

Key events this week; US Non-farm Payrolls, ISM & S&P PMI surveys, Fed Speeches, ECB & BoC Meetings

Recap from last week: US Growth Amid Tariff Distortions

Following our focus in recent weeks, we continue to examine an economic landscape heavily influenced by the evolving trade policy. The broader theme from last week and for this coming week is the health of the US economy – and the degree to which we are starting to see any broadening out of tariff effects. The latest FOMC minutes also offered insights into the Fed's perspective on inflation and growth risks amid the tariff agenda. New data last week provided a further snapshot of US domestic demand, business activity, and inflation.

The tariff agenda remains in a state of flux. Some of President Trump's tariffs were deemed illegal under 'emergency powers', though a stay was granted, keeping them in place while the appeal is considered. This legal uncertainty implies a further protracted path of negotiations with trade partners. Compounding this, news of higher tariffs on steel and iron imports also emerged. These developments ensure that tariffs continue to be a significant source of uncertainty and unpredictability for the economic outlook.

Tariff-driven inflation and uncertainty were two of the key themes from the latest FOMC Minutes. However, the Minutes of the 6-7 May meeting were before the important 12 May announcement of the US-China reprieve agreeing to lower tariffs for 90 days. Based on that view of the tariff outlook, the Minutes highlighted concerns that tariffs could complicate the disinflationary process by leading to persistent inflation, market disruptions, and negative effects of elevated uncertainty on broader sentiment and the economic outlook. The FOMC acknowledged that the tariff announcements had increased concerns over the near-term outlooks for both inflation and growth. Committee participants agreed that the risks of higher inflation and higher unemployment had risen. With policy settings still seen as “moderately restrictive,” the Committee believed that it was well-positioned to wait for more clarity on the outlook for inflation and economic activity. Speeches since then have maintained this wait-and-see approach as the tariff and policy agenda continues to evolve.

While policymakers voiced concerns over the potential for higher tariff-led inflation, the latest PCE inflation data for Apr showed little impact from tariffs so far. To date, it's been survey measures reflecting a concerning trend of more widespread increases in prices – but these surveys don't show the magnitude of the price increases, nor the degree of pass-through. It's still unclear how big the tariff impact will be on inflation. In Apr, both headline and core PCE inflation measures came in lower than expected. Headline PCE inflation slowed to +2.15% and core PCE inflation slowed to +2.5% over the year. Core services inflation was notably slower at +0.1% with a drag from portfolio management fees which is likely to rebound next month. However, a potential broadening of tariff effects into core goods was hinted at, with the monthly rate up to +0.5% led by furnishings and durable household equipment and recreational goods & vehicles. The trimmed mean alternative view of underlying inflation was unchanged at +2.5% over the year and the monthly rate remained at +0.2%, unchanged for the last six months. This reflects a steady pace of monthly underlying inflation, remaining on more of a sideways trajectory. This likely underscores the Fed's concern about the starting point for inflation under the new tariff regime: where inflation is still elevated relative to the 2% target and has been above that target for five years now.

A key theme from the rest of the data last week centered on the health of the US domestic economy and specifically the US consumer. Beyond prices, the data offered insights into how the core US economy, particularly the consumer, is faring under these highly uncertain conditions and whether tariff effects are beginning to manifest more broadly in domestic demand. The data reflected a slowdown in consumer spending growth, but that spending remained resilient and supported by solid labor market and income conditions in Apr. The increase in saving (income surplus) seems aligned with the more dour sentiment among households through Q1.

The second estimate of US Q1 GDP was little changed with aggregate demand contracting slightly less by -0.08% in Q1. Underneath that headline, the key story was the downward revision to Q1 personal consumption growth, from +0.4% to +0.3%. Context is important and this slower growth follows considerably higher growth over the past three quarters, which averaged +0.86%, and occurred despite the significant weakening of consumer sentiment in Q1. Removing the distortions from net trade and inventories the Real Private Domestic Final Purchases (PDFP) measure of private domestic demand did slow to +0.5% in Q1 but remained at a still solid +2.8% over the year. While growth in personal consumption slowed, growth in private fixed investment accelerated, notably in non-residential equipment.

The Apr personal spending data pointed to resilient consumer spending. While real spending growth in Apr slowed to +0.1%, this was preceded by a substantial +0.7% increase in Mar. In other words, the higher spending levels from Mar were sustained into Apr – though the mix shifted, and this was despite the Mar spending likely reflecting some pull-forward of auto sales ahead of tariffs. The risk is that any pull-forward of demand due to tariffs may still reverse later as demand normalizes.

Importantly, spending was supported by another solid gain in personal income in Apr, rising +0.8% from +0.7% in Mar. While this was mostly due to a change in transfer payments, employee compensation growth slowed only slightly in Apr to +0.5% (from +0.55% in Mar), reflecting solid labor market conditions. Similarly, personal income excluding transfer payments increased by +0.4% in Apr – also equalling the average monthly increase of 2024 – and only slightly slower than the larger increase in Mar. The higher income growth and slower spending growth resulted in another increase in personal savings in Apr. This seems fairly consistent given the substantial weakening in consumer sentiment through Q1. Sentiment has stopped falling as tariff rhetoric has softened, but any rebound in the outlook sentiment has been modest so far.

The preliminary Apr goods trade balance was a key release last week, highlighting a sharp reversal in the drag from goods trade on growth. The goods trade deficit narrowed notably, almost halving after imports fell and export growth **accelerated** in nominal terms. This shift in trade dynamics, directly influenced by the evolving tariff landscape, had a notable effect on the latest iteration of the [Atlanta Fed GDP nowcast](#) for Q2 GDP growth. After all the data last week, the US growth run rate now sits at a more robust +3.8% in Q2. This figure was primarily driven higher by a substantially larger contribution from the narrowing goods trade deficit, more than offsetting a softening in the contribution from personal consumption expenditures and private domestic investment.

Outlook for the week ahead; US Non-farm Payrolls, ISM & S&P PMI surveys, Fed Speeches, ECB & BoC Meetings

Our focus remains on tracking shifts in the US economy's progress, mindful of the potential for higher inflation, slower growth, and distortions stemming from the evolving tariff policy. Building on the insights from last week, the spotlight turns to the US labor market data for May – crucial for gauging the consumer's ongoing resilience. The ISM and S&P PMIs for May will further provide early insights into how private sector firms are responding to the shifts in the tariff outlook.

Key factors & events to watch this week;

US labor market – May

- US non-farm payroll growth is expected to slow to +130k in May, from +177k in Apr. While revisions will be important, so will the composition of payroll growth – to assess the degree to which tariff effects are potentially starting to broaden out among key industries.
- Despite slower payroll growth, the unemployment rate is expected to remain unchanged at 4.2% in May.
- Average weekly hours are expected to be unchanged at 34.3.
- The JOLTS survey for Apr is expected to show job openings remaining little changed at 7.1m.
- Initial claims remain on our radar with both initial jobless claims remaining elevated and continuing claims yet again reaching the 1.9m level.
- The Challenger Job Cut Announcement survey for May will provide some further insight into future planned layoffs by firms. Job cut announcements have been elevated through Q1 – suggesting a rise in layoffs on the horizon.

US ISM PMIs – May

- The US ISM surveys for manufacturing and services will provide an important gauge reflecting how firms are responding to shifts in the tariff landscape - through orders, inventories, the labor market, and prices.

US Fed speeches

- There will be a range of Fed speeches this week – with several speeches focusing on the Economic Outlook – including Governors Waller, Cook, and Kugler. This is usually an important topic, providing some insights into how Fed officials are seeing and characterizing the latest inflation, growth, and spending data.
- Fed Chair Powell will give opening remarks on Monday.
- The latest Fed Beige Book will be released, providing a summary of important anecdotes from Fed regional contacts on the economy.

Central Bank Meetings & Minutes

- The ECB will meet this week and is expected to cut its benchmark Deposit Facility Rate by 25bps.
- The BoC is also expected to cut its benchmark rate by 25bps.
- The minutes of the latest RBA meeting will be released, where the RBA cut rates for the second time in this cycle. We'll be looking for details of the discussion regarding the size of the rate cut.

Euro area CPI – prelim for May is expected to show inflation moderating. Headline CPI is expected to slow to +2% in May from +2.2% in Apr. Core CPI is expected to slow to +2.4% in May from +2.7% in Apr.

Canada's labour market is expected to deteriorate further in May, with the net employment change to decline by 15k after only a modest +7.4 increase in Apr. The unemployment rate is expected to edge higher to 7% from 6.9% in Apr.

Finally, the broader suite of global S&P PMIs for May will be released this week. The global composite output index slowed notably last month, as both services and manufacturing output growth momentum slowed.

US Treasury Issuance; 2 – 6 Jun 2025

This week, the US Treasury will auction and/or settle approx. \$404bn in ST Bills, with a net paydown of \$38bn.

QT this week: Approx \$5.2bn of ST Bills will mature on the Fed balance sheet and will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
2-6 Jun 2025	29-May	03-Jun	4 week bill	75			Actual 4.215%	4.220%
	29-May	03-Jun	8 week bill	65			Actual 4.225%	4.235%
	28-May	03-Jun	17 Week Bill	60			Actual 4.220%	4.230%
				200	224	-24		
	02-Jun	05-Jun	13 week bill	76			Announced	4.255%
	02-Jun	05-Jun	26 week bill	68			Announced	4.160%
	03-Jun	05-Jun	6-week Bill	60			Announced	4.235%
				204	218	-14		
			Total - securities settling this week	404	442	-38		
			Net New Cash Raised Qtr to Date	5256	5160	96		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			514		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		03-Jun	ST Bills	0.7				
		05-Jun	ST Bills	4.4				
				5.2				
			Maturing & redemption (balance sheet roll-off)					
			nil					
				0.0				

Quantitative Tightening Overview – June 2025

The cap on US Treasury redemptions was lowered to \$5bn effective Apr 2025. In Jun, the face value of Coupons maturing on the Fed balance sheet is approx. \$28.9bn. This is more than the new \$5bn monthly cap on Treasury redemptions. So of the \$28.9bn of Coupons maturing in Jun, \$5bn will roll off the Fed balance sheet (redeemed) and \$23.9bn will be reinvested. It also means that all ST Bills maturing in Jun will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$5bn redemption cap - June					
				\$5	
				Redeem \$Bn	Reinvest \$ Bn
15-Jun-25	Notes & Bonds		0.4	2.1	
30-Jun-25	Notes & Bonds		4.6	21.8	
Jun	ST Bills		0.0	28.5	
	Total Notes & Bonds		5.0	52.5	

June 2025 ST Bill maturity schedule;

Bill Maturity Schedule - JUNE			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2025/06/03	0.73	3%	0.00	0.73	
2025/06/05	4.43	16%	0.00	4.43	
2025/06/10	0.72	3%	0.00	0.72	
2025/06/12	8.07	28%	0.00	8.07	
2025/06/17	0.70	2%	0.00	0.70	
2025/06/20	4.74	17%	0.00	4.74	
2025/06/24	0.71	2%	0.00	0.71	
2025/06/26	8.44	30%	0.00	8.44	
	28.53	100%	0.00	28.53	

<https://www.newyorkfed.org/markets/treasury-rollover-faq>

Recommended US Treasury Financing Q2 2025 and Est Q3 2025

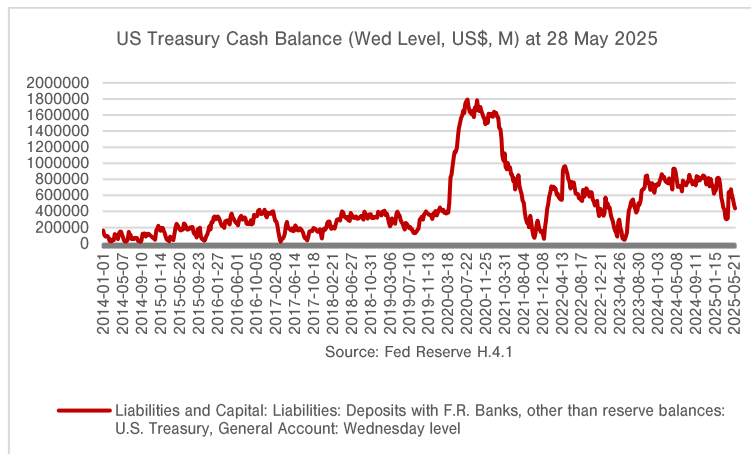
The latest update of the US Treasury borrowing requirements for Q2 and Q3 (estimate) can be found on the US Treasury website [here](#).

The Q2 net borrowing requirement was revised sharply higher from an estimated \$123bn to \$514bn. The increase of \$391bn was due to a lower end of Q1 cash balance (expecting \$850bn, actual \$406bn) and projected lower net cash flows. The estimated cash balance at the end of Q2 is expected to be \$850bn.

In Q3, the US Treasury is expected to borrow \$554bn in privately held net marketable debt, assuming an end-of-Q3 cash balance of \$850bn. The end-of-June and end-of-September cash balances assume the enactment of a debt limit suspension or increase.

US Treasury Cash Levels (TGA)

As of Wed 28 May 2025, the level of the TGA decreased to \$436bn (-\$36bn compared to the week prior). The TGA balance is approx. \$279bn lower than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

QE Program

There are no Treasury or MBS purchase operations scheduled at this time. Links to historical operation schedules; - <https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/amb/operation_schedule

CALENDAR W/C 2 June 2025

MONDAY 2 JUNE (US Eastern Time, unless stated otherwise)

US	ISM Manufacturing PMI (May), S&P Manufacturing PMI – Final (May), Fed speeches: Goolsbee, Fed Chair Powell – Opening Remarks, (Sunday – Gov Waller – Economic Outlook)
Australia	RBA Minutes

TUESDAY 3 JUNE

Europe	Euro area CPI – Prelim (May)
US	Factory Orders (Apr), JOLTS (Apr), Vehicle Sales (May) – TBC, Fed speeches; Goolsbee, Cook – Economic Outlook
Australia	GDP Q1

WEDNESDAY 4 JUNE

US	MBA Mortgage Applications wk ending 31 May, ADP Employment Change (May), ISM Services PMI (May), S&P Services PMI – Final (May), Fed Beige Book, Fed speeches; Bostic, Cook
Canada	BoC Monetary Policy Meeting

THURSDAY 5 JUNE

Europe	Germany Factory Orders (Apr) ECB Monetary Policy Meeting
US	Initial Jobless Claims wk ending 31 May, Challenger Job Cut Announcements (May), Final – Goods Trade Balance (Apr), NonFarm Productivity & Unit Labor Costs (Q1), Fed speeches; Harker, Kugler – Economic Outlook & Monetary Policy

FRIDAY 6 JUNE

Europe	Germany Industrial Production (Apr), Euro area GDP & Employment – Final est Q1, Eurozone Retail Sales (Apr)
Canada	Labour Market Survey (May)
US	Non-Farm Payrolls and Labour Market Survey (May), Consumer Credit Change (Apr)
