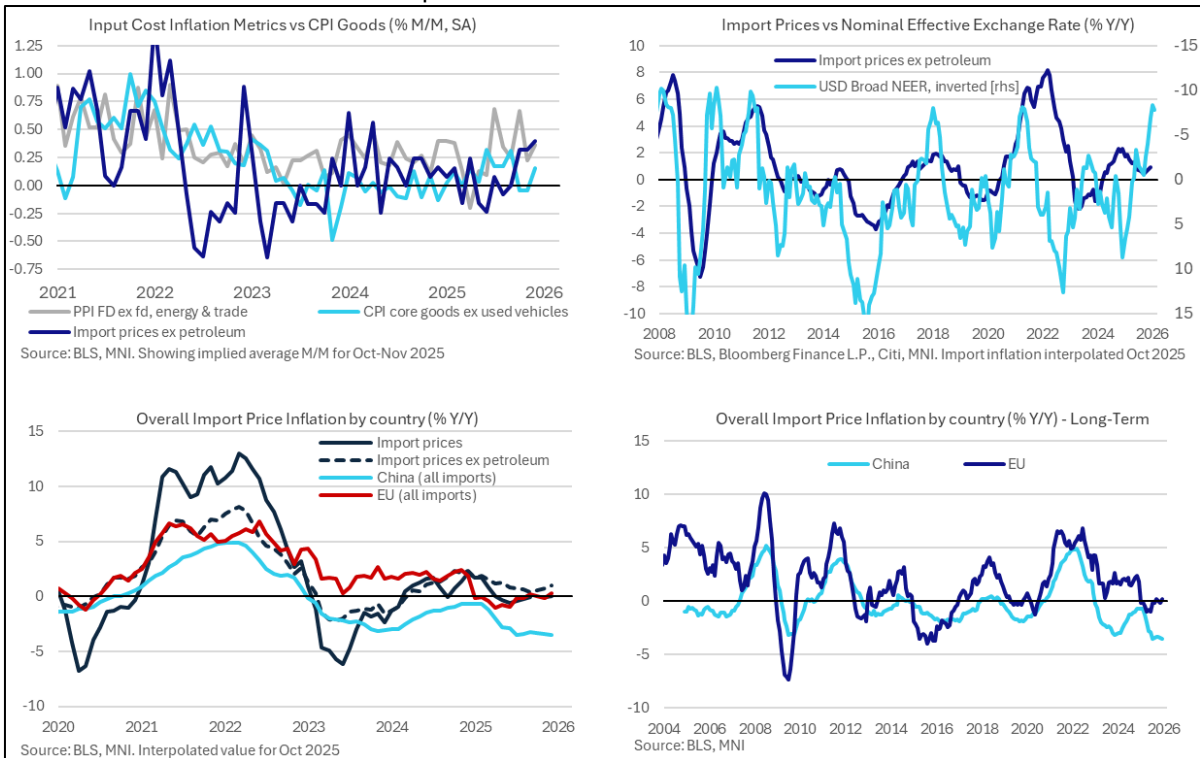
A Particularly Wide Range For Jan Core PCE Estimates

- Reviewing some post-CPI core PCE estimates, it's clear that there's an unusually wide range for January at this stage.
- Some January core PCE estimates: 0.19% (TD Securities), 0.24% (Scotia), 0.26% (Wells Fargo), 0.34% (UBS), 0.4% (Deutsche), 0.40% (Goldman Sachs), 0.41% (Nomura) and 0.49% (Morgan Stanley).
- Bear in mind that these are based off December values that are estimates themselves with the delayed PCE report for December not released until Feb 20. We currently see December estimates in a range of 0.25-0.40 (mean 0.36%, median 0.39%)
- Morgan Stanley helping explain their upward revision for January core PCE tracking from 0.38% to 0.49% M/M: "The relative strength of PCE versus CPI appears to be driven by a sharp increase in legal services inflation (roughly +11% m/m)."
- Nomura on the other hand revised their core PCE tracking down from 0.48% to 0.41% M/M.
- We have to wait until the delayed Jan PPI report on Feb 27 to get a better idea of core PCE estimates for January, with January PCE then not released until Mar 13.

Imported Inflation Ended 2025 On A Stronger Note

Non-oil import prices were stronger than expected in December as they ended the year with some upward price pressures and with potentially more to come judging by US dollar depreciation. Bearing in mind that import prices don't include tariffs, it points to a notably different backdrop than earlier in 2025 when foreign exporters were offering greater concessions in the face of tariffs. China stands out with firmly negative import price inflation whilst import prices from other trading partners have firmed.

- Overall import prices were as expected in December as they increased 0.1% M/M but they hid a stronger underlying picture as import prices ex petroleum increased 0.4% M/M (cons 0.2) for the strongest single month since Apr 2024.
- The latter stat is with a heavy caveat that it's non-seasonally adjusted data and it follows an average 0.3% M/M increase across Oct & Nov but with no way of knowing the split across those two months as a result of the government shutdown.
- This recent period of strength (average of 0.34% M/M in Q4 compares with 0.16% in 4Q24) follows weakness earlier in the year when foreign exporters were offering concessions in the face of US tariffs (average -0.1% M/M in Mar-Jun 2025 vs 0.2% M/M in Mar-Jun 2024).
- This pick-up in import price pressures follows months of stronger PPI reports although passthrough into core goods CPI inflation appears to have been more moderate recently.
- It has seen the Y/Y accelerate further to 1.0% Y/Y for its highest since May and with the US dollar's trade-weighted depreciation very crudely pointing to upside ahead
- China remains a clear standout here though at -3.5% Y/Y, matching July for the lowest in a series starting in 2004.
- Elsewhere, prices of imports from the EU climbed 0.3% Y/Y in December for the highest since Dec 2024 having bottomed at -1.0% Y/Y in April.
- Attempting to strip out oil price effects from major oil producers, prices of manufactured imports from Canada increased 1.5% Y/Y (highest since Dec 2022) and from Mexico increased 2.1% Y/Y (highest since 2.2% in Sept). These USMCA countries have seen the smallest adjustments in trade balances with the US since the start of the second Trump administration.



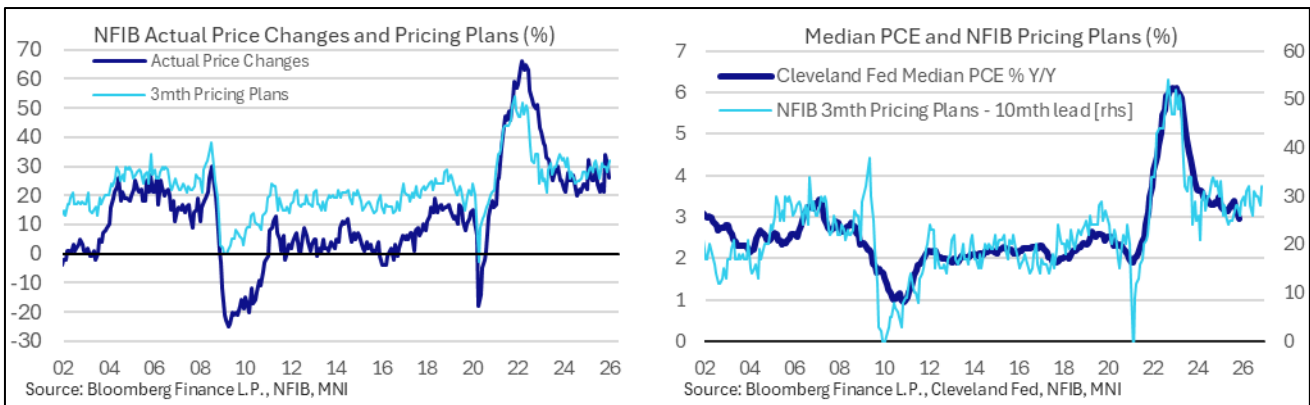
Another Increase In Small Business Price Plans

The NFIB small business survey painted a mixed picture with its price components, with the net share who increased prices over the past three months at its lowest since October but those expecting to increase over the next three months at the highest since June and before that early 2024. The latter continues to point to inflation remaining stubbornly above the 2% target.

- Specifically, the net share reporting an increase over the past three months fell from 26% from 30% in December and a recent high of 34% in November. It averaged 11-12% pre-pandemic.
- Going against it, the net share expecting to increase prices over the next three months increased to 32% from 28% in Dec and 30% in Nov.
- It ties with the 32% back in June and was last higher at 33% in Jan and Mar 2024. For comparison, this series averaged 21-22% pre-pandemic and recently bottomed at 26% in August.

Price-relevant sections from NFIB member quotes in the press release (full report, link) note insurance costs but also difficulty in passing costs on:

- “Insurance costs- business/liability, and health are having significant increases affecting uncertainty in pricing product.” – Construction, OR
- “Our business has been open since 1968. We are obviously doing something right for our customers. My struggle is passing on the increase in the cost of goods to my customers. That is a daily fight. I have to do it.” - Manufacturing, MI
- “Obtaining timely city/county permits is a nightmare. Takes months if not years for permits. Insurance eats up any profits, it just keeps going up and in our business we have limited sources that will insure us.” - Construction, CA
- “All my overhead has gone up significantly. My ability to raise my prices is negatively impacted by all the increased demands on my client’s “discretionary” income. Less taxes, less regulations, less bureaucracy, are the best help to my business and business prospects. Drastically less government spending and reduction of debt.” – Professional services, KS



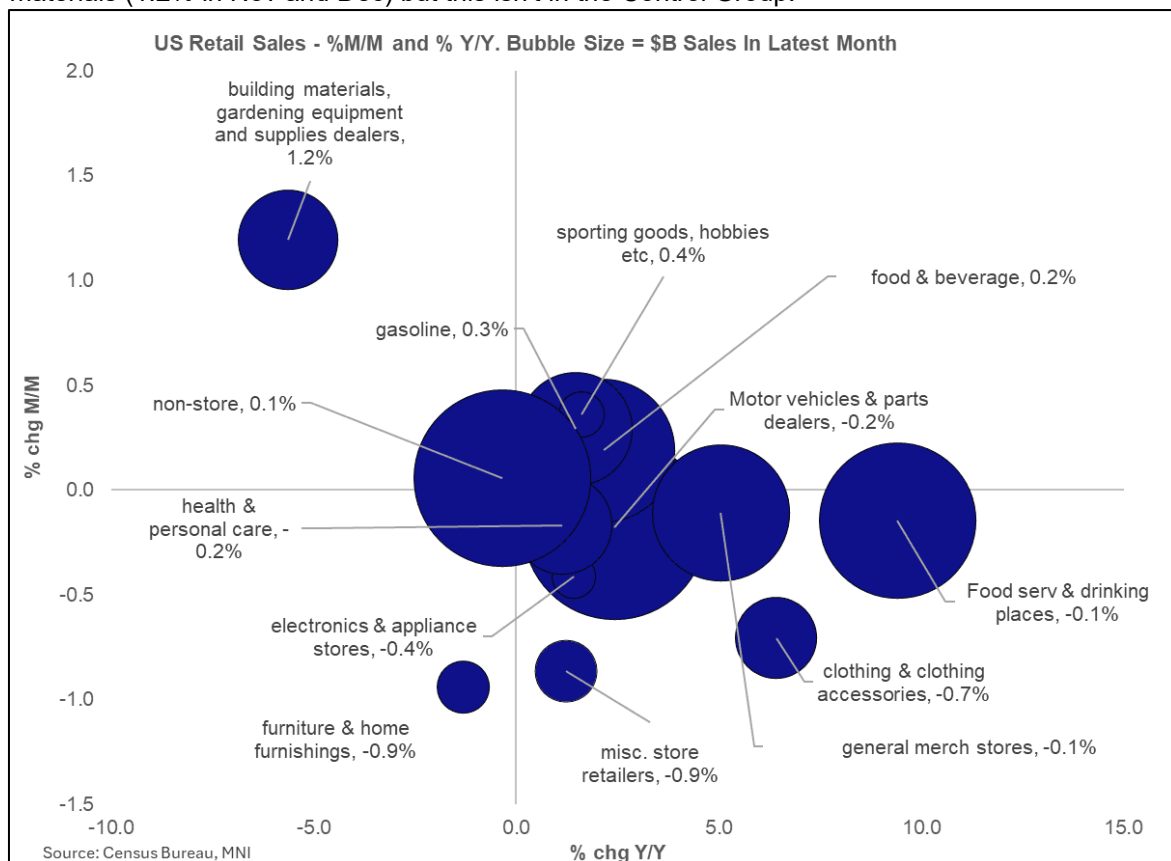
Consumer: Retail Sales Disappoint, Redbook Looks More Optimistic

Retail Revisions And Control Group Miss Confirm Q4 PCE Slowdown

December's advance retail sales data was roundly weaker than expected, which in addition to lower revisions in prior months will likely mean a pullback in Q4 personal consumption expenditures estimates in the GDP accounts. Even prior to this report, January had been expected to be a weak month for retail sales given incoming indicators, so there will be concerns about the momentum of consumption going into 2025. And the report is in nominal terms, so in volume terms Q4 2025 suddenly looks to have been closer to flat instead of robust for core goods sales.

- The big surprise is that Control Group sales contracted 0.1% M/M in December vs expectations of a 0.4% expansion, for the first drop in 3 months alternate series including Chicago Fed CARTS had pointed to a decent rise. This was compounded by a downward revision to prior (0.2% from 0.4%) and a second consecutive downward revision to October, which originally printed 0.85%, then was revised down to 0.6%, and now to 0.4%.

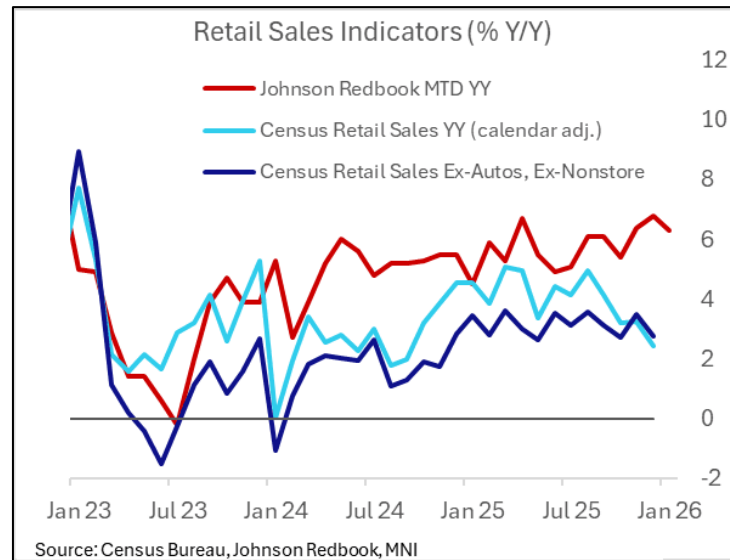
- The latter will pull down the base effect for core retail sales growth in Q4 and looks likely to be met with a downgrade in Atlanta Fed GDPNow tracking of PCE of 3.07% Q/Q SAAR for overall consumption which would represent a slowdown from 3.5% prior. The first read of Q4 GDP is out February 20.
- The 3M/3M annualized rate of Control Group sales is now down to 2.6% in December, vs 6.4% at the end of Q3 (September). If you look at it on a Y/Y basis, sales growth is now just 3.4%, slowest in 19 months. The CARTS estimates in the chart below (which will be revised of course after this release) show how divergent the "actual" data were in December vs expectations.
- Indeed the report brought downgrades across the major aggregates, all of which also missed expectations in December: headline of 0.0% (actually slightly contractionary at -0.02% vs 0.4% survey, 0.4% prior rev from 0.5%) and ex-auto/gas of 0.0% (0.4% survey, 0.3% prior rev from 0.4%).
- Looking at the individual categories, December saw an unexpected contraction in vehicle sales (-0.2% M/M, the largest category of retail sales) and food services/dining places (-0.1% after +0.6%), each for the 2nd fall in 3 months (October too).
- Neither of these are in the control group, however: what we did see is broad weakness across major retailer categories, notably non-store (ie internet retailers) flatlining the last 2 months at 0.1% after 0.0% in November; this is the 2nd largest retail sales category and we can't help but note that revisions have been substantial the last couple of months. October was originally reported at +1.8% and November at +0.4%, those readings are now +0.7% and +0.0%, a major component in the overall downward revisions.
- Also general merchandise and miscellaneous stores saw a December contraction, not to mention clothing, furniture, electronics, and health/personal care. We saw a 2nd consecutive strong performance in building materials (1.2% in Nov and Dec) but this isn't in the Control Group.



Redbook Retail Sales Continue To Pull Away From "Official" Series

Notwithstanding the poor "official" December Census Bureau retail sales report released earlier Tuesday, Redbook retail sales continue to post robust gains into 2026. The Johnson Redbook retail sales index rose 6.5% Y/Y in the first week (and therefore month-to-date) of February, an acceleration from 6.3% in January though below retailers' targeted 6.9% gain for the month.

- Per the anecdotes, "Super Bowl Sunday drove increased sales of snack foods, beverages, team apparel, and related merchandise. February marks the start of spring and shifts the focus to full-price selling, with fewer clearance sales and markdowns. As the first month of the retail calendar's first quarter, February typically sees the lowest sales volume, with early spring merchandise introductions. Sales are expected to rise later this week and next as Valentine's Day and Presidents' Day approach."
- We have to note the divergence in Q4 Census Bureau retail sales performance, which concluded 2025 with a thud on 2.4% Y/Y total / 3.4% Y/Y Control Group Sales (respectively, 15 and 16 month lows) in December, versus Redbook's 6.8% gains in December.
- In general, Census's series was notably weaker in December than other proxies of sales, including Chicago Fed's CARTS, presenting something of a puzzle.
- There has consistently been a differential in the magnitude of Y/Y gains in the Census and Redbook series, but both have generally moved in the same direction. The latest divergence is the first since summer 2024 when Redbook remained solidly above 5% but retail sales faded to close to 2%; ultimately growth resolved in Redbook's direction. There may be an issue relating to nonstore (ie e-commerce retailers) sales which have slowed badly in the Census series; excluding these and auto sales, the series look similar in direction but not in terms of the level of growth.
- A reminder of the Johnson Redbook Index's methodology: "a sales-weighted of year-over-year same-store sales growth in a sample of large US general merchandise retailers representing about 9,000 stores. Same-store sales are sales in stores continuously open for 12 months or longer. By dollar value, the Index represents over 80% of the equivalent 'official' retail sales series collected and published by the US Department of Commerce."



Growth: GDP Tracking Slips On Soft Retail Sales

Q4 GDPNow Revised Down Sharply On Pared PCE Growth

As anticipated after weak retail sales data, the Atlanta Fed's GDPNow estimate for Q4 real GDP growth has fallen to 3.7% Q/Q SAAR from 4.2% in its latest update Tuesday. That's still very strong, but below the 4.4% in Q3 and the 3.8% in Q2, and comes with some caveats.

- Real PCE is now seen growing just 2.4% Q/Q SAAR, vs 3.1% in the previous estimate, a notable slowdown from 3.5% in Q3 and about level with the 2.5% in Q2.
- It makes for the lowest Q4 GDP estimate since the nowcast started in late December, and well down from the peak of 5.4% as of late January. That had been boosted largely by outsized net export contributions but that has since been pared by subsequent data.
- When excluding volatile net exports and inventories (both of whose contributions were revised down slightly today on the latest data), GDP is implied to have grown at 2.3% Q/Q SAAR in Q4, still solid but below the 2.9% implied by the same methodology in GDPNow in Q3.
- We get the official Q4 GDP reading on February 20.

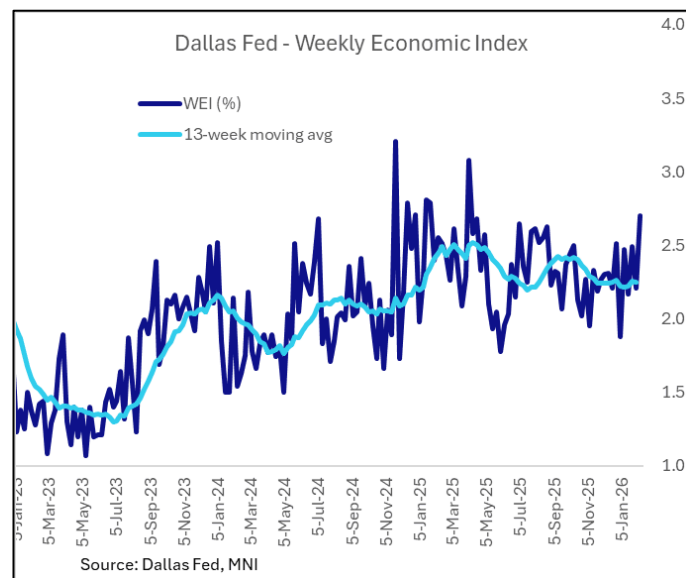
Atlanta Fed GDPNow estimates for 2025: Q4, growth rates and changes

Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
22-Jan	Latest BEA estimate for 25:Q2	3.8	2.5	8.5	15.0	-7.5	-5.1	-0.1	-1.8	-29.3	323	-190
22-Jan	Latest BEA estimate for 25:Q3	4.4	3.5	5.3	5.6	-5.0	-7.1	2.2	9.6	-4.4	103	-6
23-Dec	Initial GDPNow 25:Q4 forecast	3.0	2.7	-2.4	5.6	-0.4	1.9	1.4	6.6	7.8	-26	57
13-Jan	CPI, New-home sales, MTS	5.1	3.0	-0.8	5.5	-0.4	-7.1	1.6	6.2	-9.2	129	48
14-Jan	Retail trade, PPI, Existing-home sales	5.3	3.1	0.7	5.5	-0.4	-6.1	1.6	6.7	-9.1	131	47
15-Jan	Import and export prices	5.2	3.1	0.7	5.5	-0.4	-6.1	1.6	5.1	-9.6	125	47
16-Jan	Industrial production	5.3	3.2	0.9	5.5	-0.4	-5.7	1.6	5.6	-9.1	124	49
21-Jan	Construction spending	5.4	3.2	0.9	5.5	-1.9	-1.0	1.5	5.6	-9.1	124	49
22-Jan	Q3 GDP, Pers. Income & outlays	5.4	3.1	-2.5	5.5	-1.9	-1.0	1.5	5.6	-9.1	124	58
26-Jan	Advance Manufacturing (M3-1)	5.4	3.2	-0.4	5.5	-1.8	-1.0	1.5	5.7	-9.1	124	53
	Wholesale trade, M3-2 Manufacturing,											
29-Jan	International trade	4.2	3.1	3.7	5.5	-1.8	-0.8	1.5	0.9	-4.0	44	47
30-Jan	Producer Price Index	4.2	3.1	3.6	5.5	-1.8	-0.8	1.5	0.9	-4.0	44	47
2-Feb	ISM Manufacturing	4.2	3.1	3.6	5.5	-1.8	-0.8	1.5	0.8	-4.1	44	47
4-Feb	ISM Services, Auto sales	4.2	3.1	2.4	5.5	-1.8	-0.8	1.5	0.8	-4.1	44	49
10-Feb	Retail trade, Import and export prices	3.7	2.4	2.4	5.5	-1.8	-0.3	1.5	1.0	-3.8	42	46
	Maximum forecast of real GDP growth											
8-Jan	International trade, Wholesale trade	5.4	3.0	-0.8	5.5	-0.4	1.5	1.4	6.1	-9.4	130	50
	Minimum forecast of real GDP growth											
5-Jan	ISM Manufacturing Index	2.7	2.4	-3.2	5.5	-0.5	1.3	1.4	6.4	7.6	-25	56

Dallas Fed WEI Surges In Latest Week, Still Points To Q1 GDP Cooldown

The Dallas Fed's Weekly Economic Index surged in the week of Feb 7, posting 2.70% growth (scaled to 4-quarter growth), up from 2.21% in the prior week and the highest since early April 2025. That in turn lifted the 13-week (ie quarterly) moving average to 2.31% from 2.25%, for the highest in over 3 months.

- That's strong, but unless it can keep up that weekly pace of gains as a Y/Y measure the 13-week average roughly tracking a 1% Q/Q SAAR growth rate for Q1 2026 so far (assuming the Atlanta Fed's 3.7% Q/Q SAAR GDP estimate is correct for Q4 2025, which is equivalent to 2.8% growth).
- The WEI appears to track domestic demand better than overall GDP; WEI was consistently below the GDPNow estimate for Q4 which easily exceeded 5+% Q/Q SAAR at one point but now looks to have come in well below that. And when stripping out inventories and net exports, the WEI looks to have been right on target in Q4, with growth in the low-to-mid-2% SAAR.
- A reminder of the WEI's inputs: "To measure consumer behavior, we include the Redbook same-store retail sales index and the Rasmussen Consumer Index. To measure labor market conditions, we include initial and continuing unemployment insurance claims, the American Staffing Association Index of temporary and contract employment, and federal tax withholding data from Booth Financial Consulting. For production, we include U.S. steel production from the American Iron and Steel Institute, U.S. electricity output data from the Edison Electric Institute, a measure of fuel sales based on Energy Information Administration data, and total railroad traffic from the Association of American Railroads."

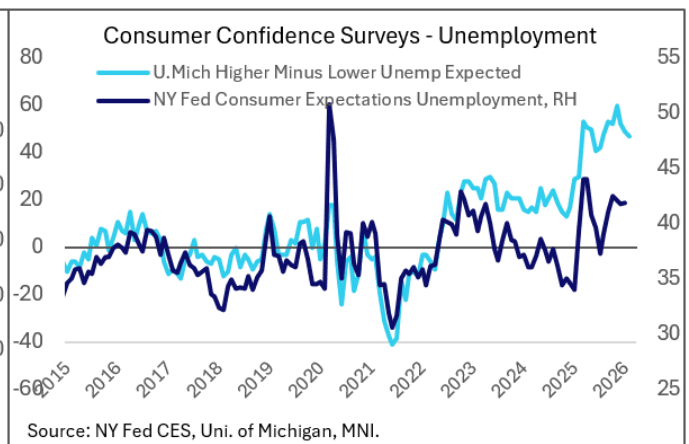
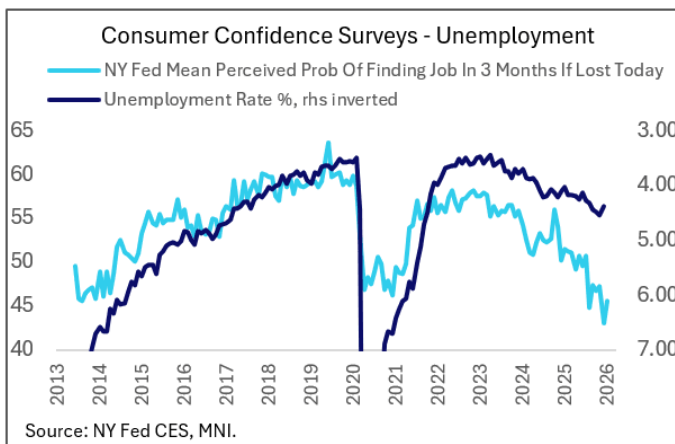
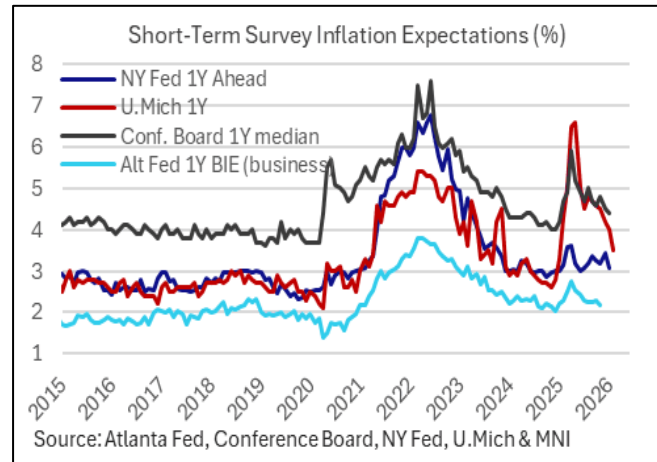


Consumer Sentiment: Inflation and Job Concerns Ease In NY Fed Survey

Inflation, Job Concerns Ease In NY Fed Survey But Remain Elevated

The NY Fed's January Survey of Consumer Expectations (SCE) showed largely steady findings from recent months, if anything showing a stabilization in already-weak labor market sentiment with a further pullback in near-term inflation expectations. Judging from the survey, consumers' 1-year inflation fears have faded, but concerns over the labor market have not.

- The inflation expectations gauges showed a drop in 1Y to 3.09% (3.42% prior) vs analysts' expectation of a steady figure (unrounded), and a 6-month low. 3Y (2.98%) and 5Y (3.00%) were essentially unchanged; 3Y has basically been at this level since the end of 2024 with the exception of a jump to 3.17% in April 2025 (tariff "Liberation Day").
- This is a relatively important survey for FOMC members who hold it in higher regard than various alternative inflation surveys, but most are consistent with diminishing near-term consumer inflation concerns (including UMich's Feb drop to a 13-month low in 1Y expectations; Conference Board remains an outlier to the upside through January).
- The longer-term gauges are relatively consistent with previous periods in which actual PCE/CPI was at target but overall the inflation gauges are on the higher side of the overall historical series.
- On the labor market front, there was mixed news: "Mean probability that U.S. unemployment rate will be higher one year from now" ticked very slightly up from December (41.9% from 41.8%), which is below the late-2025 and Mar/Apr 2025 highs (again, tariff uncertainty-related) but still very elevated on a historic basis.
- And the mean perceived probability of finding a job within 3 months ticked up to 45.67% from December's all-time low 43.1%. But like other consumer survey indicators such as the Conference Board's labor differential, this remains consistent with a continued rise in the unemployment rate over time.

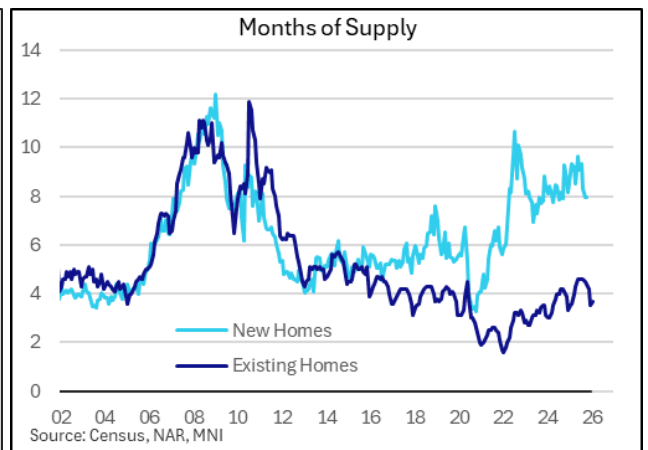
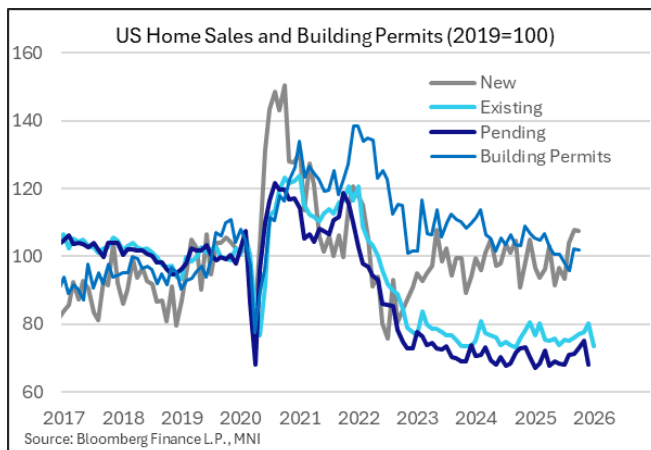


Housing: Potential Weather Factor Behind Slide In Sales

Existing Home Sales Pull Back, Activity Still Thawing Slowly

Weakness in existing home sales in January look to have been partly driven by bad weather, but it's not totally unexpected given that the drop was presaged by a pullback in pending sales. Sales came in at 3.91M SAAR, down from 4.27M in December and below the 4.15M expected for the worst monthly figure since September 2024.

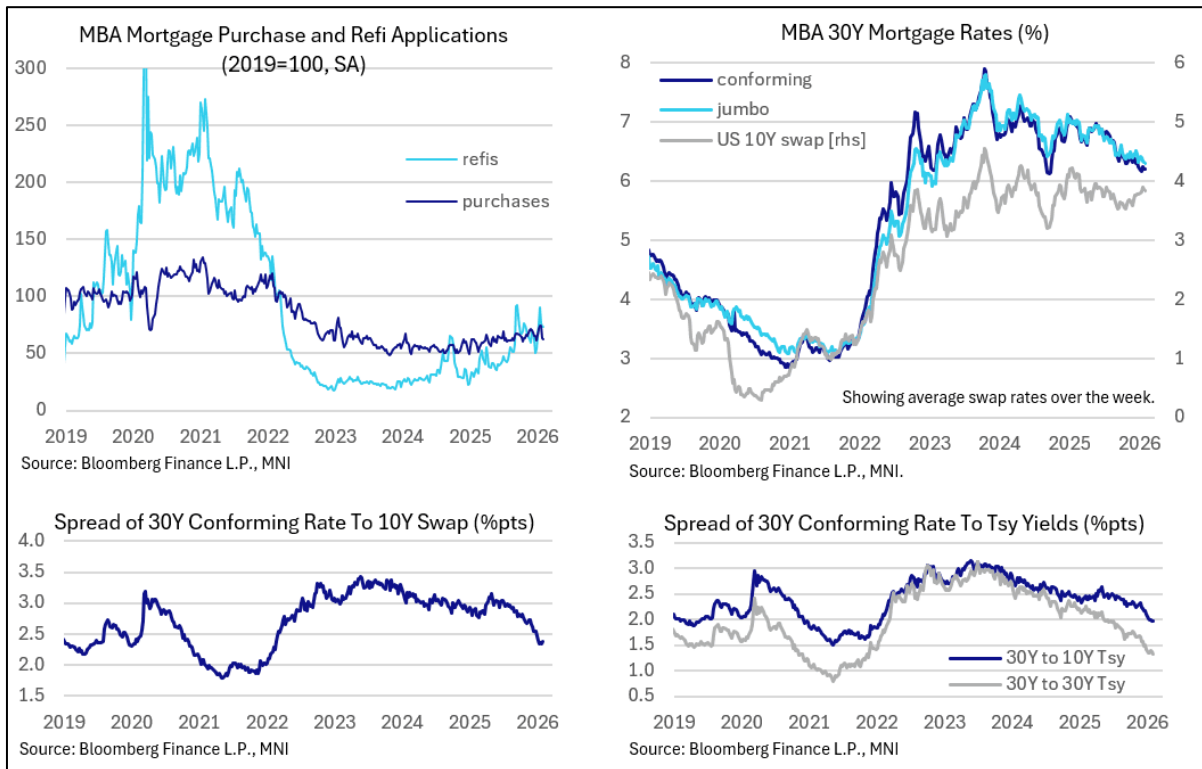
- Per the NAR's Chief Economist Lawrence Yun, ""The decrease in sales is disappointing. The below-normal temperatures and above-normal precipitation this January make it harder than usual to assess the underlying driver of the decrease and determine if this month's numbers are an aberration".
- Bad weather was a problem in January but the 8.4% M/M drop shouldn't have been a major surprise given that the previously reported pending sales (representing signed contracts) fell 9.3% in December - and that usually leads existing sales (representing closings) by a month or two.
- We would also add that affordability and supply remain issues. Despite a recent pullback in mortgage rates to post-September 2024 lows, which helped spur a jump in pending sales, the descent has stalled in recent weeks, meaning absent price pullbacks (median prices rose 0.9% Y/Y in January), affordability will remain low.
- While inventory is low on a historical basis, at 3.7 months' equivalent of sales, this is above the norm for the Januarys of 2020-2024 as it's not a prevalent time for moving homes, and it's trending higher overall. So the market is thawing, but only very slowly, and will require a catalyst (lower rates/a jump in unemployment) to get things moving.



Weekly Mortgage Applications Steady Out Alongside Rates

MBA mortgage applications fell for a 3rd consecutive week (-0.3% W/W) to Feb 6, though the pullback since the multi-year high in apps in mid-January has slowed (prior two weeks saw drops of 8+%). Refi activity actually picked up slightly (+1.2% W/W) with purchases down for a 3rd week for the lowest since Jan 2.

- The stabilization comes alongside a steady in mortgage rates, with 30Y conforming printing in the low 6.2s% for a 3rd week, albeit up from the to post-Sept 2024 low of 6.16% in mid-January.
- These moves underline the sensitivity of mortgage activity to rates, and we note a bit of a stalling out in the long-standing narrowing of mortgage spreads-to-swaps / Treasuries in the last couple of weeks.
- Overall, activity will remain subdued on a historical basis until such time rates pull back on a more consistent basis.

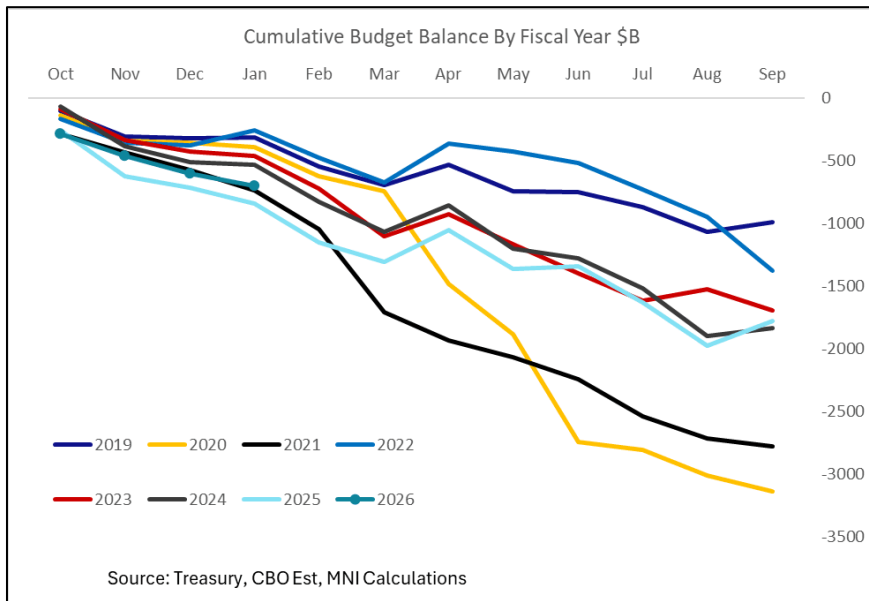


Fiscal: Contained Deficit Increase So Far In FY26

CBO Estimates Point To Contained Deficit Increase So Far In FY26

The Congressional Budget Office estimates a January federal deficit of \$94B, putting the fiscal year-to-date deficit at \$696B.

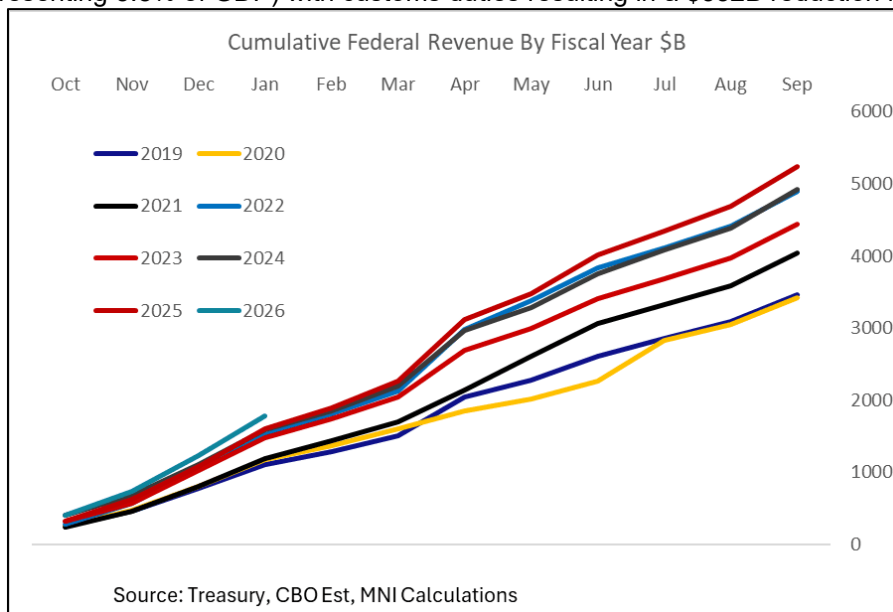
- We await the official figures - as well as the CBO's fiscal outlook to 2036 - expected out Wednesday, but the CBO's initial January estimate would represent a better outturn than the same month in 2025 by \$35B, representing \$47B higher revenues vs an increase in outlays of just \$12B.
- Indeed, the deficit would have been even smaller (by \$7B) than last year without shifts.
- So far the deficit is tracking favorably vs 2025's in nominal terms at this point (was \$840B), with outlays up 2% Y/Y but revenues up 12%.
- Of the \$189B rise in revenues, fully \$90B is accounted for by higher customs duties, with \$125B by individual/payroll taxes, offset by a drop in corporate tax.
- The usual suspects - social security, medicare/medicaid (all 3 totalling \$84B) and net interest (\$25B) made up the lion's share of the \$36B increase in outlays - but note the reduction in government departments from the EPA (-20B) to Agriculture (-15B) meaning overall spending was up by just \$36B vs last year.
- Some of that's a one-off: Agriculture due to the lapse of appropriations in Oct/Nov and EPA due to a \$20B clean energy grant program disbursement in Nov/Dec.

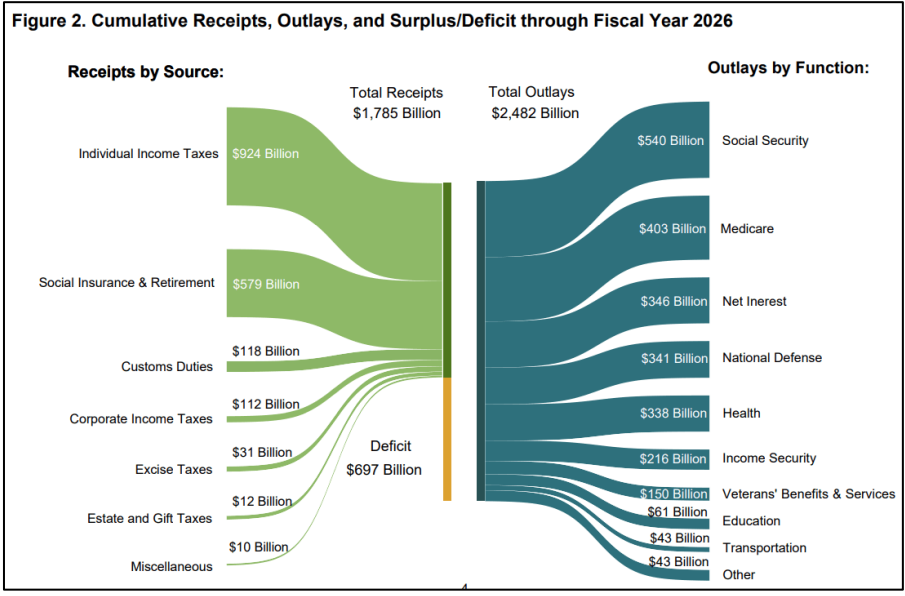


Deficit Confirmed Running Slightly Lower Than Last FY's On Revenue

Treasury's reported budget deficit for January of \$95B was almost exactly estimated by the Congressional Budget Office's \$94B projection made earlier this week, putting the fiscal year-to-date deficit at a shade under \$697B.

- So far through the first 4 months of the 2026 fiscal year the deficit is tracking favorably vs 2025's in nominal terms at this point (was \$840B), with outlays up 2% Y/Y but revenues up 12%.
- Of the \$188B rise in revenues, fully \$90B is accounted for by higher customs duties, with \$125B by individual/payroll taxes, offset by a drop in corporate tax.
- Unsurprisingly given such figures, tariffs are seen taking a chunk out of the deficit. The CBO's estimates released earlier in the day eyed a \$1.85T nominal FY 2026 deficit, up from \$1.775B in FY 2025 (both figures representing 5.8% of GDP) with customs duties resulting in a \$352B reduction in the deficit in 2026.





Source: US Treasury

Fedspeak

- Gov. Miran (voter, dove): the Fed is the biggest risk to U.S. growth
- KC Fed's Schmid: (non-voter, hawk): appropriate to hold rates, eyeing smaller balance sheet
- Dallas Fed's Logan ('26 voter, hawk); currently more worried about inflation than labor market
- Cleveland Fed's Hammack ('26 voter, hawk): Fed could be on hold for "quite some time"

Post-NFPs, pre-CPI*Miran: Fed Is Biggest Risk To U.S. Growth (Feb 12)*

Federal Reserve Governor Stephen Miran said Thursday the biggest risk to growth in the United States is the Fed and interest rates need to be lower, additionally because there is a role for the central bank to help reduce pockets of slack that remain in the labor market.

"I think it's us," Miran said in Q&A at a Dallas Fed event, when asked about the biggest risk to growth. "The biggest risk I think to the economy is that we're misconstruing just how tight monetary policy is."

Miran also said there are some remaining signs of slack in the labor market, with people working part time for economic reasons, longer time spent on unemployment, and some who are marginally attached to the labor force. "I still see some pockets of slack in labor market that can be accommodated by monetary policy," he said.

"I don't think that we have an inflation problem. I think that we had a big run up in prices and prices are now roughly stable at a higher level than they used to be," he said. "I see prices as roughly stable." (See: MNI INTERVIEW: Fed To Keep Cutting On Jobs Weakness - Tilley)

The Fed governor said he expects the fiscal deficit to decline, which will serve to lower the neutral rate of interest. "I'm more optimistic on the deficit, than I was say one or two years ago," Miran said, pointing to tariffs that could raise around USD400 billion a year, greater tax revenue due to faster growth, and lower inflation. Miran repeated that he believes the U.S. dollar will remain the world's reserve currency forever.

KC's Schmid: Appropriate To Hold Rates; Eying Smaller Balance Sheet (Feb 11)

KC Fed President Schmid (not a 2026 FOMC voter) continued to convey a hawkish monetary policy view in a speech Wednesday ([link](#)); and we continue to believe he's among a sizeable minority on the FOMC who don't have rate cuts as part of their 2026 baseline. In short, "With demand outpacing supply and inflation running closer to 3% than 2%, I see it as appropriate to maintain a somewhat restrictive policy stance."

- He says that after cutting rates, Fed policy is "arguably no longer restraining activity all that much, if at all. As I've said before, I think it is best to judge whether interest rates are restrictive or accommodative based on how the economy performs. With growth showing momentum and inflation still hot, I'm not seeing many indications of economic restraint....further rate cuts risk allowing high inflation to persist even longer." Unsurprisingly, in a post-speech Q&A he said that the January Employment Report was "good news" (as quoted by Bloomberg).
- Schmid weighs in on the recently-hot topic of productivity and its impact on the inflation outlook. He sounds skeptical that recent gains are AI-led, instead pointing to a "falloff in labor market churn" and household and business investment demand keeping growth strong.
- In the end, he asks, "Is growth being led by supply or demand? With so many competing but intertwined developments, it can be hard to tell. But we do have one reliable indicator that can cut through all the confusion and provide a quick answer. That is inflation. Overall, with inflation still running hot, it appears that demand is outpacing supply across much of the economy. I remain open to the possibility, and I'm even optimistic, that AI and other innovations will eventually lead to a non-inflationary, supply-driven growth cycle. However, based on the current rate of inflation, we are not there yet."
- He comments on recent balance sheet decisions too, supportive of decisions to roll off MBS holdings and shorten the duration of the SOMA portfolio. He's been one of the most ardent advocates on the FOMC of reducing the Fed's market footprint. It's perhaps of increasing importance now though, given that the nominated/incoming Fed Chair Warsh has signaled that he'd like to shrink the balance sheet.

- Schmid: "it is my view that in normal times the Fed's balance sheet should not influence the shape of the yield curve. The balance sheet growth initiated in December is reducing this distortion by concentrating new purchases in Treasury bills. In shortening the average maturity of our holdings, the FOMC is continuing to reduce the influence of the Federal Reserve's balance sheet on longer-term interest rates" and "winding down our mortgage holdings is critical to ensuring that the Fed minimizes its footprint in financial markets".
- He does signal support for regulatory changes and other factors that could structurally reduce reserve demand and thus lower the size of the asset side of the Fed's balance sheet: "I think there are opportunities to reduce reserve demand over time, especially as the regulatory environment and payments technologies continue to evolve. Guiding towards a lower level of reserves is not only feasible in my opinion, but something that should be pursued to allow for a smaller balance sheet."

Dallas's Logan: Currently More Worried About Inflation Than Labor Market (Feb 10)

Dallas Fed President Logan (2026 FOMC voter, hawk) doesn't sound like she would support a rate cut in the coming months. While her base case is that inflation pressures will abate in 2026, she says in a speech Tuesday ([link](#)): "I am not yet fully confident inflation is heading all the way back to 2 percent", and "the labor market now appears to be stabilizing, and the downside risks appear to have meaningfully dissipated" with December's unemployment rate consistent with full employment. We continue to presume that she doesn't support any rate cuts in 2026.

- The key passage on the policy outlook: "We will learn in coming months whether inflation is coming down to our target and whether the labor market will remain stable. If so, this would tell me that our current policy stance is appropriate and no further rate cuts are needed to achieve our dual mandate goals. If instead we see inflation coming down but with further material cooling in the labor market, cutting rates again could become appropriate. But right now, I am more worried about inflation remaining stubbornly high. Fortunately, our policy is well-positioned to respond to risks to either of the FOMC's dual mandate objectives."
- She argues that the end-2025 rate cuts raised inflation risks: "with inflation still elevated, those cuts took on additional risk on the inflation side of our mandate". Among various such risks, "insights from Fed regional surveys and other contacts suggest tariffs still need to fully work their way through prices this year. We have yet to see any evidence of further easing in core non-housing services inflation, which generally moved sideways in 2025. And, as in recent years, headline inflation may surprise to the upside in January and February as firms' annual price increases may be large due to rising costs and still solid demand." Additionally, "economic activity also faces several upside risks that could slow or stall progress toward restoring price stability."
- She reiterates her previously-stated concerns that rates may not be sufficiently restrictive, citing model-based estimates of neutral that "currently range between 1.08 and 2.09 percent", putting the current nominal fed funds rate of 3.64% "squarely within the range of neutral rate estimates" (after deducting 2% inflation). In fact, she says that when looking at TIPS / swap market proxies for the real neutral rate, "expectations for neutral real interest rates" are "at the upper end of the model-based estimates and not far from the current policy rate".
- As an ex-manager of the Fed's SOMA portfolio, her commentary is always watched for any clues on current Fed balance sheet thinking, but there is not much new in this speech. She says she supported the Fed's decision to start reserve management purchases and supports enhancements to improve the standing repo facility's effectiveness (particularly providing a centrally-cleared option). On future RMPs, she reminds that "reserve management purchases should not be viewed as mechanical", in line with the Fed's previous guidance that bill purchases could slow from the \$40B/monthly pace once the April tax date is concluded.

Cleveland's Hammack: Could Be On Hold For "Quite Some Time" (Feb 10)

In a speech largely devoted to banking regulation (speech text [here](#)), Cleveland Fed President Hammack (2026 FOMC voter, hawk) makes the case for "err[ing] on the side of patience" when it comes to rate-setting. We continue to believe that she is not supportive of any rate cuts this year, and is perhaps the biggest hawk on the FOMC at present.

- She says "the outlook is brightening. Recent readings on economic growth have been encouraging, and the labor market appears to have stabilized. Many forecasts, including my own, call for some easing in inflation over the course of this year. At this point, I believe monetary policy is in a good place to stay on hold as we assess the incoming data and weigh if, and how, policy may need to adjust further."
- Putting a finer point on it: "Based on my forecast, we could be on hold for quite some time." And with policy "now in the vicinity of neutral, meaning it's not meaningfully restraining the economy", she hints that rate hikes as well as cuts could come into play: "Right now, I see the risks of a higher or lower path for the funds rate as about balanced." (In December she said "we've got policy that's in that range of neutral...I would prefer to be on a slightly more restrictive stance".)
- "If we see progress on both sides of our mandate, that tells me that our policy rate is already at the right setting and that we should hold it there. Rather than trying to fine tune the funds rate, I'd prefer to err on the side of patience."
- Overall her base case appears to be optimistic on both dual-mandate fronts: "Brighter growth prospects should translate into stronger demand in the labor market, helping to reduce the unemployment rate over the course of this year. Inflationary pressures should start to ease as tariff rates stabilize."
- However, "there are no guarantees when it comes to forecasts, and there are considerable uncertainties around mine. Ultimately, I want to see evidence that inflation is, indeed, coming down. There's a risk that inflation could persist near 3 percent through this year, as it has for the past two years. Or inflation expectations could show signs of becoming unanchored if the public sees the elevated readings of the last five years as a sign that policy is not committed to achieving our 2 percent goal. On the other side, stabilization in the labor market could give way to additional softening if economic growth disappoints."
- She name-checks the "K-shaped economy" and the "low-hire, low-fire", "roughly balanced" labor market (with the December unemployment rate "close to what I and many economists think of as a long-run equilibrium").
- To her, "inflation is still too high", and "the longer that inflation remains at these levels, the greater the risk that it becomes entrenched in the economy".
- On tariffs, "While some firms have already passed these costs along, others say that more price increases are coming." And "Tariffs are top of mind for many businesses, but they aren't the only source of inflationary pressures. Rising prices for health insurance and electricity are also pushing up costs. At this point, it's too soon to say if these broad cost pressures have peaked."

STIR: NFPs Supports Near-Term Hawkish Shift, But Increasingly Dovish Thereafter On Broader Risks

- Looking at end-2026 pricing, Wednesday's surprisingly robust nonfarm payrolls report made good progress at paring the dovish shift seen from the previous week's collection of soft labor data, although not fully as the market questioned whether it could continue to contradict these other indicators.
- It was followed by AI- and precious metals-led risk-off in a renewed dovish build-up to Friday's CPI, after which the dovish moves extended.
- We note end-2026 specifically as nearer-term pricing saw a greater impact from the NFP report.
- A next Fed Cut is still not fully priced for June (21.5bp vs 20.5bp pre-CPI and 26bp pre-NFP) and instead is seen in July (32bp vs 31bp and 36bp). That builds to 62.5bp of cuts over 2026 vs 60.5bp pre-CPI and 59bp pre-NFP.



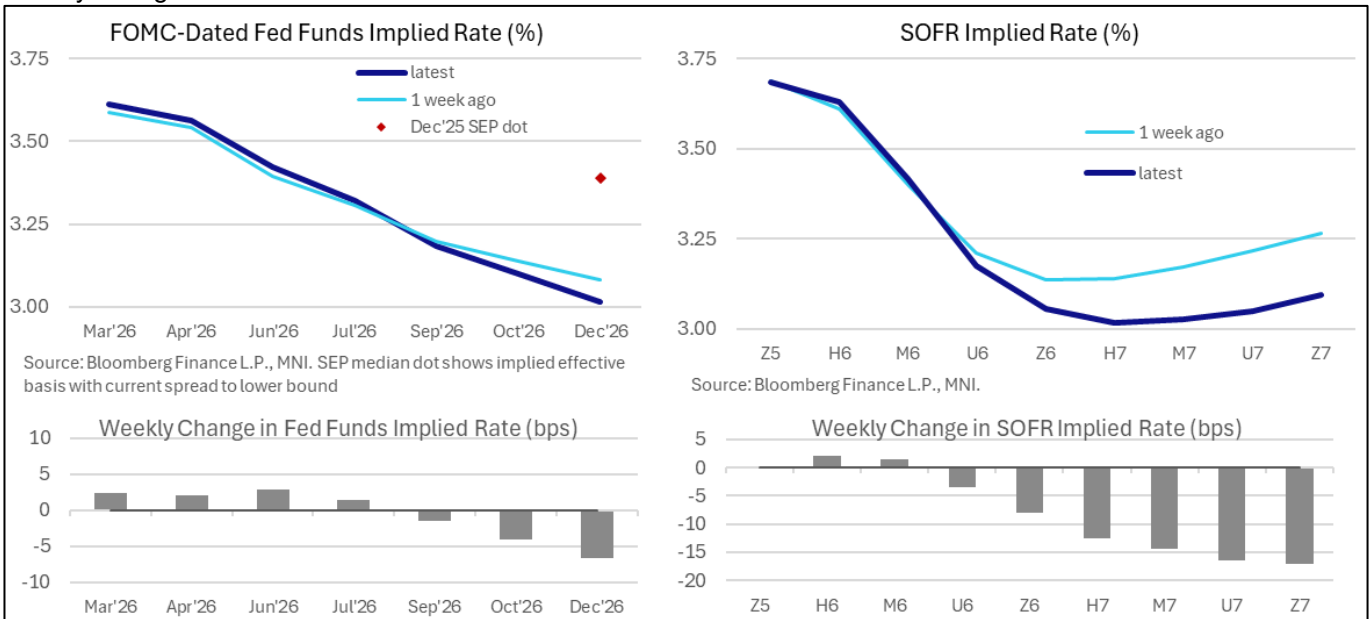
Fed Funds futures implied rate for Dec26 FOMC. Source: Bloomberg Finance L.P. Times in GMT

FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre CPI (Feb 13)			chg in rate bp	pre NFP (Feb 11)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	3.64			3.64				3.64			
Mar'26	3.61	-2.7	-2.7	3.61	-3	-2.7	0.0	3.59	-5	-5	2.7
Apr'26	3.56	-5.0	-7.7	3.56	-5	-7.7	0.0	3.52	-6	-12	4.0
Jun'26	3.42	-13.9	-21.6	3.44	-13	-20.5	-1.1	3.38	-15	-26	4.8
Jul'26	3.32	-10.2	-31.8	3.33	-10	-30.8	-1.0	3.28	-9	-36	3.9
Sep'26	3.18	-14.0	-45.8	3.19	-14	-44.6	-1.2	3.17	-11	-47	1.0
Oct'26	3.10	-8.4	-54.2	3.12	-8	-52.2	-2.0	3.11	-6	-53	-1.4
Dec'26	3.02	-8.3	-62.5	3.04	-8	-60.4	-2.1	3.05	-6	-59	-3.5

Source: Bloomberg Finance L.P., MNI. Assuming same EFFR-target lower bound spread from latest fix going ahead

Weekly changes:



Analyst View Changes

Post-NFPs: Analysts Eye Later Fed Cuts (Or None At All) After January Payrolls

Multiple analysts have pushed back expectations for the resumption of the Fed easing cycle this morning, following stronger-than-expected January employment figures. We suspect they won't be the last, with some analysts having come into February still anticipating a March cut, though some will be waiting for the January CPI data out at end-week to reassess. (A March cut is now well under 10% market-priced.)

- TD Securities:** "We expect the Federal Reserve to stay on the sidelines for longer amid a resilient backdrop for economic activity and a stabilizing labor market as we start 2026. Today's January employment report confirmed the recent positive evolution of the jobs market... While we still project another 75bps of rate cuts in 2026, we now look for easing to be implemented in the back half of the year (vs. starting in March). We continue to forecast quarterly rate cuts of 25 basis points in June, September, and December, bringing the Fed funds rate to our projected terminal of 3.0%." Their analysts don't see a deteriorating labor market as the trigger for the next cut, but rather inflationary progress. "The onus will be on the data to force the Fed's hand in 2026. We expect that next lever to be clear inflation progress toward the 2% objective... particularly the m/m evolution of core PCE prices. We look for the monthly path to be running close to 0.2% m/m on average (Mar-May) by the time of the June FOMC meeting."

- Similarly CIBC have officially changed their forecast: "We previously expected a cut in March and then a second in June. We now expect the first cut to be in June, followed by the second in July" while Natixis "no longer are calling for a cut in March" but still appear to expect 3 easings this year.
- Wells Fargo - which came into February seeing two additional 25 bps cuts at the March and June meetings this year - appear to be reconsidering their position, noting "We have been saying for some time now that the window for the FOMC to cut rates is closing, and today's data suggest another rate cut under Chair Powell is increasingly unlikely. If cuts are coming this year, it appears that it will be up to a future Chair Warsh to win over the hawks on the Committee and deliver before year end."
- ING had anticipated March and June cuts but write today "while the headlines from the revisions look grim, this is unlikely to tip the central bank into cutting before March".
- Natixis: "While this print does change our near-term forecast – we no longer are calling for a cut in March – we still think that the labor market is more tenuous than today's print suggests. [...] Our call for three cuts this year is contingent upon our labor view and that, in the near-term, inflation remains stable and does not accelerate."
- Finally, Commerzbank - which has topped our table of analysts' Fed easing calls for 2026, looking for 125bp in reductions - now write "A Fed interest rate cut in March is ... virtually off the table. The Powell era will probably come to an end in May without any further interest rate cuts. Regardless of this, however, rate cuts are likely to resume under the new Fed Chairman Kevin Warsh after he takes office in mid-May."

Citi On The Mark For Jan Payrolls, But Still Pushes Back March Cut View

One of the last major institutions that still saw a March Fed cut in its baseline going into January's payrolls report has pushed back its timeline by one meeting. Citi writes that the data "will further support the Fed's recent assessment that the labor market has stabilized and makes a March rate cut less likely. We still expect 75bp of cuts this year but now with cuts in April, July, and September". (ie they had previously seen March, July, September).

- That being said they are skeptical that the January report was as strong as it seemed on the surface - indeed their forecast of 135k Establishment payroll gains was very close to the mark (130k actual): "despite all around positive details, January employment data do not change our view that the labor market continues to gradually weaken."
- They explain: "The reason for our stronger January forecast was due to technical factors of substantial residual seasonality, not a fundamental improvement in demand for labor. Typically, activity and employment fall substantially in January after the holiday period, with a very positive seasonal adjustment to employment data. As hiring and labor market churn are already very low, this decline in January is smaller than usual and the adjustment too positive..."
- "This seasonality may have also contributed to the decline in the unemployment rate, which has fallen each of the last three Januaries... We continue to expect the unemployment rate gradually rising again by the spring/summer."

Post-CPI: Jefferies Join List Delaying Rate Cut Calls, But Only To April

Jefferies delayed a cut by one meeting to April vs only ~7.5bp priced:

- "We had been looking for the Fed to cut rates at the next FOMC meeting in March due to deteriorating labor market conditions and complicit downward trends in the inflation data. However, the January NFP data failed to set off the requisite alarm bells. We noted a number of reasons to be skeptical about the strength of the employment report in our response to the data, but the data is what it is, and it isn't enough to get the hawks on the Committee to change their mind in the next month. We expect that increases in jobless claims in the coming weeks, a softer February report, and continued concern about the labor market in the weeks following will probably be enough to tilt the scales in April, given that the inflation data we are seeing is eroding the hawks' case for keeping policy rates steady."

The US Macro Week Ahead: FOMC Minutes Wednesday, Data Backloaded With GDP/PCE On Friday

Within the minutes to the January Fed meeting (Wednesday, 1400ET), we will be looking for the Committee's discussion of the latest data which raised the bar to further easing, given Chair Powell's press conference comment that "I think—and many of my colleagues think—it's hard to look at the incoming data and say that policy's significantly restrictive at this time." Additionally, we know that there were two dissenters to the rate hold (Govs Miran and Waller in favor of a 25bp cut), but we wonder whether there were any others who were considering joining them at this juncture. Finally, any discussion on reserve management purchase strategy would be of interest, with the Committee previously having said that it would "significantly" reduce the \$40B/monthly pace in bill purchases after the mid-April tax season has concluded.

The coming week's data releases are backloaded, with the advance Q4 national accounts release and December personal income and outlays report both at 0830ET on Friday. Analysts currently eye a 2.8% annualized increase for real GDP growth in Q4 in the still early days for the Bloomberg survey. The Atlanta Fed's GDPNow meanwhile is stronger despite recently being trimmed to 3.7% (-0.5pps) after a soft retail sales report. Some moderation in GDP growth is expected therefore after the 4.4% in Q3 and 3.8% in Q2, but it's still a robust pace. However, domestic demand is tracking at a softer 2.3% annualized according to GDPNow, with solid contributions from both inventories and net exports making up the difference. On the latter, Thursday's advance goods trade update for December could see a final tweak in GDP estimates after recent volatility. As for specifics within the PCE report, latest momentum in broader goods and services consumption will be watched after soft retail sales data. Core PCE inflation is expected to be on the strong side, with analyst unrounded estimates on balance eyeing a slightly 'low' 0.4% M/M. In terms of inflation pressures when thinking about subsequent nominal numbers, they could have remained firm in January as well, with an admittedly unusually wide range of 0.19-0.49% M/M for core PCE inflation seen after the January CPI report.

Date	ET	Impact	Event
16 Feb	0825		Fed's Michelle Bowman
17 Feb	0830	**	Empire State Manufacturing Survey
17 Feb	1000	**	NAHB Home Builder Index
17 Feb	1245		Fed Governor Michael Barr
17 Feb	1430		San Francisco Fed's Mary Daly
18 Feb	0700	**	MBA Weekly Applications Index
18 Feb	0830	***	Housing Starts
18 Feb	0830	**	Durable Goods New Orders
18 Feb	0855	**	Redbook Retail Sales Index
18 Feb	0915	***	Industrial Production
18 Feb	1300		Fed's Michelle Bowman
18 Feb	1400	***	FOMC Minutes
18 Feb	1600	**	TICS
19 Feb	0820		Atlanta Fed's Raphael Bostic
19 Feb	0830	***	Jobless Claims
19 Feb	0830	**	Philadelphia Fed Manufacturing Index
19 Feb	0830	**	Trade Balance
19 Feb	0830		Fed's Michelle Bowman
19 Feb	0900		Minneapolis Fed's Neel Kashkari
19 Feb	1000	**	NAR Pending Home Sales
19 Feb	1700		San Francisco Fed's Mary Daly
20 Feb	0830	***	GDP / PCE Quarterly
20 Feb	0830	***	Personal Income and Consumption
20 Feb	0945	***	S&P Global Manufacturing Index (Flash)
20 Feb	0945	***	S&P Global Services Index (Flash)
20 Feb	0945		Atlanta Fed's Raphael Bostic
20 Feb	1000	***	U. Mich. Survey of Consumers
20 Feb	1000	**	University of Michigan Surveys of Consumers Inflation Expectation
20 Feb	1000	***	New Home Sales
20 Feb	1245		Dallas Fed's Lorie Logan