

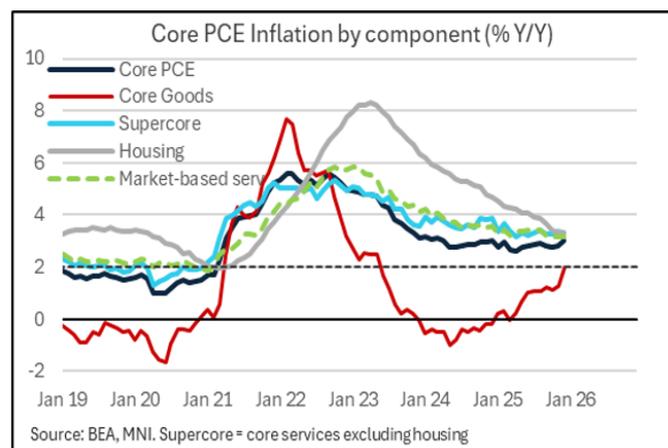
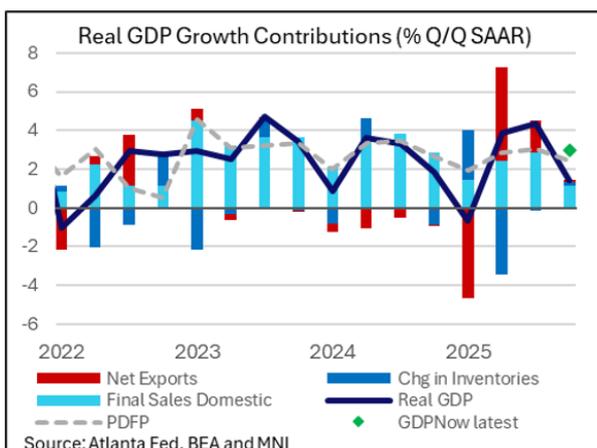
# MNI U.S. Macro Weekly

## MNI View: IEEPA's Dead, But Tariffs Will Live On

February 20, 2026 – By Chris Harrison and Tim Cooper

### Executive Summary

- Friday’s announcement of the US Supreme Court decision to strike down the White House’s International Emergency Economic Powers Act (IEEPA) tariffs overshadowed the week’s data and Fed developments.
- Even if the court’s decision wasn’t entirely shocking (prediction markets indicated only a 25% probability that the court would uphold the tariffs), it left open questions over whether and when tariff refunds will be paid, and potential impacts on existing trade deals negotiated under the auspices of IEEPA.
- One thing that does seem evident is that the sudden drop in tariff rates will be reversed at least partially, muting the longer-run macro impact. The administration was quick to announce a global 10% tariff via Section 122 authority, with Section 232 and 301 tariffs to remain and be expanded over time. Treasury Secretary Bessent said that this approach would result in “virtually unchanged tariff revenue in 2026”.
- Elsewhere, real GDP surprised much lower than expected at 1.4% annualized (cons 2.8) in the Q4 advance release after 4.4% in Q3, although the government sector weighed heavily owing to the shutdown and a very strong deflator. Private demand metrics were close to expectations with PDFP at 2.35%.
- Core PCE inflation was in line with unrounded expectations in the delayed December report at 0.355% M/M whilst it ended the year at 3.0% Y/Y (highest since Apr 2024). Core goods inflation accelerated to 2.0% Y/Y (highest since May 2023) whilst supercore PCE inflation at 3.3% Y/Y saw zero disinflationary progress compared to the 3.3% averaged across 2025.
- Second tier data saw some sizeable strength with core durable goods accelerating in a positive sign of business investment and with industrial production growth regaining traction and broadening out.
- Labor data saw some sequential improvements as well, with weekly ADP rising an average 10.25k per week for its fastest since late November and initial jobless claims surprised notably lower.
- Business sentiment indicators were more mixed however, including the flash PMIs for February slipping with the manufacturing index at a seven-month low and services at a ten-month low. It came against a backdrop of strong input and selling cost inflation.
- The December trade deficit surprised higher on a pullback in gold net exports. Tech-led capital goods imports continue to surge but are offset by consumer and industrial goods in tariff front-running payback.
- The FOMC minutes had a hawkish addition with “several” members wanted to keep open the possibility that the next Fed rate move could be a hike, not necessarily a cut.
- Gov. Miran meanwhile pared back his rate cut view, seeing a need for 100bp vs 150bp of cuts this year.
- Near-term, last week’s NFP-driven hawkish shift has extended further this week, with just 15bp of cuts priced for the June FOMC. There is however still a cumulative 56bp of cuts to year-end and terminal yields are at still the dovish end of recent ranges.
- Next week sees data focus on the delayed January PPI for both broader input cost pressures after a strong December update plus the usual PCE readthrough following strong tracking after January CPI.



## Tariffs: SCOTUS Rules Against IEEPA Tariffs, Trump To Initiate 10% Global Tariff Under Section 122

### *Supreme Court Rules President Not Authorized To Impose IEEPA Tariffs*

The Supreme Court opinion, in a 6-3 ruling on the IEEPA tariffs case, can be found [here](#).

- Per SCOTUSblog: "The court holds that IEEPA does not authorize the president to impose the tariffs. The court sends one case (Learning Resources, out of DC) back to be dismissed for lack of jurisdiction, and it upholds the Federal Circuit's ruling.
- The opinion is written by Chief Justice Roberts.

### *Attention Turns To Other Tariff Means, Refunds, Trade Deals*

The dissent by Justice Kavanaugh conveniently sums up some of the major issues to contend with in the aftermath of the to the 6-3 Supreme Court ruling that the president does not have the authority to impose tariffs under IEEPA. This includes the other means by which the President can impose tariffs, as well as the issue of the trade deals struck in the last year as well as refunds.

- Kavanaugh: "With respect to tariffs in particular, the Court's decision might not prevent Presidents from imposing most if not all of these same sorts of tariffs under other statutory authorities." Kavanaugh cites Section 122, 201, and 301 of the Trade Act of 1974; Section 338 of the Tariff Act of 1930, and Section 232 of the Trade Expansion Act of 1962. We note that the Trump White House has already said that it would use such other means to re-impose tariffs if IEEPA were struck down, so this ruling doesn't mean the end of tariffs.
- Back to Kavanaugh: "So the Court's decision is not likely to greatly restrict Presidential tariff authority going forward. But the Court's decision is likely to generate other serious practical consequences in the near term."
- "One issue will be refunds. Refunds of billions of dollars would have significant consequences for the U. S. Treasury. The Court says nothing today about whether, and if so how, the Government should go about returning the billions of dollars that it has collected from importers. But that process is likely to be a "mess," as was acknowledged at oral argument."
- "A second issue is the decision's effect on the current trade deals. Because IEEPA tariffs have helped facilitate trade deals worth trillions of dollars—including with foreign nations from China to the United Kingdom to Japan, the Court's decision could generate uncertainty regarding various trade agreements. That process, too, could be difficult."

### *Trump: To Initiate 10% Global Tariff Under Section 122*

US President Trump announces in the wake of the Supreme Court decision on IEEPA: "Effective immediately. All national security tariffs under section 232, and existing section 301 tariffs... remain in place, fully in place and in full force and effect. Today I will sign an order to impose a 10% global tariff under section 122 over and above our normal tariffs already being charged. And we're also initiating several section 301 and other investigations to protect our country from unfair trading practices of other countries and companies."

- A reminder re Section 122: it gives the President the authority to impose tariffs of up to 15%. While this could theoretically be imposed immediately, they would only be allowed to remain in place for 150 days before requiring Congressional approval. So, this is a quick partial solution while the slower, longer-term measures are rolled out.

### *Bessent: Use Of New Tariffs Will Result In Virtually Unchanged Revenues In 2026*

- Treasury Secretary Bessent commented after President Trump's press conference: "Treasury's estimates show that the use of Section 122 authority, combined with potentially enhanced Section 232 and Section 301 tariffs will result in virtually unchanged tariff revenue in 2026."

### *Industry Bodies Warn Increased Uncertainty After SCOTUS Tariff Ruling*

Industry bodies have warned of increased uncertainty after the US Supreme Court struck down swathes of US President Donald Trump's tariffs. Focus now turns to an alternate authority via which Trump could reimpose the

tariffs. The most obvious route would be via Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974. However, the process requires a lengthy review period and would deny Trump the flexibility of his 'reciprocal tariffs' - a key plank of his negotiating strategy in bilateral trade talks.

- Reuters reports that a spokesperson for the German Engineers Association said Trump “has several legal alternatives for imposing global tariffs.” The German Chamber of Commerce DIHK said the Trump administration “has other instruments at its disposal for trade-restrictive US measures, and the German economy must be prepared for their use.”
- Senator Bernie Moreno (R-OH) said in a statement on X, “Republicans must get to work immediately on a reconciliation bill to codify the tariffs that had made our country the hottest country on earth!”
- Last month, Trump appeared to rule out a second reconciliation bill, but using the party-line mechanism is likely the only way for the White House to reimpose tariffs without Democratic support. It would be a heavy lift, though, as a large contingent of vulnerable Republicans are facing re-election in tariff-sceptical districts in the Midwest. We consider it unlikely that Trump could muster enough support in Congress to muscle through a major tariff bill.
- Senate Minority Leader Chuck Schumer (D-NY) said the decision is “a win for the wallets of every American consumer.” Adding, “Now Trump should end this reckless trade war for good and finally give families and small businesses the relief they deserve.”

#### *US-EU: Commission Spox: We Are Analysing SCOTUS Tariff Ruling Carefully*

Following the US Supreme Court's decision to strike down President Donald Trump's 'reciprocal' tariffs under the International Emergency Economic Powers Act, spox for the European Commission Olof Gill says, "*We take note of the ruling by the US Supreme Court and are analysing it carefully. We remain in close contact with the US Administration as we seek clarity on the steps they intend to take in response to this ruling.*" Adds: "*Businesses on both sides of the Atlantic depend on stability and predictability in the trading relationship. We therefore continue to advocate for low tariffs and to work towards reducing them.*"

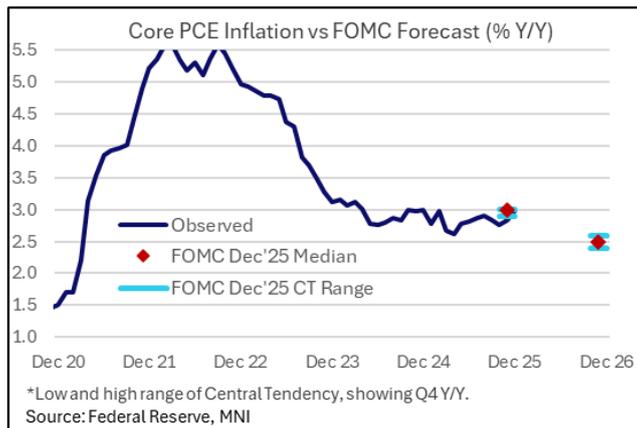
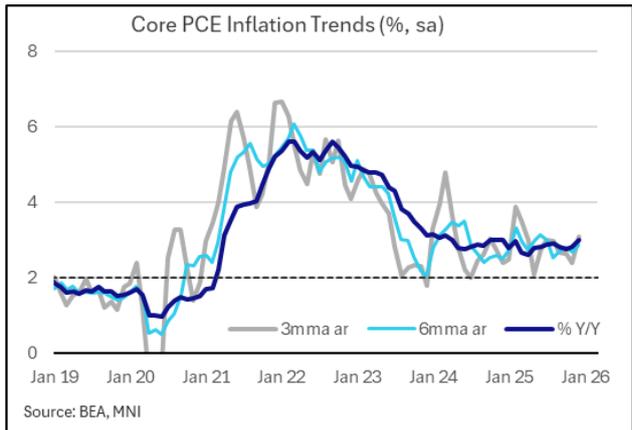
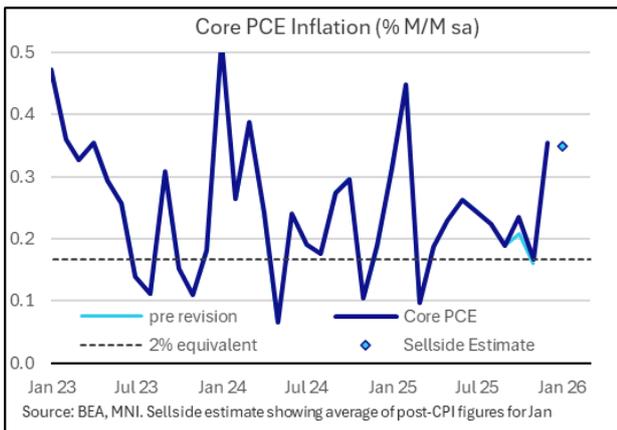
- The ruling comes days after political groups in the European Parliament agreed on the conditions for applying the EU-US trade deal reached in the summer of 2025. The International Trade Committee had previously halted work on the deal as tensions between Europe and the US reached fever-pitch over the future of Greenland in January. However, discussions eventually resumed, resulting in agreement on the deal that allows US tariffs at 15% on EU exports, while the EU commits to cutting its tariffs on US goods to zero.
- The International Trade Committee is due to vote on the deal on 24 Feb, before it goes to a full plenary vote in March. If this passes, the Parliament will engage in negotiations with the member states to agree on a final joint agreement before final ratification.
- It remains to be seen if today's ruling results in this process being halted for the time being.

**Inflation: Stubbornly Above Target**

*Core PCE Inflation Ends 2025 At 3.00% Y/Y, Strongest Since Apr 2024*

Core PCE inflation was in line with unrounded estimates back in December although also saw some modest upward revisions. Core inflation ended the year at 3.00% Y/Y and with similar latest momentum according to three- and six-month run rates. The 2.86% Y/Y averaged in Q4 was below the median FOMC estimate of 3.0% from the Dec SEP but with a huge amount of information received since then (with no less than four months of CPI).

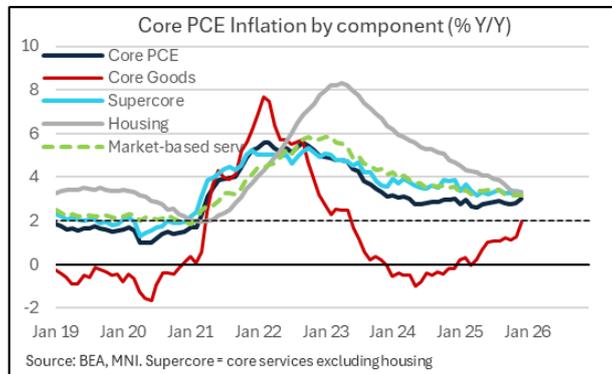
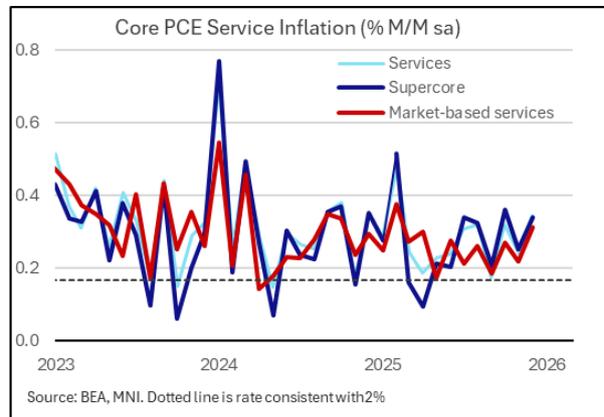
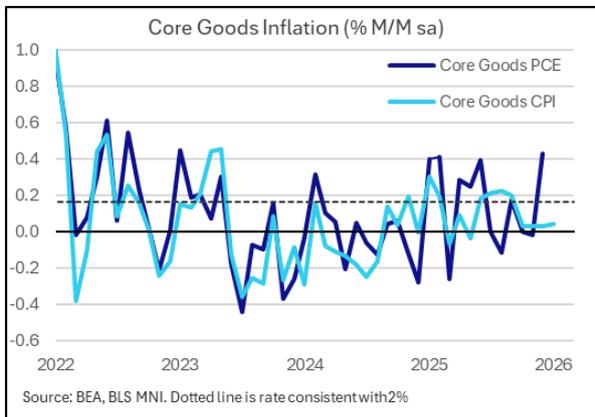
- Core PCE inflation was in-line with unrounded estimates in the delayed December report, at 0.355% M/M vs an average 0.35%/median 0.37% M/M of estimates in a range of 0.25-0.40 we had seen beforehand.
- Whilst we'd downplay what looked like an upward surprise of the rounded 0.3% M/M Bloomberg consensus, there were also upward revisions to Nov (small at 0.17% vs 0.16%) and Oct (more notable at 0.235% vs 0.21%).
- It leaves core PCE inflation running at 3.00% Y/Y (cons 2.9) after 2.83% in Nov (revised from 2.79) for its fastest pace since Apr 2024.
- Run rates suggest similar near-term momentum, with the three-month at 3.1% annualized (of course with caution needed covering the shutdown-disrupted Oct-Nov readings) and the six-month at 2.9% annualized.
- The 2.86% Y/Y averaged in Q4 is below the median FOMC forecast of 3.0% (central tendency 2.9-3) from back in the Dec SEP although of course much has changed since then. Those forecasts were made before the two-monthly CPI update for Oct/Nov (which NY Fed's Williams estimated could have pushed core inflation a tenth lower due to distortions), Dec and even last week's January CPI update.
- As for January core PCE, we don't imagine today's update will have hugely swayed analyst estimates of another strong increase in core inflation - post CPI estimates stood at an average 0.35%/median 0.39% across 11 estimates in a range of 0.19-0.49% (the range likely amplified by the handling of an obscure legal services category in CPI that surged in January).



Core Goods Inflation Hits 2%, Supercore Sticky At 3.3% Y/Y In Dec

Within the details, core goods inflation accelerated to 2% Y/Y in December whilst supercore inflation of 3.34% Y/Y showed no moderation from the 3.33% Y/Y averaged throughout 2025.

- Core goods inflation was strong at 0.43% M/M after two very soft readings of -0.02% in Nov and 0.00% in Oct. Core goods Y/Y inflation of 1.97% is the fastest since May 2023.
- Core services inflation was also robust at 0.345% M/M after 0.24% in Nov and 0.32% in Oct. The moderation in Y/Y inflation has clearly stabilized in recent months, at 3.43% Y/Y in Dec having averaged 3.42% since September.
- Supercore PCE inflation (core services ex-housing) tells a similar recent story, with 0.34% M/M after 0.25% in Nov and 0.36% M/M.
- However, unlike overall core services which are biased lower by housing in trend terms, supercore PCE Y/Y inflation didn't show any trend moderation last year with 3.34% Y/Y in Dec vs 3.33% averaged throughout 2025.
- Finally, for those focused on non-imputed series, market-based services inflation increased 0.31% M/M after 0.22% in Nov and 0.27% in Oct, whilst the Y/Y of 3.17% also showed no disinflationary progress from the 3.18% averaged since September.

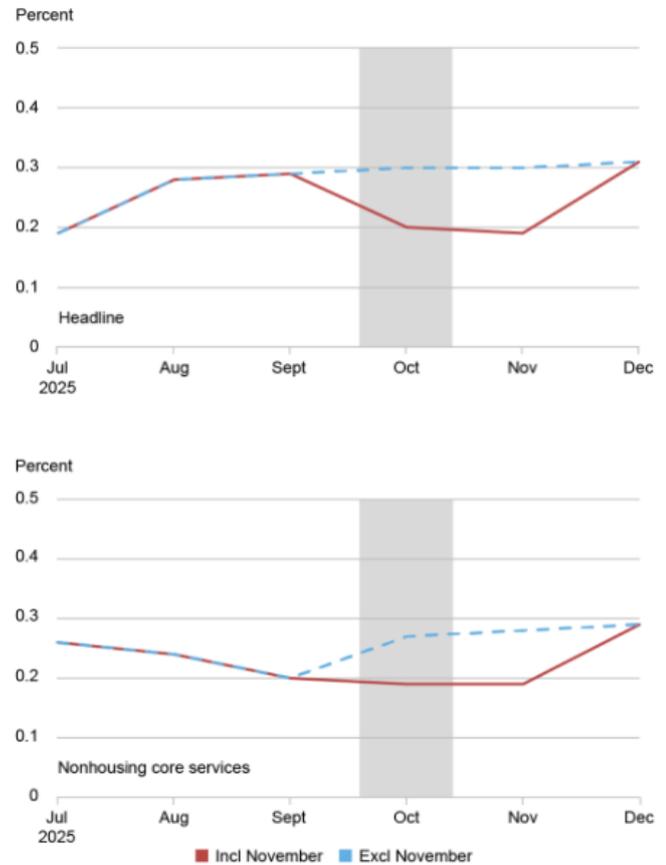


## NY Fed Trend Analysis Through Missing Data Period

NY Fed staff have published a note ([link](#)) using an extended version of their Multivariate Core Trend (MCT) inflation model that attempts to look through distortions driven by the 2025 government shutdown. They note that their aggregate trend for December stands at 2.83% vs 2.55% in September. For comparison, core CPI was at 2.64% Y/Y in December before 2.50% in January, whilst core PCE was at 2.79% Y/Y in November with December only to be released this Friday (Bloomberg cons 2.9 with risks skewed higher).

- “Our findings suggest caution: while the fragmented data from November initially signaled a deceleration in price pressures, the integration of December data indicates that these reductions were largely transitory. Once the full data set is used, the aggregate trend for December stands at 2.83 percent, an increase from 2.55 percent in September.”
- However, in trend terms: “The November CPI greatly reduced the trend estimate, whereas the December CPI returns the trend to its benchmark level established by the pre-shutdown information set dated 10/24/25. Not only is the aggregate trend estimate for December roughly unchanged from its October forecast, but it increased relative to the September estimate.”
- “[I]t is natural to ask whether the November CPI and PCE releases were unusual. Indeed, at the time of the CPI release, numerous economists and market analysts raised substantial concerns about the reliability of the release, noting that significant gaps in data collection—caused by the recent federal government shutdown—likely distorted the inflation figures.”
- “The large downward revision in the trend estimates leads us to conclude that the November data were indeed unusual, likely reflecting the delays in data collection caused by the shutdown. But because these issues were temporary, we see the trend estimates from our MCT model that incorporate December data as a reliable signal of the current state of inflation. By that measure, inflation was close to 3 percent by the end of 2025.”

November CPI/PCE Inflation Was Unusually Low



Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; authors' calculations.  
 Notes: The chart plots monthly PCE inflation nowcasts and forecasts for the information set available on 01/22/26, either including (solid line) or excluding (dashed line) November CPI and PCE. The vertical gray bar indicates that no CPI/PCE data were available for this period.

## Growth: GDP Growth Surprises Sharply Lower in Q4 But Private Demand Broadly As Expected

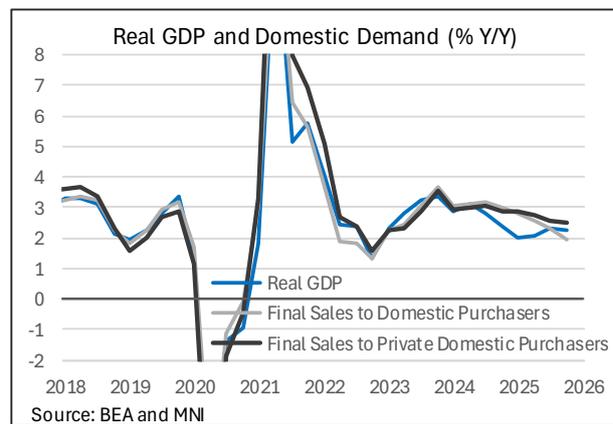
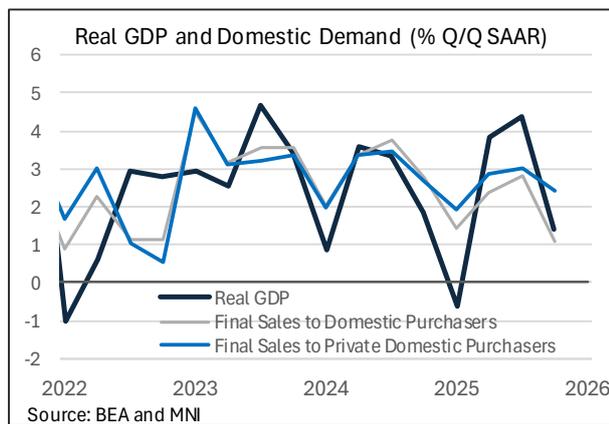
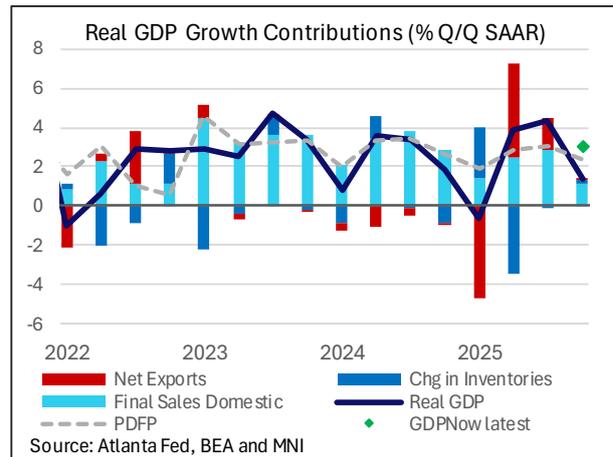
### Q4 GDP Growth Surprises Lower On Government Shutdown/Deflator

- Real GDP growth was much weaker than expected at 1.42% annualized (cons 2.8, GDPNow 3.0) in the delayed Q4 advance release after 4.37% in Q3.
- Private domestic demand was broadly as expected, if a touch on the soft side, with that government shutdown factor noted below weighing heavily (govt contribution -0.9pp after +0.4pp in Q3).
- President Trump posted 40 minutes before the data that the shutdown cost “at least two points in GDP”.
- Personal consumption 2.35% (cons 2.4, GDPNow 2.5%) after 3.5% in Q3.
- PDFP 2.4% (GDPNow ~2.5%) after 3.0% in Q3.
- Changes in inventories 0.2pps (GDPNow 0.5pp) after -0.1pp in Q3.
- Net exports 0.1pp (GDPNow 0.0pp) after 1.6pp in Q3.
- Contributions to real GDP growth in the table below:

**US Real GDP Growth and Contributions (%Q/Q SAAR, pps)**

	1Q25	2Q25	3Q25	4Q25
<b>Real GDP</b>	<b>-0.6</b>	<b>3.8</b>	<b>4.37</b>	<b>1.42</b>
<b>Final Sales Dom. Purchasers</b>	<b>1.5</b>	<b>2.4</b>	<b>2.87</b>	<b>1.13</b>
<b>(of which Private)</b>	<b>1.6</b>	<b>2.5</b>	<b>2.49</b>	<b>2.03</b>
Personal Cons	0.4	1.7	2.34	1.58
Gov Cons + Invt	-0.2	0.0	0.38	-0.90
Fixed Invt	1.2	0.8	0.15	0.45
non-resi	1.2	1.0	0.44	0.51
resi	0.0	-0.2	-0.29	-0.06
Chg in Inventories	2.6	-3.4	-0.12	0.21
Net Exports	-4.7	4.8	1.62	0.08
Exports	0.0	-0.2	1.00	-0.10
Imports	-4.7	5.0	0.62	0.18

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



### Shutdown Has Large Impact On GDP Miss

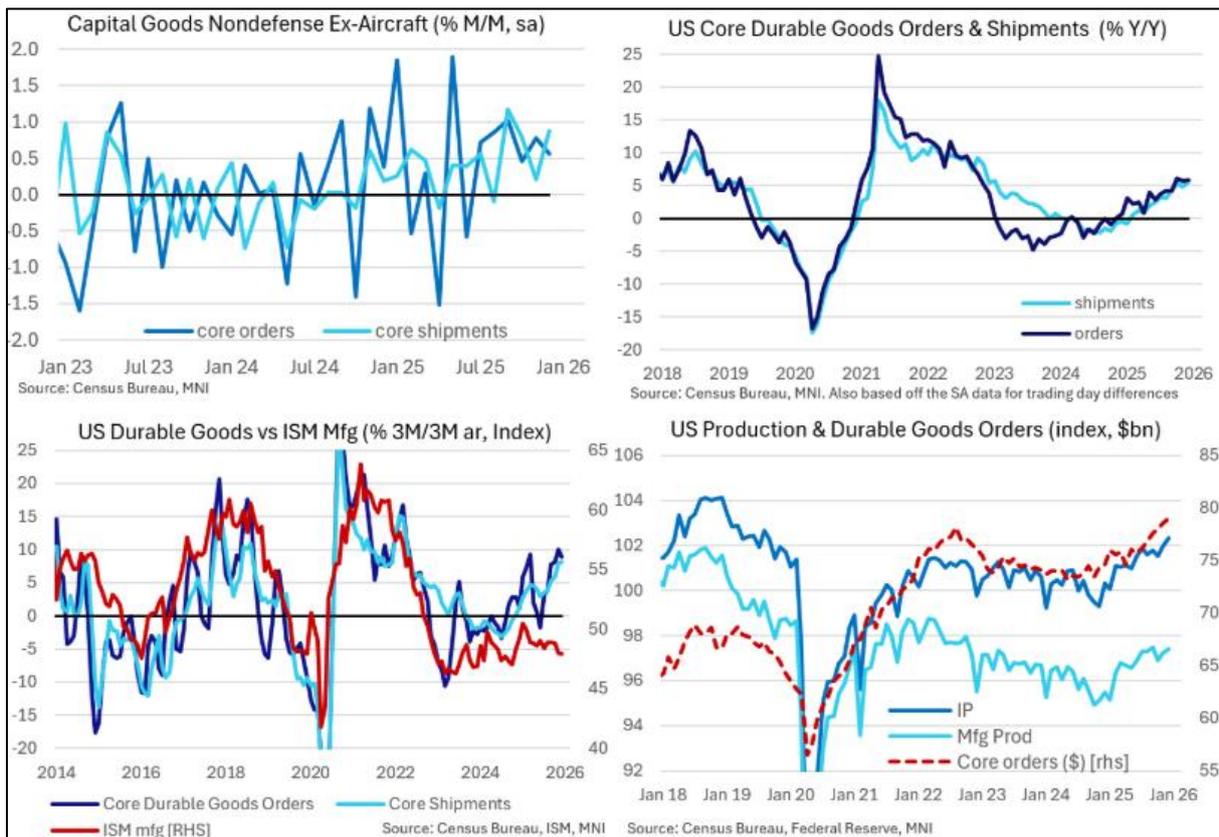
One quick initial note about the Q4 GDP miss - it comes as the GDP deflator was much higher than expected (3.6% vs 2.8% consensus), depressing the real GDP number. That appears largely due to the government sector deflator jumping to 7.2% from 4.5% prior due to methodological issues surrounding the federal government shutdown in the quarter (the Federal deflator jumped to 15.6% vs 4.2% prior).

- Additionally re the shutdown: "BEA did estimate the effects of a reduction in the labor services supplied by federal employees. BEA estimates that this reduction in services provided by the federal government subtracted about 1.0 percentage point from real GDP growth in the fourth quarter" though they couldn't quantify the full effects.
- (More on the deflator issue from the BEA: "Because there is a decrease in real federal government compensation without a corresponding decrease in current-dollar compensation, there is a temporary increase in the implied prices paid for federal government compensation, which BEA measures as the ratio between current-dollar compensation and real compensation. This is to say, the effect of a furlough on BEA's estimates is to reduce the level of government services provided while maintaining the same cost of those services.")

### Core Durable Goods Acceleration Bodes Well For Business Investment

Business investment ended 2025 on a high note, with core durable goods orders easily beating expectations and with higher revisions to prior. This is likely to result in an upgrade in Q4 2025 / Q1 2026 business fixed investment estimates, and the trends in growth have been increasingly positive over the last few months which bodes well for equipment investment and manufacturing activity in 2026 as a whole.

- The headline durable goods orders reading showed a 1.4% M/M contraction (+5.4% prior), but this was a lesser drop than the -2.0% consensus and was due entirely to a pullback in volatile nondefense aircraft/parts orders (-25% after +98%).
- The better economic signal comes from the core (capital goods nondefense ex-aircraft) series which showed 0.6% M/M growth (0.3% consensus) which was particularly impressive given the upward revision to November (0.8%, had been 0.4%).
- Capital goods shipments and overall durables ex-transportation also impressed.
- Core orders grew at a 6% Y/Y clip in Q4, with the 3M/3M annualized rate of growth of 8.9% in December marking the 2nd strongest quarterly rise since early 2022. In nominal terms, core orders have broken out to new highs. Activity looks to be benefiting from tailwinds including investment incentives in the "One Big Beautiful Bill".
- Notable among the categories driving orders growth were computers/electronics (up 3.0% M/M in Dec after 0.7% prior), motor vehicles (+1.2% after -0.3%), and primary metals (1.7% after -0.4%).

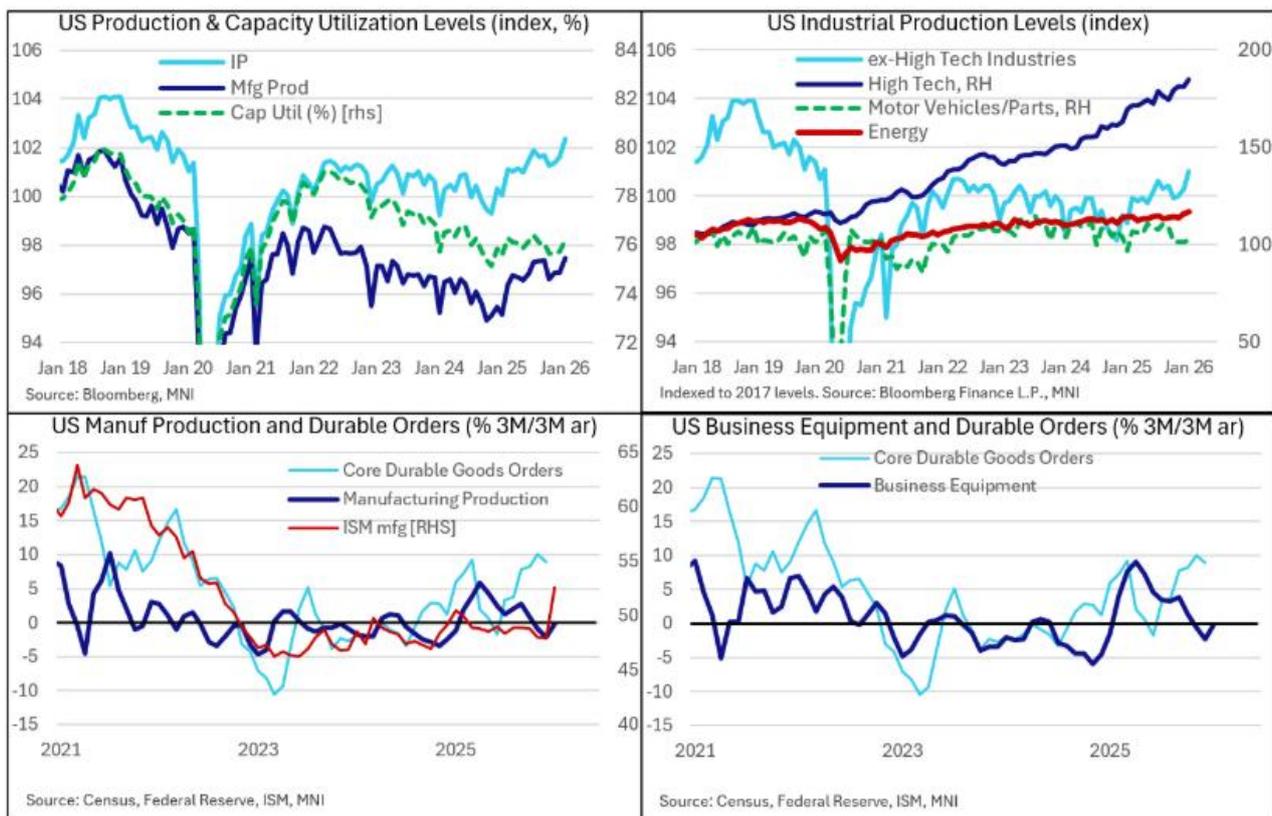


*Industrial Growth Regaining Traction, Tentatively Broadening Out*

A solid pickup in industrial/manufacturing production in January is a tentative signal that industrial sector activity is set for a solid first half of 2026 after a very mixed 2025.

- The January IP growth reading of 0.7% M/M beat the 0.4% consensus though prior was downgraded to 0.2%. That was mirrored in manufacturing production which rose 0.6% in January (0.4% consensus) but had December revised down 0.2pp to 0.0%.
- This was the strongest monthly reading for both categories in 11 months, though for manufacturing this just meant barely eclipsing September 2025 levels (October saw a 0.8% contraction).
- Indeed, the downward revisions meant that IP/manufacturing in January just reached the levels we had thought they did in December. And overall industrial production has been buoyed the last couple of months by the volatile utilities category (up 2.1% after 3.0% in December).

- That said, there are some encouraging signs. Strong durable goods orders at the end of 2025 suggest a pickup in manufacturing activity, particularly for business equipment (about 10% of IP). The ISM Manufacturing gauge printed a multi-year high 52.6 in January (though that jump looks only temporary, with even the ISM manufacturing chair telling MNI that she did not have confidence that it would remain above 50 in coming months).
- We took note of some nascent signs that industrial production is broadening out beyond the high-tech sectors that have buoyed overall IP for the last couple of years even as some of the larger key sectors including motor vehicles and energy have stagnated.
- To be sure, the level of high-tech production continues to set all-time highs (soaring 13.4% on a quarterly annualized basis in January) but ex-tech industry production while not exactly roaring finally recovered to post-pandemic highs in January (highest since Feb 2020).
- A broadening out in production would be a positive sign for the sustainability of the expansion.



*Atlanta Fed GDPNow Opens Q1 With 3.1% Projection Driven By Consumption*

The Atlanta Fed initiates its GDPNow estimate for Q1 2026 with 3.1% Q/Q SAAR. See table in image below.

- PCE is seen driving growth (2.9% growth after 2.4% in Q4) with equipment investment revving up (7.5% after 3.2%) and intellectual property investment remaining strong (6.6% after 7.4%) in what appears a nod to a continued AI-led tech investment boom.
- Residential investment is seen contracting again (-2.4% after -1.5%) with nonresidential structures likewise (-0.4% after -2.4%).
- Government spending growth is seen rebounding after the shutdown (+1.6% after -5.1%), while net exports are seen as a drag (-0.5pp after +0.1pp) with inventories a boost (0.8pp after +0.2pp).
- GDPNow missed the Q4 estimate badly (1.4% actual, GDPNow 3.0%) but about 1.2pp of the 1.6pp miss can be chalked up to their mis-estimation of the government shutdown impact on growth.

## Atlanta Fed GDPNow estimates for 2026: Q1, 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
20-Feb	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
20-Feb	Latest BEA estimate for 25:Q4	1.4	2.4	3.2	7.4	-2.4	-1.5	-5.1	-0.9	-1.3	6	10
20-Feb	Initial GDPNow 26:Q1 forecast	3.1	2.9	7.5	6.6	-0.4	-2.4	1.6	5.6	8.6	-39	45

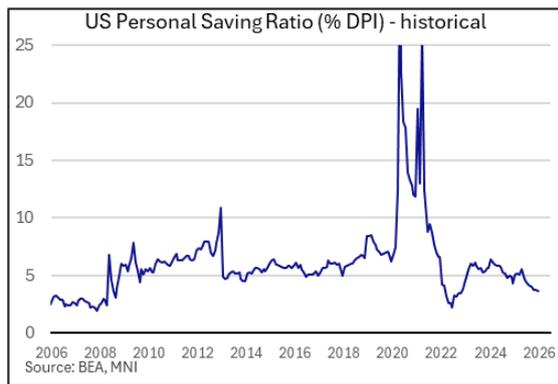
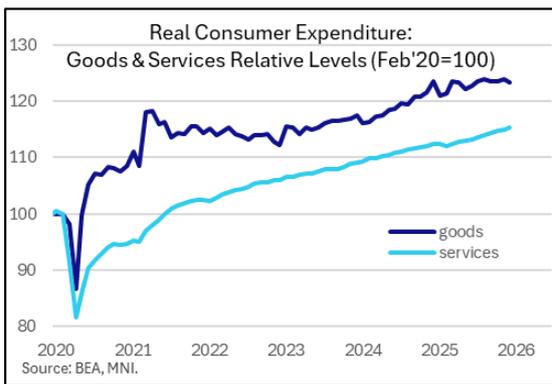
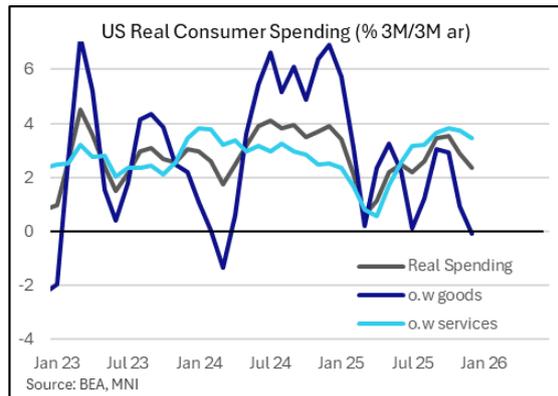
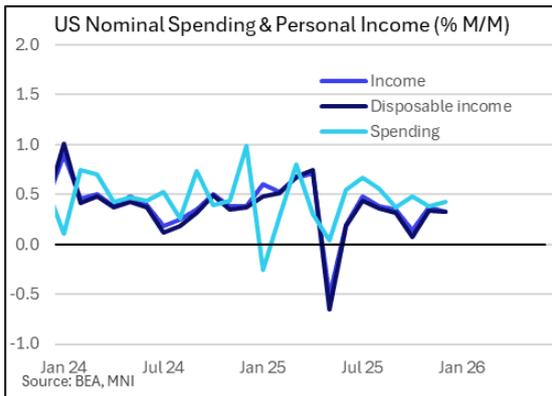
Source: Atlanta Fed

### Consumer: Solid At End-2025 But Signs Of More Recent Waning

#### *Solid Services Consumption Offsets Goods Weakness Amid Slowing Savings*

December's real personal income and spending figures showed significant divergence between goods and services consumption, and while employee compensation remained solid, net personal savings continue to dwindle.

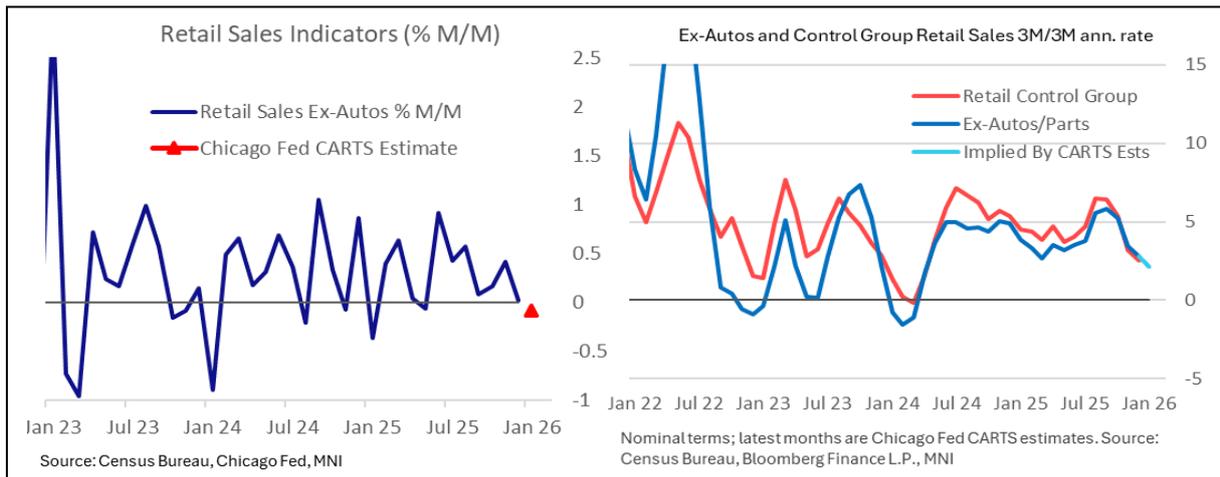
- Real disposable income has flatlined since August 2025 and is below the level of March/April 2025 (though those were boosted by one-off Social Security payments), with December showing a very slight decline (-0.03% M/M).
- Worker compensation remains very robust at a 4.3% quarterly run rate in Q4 (0.2% M/M in Dec), though overall income is rising at a relatively slower pace (0.3% M/M in Dec but 3.5% for Q4 as a whole). Real personal income excluding government transfers was -0.1% M/M and has effectively flatlined since July.
- The 3.0% quarterly rise in disposable income is whittled down to just 0.1% after adjusting for inflation, while it's rising at just a 0.9% Y/Y pace, the slowest since 2022.
- Even so, spending growth continues to eclipse that of income, with personal savings (disposable personal income minus outlays) falling for an 8th consecutive month. The overall households savings ratio declined to 3.6% from an upwardly revised 3.7% prior for a fresh post-October 2022 low, and while this series is subject to large revisions, the trend is clearly to the downside.
- The level of personal savings is back to end-2022 levels (\$830.8B, down \$400B since April).
- As presaged by the very poor advance retail sales report, real goods spending fell in December by the most since May, at -0.5% M/M (on a 0.1% nominal decline) vs +0.3% prior (for Q4: -0.1%, just the second negative quarter since January 2023). It also fell 0.1% Y/Y, the first such decline since March 2023.
- As such, higher goods prices are taking a bite out of measured real consumption. (Note core goods PCE inflation rose to 0.43% M/M after being flat for the prior 2 months; core services inflation picked up to 0.345% after 0.28% average in the prior 2 months).
- On the other hand, services spending was solid in December and in the quarter as a whole, not really skipping a beat from Q3. Real services spending rose 0.3% M/M (0.1% prior) in December on a 0.7% M/M nominal jump, sealing a 3.4% quarterly pace (3.6% in Q3) and leaving the Y/Y run rate at a solid 2.6%.
- The less bright note though is that the breakdown of services spending isn't particularly healthy: the biggest contributor by far was healthcare, up 0.5% for a 2nd month in real terms. Large discretionary aggregates fared less well: food services/accommodations fell 0.7% (same level now as in April 2025) and recreation services up just 0.2%.



**Chicago Fed CARTS Indicates Suddenly Waning Retail Sales Momentum**

The Chicago Fed's Advance Retail Trade Summary (CARTS) showed a downward revision in its final estimate for January ex-autos retail sales, to -0.1% from +0.1% in the preliminary report. There's still no schedule for the release of Census Bureau January retail sales data but the CARTS update will only add to suggestions that core growth has slowed sharply in the last few months after December's official report badly missed expectations.

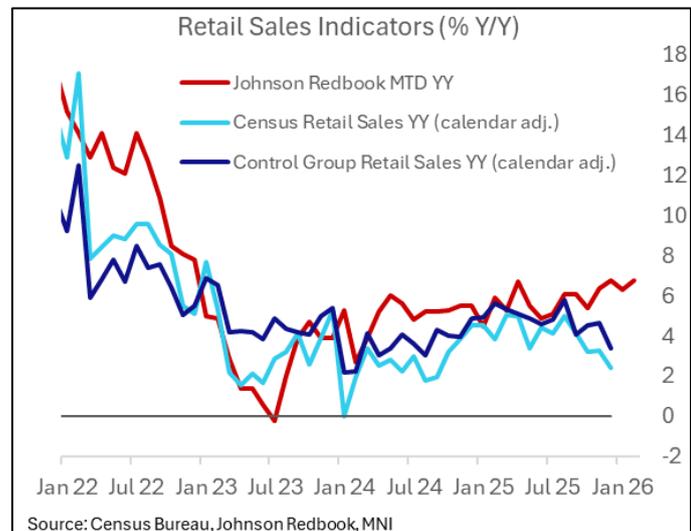
- CARTS's estimate for December ex-auto sales proved too high, with the actual print of 0.0% well below the 0.6% CARTS. The miss appears to have also spilled into the downward revision for January.
- Combined with the December "miss", the 3M/3M annualized ex-auto retail sales growth for January as implied by the CARTS series has been revised down to 2.4% from 4.5%. That would be the slowest implied quarterly nominal growth rate since April 2024 and well down from the recent peak of 5.8% as of end-Q3.
- Inflation adjusted, that quarterly rate is barely positive (CARTS estimates -0.1% M/M in January, and the core CPI figure was close to 3% on a 3M/3M annualized basis in the month).
- The CARTS prelim for February is out on March 9.



## Redbook Sales Stay Strong Through Mid-Feb, Defying Other Retail Data

Johnson Redbook Retail Sales rose 7.2% Y/Y in the week ending February 14, up from 6.5% the week prior and bringing month-to-date sales up to 6.8% Y/Y (vs the 6.5% implied by the prior week's sales). If that pace of growth persists through end-month, it would mark the joint-strongest monthly Redbook Y/Y sales since the end of 2022.

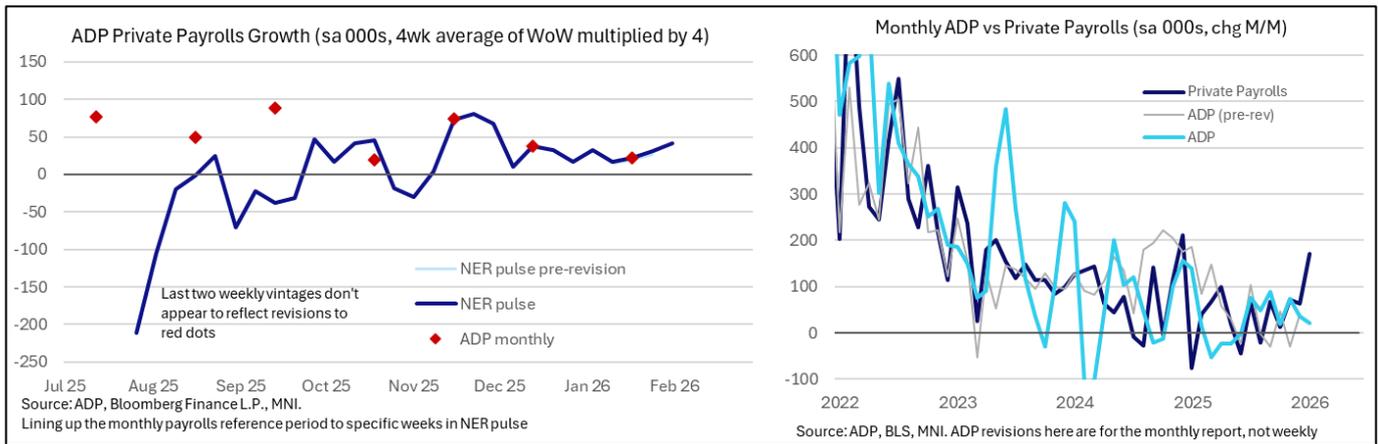
- There's still no schedule for the release of Census Bureau January retail sales data, let alone February, but Redbook showed a slowdown to a 3-month low 6.3% for Jan, which looks to have been impacted by bad weather in the latter half of the month (consumers stocking up and pulling some purchases forward with a poor week at the end amid harsh winter conditions).
- That leaves early 2026 indicators of retail activity very much mixed, though we would lean toward a more negative signal than sent by the Redbook series.
- With the pullback in December Census Bureau advance retail sales, the gap with Redbook has been widening; Y/Y Census control group came in at a 16-month low 3.4% in December, vs a 6.8% rise in Redbook.
- The Chicago Fed's Advance Retail Trade Summary (CARTS) showed a downward revision in its final estimate for January ex-autos retail sales, to -0.1% from +0.1% in the preliminary report.
- Back to the latest Redbook report, the anecdotes suggest a pickup in activity in February following the January storms: "Warmer temperatures are bringing shoppers back to stores for Valentine's Day purchases after weeks of snowstorms that forced temporary closures and kept many at home. Valentine's Day and Presidents' Day promotions drove sales during the week. Shoppers bought candy, flowers, cosmetics, jewelry, and select women's apparel for Valentine's Day. They also took advantage of Presidents' Day sales later in the week. Valentine's Day was a major draw for general merchandise retailers, increasing customer counts and driving traffic across unrelated categories, including select women's apparel, winter clearance items, essential consumables, and food."



## Labor: Improving

### Weekly ADP Employment Sees Fastest Increase Since Late November

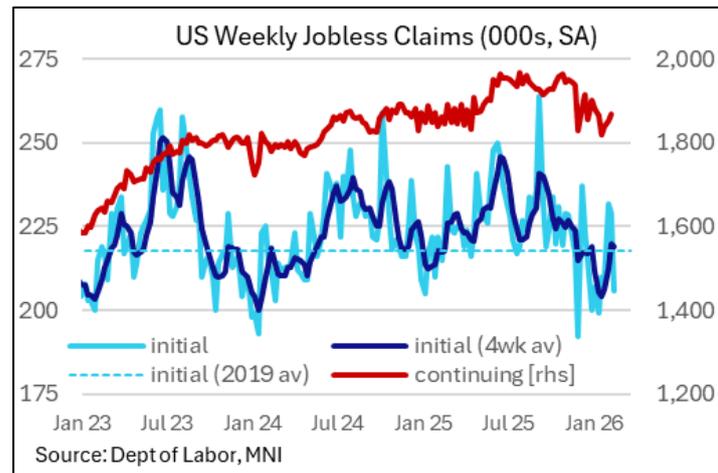
- Weekly ADP employment increased an average 10.25k per week in the four weeks to Jan 31, an improvement from the upward revised 7.75k (initial 6.5k) in the previous four weeks to Jan 24.
- That's the fastest increase since late November in the latest vintage of data for a series that is revised from week to week.
- The monthly equivalent of 41k implies an improvement from the 22k in the January reference period (the week including the 12th day of the month) for back similar to the 37k in December and 74k in November. The latter followed huge upward revisions as part of the monthly January report two weeks ago, having previously reported at -34k decline.
- Whilst latest weekly ADP data have stabilized after what were previously seen as declines in the summer to fall of 2025, they still lagged a surprisingly strong 172k increase in private payrolls in the BLS January report.

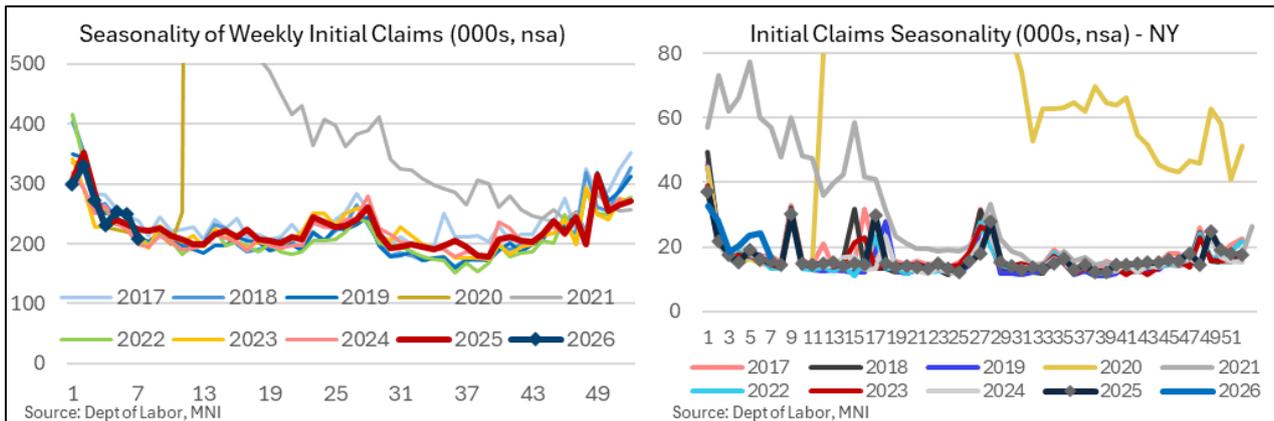


*Initial Claims Pull Back Sharply After Weather-Related Volatility*

In an apparent return to the more typical "low hiring, low hiring" jobless claims reports seen for several months prior to recent weather-related (we think) volatility, initial claims for the week of Feb 14 - a nonfarm payrolls reference week - came in at the lowest since the Jan 10 week and well below expectations of 225k (the 229k prior was revised from 227k). Continuing claims for the week of Feb 7 were roughly in line at 1,869k (1,860k consensus, 1,852k prior revised from 1,862k).

- The 23k drop in seasonally adjusted claims was the biggest since the last week of November 2025. That latter week appeared to have marked an anomaly affected in part by difficulties in seasonally adjusting around the Thanksgiving holiday, and likewise the latest reading appears to be a reversion after the prior two weeks saw unusually elevated claims which look related to the bad weather at the end of January (winter storm "Fern" between Jan 23-27).
- Non seasonally adjusted initial claims came in at just 208k which were the lowest since the Thanksgiving 2025 week and below seasonal norms.
- Individual state data which are NSA suggest a pullback after a jump in many potentially storm-hit states at the end of January, including Illinois (-2.4k for a 2nd consecutive week), Missouri (-1.7k after -2.8k), New Jersey (-3k after -0.8k), Pennsylvania (-5.3k after -3.2k), and Texas (-2.8k after +2.6k), and more dramatically, New York (-7.5k after 3 weeks of rising claims - see chart).
- The overall effect was a large 42k drop in national NSA claims (to 208k, vs the equivalent 2025 week of 224k) after a 31k jump after the January storms (to 253k, vs 241k in the equivalent 2025 week).
- The recent volatility and seasonal-adjustment issues necessitates a longer-term look, and the latest reading left the 4-week moving average at 219k (SA), a touch lower than the 220k in the prior week which looks to have represented the recent peak for now but very close to pre-pandemic averages.
- For continuing claims, a third consecutive weekly rise comes after three consecutive declines, leaving the current level below the 1,903k seen at the end of 2025 but above the 1,819k recent low in the third week of January. Seasonal moves here have appeared more typical than for initial claims. Either way this latest read remains firmly part of the "low hiring" portion of the "low hiring, low firing" labor market theme, with continuing claims remaining well below H2 2025 averages.





**Business Sentiment: Mixed**

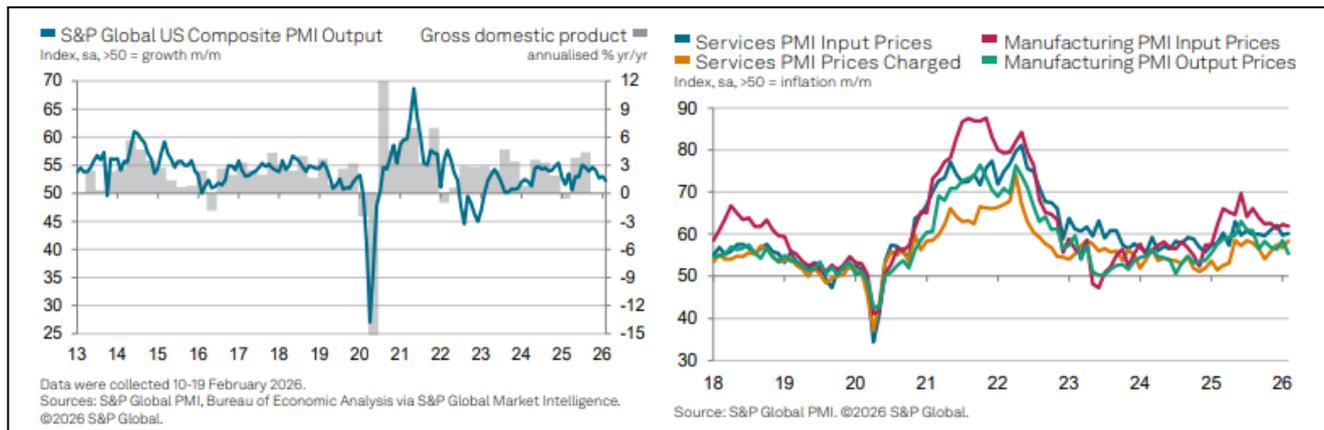
*Flash PMIs Disappoint Along With Strong Service Selling Price Inflation*

The S&P Global US PMIs were weaker than expected for both manufacturing and service sectors in the flash February report, with the manufacturing index hitting a seven-month low and services a ten-month low. Average input costs rose sharply again but there were mixed developments in selling prices with the softest manufacturing inflation in 14 months but services inflation at one of its strongest readings in the past 3.5 years.

- Manufacturing: 51.2 (cons 52.4) in Feb prelim after 52.4 in Jan and 51.8 in Dec
- Services: 52.3 (cons 53.0) in Feb prelim after 52.7 in Jan and 52.5 in Dec
- Composite: 52.3 (cons 53.1) in Feb prelim after 53.0 in Jan and 52.7 in Dec

Highlights from the PMI press release (in full [here](#)):

- "US business activity rose at the weakest rate for ten months in February, according to early 'flash' PMI data, signaling a cooling of economic growth. Rates of expansion moderated in both manufacturing and services, reflecting weakened order book trends, in turn led by falling exports, though adverse weather was partly to blame. Employment rose only marginally as companies worried about weak sales and high costs."
- "Average input costs rose sharply again in February, linked to supplier price hikes, tariffs and higher wages, feeding through to the largest increase in average selling prices since last August."
- Further detail on pricing: "Although selling price inflation moderated in the manufacturing sector to a 14-month low, attributed to increased discounting to stimulate sales, services inflation jumped to a seven-month high, registering one of the strongest rates of increase recorded over the past three-and-a-half years."
- "Business expectations for the year ahead jumped to the highest for just over a year, adding to signs that at least part of February's slowdown may prove temporary."

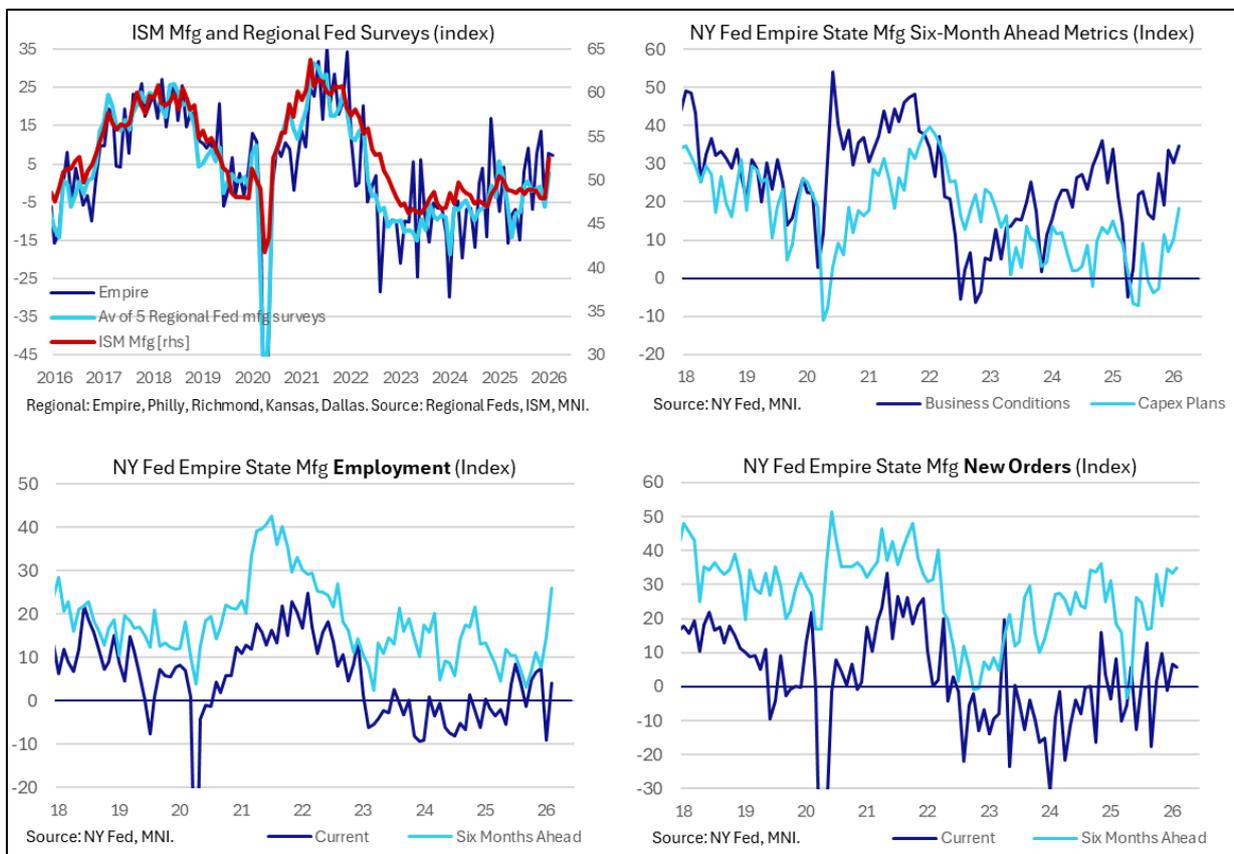


Source: S&P Global

*Manufacturing Firms Eye Sizeable Increase In Capex - NY Fed*

The NY Fed's Empire State manufacturing survey was unusually steady in February for what is usually a volatile headline series. Six-month ahead metrics were more notable, with general business condition expectations at the highest since late 2021 helped by some strong improvements in both employment and capex expectations.

- The Empire State manufacturing index inched lower to 7.1 (cons 6.2) in February after 7.7 in January, sitting between the 13.5 back in November (highest since Nov 2024) and -3.7 in December.
- The new orders sub-component echoed these latest developments, dipping from 6.5 to 5.8 but still starting 2026 with an improvement compared to the -0.9 averaged throughout 2025.
- Employment meanwhile recovered to 4 after the -9 in January was its lowest since Jan 2024.
- Six-month ahead measures were a little stronger though, with the main general business conditions index firming 4.3pts to 34.7 for its highest since late 2021.
- Of other six-month ahead components, the most eye-catching aspects were employment (+11.2pts to 26.1, highest since Aug 2022) and capex (+7.9pts to 18.2, highest since Feb 2023).
- We tend to put more weight on the capex- rather than employment-side of manufacturing surveys owing to the limited role of manufacturing within employment (about 10% of payrolls), but plans to invest in both capital and labor bode well for manufacturing confidence early in February (survey collected Feb 2-9).

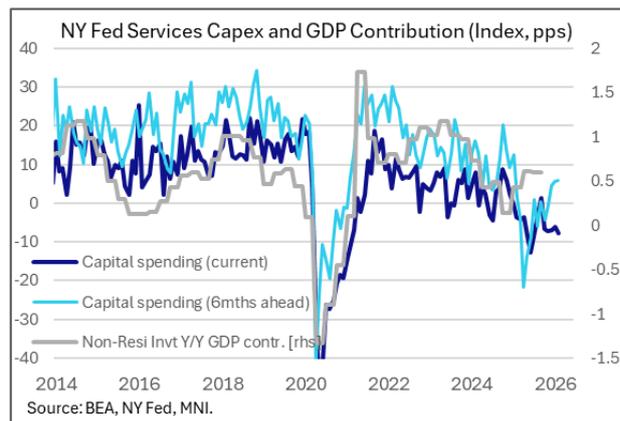
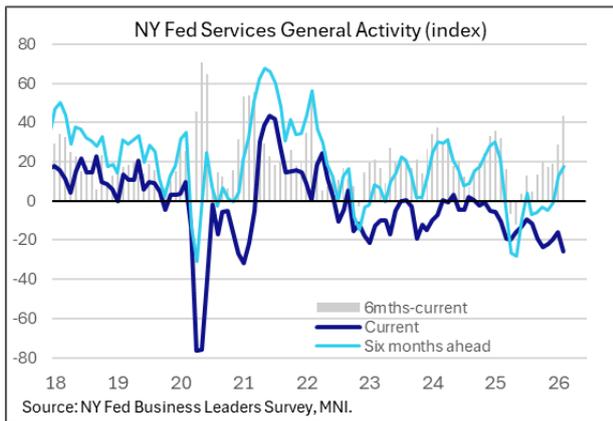
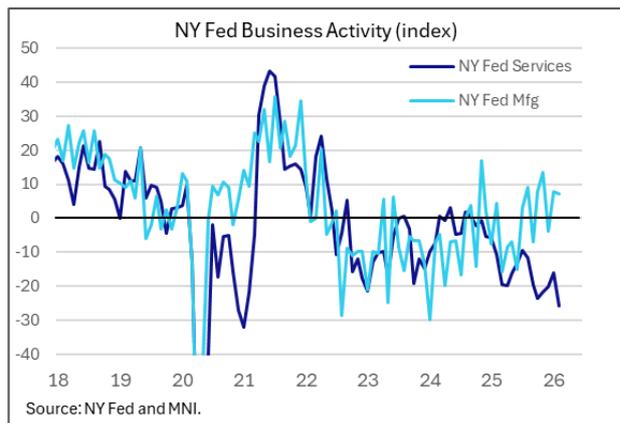
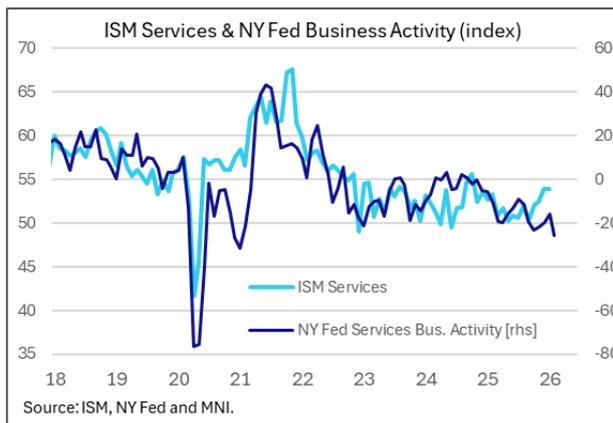


*NY Fed Services Activity Hits Five-Year Low But Stronger Expectations*

The NY Fed's Business Leaders Survey of services firms had mixed implications, with the current general activity index falling to a five-year low despite a further improvement in six-month ahead readings. The gap between six-month ahead and current general activity readings is at its relatively most optimistic since early 2022.

- The headline activity index fell 9.6pts to -25.7, below the -23.6 of Oct 2025 for a five-year low.
- The business climate index fell 7.3pts to -41.7, even if that remained above the -43.1 averaged in Oct-Dec and the post-pandemic low of -60.7 from Apr on global tariff announcements.

- Employment was also weak, falling 4.2pts to -9.7 as it pushed below the -8.6 in Nov for its lowest since early 2021. It notched up a sixth consecutive month in contraction territory.
- Against that, the wages index climbed 7.4pts to 37.4 for its highest since Feb 2025.
- "The prices paid index held steady at 62.6, and the prices received index was stable at 29.9, pointing to little change in the pace of both input and selling price increases."
- "The supply availability index dipped six points to -9.2, suggesting supply availability worsened modestly."
- Going against this, the six-month ahead general activity index increased 5.1pts to 17.5, its highest and also the second consecutive month in expansionary territory for the first time since Feb 2025.
- Capital expenditure plans are one area helping here, inching up 0.3pts to 6.0 for the highest since Jan 2025. They have seen a less pronounced increase in recent months than in their manufacturing counterpart, yesterday reporting a 7.9pt increase to 18.2 for the highest since Feb 2023.

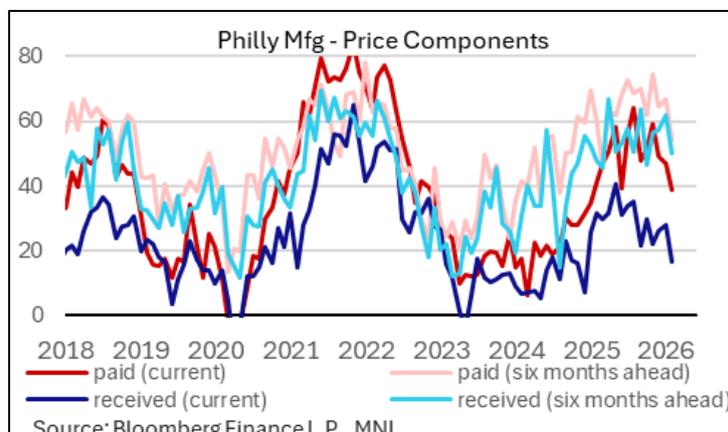
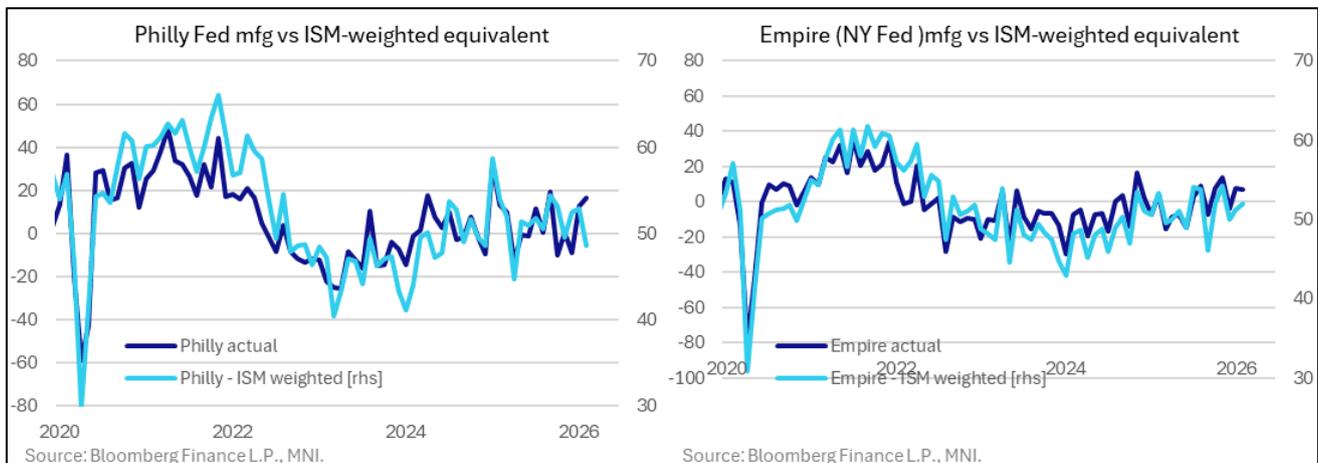


*Philly Fed Manufacturing Weaker Under The Surface Than It Appears*

The Philadelphia Fed's February Manufacturing Business Outlook Survey showed some of the strongest regional activity in months on the surface, but the details were weak when it comes to extrapolating the signal for the national ISM Manufacturing PMI gauge. In any case, regional manufacturing inflation pressures showed a notable drop.

- The headline General Business Conditions reading of 16.3 was well above the 7.5 expected and 12.6 prior, for a 5-month high and a sharp 28.9 point increase over the course of 2 months. This was a stronger number than the NY Fed's Empire State Manufacturing business conditions index (which dipped to 7.1 from 7.7) but actually the underlying details were much weaker in Philly.
- While our calculations for ISM-equivalent diffusion indices showed Philadelphia New Orders and Inventories ticked marginally higher, Shipments, Employment, and Delivery Times fell substantially and into contractionary territory (Employment for the first time since June 2025).
- On an ISM PMI-weighted equivalent basis, the Philly Fed reading was 48.6 vs 52.9 prior, for the weakest since April 2025 (when the "Liberation Day" tariffs were announced).

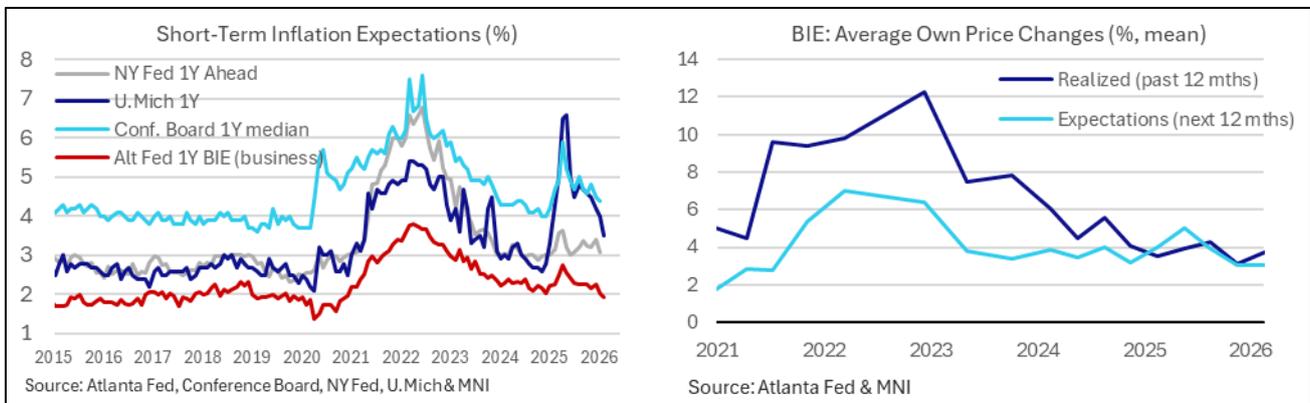
- In direct contrast, while Empire saw a dip in New Orders and a large pullback in Shipments, there were higher readings for Employment, Delivery Times, and Inventory Levels which saw the ISM equivalent reading rise to 52.0 from 51.2 prior for a 3-month high.
- As with Empire, Philly optimism improved, with 6-month-ahead conditions jumping over 17 points to 42.8 for a 3-month high. That was mainly on sharply higher new orders; expected employment and (closely-watched) capex pulled back sharply.
- The Philly Fed survey asks firms, "What is your evaluation of the level of general business activity?" for its headline diffusion index, with the ISM calculating its headline PMI compiled using readings for the New Orders, Shipments, Employment, Delivery Times, and Inventories.
- The unambiguously positive signal from the Philly report was in the inflation department: prices paid fell to 38.9 from 46.9 prior for a 13-month low, with prices received down to 16.7 from 27.8 for a 14-month low (expectations also pulled back). This again was in contrast to Empire State readings all of which picked up month/month.
- Survey dates or perhaps even seasonal adjustment issues may have come into play in the nearly opposite results in NY vs Philadelphia. The Empire manufacturing survey was Feb 2-9. And the Philly results were through Feb 16. At a guess, oil prices dropped in the intervening week, while NY sentiment was arguably more subdued given the icy weather at the end of January which has taken some time to thaw out.



*Atlanta Fed Business Inflation Expectations Back At Pre-Pandemic Trend*

The Atlanta Fed Business Inflation Expectations survey for February saw a full return to pre-pandemic 1Y inflation expectations as it continued moderation seen in the second half of 2025. The special question saw the average firm expect the One Big Beautiful Bill to lift capital investment by 2.4% in 2026, the first full calendar year in which its provisions are in effect.

- 1Y ahead inflation expectations, defined as the mean expected change in unit costs, dipped a tenth to 1.9% in the February survey from 2.0% in Jan.
- It continues moderation from the 2.25% averaged in 2H25 and 2.45% in 1H25, whilst marking the first sub-2% reading since late 2020 along with a return to pre-pandemic levels (e.g. 1.9% averaged in 2019).
- This month's quarterly question dug into firms' own price setting with median figures unchanged but mean figures firming after a softer November round. Specifically:
  - The median firm reported a 3% price increase over the past twelve months, unchanged for a second quarter at joint lows since late 2020 whilst the mean increase bounced to 3.7% after 3.1% in Nov and 4.3% in Aug.
  - The median firm expected to increase prices by 3% over the next twelve months, a typical response having expected a 3% increase in 8 of the past 11 quarters in a 3-4% range. The mean response inched to 3.1% after 3.0% in Nov (lowest since mid-2021) and 3.9% in Aug.
- The special question was on the impact of the One Big Beautiful Bill, with a mean response anticipating a 2.4% increase in capital investment, a 1% increase in profit margins and 0.5% increase in employment on the back of it across 2026.
- There were mixed responses by firm size: capex plans varied from 4.1% for medium firms, 2.3% for large and 1.8% for small, whilst employment expectations varied from 0.7% for small, 0.45% for medium and 0.2% for large.

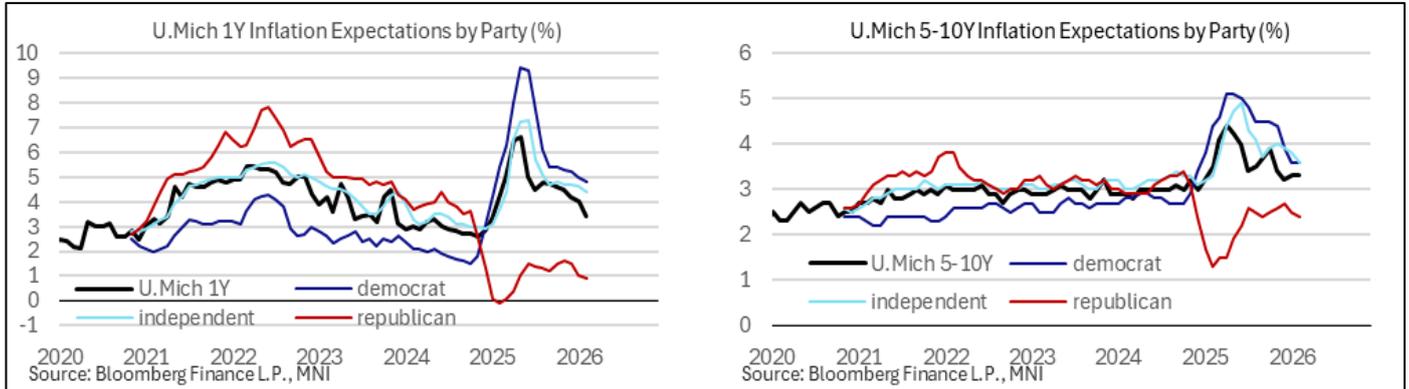


## Consumer Sentiment: Sentiment Ultimately Little Changed

### U.Mich Inflation Expectations and Consumer Sentiment Revised Lower

The finalized U.Mich consumer survey for February saw a both 1Y and 5-10Y inflation expectations nudge a tenth lower whilst consumer sentiment saw most of the increase in the preliminary report revised away. Improved sentiment from those with largest stocks exposure was offset by declines for those without stock holdings.

- 1Y inflation expectations: 3.4% (cons & flash 3.5) in Feb final after 4.0% in Jan - confirms lowest reading since Jan 2025
- 5-10Y inflation expectations: 3.3% (cons & flash 3.4) in Feb final after 3.3% in Jan, having seen the same pattern in January reports with an initially higher flash. It remains a tenth off the 3.2% in Dec at was the lowest since Jan 2025.
- Consumer sentiment: 56.6 (flash 57.3) from 56.4 in Jan, with the preliminary increase mostly revised away. It doesn't materially change relative trends, with sentiment firming from a December low of 51.0 (lowest since the series low of 50.0 in Jun 2022) but still at historically depressed levels.
- From the press release: "All index components posted insignificant movements this month; overall, consumers do not perceive any material differences in the economy from last month."
- "About 46% of consumers spontaneously mentioned high prices eroding their personal finances; readings have exceeded 40% for seven months in a row. Sentiment is about 13% below a year ago and 21% below January 2025. That said, views vary considerably across the population."
- "A sizable month-to-month increase in sentiment for the largest stockholders was fully offset by a decline among consumers without stock holdings."

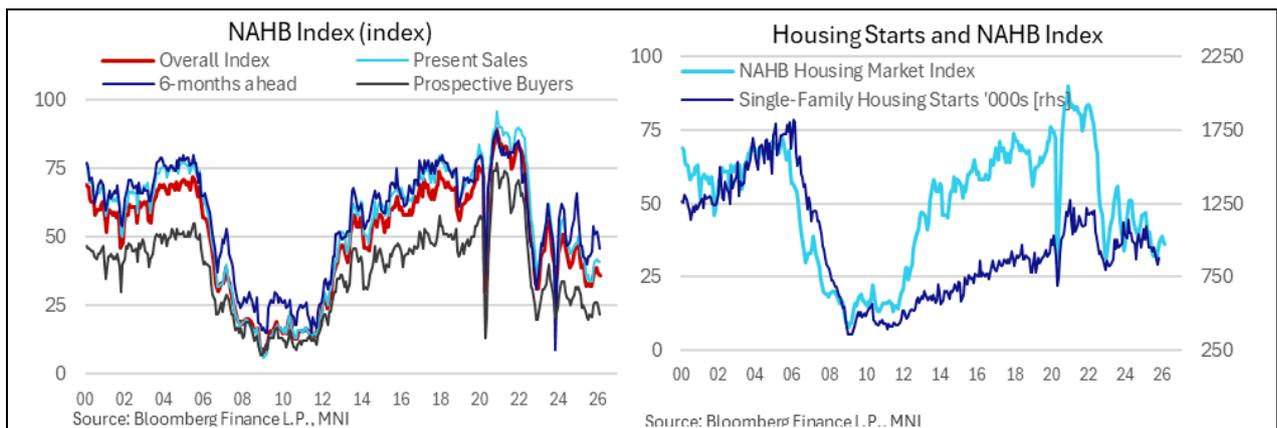


**Housing: Record Low Pending Home Sales**

*Softening Homebuilder Sentiment Bodes Ill For Housing Start Recovery*

For a second consecutive month in February, homebuilder sentiment as measured by the National Association of Homebuilders/Wells Fargo Housing Market Index (HMI) unexpectedly declined. The pullback to 36 from 37 prior (38 consensus) marked a 5-month low and the 2nd straight decline suggests any nascent momentum in homebuilder sentiment has halted (the NAHB had risen in each of the 4 months prior to January).

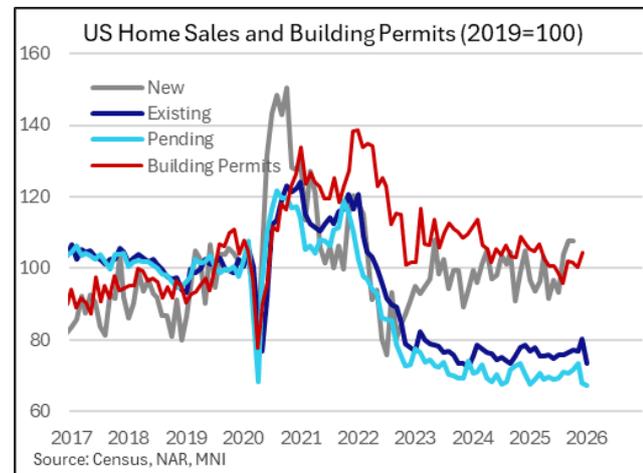
- The present sales gauge was steady at 41 but prospective buyer traffic dipped to a 5-month low 22 (24 prior, and around the all-time low), with future sales also dropping to a 5-month worst 46 (49 prior). There was no improvement in activity in any of the US regions (3 of 4 declined, with the South steady at zero).
- The NAHB characterizes the data as showing "Signs of Market Cooling", and points out that the latest survey shows "36% of builders cut prices in February, down from 40% in January. While this marks the lowest incidence of price-cutting since last May (34%), the average price reduction remains at 6%. The use of sales incentives was 65% in February, unchanged from January, and marking the 11th consecutive month this share has exceeded 60%."
- In other words, weak affordability amid high house prices and still-elevated mortgage rates, combined with still-high new home supply in terms of months of sales, continues to put pressure on builders to provide incentives.
- 2026 so far has thus seen a setback in confidence amid a residential real estate market that showed signs of thawing in the latter months of 2025, with sales picking up amid a dip in mortgage rates. The NAHB survey reflects single-family home construction sentiment and the pullback here suggests that housing starts/residential construction momentum will remain limited.



## Poor Affordability Manifests In Record-Low Pending Home Sales

Pending home sales deteriorated unexpectedly in January, falling 0.8% M/M on a seasonally-adjusted basis (+2.0% expected) after a 7.4% fall in December and marking a new all-time low (even compared to the start of the Covid pandemic and the depths of the Global Financial Crisis and related housing crash).

- For good measure, it was the weakest-ever January on a non-seasonally-adjusted basis (the series goes back to 2001).
- We were almost surprised that the National Association of Realtors did not suggest that weather was to blame for this poor reading, given January's storms across most of the country. Instead their Chief Economist Lawrence Yun is quoted as saying "Improving affordability conditions have yet to induce more buying activity."
- In the previously-released Existing home sales report for January, Yun had mentioned that weather was a possible driver for the worst monthly sales since September 2024, but as we noted, the drop had been presaged by a pullback in pending sales. (Pending is a leading indicator of Existing).
- In a mixed report on a regional basis, pending sales fell in the Northeast and South, rising in the Midwest and West.
- Nascent signs of a thaw in housing activity in late 2025 - which came alongside moderating mortgage rates - has dissipated, with homebuilder confidence also pulling back.
- As such we remain pessimistic that there will be any meaningful recovery in housing market dynamics in 2026 absent an unexpected pullback in mortgage rates boosting affordability.

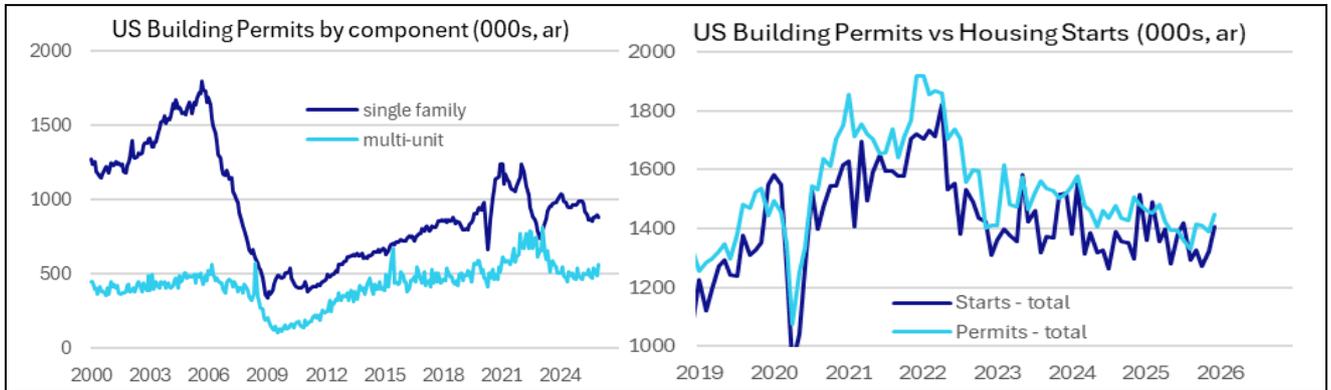


## Housing Activity Closes Out 2025 Strong, But 2026 Pickup Likely Limited

New residential construction closed out a weak 2025 with a strong burst of activity, with housing permits and starts in December easily beating expectations. This will result in better estimates for residential investment in the national accounts (which are currently seen to be flat in Q4 2025 following two firmly negative quarters, at least per the Atlanta Fed's GDPNow coming into the day).

- In a combined November-December report that was delayed due to the federal government shutdown last year, the report showed a dip in permitting in November (1,388k after 1,411k in Oct, all on a seasonally-adjusted annual rate basis) followed by a jump in December to the highest rate in 9 months (1,448k, vs 1,400k expected).
- This was led by a surge in multi-unit permitting: 567k marked a 28-month high (single-family permitting was flat between October and December, despite a pickup in homebuilder sentiment at the end of the year that we now know was short-lived).
- Starts also picked up strongly in December to 1,404k, compared with the 1,322k in November and 1,272k in October - which had been the 2nd worst month since the Covid pandemic. This showed solidity in both single-family (981k) and multi-unit (423k) starts.
- The improvement in permits in particular is a positive signal for future activity. This is far from a renaissance for the beleaguered housing sector, though it offers some evidence that October's weakness was not the start of a new downtrend.

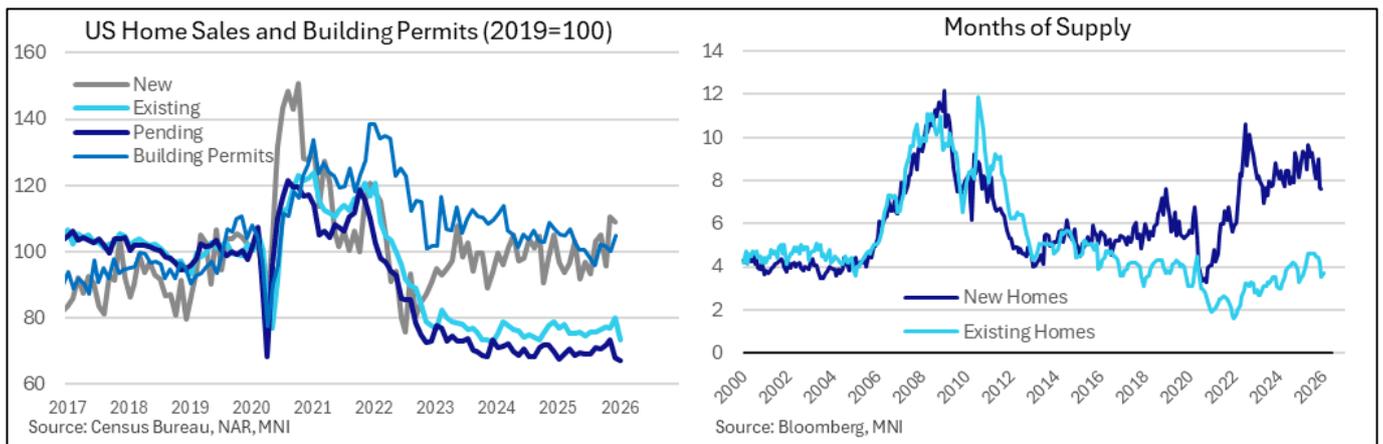
- 2026 so far has thus seen a setback in homebuilder confidence amid a residential real estate market that showed signs of thawing in the latter months of 2025, with sales picking up amid a dip in mortgage rates - we would expect this to mean that a housing boom isn't in the offing for early 2026, with affordability/rates remaining a central issue.



*New Home Sales End 2025 Strong, But Early 2026 Momentum Doubtful*

As with other housing market data, new home sales finished 2025 strong - but it's questionable whether momentum will continue into 2026.

- In a combined November/December report (due to federal government shutdown delays), new sales closed the year at 745k on a seasonally-adjusted, annualized basis. They were up 15.5% in November to 758k, thus down 1.7% in December, but those were the two strongest months since February 2022.
- Sales soared in the West region, to 170k in December from 110k in October.
- Supply tightened, with months of supply down to 7.6 vs 9.0 in October, lowest since March 2022. Median prices were down 2.0% Y/Y, reflective of seller discounts.
- But inventories remain elevated on a historical basis. And despite the jump at the end of the year, 2025 as a whole saw average monthly new home sales basically identical to 2024 (682k vs 685k).
- And judging from homebuilder sentiment, any improvement looks to have been short-lived. The pullback in the NAHB survey to 36 in February from 37 prior (38 consensus) marked a 5-month low and the 2nd straight decline, suggesting any nascent momentum in homebuilder sentiment has halted (the NAHB had risen in each of the 4 months prior to January).
- We continue to expect housing starts/residential construction momentum to remain limited.

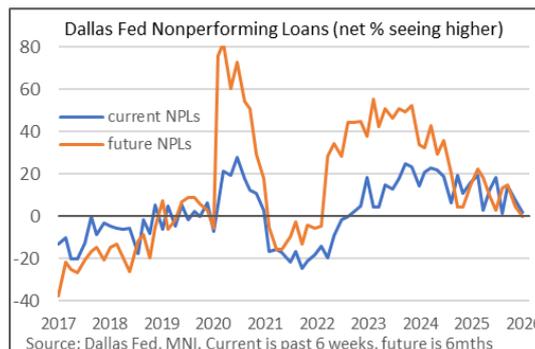
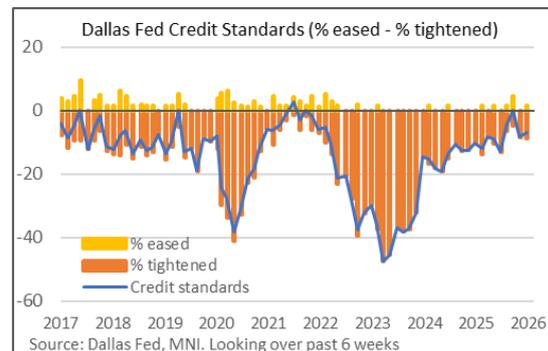
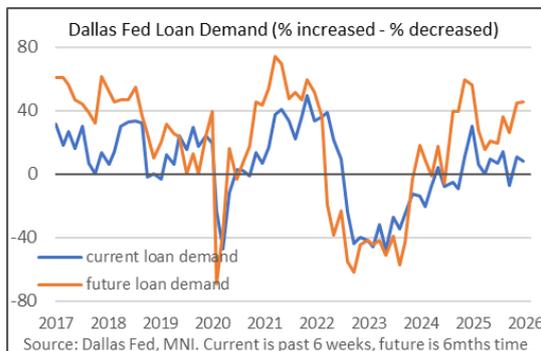


**Credit**

*Encouraging Signs In Dallas Fed Banking Conditions Survey*

Released yesterday, the Dallas Fed's timely banking conditions survey showed encouraging signs for both loan demand and NPLs according to 62 institutions in its district over Feb 3-11. As always, whilst a local survey, it offers a more up-to-date take on credit conditions than the national SLOOS for Q4 collected Dec 10-Jan 2.

- Loan demand: current at 8.2 after 10.9 in the late Dec, -7.2 in Nov and 14.3 in late Sep, but future indications were relatively stronger at 45.2 after 44.6 in late Dec for a fresh high since late 2024.
- NPLs: current at just 1.6 after 7.9 in late Dec, 14.3 in Nov and 1.5 in late Sep, with future also a little more encouraging at 0 after 4.6 in late Dec for its lowest since Apr 2022.
- That came against a backdrop of similar readings for the latest tightening of credit conditions, with a net 6.9% reporting tighter conditions after 8.3% in late Dec. It follows 0% in Nov and 4.7% in late Sep but longer term an average of 10% in 1H25 and 17% in 2024. For context, that 0 in November was the first time conditions hadn't tightened on net since late 2021.



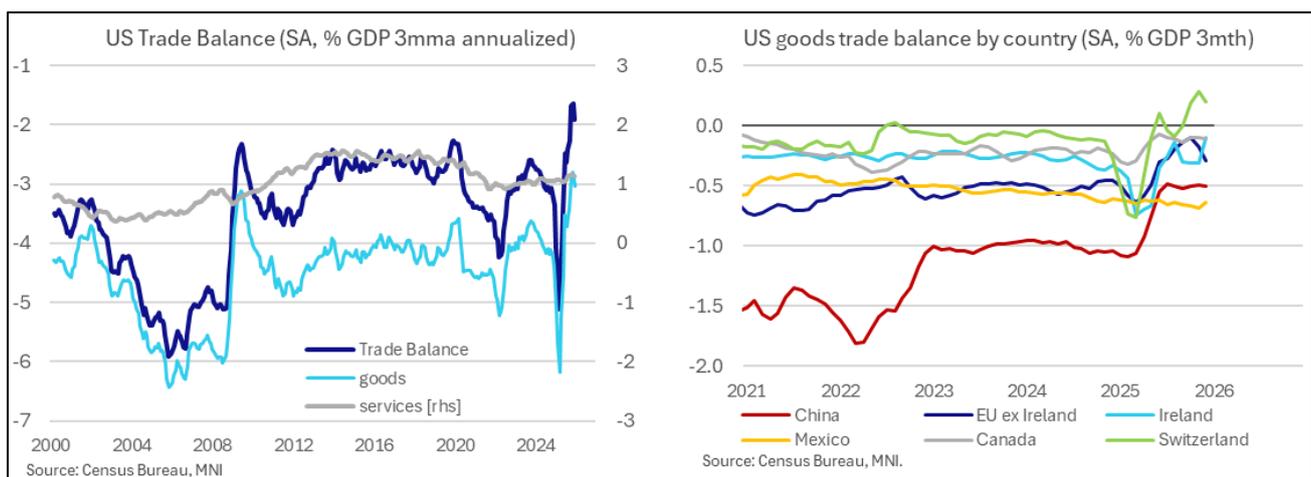
**Trade: Deficit Climbs Again With Pullback In Gold Net Exports**

*December Data Confirms China-Led Correction In 2025 Trade Balances (1/2)*

December trade data closed out 2025 with a significant narrowing in the trade deficit, with the goods & services deficit at 1.9% GDP in 4Q25 or 2.9% GDP across 2025 after 3.1% GDP in 2024. China trade balances have seen the largest correction under the second Trump administration, chiming with relative weakness in import prices compared to other major trading partners. Of course, whilst touching on import prices, NY Fed staff research published Feb 12 noted that nearly 90 percent of the tariffs' economic burden fell on U.S. firms and consumers, a note openly criticised by NEC's Hasset yesterday.

- The goods and services trade deficit was larger than expected in December at \$70.3bn (sa, cons \$55.5bn) as it continued a string of surprises in a still highly volatile period.
- Recent surprises at the point of release have included the November deficit at \$57bn vs cons \$44bn and the October deficit first printing at a particularly small \$29.4bn vs cons \$59bn.
- It left a three-month rolling deficit at 1.9% GDP and an annual deficit of 2.9% GDP for 2025 after 3.1% GDP for 2024, 2.8% GDP for 2023 and 2.2% GDP for 2022.

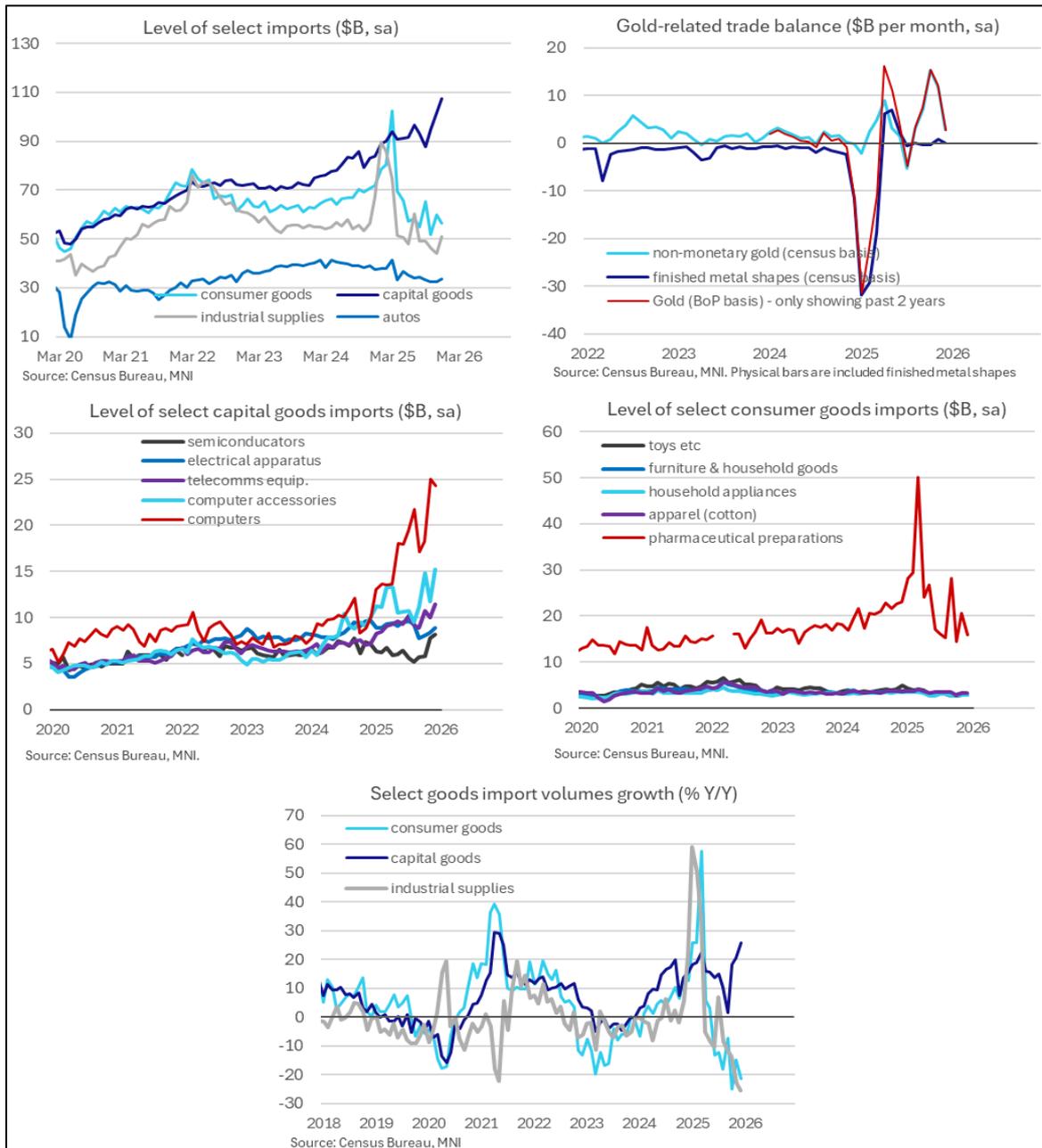
- The goods balance continues to drive trends here: the monthly deficit widened to \$99.3bn in December from \$83.6bn, whilst it averaged 3.0% GDP in Q4 or 4.0% GDP across 2025 as a whole after 4.1% GDP in 2024 and 3.8% GDP in 2023.
- Sticking with goods-only details, of the ~\$175bn narrowing in the 2025 goods deficit compared to 2024, \$93bn of that came from China, \$21bn from the UK, \$17bn from the EU and \$15bn from Canada, whilst the US deficit with Mexico actually widened by \$25bn.
- USMCA countries appear to have been sheltered by US trade policies in 2025 although the New York Times ran a story earlier today that Trump is mulling a North American trade pact without Canada.
- Alternatively, in % GDP terms, the deficit with China narrowed to 0.6% GDP in 2025 vs 1.0% GDP in 2024 and finished the year at 0.5% GDP in 4Q25. Other larger deficits include with the EU (0.7% GDP in 2025, 0.4% GDP in 4Q25) and Mexico (0.6% GDP in both 2025 and 4Q25) whilst trade with Canada is broadly balanced (deficit of 0.1% GDP).



*Lower Gold Net Exports Helped Drive Wider Trade Deficit In December (2/2)*

Lower gold net exports made up a sizeable share of the increase in the trade deficit in December, limiting what could have been a larger drag on GDP tracking ahead of tomorrow's Q4 advance update than the headlines suggested. In broader trends, tech-related capital goods imports continue to be offset by declines in consumer goods and industrial supplies in payback from tariff front-running in 1Q25.

- The surprise widening in the US goods & services trade deficit from \$53.0bn to \$70.3bn in December came on a combination of exports slipping further (-1.7% M/M after -3.4% M/M) whilst imports increased again (3.6% after 4.2%).
- The export decline was led by -2.9% M/M for goods whilst imports were led by a 3.8% M/M for goods although also saw a 2.7% M/M increase for services.
- Of the \$15.7bn monthly increase in the goods deficit, ~\$9.5bn came from lower gold net exports, mainly from gold exports continuing to pull back after a renewed strong uplift in September and October.
- That helps limit the readthrough of the drag to Q4 GDP tracking that the headline widening would otherwise imply although it will still weigh on estimates. Indeed, Atlanta Fed's GDPNow has trimmed its Q4 net exports contribution from 0.6pp to 0.0pp annualized (lowering its real GDP estimate from 3.6% to 3.0%).
- There is a wide range to main goods import drivers: consumer goods fell -6% M/M after particularly volatile readings owing to swings in pharma products, capital goods increased 5.5% M/M on a range of tech-related items and industrial sales bounced 16% M/M with increases across nonmonetary gold, copper and crude oil.
- As for longer-term trends, real goods imports are -4.6% Y/Y lower as a result of sizeable payback from consumer goods (-21.5% Y/Y) and industrial supplies (-25.5% Y/Y) following a significant tariff front-running in 1Q25. Capital goods (25.7% Y/Y) continue to buck the trend however, accelerating further for its strongest annual rate since Apr/May 2021 on pandemic base effects and before that 2H10 on GFC recovery.



**Fedspeak**

- FOMC Minutes showed a sizeable minority were open-minded to ending an easing bias
- Gov. Barr (voter) sees rates on hold for some time, AI boom unlikely to justify lower rates
- Gov. Miran (voter, dove) removes 50bp of cuts from his Dec projection, sees 100bp over 2026
- Minneapolis Fed's Kashkari ('26 voter, hawk) views policy as being close to neutral
- Chicago Fed's Goolsbee ('27 voter) warns on not tame services inflation but repeats rate cuts view

*January Minutes: Sizeable Minority Open-Minded To Ending Easing Bias (1/3)*

The key hawkish passage from the January FOMC Minutes: In the days leading up to the meeting, the dollar had depreciated markedly after reports that the Desk had made requests for indicative quotes, known as "rate checks," on the dollar-yen exchange rate. The manager noted that the Desk had requested those quotes solely on behalf of the U.S. Treasury in the Federal Reserve Bank of New York's role as the fiscal agent for the U.S. notes that "several" members wanted to keep open the possibility that the next Fed rate move could be a hike, not necessarily a cut.

- "Several participants indicated that they would have supported a two-sided description of the Committee's future interest rate decisions, reflecting the possibility that upward adjustments to the target range for the federal funds rate could be appropriate if inflation remains at above-target levels."
- In Fed parlance, "Several" is more than a "few" which is more than "a couple", but less than "some" which is less than "many". Take that for what it's worth but it's a sizeable minority that - in wanting to remove the long-held easing bias in the Statement - are eyeing a more explicitly hawkish approach. If we had to guess 4 or so FOMC members who would have supported such a change, they would include Hammack, Logan, and Schmid.
- On that note, they are roughly offset by "several participants" who "commented that further downward adjustments to the target range for the federal funds rate would likely be appropriate if inflation were to decline in line with their expectations."
- In any case the bulk of the Committee appears to be eyeing a prolonged hold, which is something that has been indicated by inter-meeting commentary: "Some participants commented that it would likely be appropriate to hold the policy rate steady for some time as the Committee carefully assesses incoming data, and a number of these participants judged that additional policy easing may not be warranted until there was clear indication that the progress of disinflation was firmly back on track."

#### *January Minutes: Policy Seen Within Neutral Range, No Hurry To Move (2/3)*

Overall, "almost all participants" supported the January rate hold, with "the current stance of monetary policy within the range of estimates of the neutral level... [leaving the FOMC] well positioned to determine the extent and timing of additional adjustments".

- "A couple of participants" (Miran and Waller) wanted to cut, on "concerns that the current stance of the policy rate was still meaningfully restrictive and viewed downside risks to the labor market as a more prominent policy concern than the risk of persistently elevated inflation."
- The latter was clearly a minority position. On the economic outlook, in short, "the vast majority of participants judged that downside risks to employment had moderated in recent months while the risk of more persistent inflation remained, and some commented that those risks had come into better balance."
- On the labor market, the doves were clearly outgunned at the FOMC table in January: "The vast majority of participants judged that labor market conditions had been showing some signs of stabilization and that downside risks to the labor market had diminished. Some participants, however, noted that even though the labor market was showing signs of stabilization, some indicators such as survey measures of job availability and the share of those working part time for economic reasons continued to suggest softening of conditions. In addition, most participants noted that downside risks to the labor market remained."
- On inflation, there wasn't optimism over a near-term return to target: "participants anticipated that inflation would move down toward the Committee's 2 percent objective, though the pace and timing of this decline remained uncertain. Participants generally expected that the effects of tariffs on core goods prices would likely start to diminish this year. Several participants remarked that the ongoing moderation in inflation for housing services was likely to continue to exert downward pressure on overall inflation. Several participants also expected higher productivity growth associated with technological or regulatory developments to put downward pressure on inflation....Most participants, however, cautioned that progress toward the Committee's 2 percent objective might be slower and more uneven than generally expected and judged that the risk of inflation running persistently above the Committee's objective was meaningful."
- And indeed, there was a warning to the dovish-leaning members here: "several participants pointed to the risk of higher inflation becoming entrenched and suggested that lowering the policy rate further in the context of elevated inflation readings could be misinterpreted as implying diminished policymaker commitment to the 2 percent inflation objective."

#### *January Minutes: Comfort With Funding Market Developments (3/3)*

On balance sheet issues, the January Minutes suggest comfort with inter-meeting funding market developments after the decision in December to initiate Reserve Management Purchases.

- SOMA manager Perli told the FOMC that (quoting the Minutes): "pressures in repo rates generally moderated. While repo rates increased notably at year-end, rate pressure was less than investors had

generally anticipated. Money market contacts attributed the better-than-expected outcome to a variety of factors, including an increase in available liquidity due to the start of reserve management purchases (RMPs) and a lower Treasury General Account (TGA), the recent changes to standing repo operations' design and communications, the increased adoption of centrally cleared repo, and the overall preparedness of investors for year-end tightness."

- Meanwhile, the Fed Staff noted the "initiation of RMPs as well as Treasury bill paydowns contributed to a reduction in upward pressures on money market rates" while "Year-end pressures in short-term funding markets were subdued; conditions were supported by additional liquidity resulting from RMPs and a smaller TGA, increased take-up of standing repo operations, and some dealers locking in financing ahead of year-end."
- Additionally, Perli highlighted that standing repo tweaks including the removal of aggregate limits "might have made market participants more willing to participate in these operations, as suggested by increased utilization relative to the pre-December period when market rates exceeded the rate on standing repo operations."
- There was a reiteration of the RMP plan which would see reserves "expected to increase until early April before dropping quickly and sharply as tax revenues flow into the TGA. At their trough, reserves were expected to be at a level comparable with what prevailed at year-end. Over most of the projection period, reserves were expected to fluctuate in a range close to \$3 trillion."
- Separately, with the Fed staff's "projection for economic activity [] stronger than the one prepared for the December meeting", "the staff's inflation forecast was slightly higher, on balance, than the one prepared for the December meeting, reflecting the expectation that resource utilization would be tighter and the path of core import prices would be higher than previously projected. With the effect of higher tariffs on inflation expected to wane starting around the middle of this year, inflation was projected to return to its previous disinflationary trend." And "risks to the inflation projection continued to be viewed as skewed to the upside".

#### *Gov Miran Removes 50bp From End-2026 Rate Cut Projection (Feb 19)*

Fed Gov Miran says in an interview with The Peg (link [here](#), firewalled) that he now sees a year-end 2026 Fed funds rate of 2.50-2.75% (100bp of cuts from the end-2025/current level), vs his December Dot Plot projection of 2.00-2.25%.

- He explains: "The labour market came in a little bit better than I came to expect over the last few months. There's been some signs of even more firming in goods inflation."
- Miran is easily the biggest dove on the Committee - and dissented in January against the hold, in favor of a 25bp cut - but this shift means that he has come back much closer to the pack in terms of 2026 rate expectations. See image below for MNI's guess of December 2025 Dot submissions for end-2026 rates; the next-closest dot to his was for 2.50-2.75%.
- Miran might not even be a governor by the March meeting (his term as Governor technically expired in January and it's unclear whether Chair nominee Warsh will take his Board spot). But combined with the January minutes released Wednesday noting that several participants wanted the FOMC Statement to reflect the possibility that hikes could be appropriate, it's been a fairly hawkish week for FedSpeak.

#### *Kashkari: Policy Close To Neutral, Some Doubt On Unemployment Rate (Feb 19)*

Minneapolis Fed Pres Kashkari (2026 FOMC voter, hawk) in his first comments on monetary policy in about a month: "My guess is we're pretty close to neutral on where our monetary policy is." Overall he doesn't reveal much about his current policy thinking. We still think he's one of the FOMC members who sees unchanged rates for the rest of the year, but he's less convinced than some of his fellow hawks that the labor market is on firm ground.

- He repeats that the neutral rate is "probably higher than it was before", with recent dynamics driving longer-term rates including "a lot more investment going into data centers" recently that means "all else being equal, rates are going to be higher".
- But he suggests that he's not entirely convinced by the apparent strength in the latest nonfarm payrolls data - or at least, he's noting anecdotal weakness: "Yesterday, for the first time in ten years, I heard businesses in North Dakota tell me we're fully staffed. That that is a notable difference to what I normally hear. And you know, I don't want to overreact to it, but that makes me think, okay, this 4.3% national unemployment rate, you know, you could look at 4.3% as a low unemployment rate historically, or one

that's almost a point higher than it was a couple of years ago. It makes me cautious that maybe the labor market is not as sound as some of the statistics would imply."

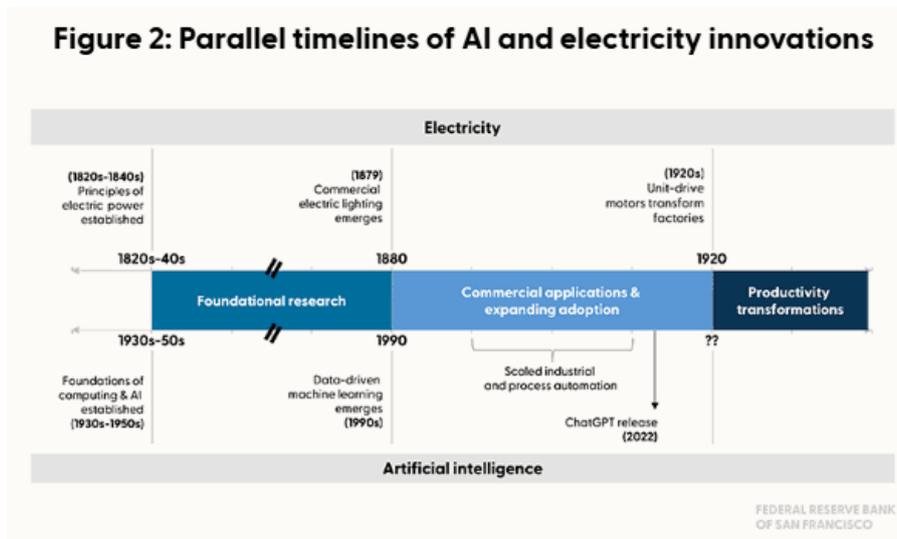
- He says that he looks forward to working with Fed Chair nominee Warsh, but in contrast to Warsh, in a separate portion of the Q&A Kashkari doesn't sound like a particular champion of a smaller Fed balance sheet: "I think that, you know, there are criticisms that maybe we're distorting financial markets, but we've shrunk our balance sheet quite a bit in the last few years. And I'm not sure that we could shrink it much further from here without making some other fundamental changes to the way the financial system operates."

*Daly: Must Be Open-Minded When Monitoring AI Impacts (Feb 18)*

SF Fed's Daly ('27 voter) yesterday gave in-depth remarks on potential impacts from AI, cautioning on the need to be open-minded in assessing monetary policy implications whilst also referring to monitoring micro data and business liaisons. The Q&A was more directly monetary policy focused, reiterating that the Fed is now modestly or slightly restrictive (chiming with remarks earlier this month that she thinks one or two more rate cuts may be needed) whilst AI is unlikely to impact the neutral rate in the short-term. Her comments compare with Fed Gov. Barr earlier in the day who concluded that the Fed should hold rates steady for some time and sees the AI boom as unlikely a reason for lowering rates.

- From the speech ([link](#)): "It is easy to see the possibilities but harder to know when and how they will evolve. So far, most macro-studies of productivity growth find limited evidence of a significant AI effect. Even firms that say it's useful find little evidence of transformative gains. Some of this could be timing. [] But it could also be that we are simply not there yet."
- Looking back to the mid-1990s: "Then-Chair Greenspan offered a different view. He distrusted the official productivity numbers, finding them at odds with the surge in information technology investment we were seeing. He posited that the burgeoning computer revolution would spur sustained productivity growth, allowing the economy to grow faster without putting upward pressure on prices. In this scenario, the economy would not need to be bridled, and interest rates would not need to increase. He found evidence for this possibility in the disaggregated micro data, including what he was hearing from executives."
- Liaison programmes are particularly important: "talking to businesses matters. Businesses invest, experiment, and learn long before we see it in aggregate productivity data. Incorporating this information and seeing how it supports or negates what we expect is essential to making appropriate policy decisions."
- "It is a reminder that monetary policy is a forward-looking business. To get it right, we must be grounded in what we see and open-minded to what's possible."
- From the Q&A: An AI-induced acceleration in productivity growth would dictate a higher neutral rate in "the standard model" because "the demand for investment would rise relative to the supply of savings" but any analysis would be far from clear cut.
- "Maybe it raises the neutral rate a little bit. We need to be a little humble about what we think the impact on the neutral rate will be."
- The no hiring, no firing state of the labor market makes the economy a little vulnerable, pointing out that there hasn't really been job growth outside of health or education sectors.
- The Fed needs to get inflation down and make sure it's on a good path.

Figure 2: Parallel timelines of AI and electricity innovations



Source: Federal Reserve Bank of San Francisco

Gov. Barr: Rates On Hold For Some Time, AI Boom Unlikely To Justify Lower Rates (Feb 17)

Fed Governor Barr (voter) has given a speech on "What Will Artificial Intelligence Mean for the Labor Market and the Economy?" ([link](#)), concluding that the Fed should hold rates steady for some time. That chimes with our existing view that he was likely one of the four dots looking for one cut across 2026 back at the Dec SEP (the median view). Going against a productivity argument that some expect potential incoming Fed Chair Warsh to make in enabling the Fed to lower rates, Barr sees the AI boom as unlikely to be a reason for lowering rates.

- "The prudent course for monetary policy right now is to take the time necessary to assess conditions as they evolve. I would like to see evidence that goods price inflation is sustainably retreating before considering reducing the policy rate further, provided labor market conditions remain stable,"
- "Based on current conditions and the data in hand, it will likely be appropriate to hold rates steady for some time as we assess incoming data, the evolving outlook, and the balance of risks."
- "I see the risk of persistent inflation above our 2 percent target as significant, which means we need to remain vigilant."
- The January jobs report offered assurance that the labor market is stabilizing, but "it is a delicate balance, and that means that the labor market could be especially vulnerable to negative shocks".
- AI could disrupt the labor market in the short term but is likely to create new jobs and augment productivity and boost real wages over the long run, he said.
- AI investment and higher productivity growth would imply a higher neutral rate but also be inflationary in the short run. We list his argument in full here: "In the event that GenAI results in a long-lasting boost to productivity growth, wages and economic activity could grow more than would otherwise be the case without putting upward pressure on inflation. At the same time, demand for capital would rise because of the strong business investment required to take advantage of the technology, putting upward pressures on interest rates, and household savings could fall due to expectations of stronger real wage growth and thus higher lifetime earnings, also putting upward pressure on interest rates. All of this would imply a higher setting for the policy rate when the economy is at equilibrium, or what monetary economists call  $r^*$ . Indeed, last year I raised my long-term estimate of  $r^*$  modestly because of higher productivity. Moreover, in the short term, investment in AI could be inflationary—for example, if electricity supply constraints from inefficiencies in the power grid collide with strong energy demand from the building of data centers. For all of these reasons, I expect that the AI boom is unlikely to be a reason for lowering policy rates."

Goolsbee Warns On Not Tame Services Inflation But Repeats Cuts View (Feb 17)

Chicago Fed's Goolsbee ('27 voter, generally dovish but dissented hawkishly at Dec FOMC) spoke on CNBC in which he unsurprisingly reiterated his post-CPI comments from Friday that the January report had some encouraging bits but also some concerns, with still pretty high services inflation.

- He again warned that services inflation remains elevated but if price hikes linked to tariffs are a one-off, it could allow policymakers room to move.
- "I do think that if this proves to be transitory, and we can show that we're on path back to 2% inflation, I still think there's several more rate cuts that can happen in 2026, but we've got to see it".
- Monetary policy may not be that restrictive if inflation is steady around 3%, he said. "If inflation runs persistently high, we're loosening -- we're being looser than we otherwise would. That's why I say I want some evidence we're headed back to 2% and then I think rates can keep coming down".
- The January CPI report showed further disinflation in shelter prices, but services inflation is "not tame" and core came in at a 3.6% annualized M/M rate, he said. "So far I think we've been basically stalled out around 3% with some positive signs but also some warning signs," he said. "I want to get more information."
- Returning to Friday's remarks, recall that he still thought it would have been wiser to wait rather than cut in December but had repeated that he still thinks interest rates can still go down a fair bit more.

**STIR: Near-Term Rate Cut Odds Fall Further**

- Generally solid data and a hawkish addition to the FOMC minutes has helped seen a further trimming of near-term rate cut expectations that received a boost last on the January payrolls report with surprisingly strong payrolls growth and a dip in the unemployment rate.
- A next Fed rate cut is now only just fully priced for July although it does still build to a cumulative 56bp of cuts by end-2026 for only modest change vs the 59bp before last Wednesday's NFP report.
- Indeed, the SOFR futures terminal implied yield is still on the low side of recent range at 3.08%, having recently bottomed at 3.005% after last Friday's CPI report but still comfortably below a ytd high nearing 3.30% (looking at prior closes).



Fed Funds futures implied rate for Jun26 FOMC. Source: Bloomberg Finance L.P. Times in GMT

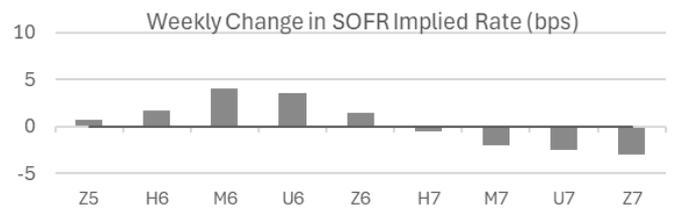
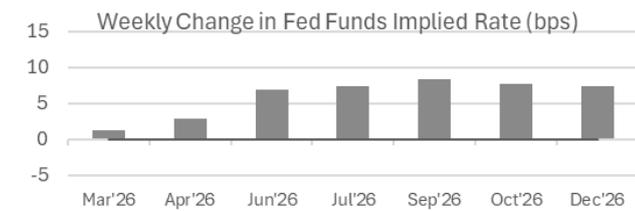
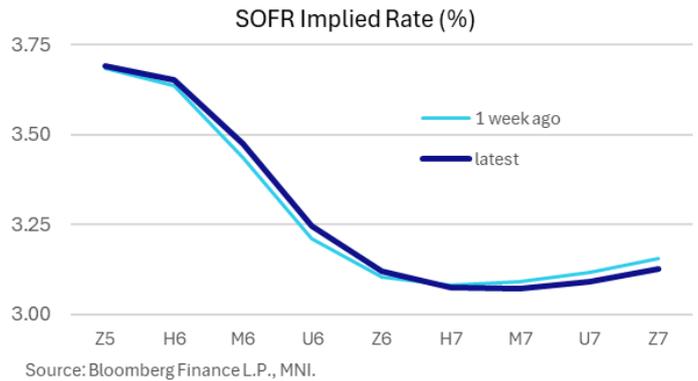
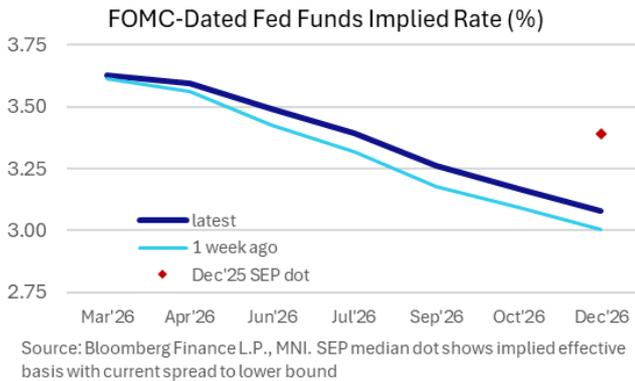
**FOMC-dated Fed Funds futures implied rates**

Meeting	Latest			pre GDP/PCE (Feb 20)			chg in rate	pre NFP (Feb 11)			chg in rate
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	bp	%	step (bp)	cum. (bp)	bp
Effective	3.64			3.64				3.64			
Mar'26	3.63	-1.4	-1.4	3.62	-2	-1.6	0.2	3.59	-5	-5	4.0
Apr'26	3.59	-3.4	-4.8	3.58	-4	-5.8	1.0	3.52	-6	-12	6.9
Jun'26	3.49	-10.0	-14.8	3.47	-11	-16.6	1.8	3.38	-15	-26	11.6
Jul'26	3.39	-10.0	-24.8	3.37	-10	-26.8	2.0	3.28	-9	-36	10.9
Sep'26	3.26	-13.2	-38.0	3.24	-14	-40.5	2.5	3.17	-11	-47	8.8
Oct'26	3.17	-9.0	-47.0	3.15	-9	-49.2	2.2	3.11	-6	-53	5.8
Dec'26	3.08	-9.2	-56.2	3.06	-9	-58.4	2.2	3.05	-6	-59	2.8

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

Weekly changes:

+11,000.00



## Analyst View Changes

### Wells Fargo Officially Pushes Next Fed Cut Call Back To June From March

Wells Fargo has specified its Fed rate cut expectations, after it noted following the January employment report that there were risks to its baseline view for March and June cuts. While still looking for two 25bp cuts this year, those have been pushed back until June and September.

- Wells Fargo: "In our view, the recent stabilization in labor market conditions significantly lowers the likelihood of a March rate cut. Downside risks stemming from the labor market have diminished but not completely disappeared. This leaves additional cuts later this year still on the table, especially given the more benign inflation outlook." (They forecast core PCE to fall from "just under" 3% Y/Y in Q1 to 2.6% Y/Y in Q4 2026 and 2.3% by Q4 2027).
- They also acknowledge that "Given our generally constructive forecasts for the labor market and inflation, we acknowledge the balance of risks remain tilted toward fewer rate reductions this year."
- We count 12 analysts who postponed their rate cut views from March after seeing the January payrolls data out last week.
- At this point there are only a couple of analysts that we are aware of who explicitly looking for cuts before the June meeting: Citi and Jefferies who see the next reduction in April. (A few others had previously seen a March cut but we haven't seen any updates in the last week.)

### The US Macro Week Ahead: Delayed PPI For January Headlines A Quieter Week

It's a relatively quiet week ahead for US data, with the highlight being the delayed January PPI report on Friday. This should help shore up core PCE tracking after strong implied readings following the January CPI, unusually because of particularly strong for legal services (which must be backed out from the miscellaneous personal services category rather than having a separate CPI series). We think focus should be twofold: on broad core PPI pressures after a robust 0.36% M/M and 3.50% Y/Y back in December plus the usual core PCE specific components such as airfares, health services and portfolio management & investment advice. Away from PPI, mention also goes to the MNI Chicago PMI for February and the Conference Board consumer survey. The MNI Chicago PMI gave a strong lead before last month's surprisingly strong increase in the ISM manufacturing survey. The labor differential within the Conference Board survey meanwhile has been continuing to deteriorate and points to a notable upward trend in the unemployment rate in contrast to the recent push lower seen in official BLS data to January (bearing in mind the February BLS payrolls report follows on March 7).

Date	ET	Impact	Event
23 Feb	1000	**	Factory New Orders
23 Feb	1030	**	Dallas Fed manufacturing survey
24 Feb	0800		Chicago Fed's Austan Goolsbee
24 Feb	0830	**	Philadelphia Fed Nonmanufacturing Index
24 Feb	0855	**	Redbook Retail Sales Index
24 Feb	0900	**	FHFA Home Price Index
24 Feb	0900	**	FHFA Quarterly Price Index
24 Feb	0900		Atlanta Fed's Raphael Bostic
24 Feb	1000	**	Wholesale Trade
24 Feb	1000	***	Conference Board Consumer Confidence
24 Feb	1000	**	Richmond Fed Survey
24 Feb	1030	**	Dallas Fed Services Survey
25 Feb	0700	**	MBA Weekly Applications Index
25 Feb	0935		Richmond Fed's Tom Barkin
25 Feb	1320		St. Louis Fed's Alberto Musalem
26 Feb	0830	***	Jobless Claims
27 Feb	0830	***	PPI
27 Feb	0942	***	MNI Chicago PMI