

The Weekly Macro Outlook: The Fed's New Calculus (w/c 8 September 2025)

The key events shaping this week: US CPI & PPI (Aug), ECB monetary policy meeting

Recap from last week: Confirming Rising Labor Market Risks

Fed Chair Powell's speech at Jackson Hole revealed the Fed Chair's new calculus: a shift in the balance of risks. This is an important lens for assessing the implications of last week's US labor market data. The Fed is no longer in a "wait and see" mode. The slowing payroll numbers—regardless of the nuance in the household survey—have tipped the balance of risks in the labor market. The Fed's concern is now focused on the shifting trajectory of the labor market, and Powell has signalled that they will act to ensure a slowdown doesn't become a more severe, self-reinforcing deterioration.

Importantly, the US payroll data for Aug likely confirmed for the FOMC that downside risks to employment are rising. Non-farm payroll growth of +22k was much lower than the +74k expected for Aug. The revisions to Jun and Jul were also a net negative -21k, confirming that payroll growth has remained slower than previously reported, with payrolls now contracting in Jun by -13k. A clearer trend has emerged after the revisions: that payroll growth has essentially stalled since Apr 2025.

Aggregate hours worked were little changed in Aug. However, the stronger increase in Jul was revised lower to +0.1% over the month. The trend in aggregate hours worked has slowed since May, but remains steady over the last two months. Average hourly earnings have also remained fairly steady at +0.3% over the month, versus +0.3% in Jul. Together, slower payroll growth, steady hours, and modest hourly earnings growth paint a picture of more modest, but still positive, nominal income growth over the last two months.

The view of employment and unemployment in the household survey shows a more mixed picture, and even some important pockets of underlying resilience. The household survey showed that unemployment across the broader labor market demographic of 16yrs+ edged higher from 4.25% in Jul to 4.32% in Aug – a YTD high for the unemployment rate, which has been on a rising trend since late 2022. Across this broader demographic, participation and the employment to population ratio have also moved more notably lower since Apr this year.

However, the core working age group of 25-54years is reflecting a surprising degree of resilience. The unemployment rate was little changed at 3.6% in Aug – marginally above where it was a year ago at 3.56%. This was in spite of the more notable increase in participation this month, back up to 83.7% and just below the peak of 83.9% recorded a year ago. Importantly, the employment situation remains steady with the employment to population ratio remaining at 80.7%, unchanged from the start of the year. A year ago, the employment-to-population ratio was 80.9%, which was the peak in this post-pandemic cycle. So employment levels among the core working age group are still elevated and point to a still solid underpinning for the labor market.

Other reports, though, provide a more cautious backdrop for the labor market. The JOLTS data reflected the step down in labor market conditions in Jun and, at least some stabilized conditions in Jul. The fall in job openings in Jul provides a concerning view for a continued moderation in labor demand. The Challenger Job Cut announcements increased in Aug, suggesting pressure on

layoffs on the horizon. For now, most of these layoffs still reflect “DOGE” actions; however, “market and economic conditions” are the second-most cited reason for job cut announcements. At the same time, hiring announcements remained subdued.

While signals from the labor market have continued to highlight downside risks, the US S&P PMIs were a little more resilient in Aug. The S&P PMIs showed improved momentum in manufacturing activity while services activity continued to expand at a moderate pace, edging down slightly. However, risks remain elevated. The uptick in manufacturing activity was in part fuelled by inventory, and not purely a sign of rebounding demand growth. Risks around inflation remain elevated due to tariffs. Despite the strong output performance, business optimism for the year ahead fell to one of the lowest levels in three years, linked to uncertainty over demand caused by government policy, particularly tariffs.

The anecdotes from the Fed’s Beige Book reported little or no change in economic activity since the prior period. Consumer spending was flat. Most districts reported little or no net change in employment over the last six weeks, noting firms’ reluctance to hire due to weaker demand or uncertainty. Price growth was described as moderate or modest. However, “most Districts” reported that firms were expecting price increases to continue in the months ahead.

Overall, the broader growth backdrop eased somewhat last week amid some of the crosscurrents in Aug activity data. The [Atlanta Fed GDP nowcast](#) edged down to a +3% run rate so far in Q3 – still a robust pace of growth.

Against this backdrop, a clearer picture is emerging of a stalling labor market within an economy that is navigating significant uncertainty and an unpredictable policy landscape. While the stalled hiring has not yet resulted in a sharper rise in layoffs or unemployment, that risk may be increasing.

Outlook for the week ahead: US CPI & PPI for Aug, ECB Monetary Policy meeting

This leads us to the second part of the Fed Chair Powell’s new calculus: a greater willingness to “look through” persistent inflation. At Jackson Hole, Fed Chair Powell shifted further toward the view that tariff-led inflation could be “relatively short-lived,” as these effects pass through to consumer prices. This sets the scene for the week’s US CPI and PPI reports for Aug, which may offer more clarity around how much of this persistent inflation is genuinely due to tariffs working their way through the supply chain. There is, however, an argument that tariff-led inflation will take longer to flow through to consumer prices. The inflation data, when combined with the Aug labor market data, will provide a more complete view of the Fed’s task next week: a labor market with rising downside risks existing alongside a persistent, but perhaps manageable, inflation situation.

Key factors & events to watch this week:

US inflation data is broadly expected to remain little changed over the year. Together, the CPI & PPI reports will provide a read-through to the Fed-preferred PCE inflation measure for the FOMC meeting next week.

- The US PPI for Aug will be released ahead of the CPI this week. Headline PPI is expected to slow to +0.3% over the month from +0.9% in Jul. Annual headline PPI is expected to remain unchanged at +3.3%.
- Core PPI is also expected to slow to +0.3% over the month from +0.9% in Jul. Annual core PPI is expected to slow to +3.5% in Aug from +3.7% in Jul.
- Headline CPI is expected to increase to +0.3% in Aug, from +0.2% in Jul. Annual headline CPI is expected to edge higher from +2.7% in Jul to +2.85% in Aug.
- Core CPI is expected to increase by +0.3% in Aug, unchanged from the pace in Jul. Annual core CPI is also expected to remain at +3.1%.

US labor market data

- We continue to track the evolution of initial claims and continuing claims data. Initial claims are expected to remain little changed at +234k this week, after rising to +237k in the last week of Aug. This is now back above the 12-week average. Continuing claims for the week ending 23 Aug were little changed at 1.94m.
- The Conference Board Employment Trends Index for Aug will provide further context for last week's US labor market reports.
- The BLS will also [release its preliminary benchmark revision](#) to the Payrolls Survey.

Fed speeches; it is the blackout period for Fed speeches ahead of the FOMC meeting next week. The confirmation of Stephen Miran to the Board of Governors remains on the fast track, with further news on the appointment likely this week.

ECB Monetary Policy Meeting

- The ECB is expected to keep policy settings unchanged, with the Deposit Facility Rate at 2%.
- Last week, Euro area CPI for Aug came in slightly higher than expected at +2.1%, edging above the 2% target, while the monthly pace increased by +0.2% after 0% in Jul. Core CPI remained at +2.3% against expectations of a fall to +2.2%, as the monthly pace also jumped to +0.3% after falling in Jul. Euro area Q2 GDP growth was confirmed at +0.1%, slowing from +0.6% in Q1.

US Treasury Issuance; 1 – 5 Sept 2025

This week, the US Treasury will auction and settle approx. \$490bn in ST Bills, raising approx. \$36bn in new money. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond this week – all will settle next week.

QT this week: Approx \$8.6bn 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 %	
8-12 Sep	04-Sep	09-Sep	4 week bill	100		Actual 4.175%	4.245%	
	04-Sep	09-Sep	8 week bill	85		Actual 4.100%	4.145%	
	03-Sep	09-Sep	17-week Bill	65		Actual 3.985%	4.020%	
				250	230	20		
	08-Sep	11-Sep	13 week bill	82		Announced	4.045%	
	08-Sep	11-Sep	26 week Bill	73		Announced	3.880%	
	09-Sep	11-Sep	6-week Bill	85		Announced	4.190%	
				240	224	16		
				Total - securities settling this week	490	454	36	
				QTR to date totals	6,064	5,102	962	
				<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			1,007	
	Face value of US Federal Reserve SOMA securities maturing				\$B			
Maturing & reinvestment								
	09-Sep		ST Bills	0.7				
	11-Sep		ST Bills	7.9				
				8.6				
Maturing & redemption (balance sheet roll-off)								
			Nil					
				0.0				
Upcoming Auctions				\$B				
	09-Sep	15-Sep	3yr Note	58				
	10-Sep	15-Sep	10yr Note	39				
	11-Sep	15-Sep	30yr Bond	22				
				119				

Quantitative Tightening Overview – Sep 2025

The cap on US Treasury redemptions was lowered to \$5bn effective Apr 2025. In Sep, the face value of Coupons maturing on the Fed balance sheet is approx. \$17bn. This is more than the new \$5bn monthly cap on Treasury redemptions. So of the \$17bn of Coupons maturing in Sep, \$5bn will roll off the Fed balance sheet (redeemed) and \$12bn will be reinvested. It also means that all ST Bills maturing in Sep will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$5bn redemption cap - Sep				
			\$5	
			Redeem \$Bn	Reinvest \$ Bn
15-Sep-25	Notes & Bonds		0.0	0.0
30-Sep-25	Notes & Bonds		5.0	11.9
	Bills			33.8
Total Notes & Bonds			5.0	45.7

Sep 2025 ST Bill maturity schedule;

Bill Maturity Schedule - Sep		Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2025/09/02	0.7	2%	0.0	0.7
2025/09/04	5.8	17%	0.0	5.8
2025/09/09	0.7	2%	0.0	0.7
2025/09/11	7.9	24%	0.0	7.9
2025/09/16	0.7	2%	0.0	0.7
2025/09/18	6.7	20%	0.0	6.7
2025/09/23	0.7	2%	0.0	0.7
2025/09/25	9.8	29%	0.0	9.8
2025/09/30	0.7	2%	0.0	0.7
	33.8	100%	0.0	33.8

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

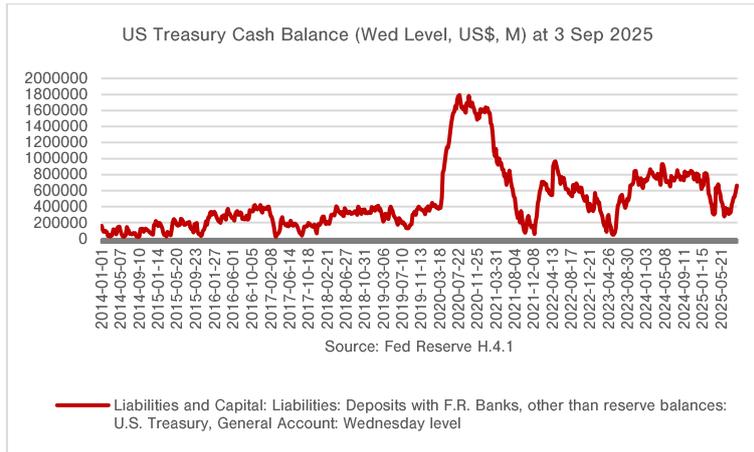
Recommended US Treasury Financing Q2 2025 and Est Q3 2025

The latest update of the US Treasury borrowing requirements for Q3 and Q4 (estimate) was announced last week. Details 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; Treasury expects to borrow \$1.007 trillion in privately held net marketable debt, assuming an end-of-Q3 cash balance of \$850 billion. This borrowing estimate is \$453 billion higher than announced in April 2025, primarily due to the lower beginning-of-quarter cash balance and projected lower net cash flows.

Est Q4: Over 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 3 Sep 2025, the level of the TGA increased to \$662bn (+\$66bn compared to the week prior). The TGA balance is approx. \$109bn *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/ombs_operation_schedule

CALENDAR W/C 8 September 2025

MONDAY 8 SEPTEMBER (US Eastern Time, unless stated otherwise)

Japan	GDP Q2 – final
Europe	Germany Industrial Production (Jul)
US	Conference Board Employment Trends Index (Aug), Consumer Credit Change (Jul)
China	Trade Balance, Exports, and Imports (Aug)
Australia	NAB Business Conditions & Confidence (Aug)

TUESDAY 9 SEPTEMBER

US	NFIB Small Business Optimism Index (Aug), Payrolls benchmark revision (prelim)
China	CPI & PPI (Aug)

WEDNESDAY 10 SEPTEMBER

US	MBA Mortgage Applications wk ending 6 Sep, PPI (Aug)
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THURSDAY 11 SEPTEMBER

Europe	ECB Monetary Policy Decision
US	Initial Jobless Claims wk ending 6 Sep, CPI (Aug), OPEC Monthly Report

FRIDAY 12 SEPTEMBER

UK	Monthly GDP (Jul)
China	New Loans (Aug) – tbc
US	Michigan Consumer Sentiment – Prelim (Sep)
