The Weekly Macro Outlook: US Growth Versus the Labor Market Slowdown

The key events shaping the w/c 29 September 2025: US Govt shutdown risks, US labor market data Sep, ISM PMIs, Fed speeches, Euro area CPI, RBA Meeting

Recap from last week: US Growth Backdrop Firms

Last week, US data pointed to a more resilient growth backdrop emerging. Key growth, spending, and income indicators showed stronger-than-expected momentum in Q2, a pace that appears to be carrying through so far into Q3. Amid this stronger growth, inflation remained persistent but stable. Fed speeches through the week reflected diverging views of the near-term path of policy rates—ranging from calls for heavy front-loaded rate cuts to offset labor market weakness, to more caution on the pace of cuts due to elevated inflation. Despite the positive economic data, markets continued to price in a series of rate cuts this year. This tension between resilient growth and market rate cut expectations sets the stage for the important labor market data this week. With labor market softening being the key driver for the Fed's recent shift in its balance of risks, the Sep jobs report may be central to either validating the Fed's labor-focused risk narrative or shifting toward a stronger growth outlook.

One of the most important takeaways from the data last week was the emergence of a surprisingly solid US growth backdrop. It's important to note that there are still distortions in the GDP data from tariff front-running – and this is evident in the offsetting swings in inventories and net exports between Q1 and Q2. However, US Q2 GDP growth was revised notably higher from +3.3% to +3.8% annualized – led by a larger upward revision to personal consumption expenditure and, to a lesser extent, fixed investment spending. Some context: while PCE growth was revised higher to +0.6% in Q2, this was offsetting some of the notable weakness in Q1 PCE growth of +0.1% - the slowest quarterly spending growth of the last two years. The overall higher-than-expected growth in Q2 resulted in the annual year-over-year rate increasing to +2.1% - still well above the most recent Fed projection for year-end year-over-year growth of +1.6%.

Other data this week suggested that this momentum has carried through into Q3. The latest Atlanta Fed GDP nowcast shifted higher by the end of the week to a +3.9% annualized pace so far in Q3, up from +3.4% at the start of the week. One of the key contributors was the higher-than-expected growth in personal spending in Aug of +0.6%, which appears to have firmed around this pace over the last three months. This was supported by consistent growth in personal disposable income, as well as another fall in the personal saving/surplus measure. Firmer inflation did moderate growth in spending and income in real terms, though. The positive contribution from net exports also increased as the preliminary goods trade deficit narrowed in Aug. Some of the offsetting effects were a smaller, but still positive, contribution from non-residential fixed investment and the change in private inventories.

The latest prelim US S&P PMI for Sep also indicated that growth momentum remained positive going into the final month of Q3. While both manufacturing and services PMIs moderated in Sep, the levels remained at a solid pace of expansion. There were some words of caution in the report: while this has been the strongest of the quarters so far this year, activity did decelerate into quarter-end. Comments noted a slowdown in hiring, and waning demand became more widely reported.

Initial claims remained on a more positive path this week. The recent spike in initial claims has now been fully reversed, with claims coming back down to 218k in the prior week. However, continuing claims remained at 1.92m – suggesting little shift in the picture of hiring growth.

Amid this stronger-than-expected growth backdrop, US inflation remained steady, albeit elevated. Headline PCE increased to +2.7% over the year, while core PCE inflation increased to +2.9% over the year in Aug, both increasing in line with expectations. A look at the underlying components, however, revealed shifting dynamics. Core goods prices fell this month by -0.1%, but remained +1.1% ahead of a year ago. This was offset by a continued increase in core services inflation, which increased to +0.34% in Aug and to +3.5% over the year. But while core PCE inflation was steady in Aug, other measures of the underlying trend of inflation increased this month. The Dallas Fed trimmed mean increased to +0.2% in Aug from +0.1% in Jul, lifting the 12-month rate to +2.8% - suggesting that, after excluding the outliers, inflation still increased in the core of the distribution. The Cleveland Fed median inflation rate also edged slightly higher over the month to +0.24% in Aug, while the 12-month rate stayed at 3.3%. Overall, the picture suggests that inflation has remained relatively steady in Aug.

Unsurprisingly, speeches from Fed officials last week reflected the divergent range of views on the near-term path of policy rates. The speech by Fed Chair Powell did not add any further information to FOMC guidance on policy rates. However, his rhetoric was balanced, emphasizing that there is "no risk-free path" due to the two-sided risks of higher inflation and weaker employment. He maintained his commitment to a data-dependent path, but still did not push back on the market pricing of two further rate cuts this year. In contrast, Vice Chair for Supervision Bowman spoke about her views on front-loading rate cuts, risks to the outlook tilted more to the labor market, and importantly, seeing this cut in Sep as a part of a series of rate cuts to bring the policy rate back to neutral.

Despite the good news on the growth front this past week, along with news of steady inflation, markets continued to price in a series of rate cuts for the remainder of the year, given the weakness in the labor market (source: CME Fed Watch).

Outlook for the week ahead: US Govt shutdown risks, US labor market data, ISM PMIs, Fed speeches, Euro area CPI, RBA meeting

Against a backdrop of better-than-expected growth data and firm, but steady inflation, our focus this week shifts to the US labor market. Given the Fed's recent communication emphasizing the rising downside risks to employment, the Sep jobs report will be important for validating or shifting the emerging growth narrative and the near-term path of policy rates.

There is also a risk of a US government shutdown early this week as a key funding Bill is yet to be finalised with a 30 Sep deadline. A shutdown could affect US data releases this week, depending on how negotiations progress.

Key factors & events to watch this week:

US Labor Market Data – Sep.

Weakening in the US labor market conditions has been the key driver of the recent US Fed policy shift. Data and revisions have shown a notable slowdown in payroll growth so far in 2025, and benchmark revisions suggest that this weakness may have been more persistent over the last year. Recently, the Fed Chair noted that the 'break-even' payrolls growth (the minimum to keep unemployment steady) may have slowed to +50k, reflecting an unusual situation where there is a 'curious kind of balance' resulting from the marked slowdown in labor demand and labor supply. Data this week could be important to either confirm that weakness is persisting, adding further weight to rate cut calls, or shift to more stable conditions amid some better-than-expected growth conditions.

- US non-farm payrolls are expected to increase by 51k in Sep, up from 22k in Aug. Revisions to the prior months will be important.
- The unemployment rate is expected to be unchanged at 4.3%.
- Average weekly hours are expected to be unchanged at 34.2 hours.
- JOLTS for Aug are expected to show Job Openings falling slightly to 7.15m in Aug from 7.18m in Jul.
- Challenger Job Cut Announcements for Sep are expected to be little changed after increasing to 86k in Aug.
- Initial claims for the week ending 27 Sep are expected to increase to 229k, from 218k in the prior week.

US Growth Momentum into Sep.

Further US survey data for private sector activity will provide an early insight into growth momentum in the manufacturing and services sectors in Sep. The ISM PMIs and Factory Orders (shipments) will feed into a further update on the Atlanta Fed GDP Nowcast for Q3 growth.

- Both the US ISM Manufacturing and Services PMIs for Sep are expected to remain fairly stable, and little changed at 49.1 and 52, respectively. Important highlights will be new orders/demand, changes in pricing, labor market conditions, and commentary around tariff impacts and uncertainty.
- The final S&P manufacturing and services PMIs for Sep will be released.
- US Factory Orders for Aug are expected to increase by +0.9% after falling by -1.3% in Jul.

US Fed Speeches.

There will again be a notable number of Fed speeches this week, with the focus remaining on views for the near-term path of policy. Governor Waller is scheduled to speak this week on 'Payments' - but may also cover the economic outlook. Vice Chair Jefferson will give two speeches this week on the Monetary Policy Framework and the US economic outlook.

Global Central Banks and Data Highlights.

- The RBA will meet this week and is expected to keep policy settings unchanged. The rise in the monthly CPI for Aug, released last week, raises some caution over the persistence of inflation and what it means in terms of an upside surprise in the RBA's preferred quarterly CPI release. This may be an important point for Governor Bullock to cover in her outlook and whether there has been a change in the RBA's view of the policy path. So far (at 29 Sep), markets have pushed a further rate cut out into late Q1 2026.
- Euro area CPI – prelim for Sep is expected to increase to +2.2% in Sep from +2% in Aug, with core CPI remaining unchanged at +2.3% over the year in Sep.
- Other notable speeches this week will include BoJ Governor Ueda. There will also be an election for the next leader of the Japanese LDP on 4 Oct.

Finally, the full suite of S&P Global PMIs will be released this week for Sep – providing a global view of activity through to the end of Q3.

US Treasury Issuance; 29 Sep – 3 Oct 2025

This week, the US Treasury will auction and settle approx. $755bn in ST Bills, Notes, Bonds, and TIPS, raising approx. $108bn in new money.

<u>QT this week:</u> Approx $29bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx $5bn in Notes and Bonds will mature on the Fed balance sheet and will be redeemed/roll off the balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
29-Sep - 3 Oct	25-Sep	30-Sep	4 week bill	100			Actual 4.080%	4.040%
	25-Sep	30-Sep	8 week bill	85			Actual 4.000%	3.965%
0.711	24-Sep	30-Sep	17-week Bill	65			Actual 3.805%	3.815%
				250	245	5		
	29-Sep	02-Oct	13 week bill	82			Announced	3.860%
	29-Sep	02-Oct	26 week bill	73			Announced	3.705%
	30-Sep	02-Oct	52 week bill	50			Announced	3.660%
16.659	30-Sep	02-Oct	6-week Bill	85			Announced	4.010%
				290	280	10		
	18-Sep	30-Sep	10yr TIPS	19			Actual 1.734%	1.985%
	16-Sep	30-Sep	20yr Bond	13			Actual 4.613%	4.876%
	23-Sep	30-Sep	2yr Note	69			Actual 3.571%	3.641%
	24-Sep	30-Sep	5yr Note	70			Actual 3.710%	3.724%
16.872	25-Sep	30-Sep	7yr Note	44			Actual 3.953%	3.925%
				215	121.7	93		
		Total - securities settling this week		755	647	108		
		Net New Cash Raised Qtr to Date Q3		***7656***	***6573***	***1083***		
		Estimated Net Cash to be Raised Q3 ($ Bn)				*1,007*		
		Net New Cash Raised Qtr to Date Q4		***290***	***280***	***10***		
		Estimated Net Cash to be Raised Q4 ($bn)				*565*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		30-Sep	Notes & Bonds	11.9				
		02-Oct	ST Bills	16.7				
		30-Sep	ST Bills	0.7				
				29.2				
		Maturing & redemption (balance sheet roll-off)						
		30-Sep	Notes & Bonds	5.0				
				5.0				

Quantitative Tightening Overview – Oct 2025

The cap on US Treasury redemptions was lowered to $5bn effective Apr 2025. In Oct, the face value of <u>Coupons</u> maturing on the Fed balance sheet is approx. $21bn. This is more than the new $5bn monthly cap on Treasury redemptions. So of the $21bn of Coupons maturing in Oct, $5bn will roll off the Fed balance sheet (redeemed) and $16.7bn will be reinvested. It also means that all ST Bills maturing in Oct will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $5bn redemption cap - Oct			
			$5
		Redeem $Bn	**Reinvest $ Bn**
15-Oct-25	TIPS	0.7	2.2
31-Oct-25	Notes and Bonds	4.3	14.5
	Bills	0.0	66.2
	Total Notes & Bonds	**5.0**	**82.9**

ST Bill maturity schedule – Oct 2025;

Bill Maturity Schedule - Oct			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/10/02	16.66	25%	0.00	16.66
2025/10/07	0.74	1%	0.00	0.74
2025/10/09	12.23	18%	0.00	12.23
2025/10/14	0.74	1%	0.00	0.74
2025/10/16	8.39	13%	0.00	8.39
2025/10/21	0.75	1%	0.00	0.75
2025/10/23	8.94	14%	0.00	8.94
2025/10/28	0.49	1%	0.00	0.49
2025/10/30	17.26	26%	0.00	17.26
	66.19	100%	0.0	66.19

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

Recommended US Treasury Financing Q3 2025 and Est Q4 2025

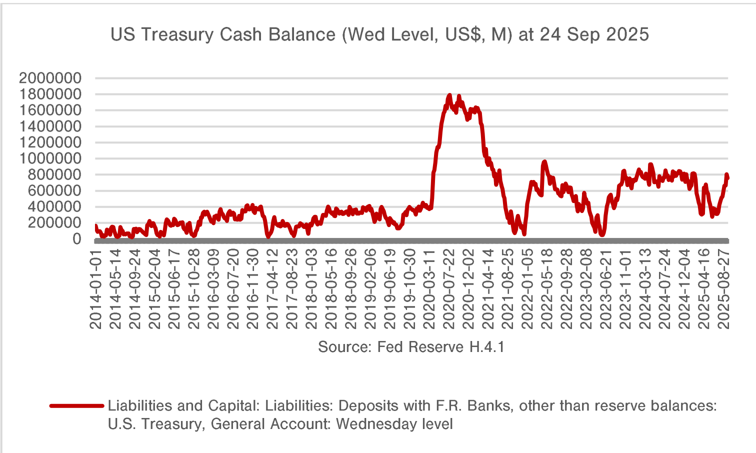
The latest update of the US Treasury borrowing requirements for Q3 and Q4 (estimate) can be found on the US Treasury website here.

There was a notable upward revision to the Q3 net borrowing requirement due to the lower opening cash balance for Q3 - the US Treasury expects to borrow $1.007 trillion in privately held net marketable debt, assuming an end-of-Q3 cash balance of $850 billion.

Est Q4 - the US Treasury expects to borrow $590 billion in privately held net marketable debt, assuming an end-of-December cash balance of $850 billion.

US Treasury Cash Levels (TGA)

As of Wed 24 Sep 2025, the level of the TGA decreased to $758bn (-$49bn compared to the week prior). The TGA balance is now approx. $20bn *lower* than the same week a year ago.



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&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/ambs_operation_schedule

CALENDAR W/C 29 September 2025

MONDAY 29 SEPTEMBER (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Index (Sep), Pending Home Sales (Aug), Fed speeches: Waller, Williams, Bostic
Japan	Industrial Production – prelim (Aug), Retail Sales (Aug)
China	NBS Manufacturing & Non-Manufacturing PMIs (Sep)

TUESDAY 30 SEPTEMBER

Australia	RBA Monetary Policy Meeting
UK	GDP Q2 – Final
Europe	Germany CPI – Prelim (Sep), ECB President Lagarde speech (Intl Mon Pol Conf)
US	Case/Shiller House Price Index (Jul), Chicago PMI (Sep), CB Consumer Sentiment (Sep), JOLTS (Aug), Fed speeches: Collins, Goolsbee, Logan, Vice Chair Jefferson

WEDNESDAY 1 OCTOBER

Europe	Euro Area CPI – Prelim (Sep)
US	MBA Mortgage Applications wk ending 27 Sep, OPEC meeting, ADP Non-Farm Employment (Sep), S&P Manufacturing PMI – Final (Sep), ISM Manufacturing PMI (Sep)

THURSDAY 2 OCTOBER

US	Initial Jobless Claims wk ending 27 Sep, Challenger Job Cut Announcements (Sep), Factory Orders (Aug), Vehicle Sales (Sep) – tbc, Fed speeches: Logan
Japan	BoJ Governor Ueda speech

FRIDAY 3 OCTOBER

US	Non-Farm Payrolls and Labor Market Report (Sep), S&P Services PMI – Final (Sep), ISM Services PMI (Sep), US Fed speeches: Williams