

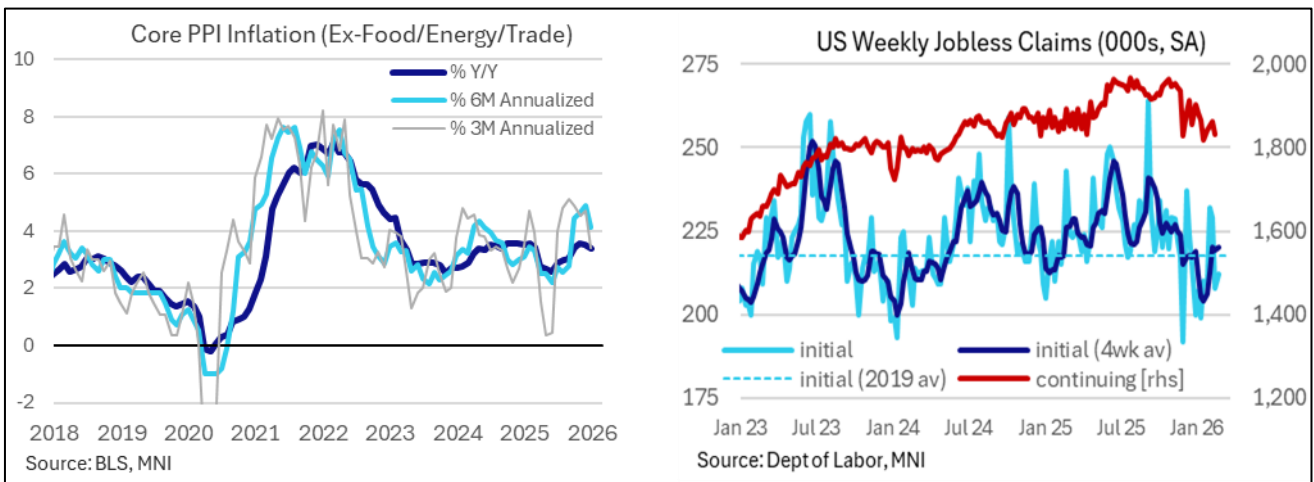
MNI U.S. Macro Weekly

MNI View: Risk-Off Before Data Resumes In Earnest

February 27, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- PPI inflation was stronger than expected at a headline level in January but core PPI was in line with M/M expectations for January alone and a little softer after factoring in downward revisions. Still, core input cost pressures clearly remain elevated despite a slightly softer print.
- Weekly labor indicators were solid by recent standards for both ADP and jobless claims, although the Conference Board’s labor differential continues to point to a trend increase in the u/e rate.
- Business surveys were mixed although the MNI Chicago PMI in February extended what was a particularly sharp increase in January before surprise ISM manufacturing strength.
- 10% tariffs under Section 122 came into effect on Tuesday, with President Trump’s weekend threat of 15% tariffs not being made into a formal order but supposedly still being in the pipeline. Effective tariff rates should only be slightly smaller to those under the previous IEEPA-heavy regime, assuming they’re set at 15%, although the Section 122 tariffs can only be in place for 150 days before needing Congressional approval to extend.
- In Fedspeak, Governor Waller (voter, dove) currently sees the March rate decision as a coin toss that will depend on upcoming February data, firmly in contrast to Fed Funds futures pricing just 1.5bp of cuts.
- Governor Cook (voter) meanwhile added to various official comments fearing a scenario in which monetary policy would be unable to address structural job losses under AI displacement if there is a rise in the natural rate of unemployment.
- Rates markets are ending the week at their most dovish but still only price a cumulative 15bp of cuts for the June FOMC decision having mid-week touched their most hawkish levels in months.
- The next cut is fully priced for July (25bp) whilst a combination of geopolitical risks, private credit exposure and AI bubble fears weigh further out on the rate path, with 60bp of cuts to year-end and a SOFR terminal yield of sub-3.00% set for its lowest close since November.
- After a quieter week for data, next week sees ISM manufacturing and services surveys before February nonfarm payrolls and January retail sales reports both at 0830ET on Friday.
- These are some important updates before the March 17-18 FOMC meeting with its new SEP, with further notable releases the following week including CPI for February (Mar 11) and PCE for January (Mar 13).

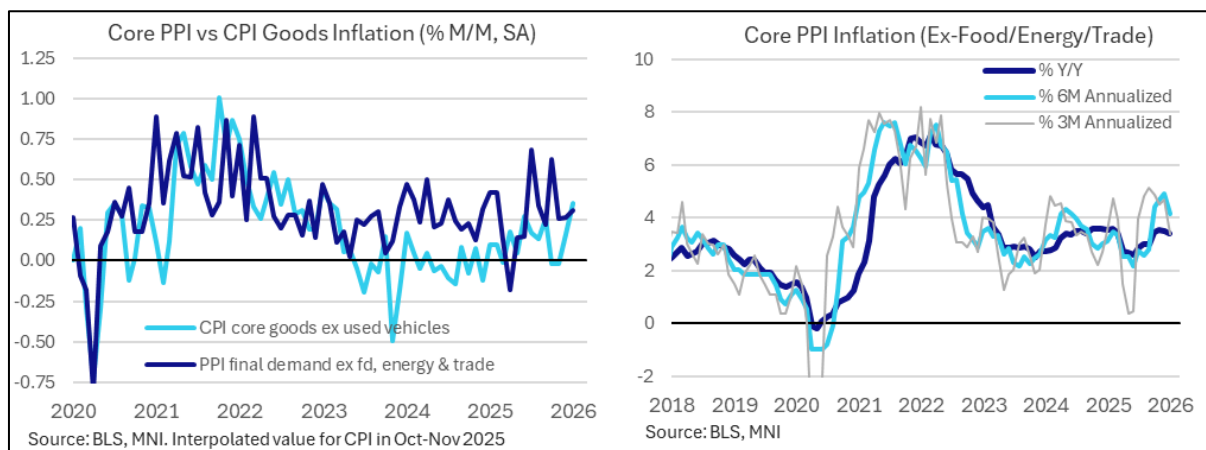


Inflation: Core PPI Not Quite As Strong As First Thought But Trend Remains Firm

PPI Beat From Volatile Trade Services, Preferred Core Softer On Balance

PPI inflation was stronger than expected at a headline level in the delayed January report but core PPI was in line with M/M expectations for January alone and on the whole a little softer after factoring in downward revisions. Still, despite a slightly softer print in January, core input cost pressures clearly remain elevated.

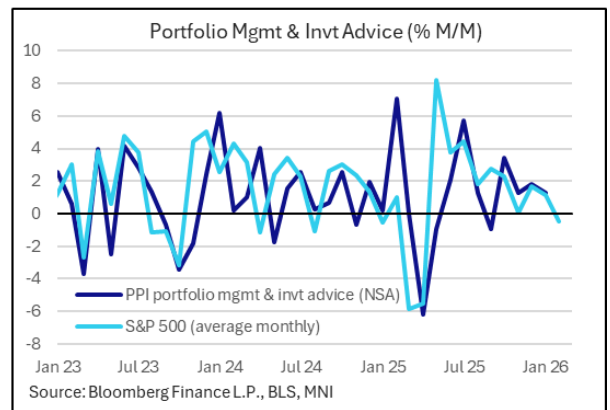
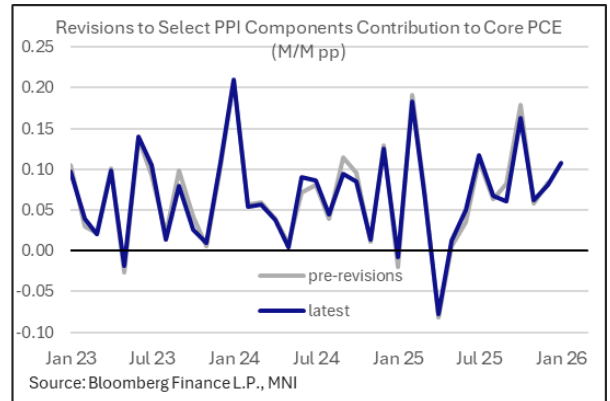
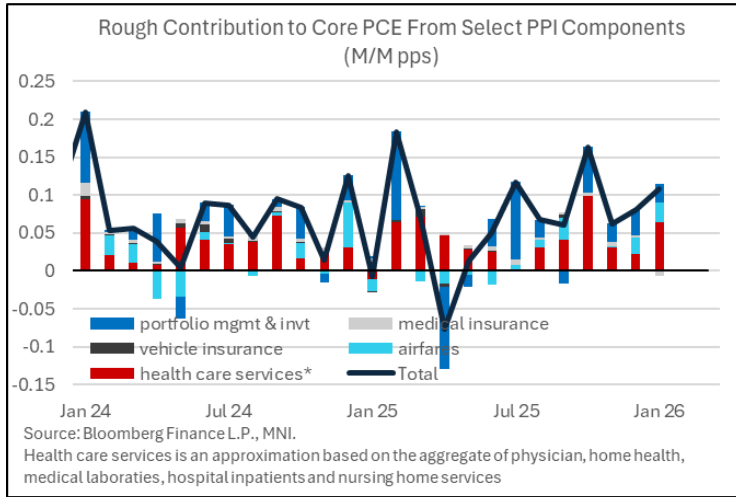
- Final demand 0.48% M/M (sa, cons 0.3) in Jan after a slightly downward revised 0.43% (initial 0.49%) in Dec.
- However, it was boosted by another strong increase in the volatile trade services category (2.5% after 1.8%).
- Our preferred core PPI metric (ex food, energy & trade services) meanwhile was exactly as expected at 0.31% M/M (sa, cons 0.3) after net downward revisions worth -0.07pp over the prior four months, most recently following 0.27% M/M (initial 0.36) in Dec and 0.26% (vs 0.22) in Nov.
- Core PPI eased to 3.4% Y/Y (cons 3.5) after 3.52% in Dec and a recent high of 3.56% in Nov (highest since Feb 2025). Whilst it has cooled slightly, it still hold most of the acceleration from the recent bottoming at 2.6% in June and compares with the 2.3% Y/Y averaged in the three years ahead of the pandemic.
- The six-month seasonally adjusted rate meanwhile eased but to a still strong 4.1% annualized after 4.9% (revised from 5.2%) in December, continuing to suggest near-term upside pressures to the Y/Y ahead.



Solid PPI Readthrough To Core PCE But Tracking Already Elevated

Our proxy for core PCE inputs from the PPI details firmed a little further compared to December but we don't expect it to have a major impact on core PCE tracking considering already high estimates.

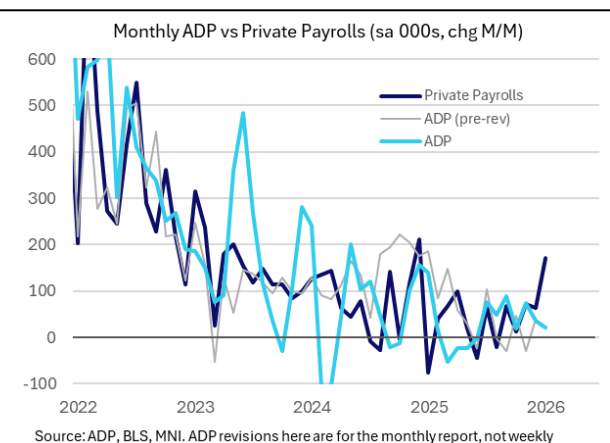
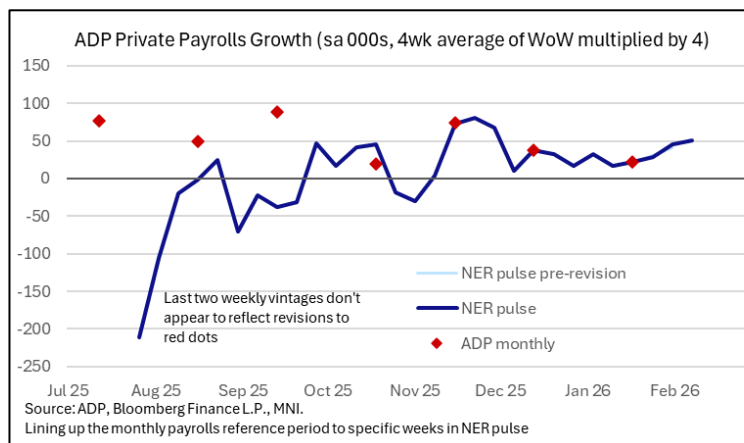
- Our crude take across a variety of health care services, airfares, vehicle insurance and portfolio management & investment advice increased to a 0.11pp contribution to M/M core PCE inflation after 0.08pp in Dec (unrevised), following 0.06pp in Nov (unrevised) and 0.16pp (lowered from 0.18pp) in Oct.
- With unrounded core PCE estimates already tracking at a median 0.39% M/M after the January CPI report from two weeks ago, at what would be further strength after the 0.355% M/M currently reported for December core PCE, we continue to expect estimates rounding to 0.4% M/M for the January PCE release due Mar 13.
- As noted beforehand, these post-CPI estimates for core PCE were running in a particularly wide range of 0.19-0.49% M/M which we suspect was in reasonable part due to a handling of a very strong rise in CPI legal services adding 0.1pp to core PCE alone. It was easy to miss as it doesn't have its own series and instead have to be backed out from the miscellaneous personal services category.
- Within the PPI details, physician services did indeed see a strong increase with 0.83% M/M after 0.03% (sa figures) whilst portfolio management & investment advice increased a solid 1.3% after 1.8% (nsa figures).



Labor: Relative Resilience In Weekly Indicators Continues

Solid Weekly ADP One Week Out From Monthly Reference Period

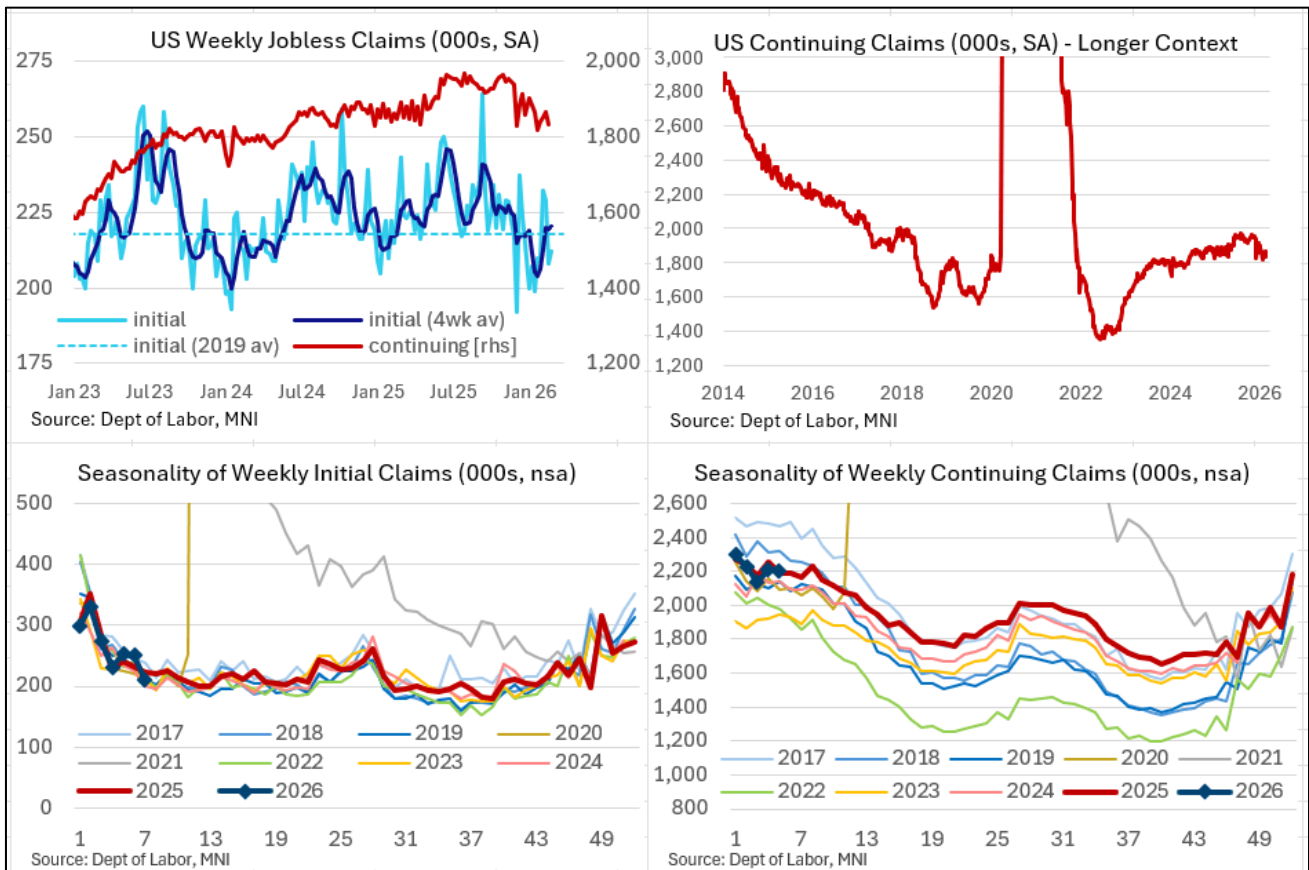
- ADP employment increased an average 12.75k per week in the four weeks to Feb 7, a fresh high since late November.
- It follows an upward revised 11.5k in the four weeks to Jan 31 (initially 10.25k) and a marginally downward revised 7.25k (vs 7.75k) to Jan 24.
- Stopping one week from the reference period taken for next week's February report, the monthly equivalent of 51k looks solid compared to the 22k in January and 37k in December. It's softer than the 74k shown in November after huge revisions a few weeks back having originally been reported as a 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 (a reminder of limited correlation on a month-to-month basis between the two measures).



Initial Claims Lower Than Exp; Continuing Third Lowest Since Start 2025

After last week's sudden drop, initial claims for the week of Feb 21 came in at 212k - still within recent ranges but below consensus expectations of a 216k reading. This comes after a now upwardly revised week of Feb 14 of 208k (revised up 2k) which make the figure now the joint lowest since the Jan 10 week. Continuing claims for the week of Feb 14 - a nonfarm payrolls reference week - meanwhile fell more than expected to 1,833k (1,858k consensus, 1,864k prior revised from 1,869k). This was the joint third lowest print since the beginning of 2025 but was higher than the low of that period seen 4 weeks prior.

- The modest 4k recovery in seasonally adjusted claims means the series continues to print well below its recent highs seen around late January, and suggests a consolidation around levels associated with the more typical "low hiring, low hiring" jobless claims reports seen for several months prior to recent weather-related (we think) volatility.
- Non seasonally-adjusted initial claims indeed came in at a just 193k, the lowest since the week of Sep 27 last year, with the gap between SA and NSA prints consistent with expectations that residual seasonality would have pointed to more pronounced increases in the SA readings if NSA had seen less of a drop this time.
- On a medium-term look, the latest reading left the seasonally-adjusted 4-week moving average at 220k, unchanged for three weeks now and continuing to represent the highest since last November. The measure continues to be boosted upwards from the late-Jan / early-Feb prints.
- Continuing claims meanwhile fell this time after three consecutive upticks. Comparing the most recent reading to past nonfarm payrolls reference weeks puts the print towards the lower end of the spectrum recently observed (1,819k Jan 17 but 1,914k Dec 13 and higher readings before that). This especially applies considering that continuing claims readings have shown a strong tendency to be revised lower in the next weekly update.
- Having said that, keep in mind Waller comments from Monday, discounting the signal from seemingly-solid weekly initial jobless claims, highlighting their long-term remarkable consistency often did not feed through to the unemployment rate historically.

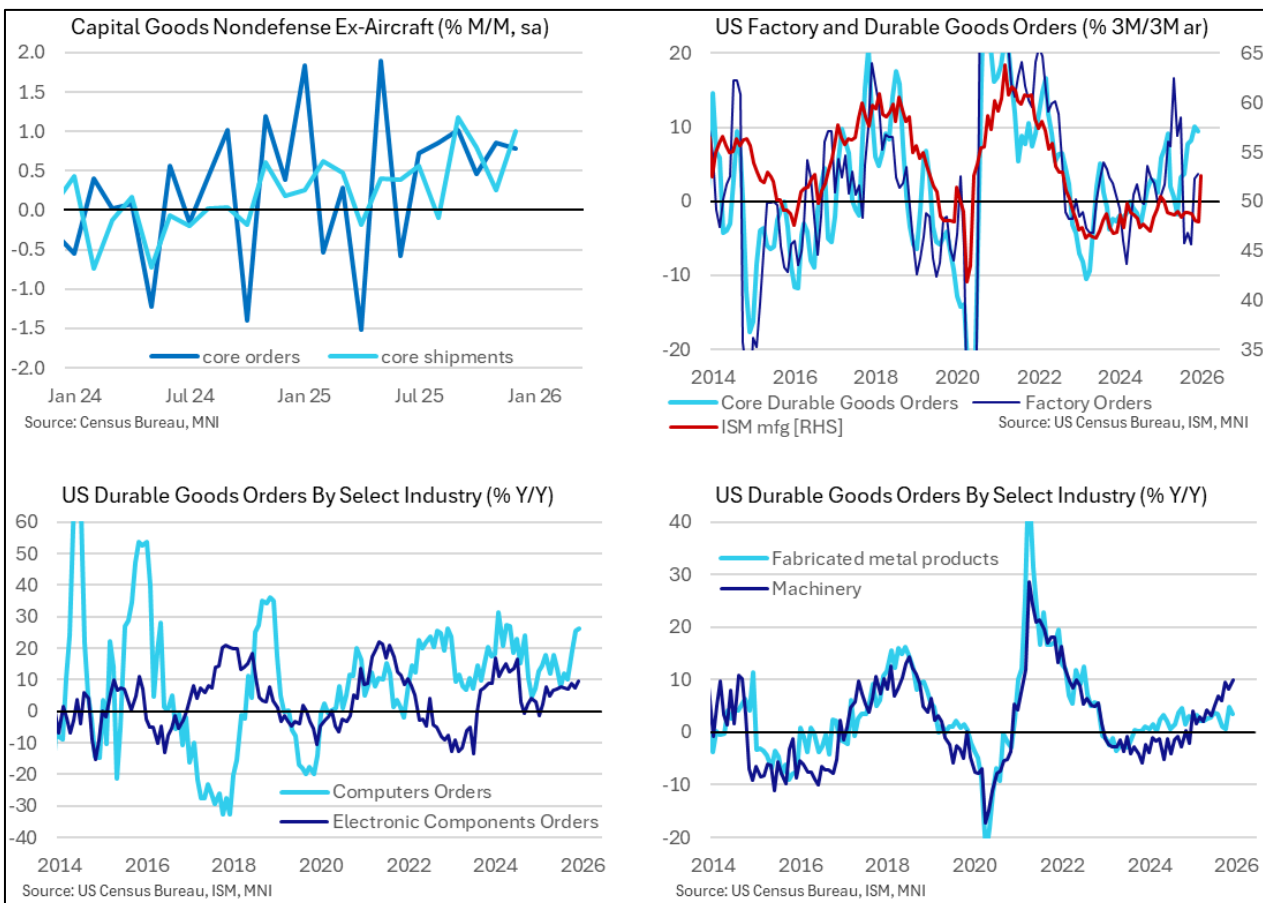


Growth: Recent Solid Momentum In Orders and Retail Sales Indicators Continues

Core Orders Revised Higher Less Than A Week After Preliminary Report

Factory orders were a touch softer than expected in December as they eased after a strong November, leaving a relatively tepid Q4 in implied real terms. Core durable goods painted a stronger picture however, especially after being revised higher from last week's preliminary release of just four working days ago, in a release that helps support an upgrade in 4Q25 / 1Q26 business fixed investment estimates.

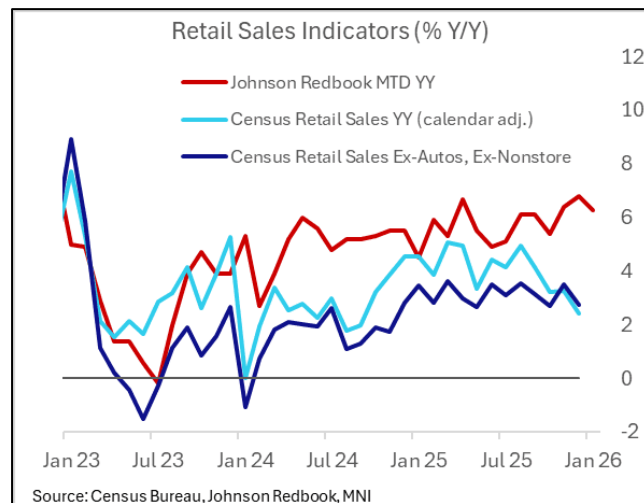
- Factory orders (\$618bn) were close to expected in December as they slipped -0.7% M/M (sa, cons -0.6) after a strong 2.7% M/M increase in November.
- Finalized December figures for the smaller durable goods orders subset (\$320bn) were unrevised at -1.4% M/M from preliminary estimates released just four working days ago.
- Core durable goods orders (\$79bn) did however see a more impressive upward revision to 0.79% M/M (prelim 0.6 vs an original consensus of 0.3) considering the short turnaround time, after 0.86% M/M (initially 0.79) in Nov.
- Core durable goods shipments also saw upward revisions to 1.0% M/M (prelim 0.9) in Dec and 0.3% (initially 0.2) in Nov.
- Chiming with booming tech-focused capital goods imports, orders of computers continue to grow strongly (3.0% M/M, 26% Y/Y) as well as those for electronic components (1.6% M/M, 10% Y/Y). They are however still a relatively small share of broader orders at \$1.7bn and \$5.4bn.
- Factory orders saw a relatively tepid 3.7% annualized increase in Q4 considering it's a nominal measure, for a similar trend pace to the 4.3% Y/Y. It follows some volatile quarters including -4.2% in Q3, 8.8% in Q2 and 8.1% in Q1.
- Core momentum looks strong though, with core orders up 6.2% Y/Y in Dec and 9.4% annualized in Q4, whilst shipments have been catching up with 5.8% Y/Y in Dec and 8.5% annualized in Q4.



Redbook Retail Sales Still Tracking Solidly Through Late February

Retail sales growth slowed to 6.7% Y/Y in the week ending February 21 compared with 7.2% the week prior, per the Johnson Redbook index. But this still kept month-to-date sales tracking 6.8% going into the last retail week of the month, which would mark the joint-highest since 2022.

- We still don't have release dates for the Census Bureau's January or February retail sales reports, which will be closely watched after December's very weak figures.
- Y/Y Census control group came in at a 16-month low 3.4% in December, vs a 6.8% rise in Redbook, so there is a clear gap forming between the two.
- Indeed in contrast to solid Redbook readings, data out last week showed real goods sales pulled back sharply in Q4 (-0.1% Q/Q annualized, just the second negative quarter since January 2023; and down 0.1% Y/Y in December, the first such decline since March 2023), with overall private consumption supported by sustained if slowing services spending (3.4% annualized in Q4).
- The Redbook report comments: "Retailers said President's Day sales early in the week helped clear out leftover winter inventories, but did not boost overall sales much. Pricing and promotions were the main drivers of business.



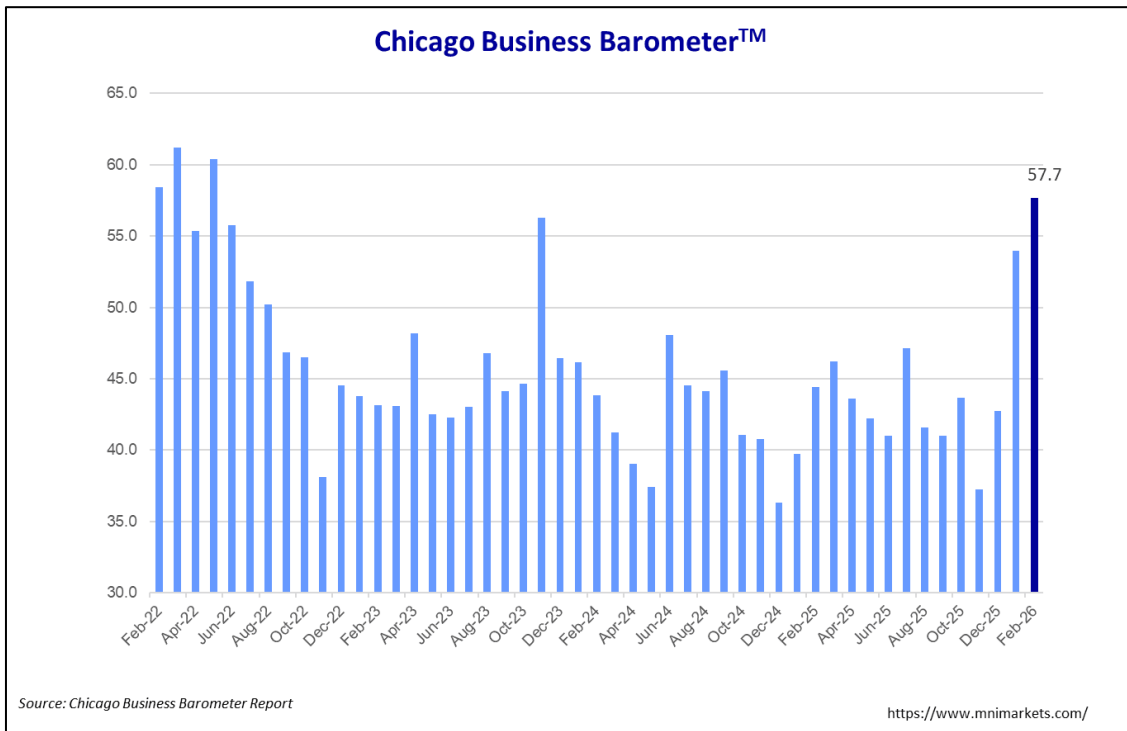
With most schools and offices closed on Monday, President's Day, and mild weather in many areas, demand for spring clothing and other seasonal items increased, especially in warmer regions. Discount stores that offered fewer promotions saw mixed results. Several traditional brick-and-mortar retailers will report their financial results this week and next. As the fourth-quarter earnings season wraps up, many retailers are dealing with widespread store closures."

Business Sentiment: Mixed Mfg Including A Further Increase In MNI Chicago PMI, Services Softer

Chicago Business Barometer™ - Climbed to 57.7 in February

The Chicago Business Barometer, produced with MNI, climbed 3.7 points to 57.7 in February. Extending January's strong increase, it saw a second consecutive month in expansionary territory after a run of twenty-five months below the key 50 mark.

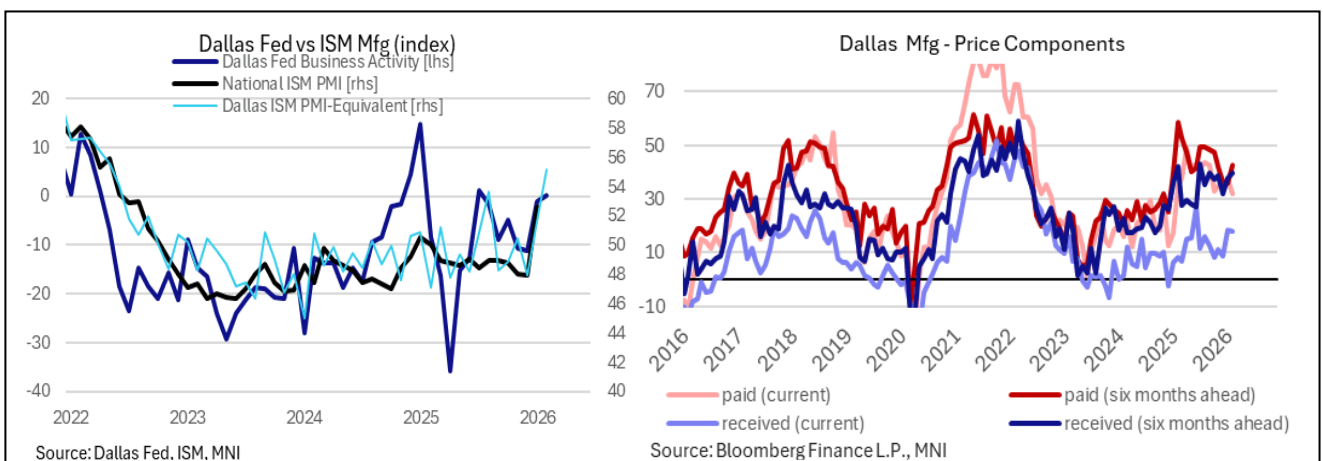
- The rise was driven by increases in Production, Employment, New Orders and Supplier Deliveries. A decline in Order Backlogs provided some offset.
- Production strengthened 9.0 points to the highest level since November 2023, and marking two months above 50.
- Employment grew 7.7 points to the highest level since October 2021. The index is in expansionary territory for the first time since November 2023.
- New Orders rose 2.9 points to the strongest level since January 2022.
- Supplier Deliveries nudged 1.4 points higher, remaining strong and uninterrupted.
- Order Backlogs slipped 4.5 points, now back in contractionary territory after one month above 50.
- Prices Paid ticked up 2.4 points, partially unwinding January's sharp decrease.
- Inventories dropped 8.0 points, also back in contractionary territory after one month above 50.
- The survey ran from February 1 to February 11.



Dallas Fed Manufacturing Shows Continued Strength In February

The Dallas Fed's Texas Manufacturing Outlook Survey showed a modest uptick in the general business activity gauge in February, to 0.2 from -1.2 to mark a 7-month high, with production marking "an above-average pace of output expansion."

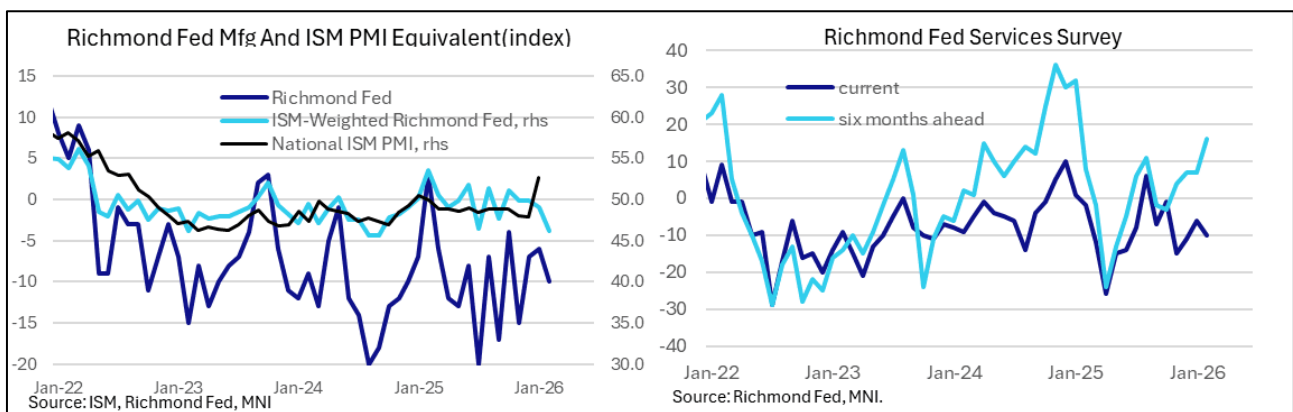
- This was a positive development, but was even more impressive when converting the subindices to national manufacturing ISM PMI weights: on this basis per MNI's calculations this was the strongest report since mid-2022 (around 55), after January's marked the 2nd highest since mid-2022. This reflected continued strength in New Orders, Production, Employment, Delivery Times, and Inventories.
- On another positive note, prices paid moderated to 31.7 from 37.1 for a 13-month low, while prices received receded slightly (17.9 after 18.5). 6-month ahead metrics ticked up but remained within recent months' historically elevated ranges.
- Tuesday's Richmond Fed reading and Kansas City's on Thursday will round out the month's regional Fed readings ahead of the ISM Manufacturing report for February out on March 2. Empire (strong) and Philly (weak) were mixed on the ISM-equivalent front.



Richmond Fed Activity Weak Across Manufacturing And Services (1/2)

The Richmond Fed's Fifth District activity surveys showed deterioration in February vs January, which was particularly acute in the manufacturing report though services were also soft.

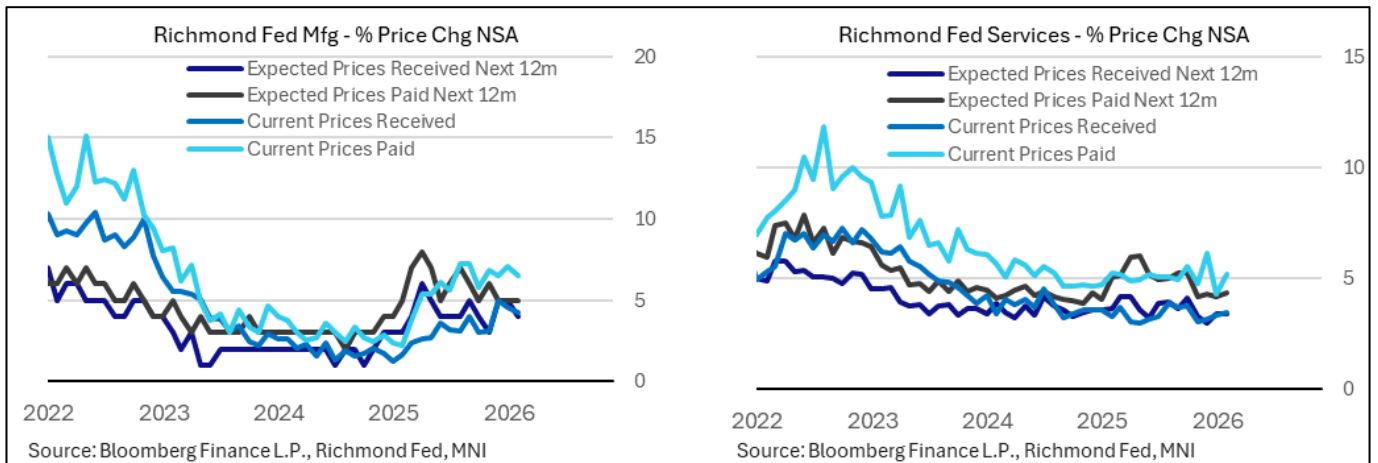
- The manufacturing composite index dropped to -10 from -6 (-5 had been expected), with deteriorations in new orders, shipments, and employment.
- By MNI's calculations, the manufacturing subindices reweighted to an ISM equivalent showed a drop to just over 46 from 49 prior, marking the weakest since September 2024. This was in contrast with the NY and Dallas surveys which saw upticks in their ISM manufacturing equivalents in February, though mirrored a decline in Philadelphia.
- There's no ISM equivalent for the regional services survey, but the Richmond Fed's report was weak, with a pullback in the local conditions index to -10 from -6 (-6 had been expected) being identical to that of the manufacturing index, though this was merely a 2-month low. Revenues, demand, and employment all declined.
- The 6-month outlook improved in both cases but this is often the case in months where the current reading is weak, suggesting that firms see improvement from a weaker base of comparison as opposed to delivering a reliable signal of future activity.
- The report doesn't include any anecdotal explanations for the results - the region includes Washington D.C., Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.



Richmond Fed Manufacturers Showing Some Disinflation Progress (2/2)

Regional price dynamics were mixed in the February Richmond Fed surveys, with much clearer disinflationary dynamics evident for manufacturers than for services firms - in keeping with trends seen in other regions.

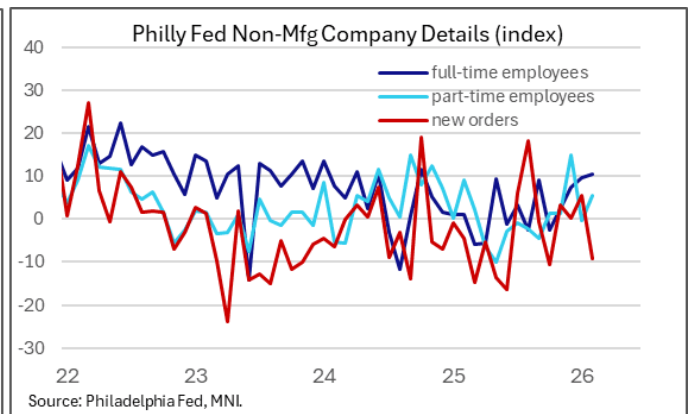
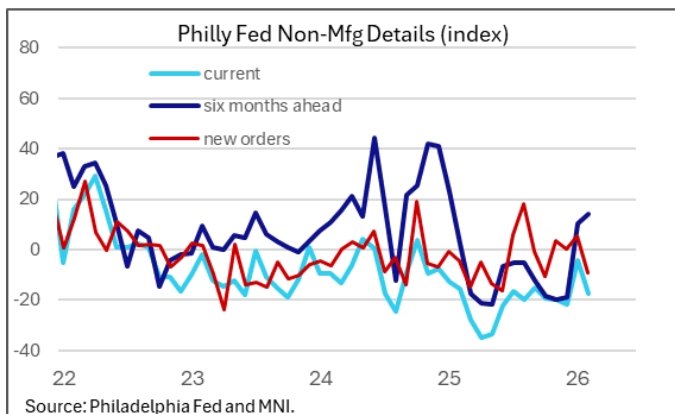
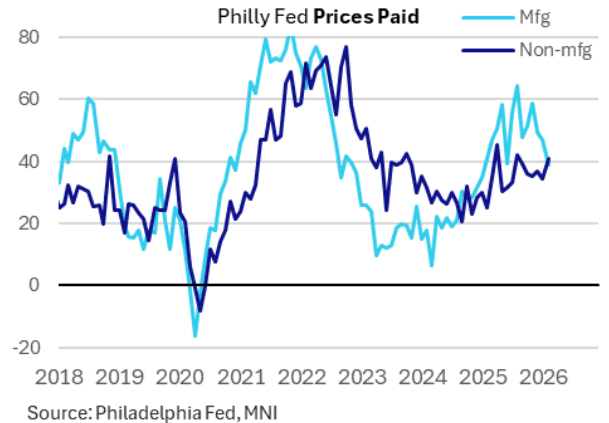
- Current prices paid picked up for services, to 5.2% from 4.3% (reported on a 12-month lookback basis), remaining within the range of recent months; for manufacturers the gauge dropped to 6.5% from 7.1% (which had been a 4-month high).
- Prices received for services ticked up to 3.5% from 3.4% for a 4-month high, vs a 3-month low 4.3% for manufacturers (down from 4.6% prior).
- Expected paid/received prices were steady/slightly higher for services but steady/lower for manufacturers.



Soft Philly Fed Services Activity Comes With Stubborn Price Pressures

The Philadelphia Fed's Nonmanufacturing Business Outlook Survey showed a sharp deterioration in activity in February, with some worrying developments on the inflation front.

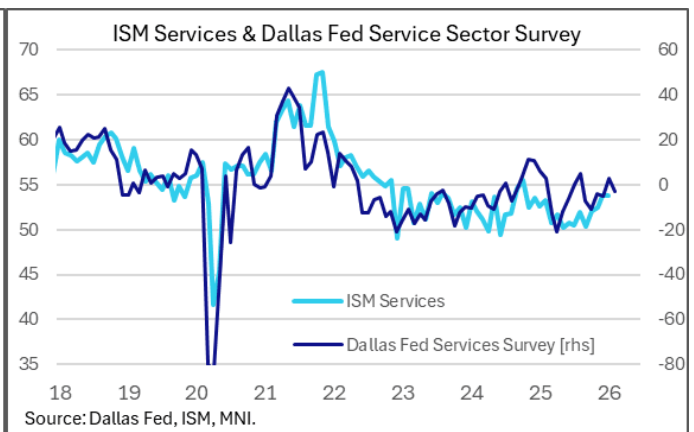
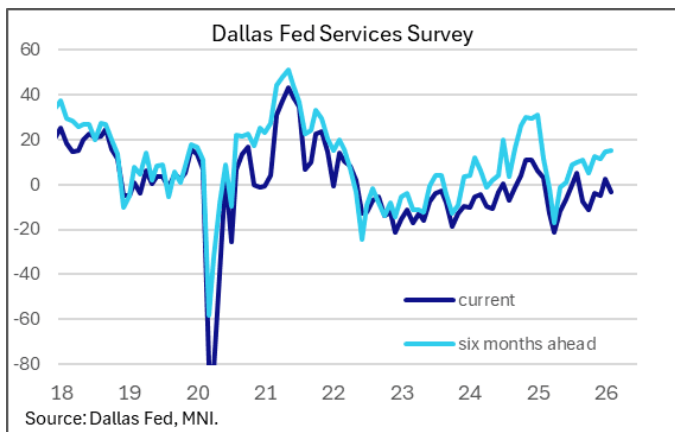
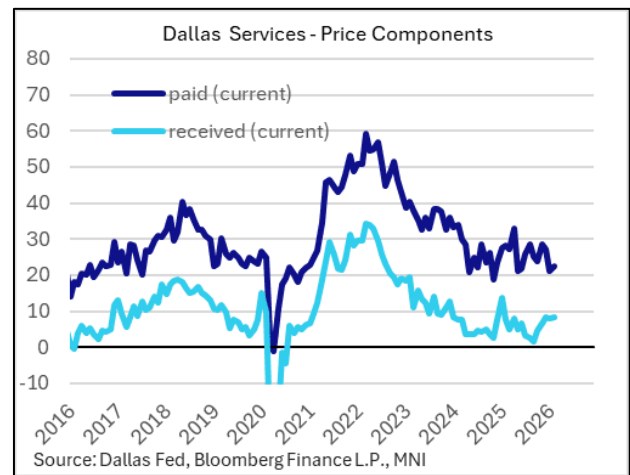
- The regional general activity index dropped to -17.3 after a surprisingly high -4.2 in January (which had been a 15-month high). Firm-level activity was also weaker at 5.8 after 16.2.
- New orders fell sharply (-9.3 after 5.5 for the worst reading in 4 months) and sales/revenues dropped 17 points to 8.2, with the key positive development being on the employment front with full-time employees printing a 16-month best 10.6. Additionally, firms expected better activity in six months' time.
- We took particular note in the sharp rise in price gauges, with paid up to 40.7 for a 6-month high after January's 34.5 marked a 6-month low; prices received rose 9 points to 22 for the highest since May 2023.
- This was the first time the non-manufacturing prices paid gauge exceeded that of manufacturing since October 2024, and corresponded with regional Fed services surveys elsewhere which have shown stubborn prices paid in February (largely in contrast to manufacturing counterparts). The pickup in prices received also suggests services firms are feeling a little more confident in their pricing power.



Texas Services Another Weak February Fed Regional Survey

The Dallas Fed's Texas Service Sector Outlook Survey was mixed-to-weak. This is the 4th of 4 regional Fed services/nonmanufacturing surveys to see a decline in February's headline index vs January's (Kansas City will be the last to report).

- The general business activity index fell to -3.2 from positive 2.7 (which had been the first positive month since August 2025), with the revenue index ("a key measure of state service sector conditions", per the Dallas Fed) falling 3.7 points to 4.1. Expectations for activity over the 6-month horizon was basically steady at 15.0 though the pickup from 14.7 prior meant the highest reading in 13 months.
- There were pullbacks in employment (including part-time), wages, and capex, though uncertainty dropped (9.3 after 16.5).
- Price gauges showed no further disinflationary progress after descending in the two prior months: current prices paid ticked up to 22.4 (21.1 prior which had been an 8-month low), and received up to 8.3 from 7.9. That puts prices received at a 13-month high, albeit only barely (December was 8.2), though illustrated that services pricing power is improving after a mid-year 2025 lull to post-pandemic lows.
- We continue to observe relatively stubborn price pressures across regional Fed services surveys, though in the case of Texas, there was never much of a pickup in services prices (or passthrough) to begin with.
- The anecdotal comments mentioned mixed price developments - some respondents see a decrease in pressure, others are still grappling with significantly higher input costs for supplies, services, and utilities - with multiple complaints about high interest rates, political/policy uncertainty, and to a lesser extent, demand.



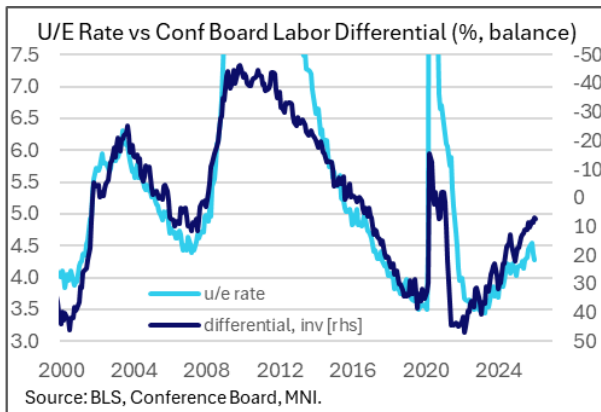
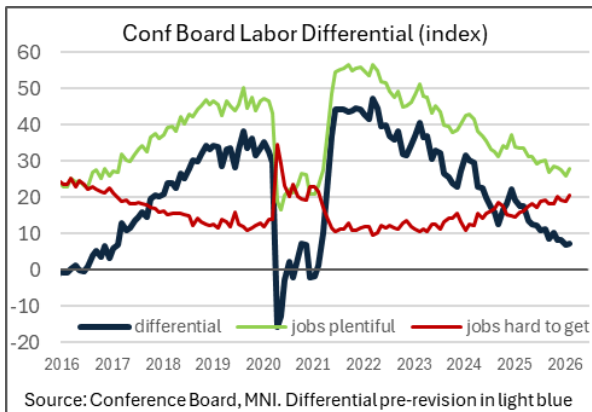
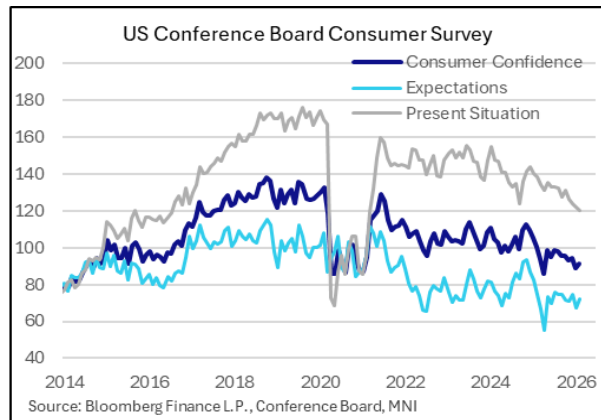
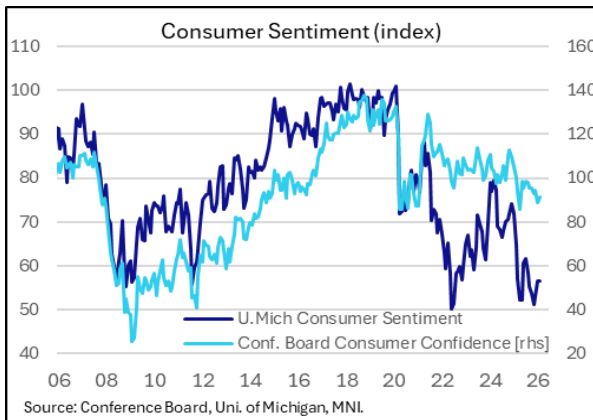
Consumer Sentiment: Stabilizing

Conference Board Consumer Confidence Stabilizes After January Drop

Conference Board consumer confidence firmed in February after a still solid decline in January despite a large upward revision, with the February improvement driven by expectations as assessment of the present situation softened. The labor differential also improved a bit although doesn't alter an implied uptrend in the unemployment rate.

- The Conference Board consumer confidence index was higher than expected in February as it increased to 91.2 (cons 87.1) after a solidly upward revised 89.0 (initial 84.5) in January.
- It's another large revision for the series, which suggests increased caution is needed in interpreting the initial reading, after December was revised up 5pts to 94.2 with last month's update.

- These revisions have altered the recent path but the broad trend continues to show one of relative weakness. The latest 91.2 reading compares with an Apr 2025 low of 85.7 (which was initially surpassed in January for its lowest since 2014 before that latest upward revision), the Nov 2024 recent high of 112.8 following the presidential election result and an average of 104 since Jan'23-Oct'24.
- Improvements in confidence were concentrated in expectations (up from 67.2 to 72.0) whilst the present situation eased to 120.0 from a heavily upward revised 121.8 (initial 113.7).
- Within the details, the labor differential inched higher to 7.4 after an upward revised 6.8 (initially 3.1), with the latter still marking its lowest since Feb 2021.
- Jobs plentiful increased from 25.8 to 28.0 (highest since Nov) but jobs hard to get also rose to a new recent high of 20.6 from 19.0 (last higher Feb 2021).
- This differential continues to point to a sizeable uptrend in the unemployment rate, countering recent stabilization/declines in the unemployment rate from the BLS payrolls report at a surprisingly low 4.28% in January vs 4.44% in September prior to the government shutdown.



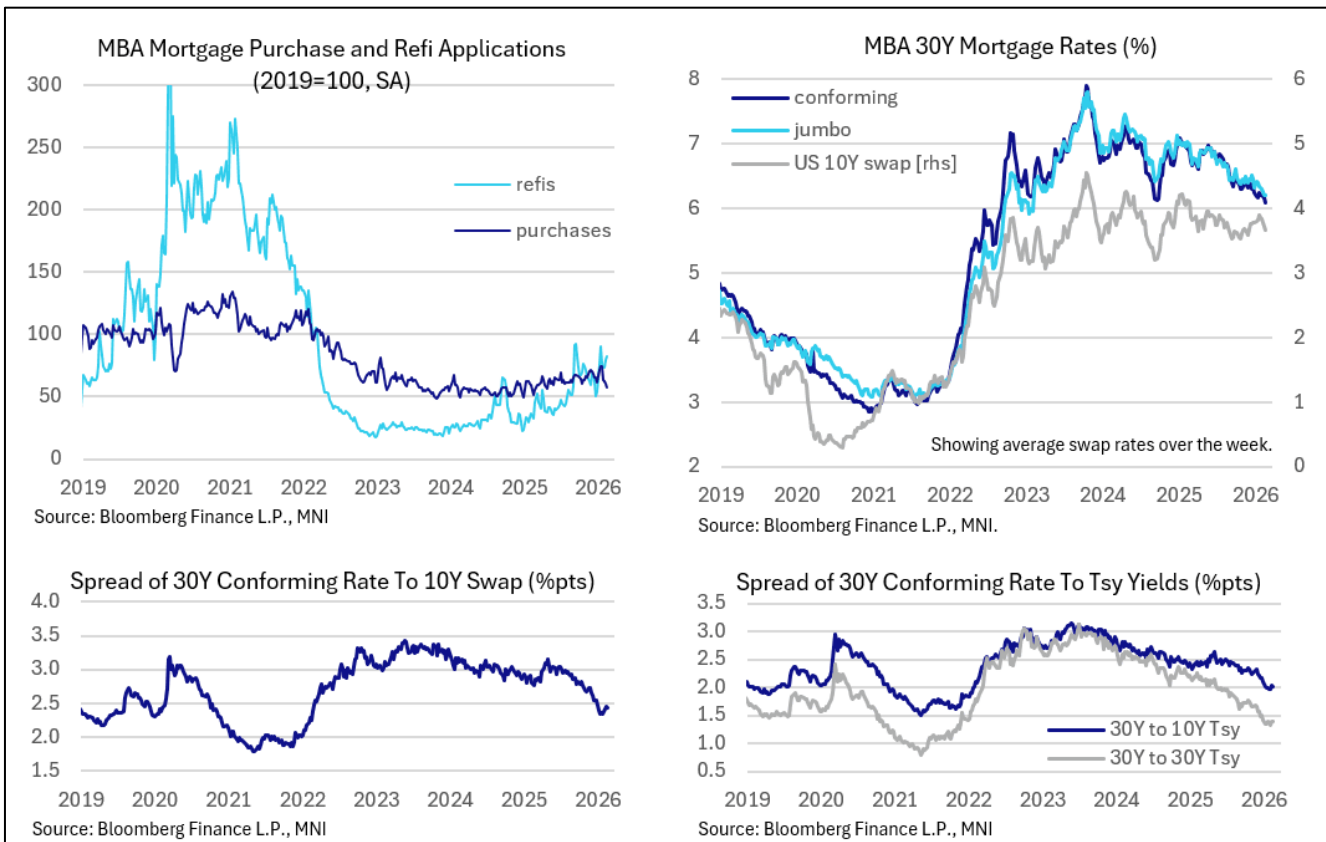
Housing: Purchase Applications Sag

Mortgage Refi Applications Solidify On Lower Rates But Purchases Sag

Mortgage applications were flat in the week of Feb 20, rising 0.4% W/W, though refinancing and purchase dynamics were very different.

- The trend of declining purchase applications (-4.7%, the 5th consecutive contraction) continued, with the level of purchases now at the lowest since late April 2025. That had been on the back of a 20bp spike in 30Y mortgage rates amid trade policy uncertainty; the latest slowdown can't be explained similarly with rates hitting the lowest since September 2022 (6.09%, down 12bp in 2 weeks).
- Home sales have sagged since late last year, including a record low number of pending sales in January, due perhaps in part to bad weather in late January but overall affordability concerns remain paramount.

- Refinancing applications are however rising as rates fall: the 4.1% W/W increase in the latest week brought the level of refi apps to the 2nd highest level since September 2025, which also came after a decent fall in rates (30bp in 3 weeks).



Trade: The Latest In US Tariff Developments

- Section 122 in for IEEPA:** 10% global tariffs came into effect on Tuesday under Section 122 (BoP grounds, not used before), as announced by President Trump following the Supreme Court's ruling against IEEPA tariffs on Feb 20.
- Trump has also said this will be raised to 15% - the maximum permitted under Section 122 - but no formal order has been given yet. Various newswires on Tuesday reported that the Trump administration is currently working to change it to 15%, with Reuters adding there has been "no change of heart" after only moving ahead with 10% today but with timing unclear.
- These Section 122 tariffs will apply broadly to all imports although with some key exceptions. Products already subject to Section 232 duties - such as steel, aluminium, copper, lumber, and automobiles - are excluded to the extent that existing 232 tariffs remain in force.
- Section 122 tariffs can be in place for 150 days (Jul 24) until requiring congressional approval to be extended.
- Effective tariff rate:** Assuming the 15% option is used, the effective tariff rate should only fall from 9.8% seen through December to 9.1% on a consistent concept basis per Penn Wharton Budget Model analysis ([link](#)).
- Fiscal impact:** IIEPA revenues were worth up to \$175bn per Penn Wharton Budget Model analysis ([link](#)). Bessent on Friday after the tariff ruling noted that using alternative methods like Section 232 (a national security justification) or Section 301 (unfair trade practices) means tariff revenue generation won't drop or slow.
- Since then, the WSJ has reported that the Trump administration is also considering new Section 232 tariffs on a half-dozen industries, potentially covering large-scale batteries, cast iron and iron fittings, plastic piping, industrial chemicals and power grid and telecom equipment.

- **IEEPA refunds:** The decision is being pushed back to international trade courts after the Supreme Court's ruling didn't specify what should happen to funds generated under IEEPA. Bessent on Friday: "My sense is that could be dragged out for weeks, months, years, so we'll see what happens there. [] I got a feeling the American people won't see it." USTR's Greer: "So it's a matter for the courts. They created the situation, and we'll follow whatever they say to do."
- Importers generally have 180 days after goods are 'liquidated' to protest and request refunds from U.S. Customs and Border Protection.

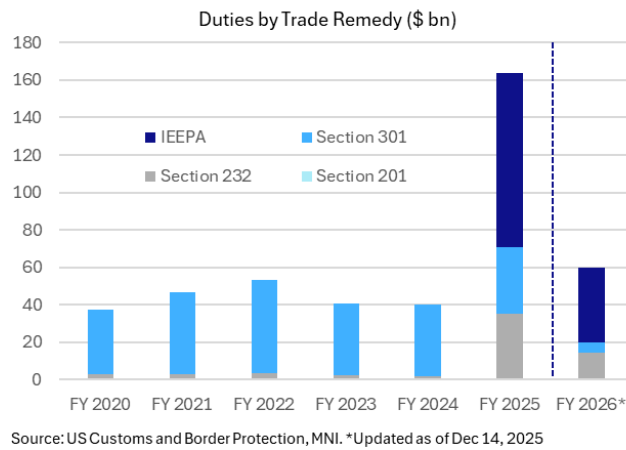
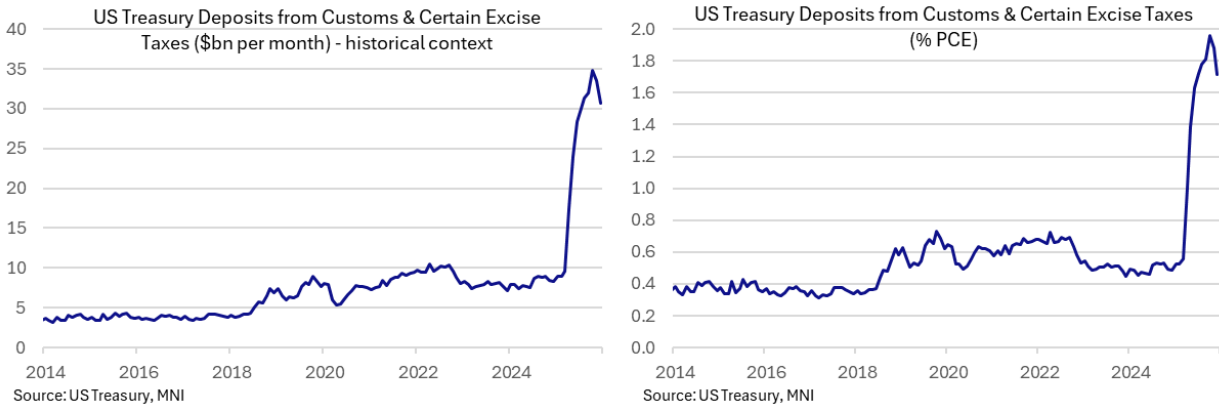
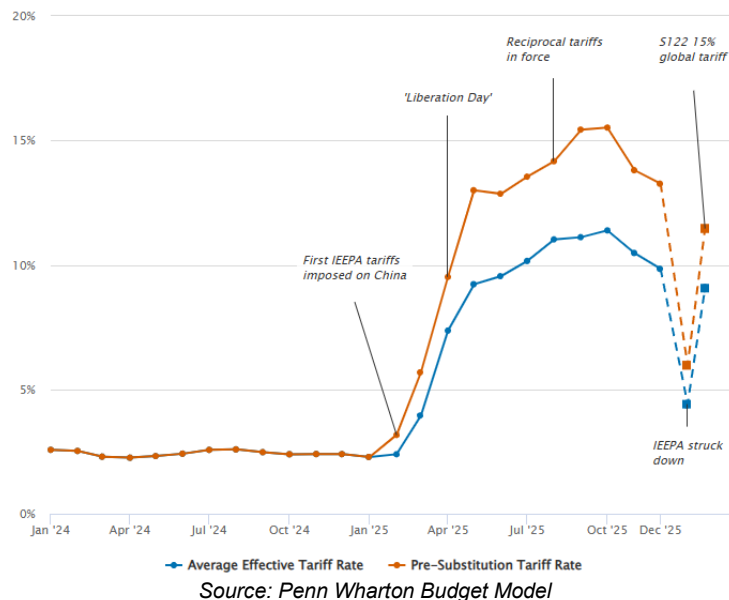


Figure 1: Aggregate Tariff Rates



Fedspeak

- Gov. Waller (voter, dove) sees the March rate decision as a coin toss, depending on Feb data. He reiterates that labor demand is still not healthy and calls the signal from jobless claims data into question
- Gov. Cook (voter) joins FOMC debate on potential NAIRU issues from AI
- Gov. Miran (voter, dove) reiterates recent revised call for 100bp of cuts in 2026, in 4x25bp increments
- Richmond Fed's Barkin ('27) sees policy well-positioned with risks "on both sides"
- Boston Fed's Collins (non-voter) prefers to hold rates for "some time" on grounds of persistent inflation

Miran Re-iterates Call For 100bp Cuts in 2026, In 4x25bp Increments (Feb 26)

Headlines from Fed Governor Miran's interview with Fox Business via Reuters:

- "MIRAN: LABOR MARKET DATA HAS BEEN QUITE A BIT BETTER BUT IT IS TOO EARLY TO SOUND AN ALL CLEAR"
- "MIRAN: AI WILL BE "PROFOUNDLY DISINFLATIONARY"
- "MIRAN: PRICES RIGHT NOW SEEM STABLE"
- "MIRAN: DO NOT THINK THE U.S. HAS AN INFLATION PROBLEM NOW"

On policy rates (also via Reuters); "MIRAN: THE FED SHOULD CUT A PERCENTAGE POINT THIS YEARS, IN FOUR QUARTER POINT CUTS THAT COME SOONER THAN LATER"

- Consistent with his Feb 19 interview, where he noted 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%.

Gov Cook Joins FOMC Debate On Potential NAIRU Issues From AI (Feb 24)

Fed Governor Cook was the latest FOMC participant to highlight the potential for AI-related job losses as part of a transitional phase for the labor market, and the dilemma that could pose for Fed policy. She and other officials appear to fear a scenario in which monetary policy would be unable to address structural job losses under AI displacement if there is a rise in the natural rate of unemployment. The tone has been broadly hawkish on this front in the sense that policymakers could be more hesitant to ease policy in the event of a rising unemployment rate, for fear of stoking inflation.

- In a speech Tuesday Cook said "The AI transition I am contemplating could have profound implications for monetary policy. If AI continues to raise productivity, economic growth could remain strong, even as churn in the labor market leads to an increase in unemployment. In a productivity boom such as this, a rise in unemployment may not indicate increased slack. As such, our normal demand-side monetary policy may not be able to ameliorate an AI-caused unemployment spell without also increasing inflationary pressure. This means that monetary policymakers would face tradeoffs between unemployment and inflation. While there is a role for monetary policy, education, workforce, and other policy that is nonmonetary may be better suited to address these challenges in a more targeted way."
- This take on labor market dynamics under AI echoes comments this morning by Atlanta Fed President Bostic, who noted that if AI changes the way businesses employ people throughout the economy, "then all of our benchmarks are going to have to change -- how we think about what a good jobs number is, what unemployment rate that's reasonable should be. They're just going to be different. We will have to recalibrate our thinking about what appropriate policy is because the same number is sending a different signal."
- Earlier this month, Gov Barr also said similar: "If AI causes a large and long-lasting dislocation of workers, permanently reducing demand for many kinds of jobs, it could imply higher rates of unemployment, even when the economy is healthy and operating close to its potential. Monetary policy is able to address cyclical conditions, like a downturn in the business cycle, but it cannot address the structural factors that determine the long-run rates of employment."
- We should also note though that the risks aren't perceived as one-sided; Barr said last year for example "If AI shifts the workforce toward groups that have higher labor force attachment but lower unemployment rates (such as college graduates), the result could be downward pressure on u^* ."

- Gov Miran - the FOMC's biggest dove, and a proponent of rate cuts in part because higher productivity allows inflation to subside - is less concerned about the potential for AI result in structural job loss, saying last week in an interview with The Peg: "I don't think that we can conclude that there's going to be some structural increase in unemployment, that's a long term increase in unemployment, because that hasn't really happened for previous technological bouts. Why would we conclude that this, alone, in all of human history, is a technology that we will never recover from economically? That's a bold claim that I don't really see a lot of reason for accepting."
- And Gov Waller, also a dove, said Tuesday that he was skeptical that AI would produce widespread job losses.

Gov Waller: March Rate Decision Is A Coin Toss, Depends On February Data (Feb 23)

Gov Waller lays out his current thinking on the March FOMC decision in a speech Monday at the NABE ([link](#)), describing his possible support of a hold or a 25bp cut as a "coin flip" whose outcome will ultimately depend on the upcoming February jobs and inflation reports. Recall that Waller dissented to January's hold in favor of a 25bp cut, and appears to be shifting his outlook in a more neutral direction after the January nonfarm payrolls report - like his fellow dove/January dissenter Gov Miran. Overall this underlines that the FOMC's tone has become more cautious on further easing since the end of 2025 and may require evidence of downside labor market risks manifesting before restarting cuts.

- Waller says of the March decision that "assuming underlying inflation continues to signal we are close to our 2 percent goal, the key to setting appropriate policy will be my view of the labor market. If the labor market data for February are consistent with the stronger job creation and low unemployment rate initially reported in January, indicating that downside risks to the labor market have diminished, it may be appropriate to hold the FOMC's policy rate at current levels and watch for continued progress on inflation and strength in the labor market. But if the good labor market news of January is revised away or evaporates in February, it would support my position at the FOMC's last meeting, that a 25-basis-point reduction in the policy rate was appropriate, and that such a cut should be made at the March meeting. As things stand today, I rate these two possible outcomes as close to a coin flip.
- We get February payrolls data on March 6 and CPI on March 11, with the FOMC decision on March 18.
- In January, "I felt that the risk of a substantial downturn in the labor market combined with a limited risk of higher inflation warranted another cut, bringing the policy rate closer to a neutral setting. Even in the absence of some data due to last year's government shutdown, a factor cited by some FOMC colleagues voting to pause, the balance of risks for me were weighted toward further policy easing." He says that "the January employment report came in substantially stronger than I and most forecasters and market participants expected".
- However he's not quite convinced yet - the weak overall labor market performance of the preceding year meant January's report was "not conclusive that the labor market is on a more solid footing and, hence, also not conclusive about the proper setting of monetary policy". And January "job gains were concentrated in a few sectors of the economy, primarily health care and construction", while "initial payroll reports for January in each of the past few years have seen big revisions downward in subsequent reports a month or two later" with ADP, Revelio, and Challenger data pointing toward a weaker month than recorded in the official figures.
- But with "asterisks" surrounding the January data that potentially suggest "the jobs report may contain more noise than signal", Waller will be looking February inflation and employment data due before the mid-March FOMC: "if these data support the idea of an improvement in the labor market in January that continued in February, along with additional progress toward 2 percent inflation, that could result in my outlook turning a bit more positive and my view of appropriate monetary policy may tilt toward a pause at our upcoming meeting."
- On inflation, "I estimate that what I call underlying inflation—inflation without the effects of tariffs—is close to the FOMC's 2 percent goal."
- Waller says that the Supreme Court ruling on IEEPA tariffs "may have a positive impact on spending and investment, but how large that impact may be and how long it could last is unclear" and overall "is unlikely to have a significant impact on my view of the appropriate stance of policy."

Gov Waller: Labor Demand Still Not Healthy (Feb 23)

In Q&A following his speech, Fed Gov Waller cites the latest data to reiterate previous view that labor market demand is weakening more than supply, with reference to the January jobs report and the benchmark revisions:

- "If all of the decline [in payrolls] that we saw last year was purely immigration, so that labor supply fell more than demand, you should see the following things. Vacancies go up, wages get bid up. People should say it's [getting easier] to find a job. Firms should be saying it's harder to find workers. That's if labor supply is driving everything. Now, if it's labor demand that's driving everything, what should happen? Vacancies should go down, wages should be going down. You should have workers saying it's very hard to find a job. You should have firms saying it's very easy to find workers. Which of those two cases are you hearing right now? That's what I mean. You can't just look at quantities and tell me what's driving it... right now, all the data that I've seen for the last year is telling me it's the labor demand is falling more than labor supply. And I just told you that jobs [growth] last year was 181,000. And that's going to get revised down, trust me. 2.9 million people entered the labor force despite the immigration [net decline]. This is not looking like labor supply is really the problem. It's labor demand. So until we can fix that, I just don't think you're going to see a very healthy labor market."
- That sounds a lot like passage of the January FOMC minutes which notes "Some participants...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."
- He acknowledges that the weak jobs growth alongside still-low household unemployment is something of a puzzle that will have to resolve: "If it looks like you just don't have any labor force growth and the economy's doing fine and the unemployment rate stays roughly where it is, I guess you say, good enough for me. Even with the immigration stuff, our labor force is growing like 7/10 of a percent. Zero Job growth just doesn't map into any kind of stability in terms of employment and whatnot. So this would be the first time in my career, my life, that I saw an economy growing like this, and zero job growth. I don't even know really quite how to think about it, to be honest, because I've never seen it before. So I either think that you'll see some return to job growth coming in this next year as some of the stuff I mentioned in the beginning fades away, or we're in a period of economic activity I've never seen in my life and don't really know quite how to think about it. But it's just concerning not to see any job growth in an economy where you have labor force growing and somehow the unemployment rate doesn't change. Something's going to get corrected. I don't know what it is, but something has to."
- Waller discounts the signal from seemingly-solid weekly initial jobless claims, saying of their remarkable consistency: "I mean they've been like 200 (thousand weekly), 220 for like five years. They just don't seem to move. I don't even know what signal to take. They go up, they go down, they go up, they go down. No matter what happens with the unemployment rate, it doesn't show any kind of secular trend. Plus the labor force grows over time. 200,000 was the standard years ago. But the labor force keeps growing. So if you look at claims to the size of the labor force, they've just done this continually in a downward trend. So I don't really know sometimes what to make out of the initial claims. Somebody once joked that state computers can only process so many claims a month, no matter how many come in. So the number is always the same."

Boston's Collins: Hold Rates For "Some Time" On Persistent Inflation (Feb 24)

Boston Fed President Collins (non-2026/2027 voter) reiterated her view in a panel discussion Tuesday that holding rates for "some time" appears to be appropriate, with some stability in recent labor market data alongside persistently high inflation calling for a "patient, deliberate approach". Her FOMC colleague Richmond Fed President Barkin (2027 voter) who joined her on the panel also suggested little urgency to adjust rates (see next note).

- Starting with some key quotes from Collins, who was making her first commentary on monetary policy since the January FOMC meeting (indeed, since mid-December, when she said after the Fed's most recent rate cut that "Given a policy stance that is at the lower end of a range I view as mildly restrictive, I would want greater clarity about the inflation picture before adjusting policy further".
- On her rate outlook: "We are going to get some more data between now and [the March FOMC meeting], so it can't be overly precise, but it does seem to me that a patient, deliberate approach is appropriate at this stage because after 175 basis points of easing over the past year and a half, we are at mildly restrictive, perhaps quite close to neutral already. I think that was helpful and it was appropriate. But given

a labor market that I see is showing at least some more signs of an unusual kind of stability, and the concerns about persistence on the inflation side, I think it's quite likely that it will be appropriate to hold in the current range for some time. But again, there are different scenarios that are possible, so it'll be important to continue to really take that patient, deliberate approach to making policy decisions."

- On the labor market: "We did get some news recently which is promising... perhaps now more than ever, it's always important not to overemphasize any one data reading, but to really look at the range of information... I do see the recent information that we got as promising that there may be a bit more stability in the labor market. At the same time, there's certainly signs of fragility, and I don't put too much weight on any one number. If I look over 2025... I would summarize that although economic activity was solid overall, the labor market really softened. But I wouldn't characterize it as soft; there's a lot of nuance in there. One thing I would highlight, which gets talked about quite a lot, is that there was not a lot of hiring... It's harder to find a job, so that is real. At the same time, that might reflect uncertainty. It also might reflect productivity strength enabling firms to meet demand without needing to hire additional workers. Recently, I do think we've seen more evidence of some more stability, and that is promising more to talk about more broadly."
- On inflation: "I am looking for more confidence that the disinflation resumes and my baseline, as I look out and make assessments, would be that later this year we might expect to see that. But ... overall, core PCE inflation is basically in the same place around 3% that it was a year ago. There has been progress on housing inflation, for example-something that I called recalcitrant some time ago-but the rise in goods price inflation largely related to tariffs has really offset that. And so I do look at the different components to try to understand what some of the trajectories might be. I'm looking to see some more confidence that it's really coming down. I actually hear a wider range of things from people I talk to; still a number of firms talking about "wait and see." There is more they would like to pass through, and so they are assessing the extent to which they will be able to do that depending on the strength of demand and how that unfolds. There are certainly parts of demand that have been quite robust, even though I also hear concerns especially related to lower and moderate-income households where there do seem to be more financial strains, and that is showing up to some degree in demand. So there are a lot of things to watch there, but I don't have as much confidence yet on the inflation side as I would be looking for."
- On the impact of the IEEPA tariffs being struck down by the Supreme Court: "I would certainly agree in terms of an increase in uncertainty in a context in which uncertainty has been heightened for some time...It seems to me that on balance, it actually adds a bit to the potential for inflation persistence while all of that unfolds. But again, I think that overall, it's truly too early to say that there will be a significant impact, and my outlook is not that changed as a result of that news."

Richmond's Barkin: Well-Positioned On Policy, Risks "On Both Sides" (Feb 24)

As for Barkin, he - as usual - was noncommittal on his rate outlook, saying that he sees policy as currently well-positioned given risks to both sides of the dual mandate. Some key notes from the panel discussion:

- On his rate outlook: "We have risks on both sides. Nobody wants inflation to stall, and nobody wants the labor market to weaken further. We're well-positioned should either of those risks look like they're crystallizing, and we'll make a call when we get there."
- On the labor market: "It's my clear sense that the market is loosened. With the exception of a few skilled trades, people broadly describe availability as relatively easy and compensation pressure is relatively modest. I'd say the hard part to calibrate is what's happening with labor supply...so we're in this awkward situation of trying to calibrate what feels like softening labor demand with also softening labor supply. And so the numbers, when you get an unemployment rate that presumably balances the two, that's just a good number to watch. And ... it's hard to take too much from any one number, though the last couple of months have been reassuring there."
- On inflation: "Well, the numbers have been coming in pretty consistently at around 3% and our target is 2%. So they're definitely higher than we want them to be.... I think most businesses feel like they just have very limited pricing power. ... I think across the broad economy, you are seeing disinflationary forces operate. All that said, I'd like to see it in the data here, because I really believe that when people set prices at companies, they do it in large part based on what inflation is. That's a reference number that is out there for every price-setting decision. And until you actually bring the inflation rate down, you're going to see individual companies out there feeling like they need to push further. And so I'm hopeful that we're headed back to the right place, but I'd like to see it."

- On the IEEPA tariffs being struck down by the Supreme Court: "I just think it creates uncertainty, which feeds into the story of people being a little cautious on hiring or investment. In terms of inflation, I take the secretary at his word that the net impact of all this will kind of net out in terms of cost pressure when all is said and done. I suspect it's not going to change the trajectory that much. The refund process will be interesting; I don't know how easy or hard that will be. I kind of see it, to the extent there are refunds, like a corporate tax cut-some middlemen who paid this tariff will benefit, and then some retailers in the chain will try to take that benefit to their bottom line. There will be some back-and-forth negotiation there, but to get it to the consumer, I think that would have to be a decision taken at multiple levels and it won't happen quickly or probably much. So, I'm not sure this changes my outlook much at all, other than the increase in uncertainty."

STIR: Geopolitics and Private Credit Fears Have Main Impact In A Lighter Week For Data

- US rates are back to their most dovish levels of the week for 2026 meetings as fixed income markets generally have been supported by haven demand amidst ongoing geopolitical risks with most focus on US-Iran tensions along with ongoing private credit and AI bubble concerns.
- Odds of a nearer-term rate cut have increased in the second half of the year but moves have been relatively minor, with a cumulative 15bp of cuts priced for the June meeting.
- Moves have been larger further out the curve though, with a cumulative 60bp of cuts priced to year-end, whilst the SOFR terminal implied yield of 2.97% (U7) is currently set for its lowest close since November.



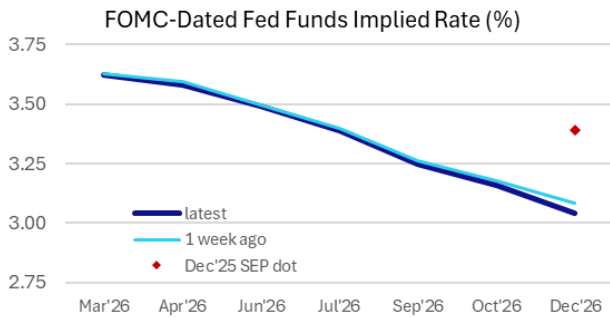
Fed Funds futures implied rate for Dec 26 FOMC. Source: Bloomberg Finance L.P. Times in GMT

FOMC-dated Fed Funds futures implied rates

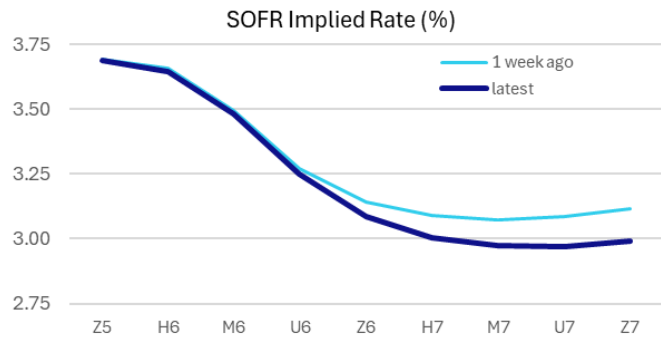
Meeting	Latest			pre GDP/PCE (Feb 20)			chg in rate	pre NFP (Feb 11)			chg in rate
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	bp	%	step (bp)	cum. (bp)	bp
Effective	3.64			3.64				3.64			
Mar'26	3.62	-1.6	-1.6	3.62	-2	-1.6	0.0	3.59	-5	-5	3.8
Apr'26	3.58	-4.2	-5.8	3.58	-4	-5.8	0.0	3.52	-6	-12	5.9
Jun'26	3.49	-9.5	-15.3	3.47	-11	-16.6	1.3	3.38	-15	-26	11.1
Jul'26	3.39	-9.9	-25.2	3.37	-10	-26.8	1.6	3.28	-9	-36	10.5
Sep'26	3.25	-14.1	-39.3	3.24	-14	-40.5	1.2	3.17	-11	-47	7.5
Oct'26	3.16	-8.9	-48.2	3.15	-9	-49.2	1.0	3.11	-6	-53	4.6
Dec'26	3.04	-11.8	-60.0	3.06	-9	-58.4	-1.6	3.05	-6	-59	-1.0

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

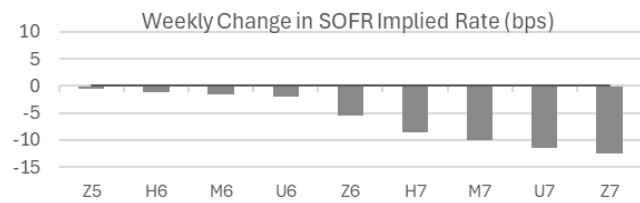
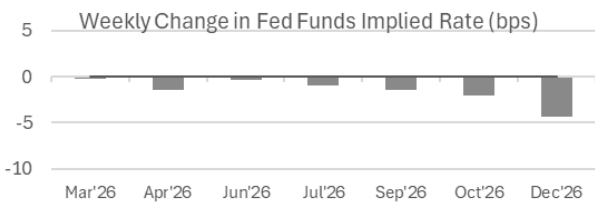
Weekly changes:



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



Source: Bloomberg Finance L.P., MNI.



The US Macro Week Ahead: Data Back With A Bang, Highlighted By Friday's NFP/Retail Sales Double

It's a busy week ahead for US data with ISM manufacturing and services reports for February before February nonfarm payrolls and January retail sales reports on Friday. Consensus sees a return of typical figures in the 60-70k region for monthly nonfarm payrolls growth after January's surprisingly strong 130k increase that was more impressive still with private payrolls rising 172k. It left private payrolls growth at an average 103k in the latest three months for an impressive recovery having bottomed at 0k in August, whilst the six-month average sat 62k. That said, private payrolls continue to see a large contribution from the cyclically insensitive healthy & social assistance category, which surged 124k in January and has seen three- and six-month averages of 77k and 60k respectively. Expect just as much focus on the unemployment rate after a second month surprising lower in January at 4.28% after 4.38% in December, 4.54% in November in a shutdown-distorted report and 4.44% in September. The recent improvement in the unemployment rate has gone against consumer-focused metrics such as the Conference Board's labor differential which continues to point to a trend increase in the unemployment rate ahead. It will be the last payrolls report before the Mar 17-18 FOMC meeting with its new SEP. Comparing with the December SEP, the unemployment rate averaged 4.47% back in 4Q25 to nearly undershoot the median 4.5% and also importantly rule out a 4.6-4.7% scenario that seven members had pencilled in (with an important caveat that the October value is interpolated having never actually been collected). Looking ahead, the median participant eyed 4.4% in 4Q26 before levelling out at 4.2% in 4Q27 and beyond.

Date	ET	Impact	Event
02/03/2026	0945	***	S&P Global Manufacturing Index (final)
02/03/2026	1000	***	ISM Manufacturing Index
03/03/2026	0855	**	Redbook Retail Sales Index
03/03/2026	0955		New York Fed's John Williams
03/03/2026	1010		Kansas City Fed's Jeff Schmid
03/03/2026	1155		Minneapolis Fed's Neel Kashkari
04/03/2026	0700	**	MBA Weekly Applications Index
04/03/2026	0945	***	S&P Global Composite & Services Index (final)
04/03/2026	1000	***	ISM Non-Manufacturing Index
05/03/2026	0830	**	Non-Farm Productivity (f)
05/03/2026	0830	***	Jobless Claims
05/03/2026	0830	**	Import/Export Price Index
05/03/2026	0830	**	Preliminary Non-Farm Productivity
06/03/2026	0830	***	Employment Report
06/03/2026	0830	***	Retail Sales
06/03/2026	1000	*	Business Inventories

Census Bureau Sets Jan Retail Sales For March 6, Feb Still Unknown

A few newly scheduled data releases from the Census Bureau:

- January retail sales and December Manufacturing and Trade inventory/sales reports, on March 6 at 0830ET
- January New residential construction (eg housing starts) and January Goods and Services trade, on March 12 at 0830ET (we knew about the latter yesterday from the BEA which co-produces the trade report)
- January durable goods (advance), on March 13 at 0830ET (with the full report on March 18 at 1000ET)
- January New residential sales, on March 19 at 1000ET
- January Construction spending, on March 23 at 1000ET
- We take particular note of the January retail sales release which will help facilitate the BEA's release of January PCE (which incorporates retail sales data on the spending side) a week later (March 13).
- The February PCE report is due out on April 9, but there's still no date set for February retail sales from the Census Bureau.