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US Outlook

Awaiting direction

Warsh's remarks at Sintra provided no clues about how policy might respond to data just as the economy approaches a critical juncture. June's jobs data hinted at moderation, but did not settle the debate. For now, this has both the economy and markets awaiting direction.

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- Warsh's remarks at Sintra reinforced his strong aversion to forward guidance and suggest the Fed's framework review could produce significant changes to communications policy. The appointment of Mervyn King suggests that the communications task force may eventually favor a framework that explains policy decisions while de-emphasizing signals about the future rate path.
- June's employment report provided tentative signs of labor market moderation, with payroll gains slowing and prior months revised lower. However, continued weakness in labor-force participation, particularly among workers aged 25-34, suggests that slower immigration and other labor supply constraints continue to reduce the speed limit of sustainable job growth.
- Our baseline remains an extended hold in policy rates, conditional on inflation, activity, and labor market conditions moderating through the summer. The principal risk is that gains in employment and spending re-accelerate while labor supply remains constrained, keeping inflation pressures elevated and placing hikes on the table.

The new framework under Warsh is still taking shape

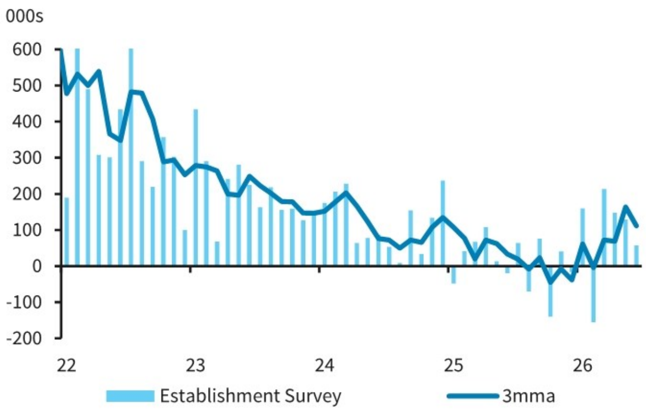
Much as we had anticipated, FOMC Chairman Kevin Warsh expressed a striking reluctance at this week's ECB's Sintra Forum to expressing all forms of forward guidance, which extends not only to explicit commitments about policy rates but also detailed discussions about the committee's thought process that might help clarify the policy reaction function. To our ear, the one clear takeaway was his reiteration that AI-related productivity gains are beginning to emerge and that these developments will ultimately prove disinflationary. His remarks also reinforced the sense that the five task forces unveiled at the May FOMC meeting have the potential to produce more profound changes than markets may appreciate, including the possible elimination of the Summary of Economic Projections and aspirations about reorienting the Fed's data analysis to more timely data.

News that former Bank of England Governor Mervyn King has been appointed to the task force on communications may provide early clues about its direction of travel. In our view, King's involvement leans against outcomes involving little to no transparency, although he has been critical of "forward guidance" (interpreted as the combined communication of policy intentions and a specific forecast), as this has generally resulted in unwarranted certainty about future policy decisions rather than focusing on communication, *per se*. A key theme of King's wide body of work is that central banks should communicate clearly about their objectives, reasoning, and assessment of risks while avoiding unnecessarily precise guidance about the path of rates. On that basis, we suspect his involvement could help direct the review toward a framework that retains transparency about the Committee's thinking and objectives while de-emphasizing signals about rate decisions through the dot plot and the statement.

> "Credibility of the explanations for actions – the narrative as described in speeches and inflation reports – is crucial in building and maintaining the reputation of policymakers and the belief among the wider population that inflation, even if on occasions it deviates from target, will come back to target. "
>
> — *Mervyn A. King*[1]

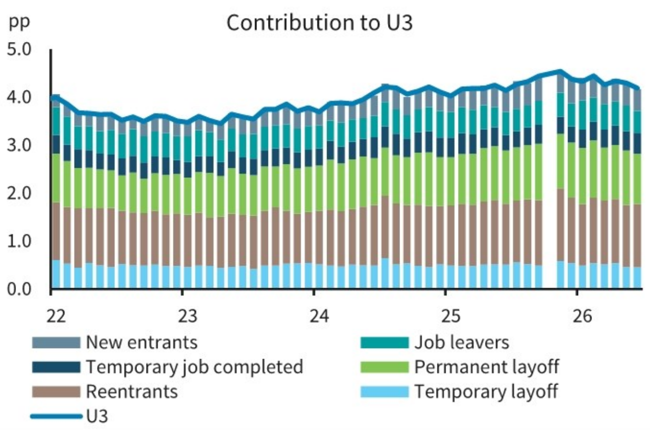
Although the FOMC's reaction function seems more opaque than usual, we think communications are still broadly consistent with our baseline expectation of an extended hold in policy rates. That baseline, however, remains conditional on incoming data showing some moderation in inflation, labor market conditions, and economic activity during the summer months. The principal risk is that such moderation fails to materialize, placing hikes on the table.

FIGURE 1. The spring pickup in job gains moderated in June...



Source: BLS, Haver Analytics

FIGURE 2. ...with the unemployment rate finally indicating modest tightening in the labor market



Source: BLS, Haver Analytics

Labor market data: Signs of moderation, not weakness

This week's employment report moved in the direction of our indefinite-hold baseline, albeit only on the margin. Nonfarm payrolls (Figure 1) increased 57k in June (Barclays 100k, consensus 113k), with downward revisions to May and other months lowering the 3mma pace to 111k/m, implying a more moderate acceleration than May's previously published 188k/m 3mma pace. This follows three months in which job gains had well surpassed our assessment of the breakeven pace (0-10k/m). At the same time, the unemployment rate edged down for the first time since March, from 4.30% to 4.19% (Figure 2), finally exhibiting at least some degree of coherence with the signs of strengthening labor demand in recent payroll and JOLTS (Figure 4) estimates.

[1] *Mervyn A. King, "Inflation Targets: Practice Ahead of Theory," NBER working paper 32594, June 2024.*

Much of the downswing in job gains from May (+129k) to June (+57k) reflects a reversal in the leisure and hospitality category, which shed 61k jobs following a 40k gain in May. This hints at earlier-than-normal hiring this year, perhaps consistent with a pull-forward related to the FIFA World Cup. Meanwhile, hours worked (+0.1% m/m) and average hourly earnings (+0.3% m/m) imply a 0.4% m/m increase in payroll income, which has now accelerated to 5.1% 3m saar, after having bottomed at 2.9% 3m saar in February, amid the recent soft patch of consumer spending. Given the elevated trajectory of inflation, we regard this as broadly consistent with the moderation of consumer spending that we anticipate in the coming months.

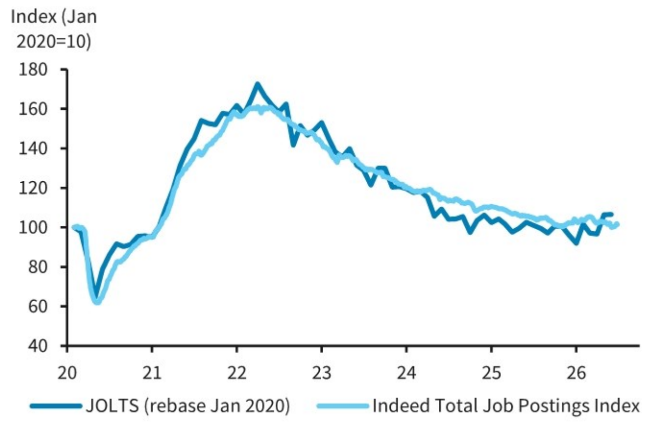
Labor supply has moved into in the spotlight

Even with the unemployment rate edging down in June, the household survey continues to paint a noticeably softer picture. The modest drop in the unemployment rate occurred despite an ~500k decline in household employment, which was more than offset by a 700k decline in the labor force.

June's developments show an intensification of broad patterns since January, with household employment (-800k) and the labor force (-1.1mn) showing sustained weakness. During this period, the labor force participation rate has plunged 0.6pp, to 61.5%, with about half of the decline focused within June. The weakness is consistent with the structural impediments to labor supply from immigration that we have been highlighting for quite some time. Survey details show that June's decline in participation was concentrated almost entirely among workers aged 25-34y, for whom participation has dropped 1.6pp, to 82.4%. Although the concentrated nature of this move raises the prospect of measurement noise, it also seems broadly consistent with adverse effects of slowed immigration flow, which might be magnified during the summer hiring season for construction. Even if this is measurement noise, we would downplay the possibility that this distorted the unemployment rate, as measurement errors for participation tend to be closely correlated with employment.

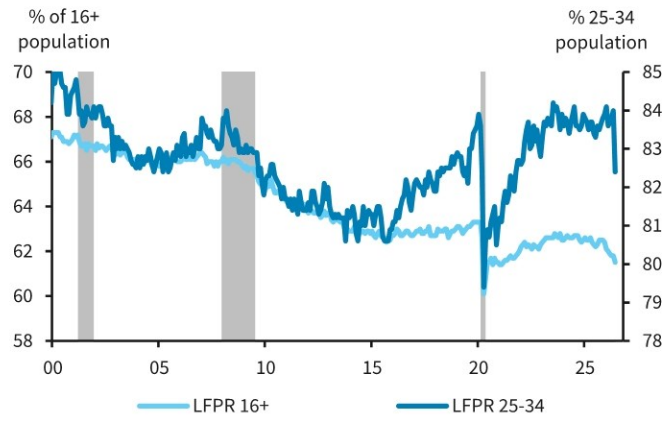
In our view, the moderation of job gains in this report leans against the likelihood of rate hikes in upcoming meetings, on the margin. However, the ongoing weakness in labor supply exacerbates risks that the pickup in job gains may prove more persistent than we expect, leading to a sharper tightening of labor market conditions. The response rate to June's payroll survey was just 54.4%, the lowest since October 2024, which boosts the likelihood of substantial revisions in upcoming reports that could shift views.

FIGURE 3. JOLTS estimates suggest strengthening labor demand, though other indicators look steady



Note: Indeed data are daily through June 26, 2026.
Source: BLS, Indeed.com, Haver Analytics

FIGURE 4. The participation rate dropped sharply in June, almost entirely from the 25-34y cohort



Note: Indeed data are daily through June 26, 2026.
Source: BLS, Haver Analytics

Underlying growth remains solid, in our view

The broader activity data continue to point to an economy expanding at a respectable pace despite signs of labor market moderation. June ISM manufacturing remained in expansion territory and continued to show evidence of strong demand tied to AI-related investment. At the same time, the prices-paid index moved sharply lower during the month, likely reflecting easing energy costs following the Iran ceasefire.

Taken together with this week's trade, construction, and spending data, the incoming information leaves us tracking Q2 real GDP growth at 2.1% q/q saar. This is notably firmer than the Atlanta Fed's GDPNow tracker (1.2% q/q saar) and the latest S&P Global tracker (1.3% q/q saar), suggesting that risks lie to the downside. We suspect these tracking discrepancies reflect differing assumptions about the role of gold distortions in May's sharp widening of the trade deficit, rather than fundamentally different assessments of underlying domestic demand. The more comprehensive data from May's international trade release, scheduled for release on July 7, should help resolve this measurement uncertainty.

The Supreme Court's Cook decision preserves Fed independence

In a 5-4 ruling, the Supreme Court allowed Governor Lisa Cook to remain on the Federal Reserve Board while litigation over her removal proceeds. The finding reduces uncertainty surrounding the Federal Reserve's independence, strongly suggesting that the administration is unlikely to prevail on its current attempt to remove her for cause. While the court's companion Slaughter ruling affirmed that heads of independent agencies generally serve at the will of the president, the Cook ruling indicates that the Fed will be treated as a special case, with the majority emphasizing its unique historical role and the intent of Congressional statutes to provide it with independence from the administration. In our view, the decision largely preserves the existing framework for monetary policy independence while leaving unresolved questions about the precise conditions that would allow a governors to be removed "for cause". However, comments by President Trump later in the week that his administration would start a new process to remove Cook left the future of the central bank’s independence as still uncertain.

Inflation measurement: Some air out of PCE price inflation?

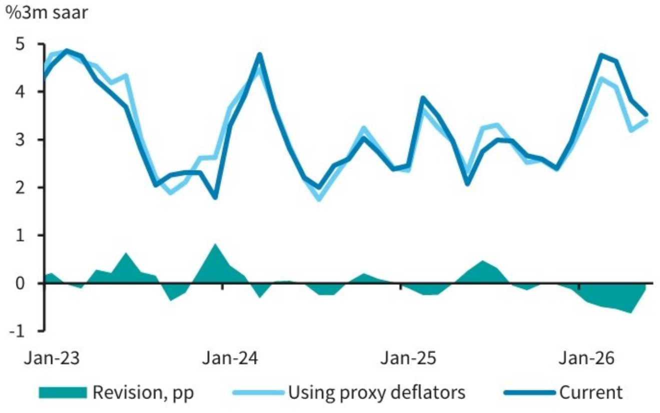
A common theme in our client discussions this week was the likely effect of methodological changes to the measurement of PCE price inflation in the annual revisions to the national accounts scheduled for September 30. The BEA announced methodological changes affecting legal services, portfolio management services, and computer software and accessories. We estimate these could lower measured core PCE inflation meaningfully in early 2026, reducing Q1 momentum 0.4-0.5pp (3m saar) and lowering May core PCE inflation approximately 0.2pp (Figure 6).

Much of the effect stems from changes to the treatment of the computer software and accessories category. That has become an increasingly important source of upward pressure on core PCE inflation, largely because AI-related demand for memory chips and related hardware has generated substantial price increases. Our calculations suggest that AI-related categories have made a meaningful contribution to measured core inflation in recent quarters, though part of this appears to reflect measurement issues that the forthcoming revisions are intended to address.

The key point, however, is that the revisions do not fundamentally alter the inflation story. Even after accounting for the methodological changes, most measures of underlying inflation are running well above target. In our view, the revisions are best understood as a refinement to the measurement of inflation, rather than evidence that the inflation problem has disappeared.

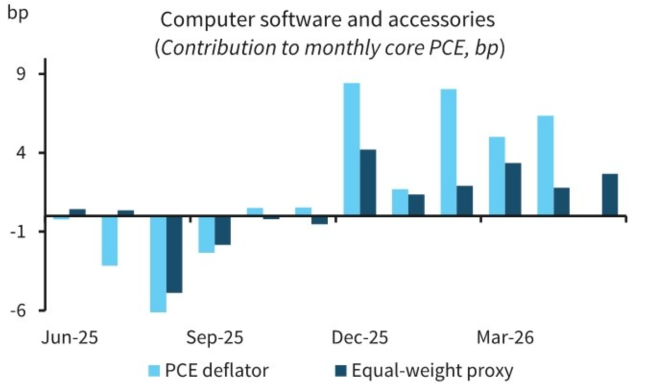
While they may reduce the probability of policy tightening at the margin, they do not materially change our expectation that the Federal Reserve will remain focused on incoming inflation momentum, rather than lower year-over-year readings generated mechanically by the revisions.

FIGURE 5. **Methodological changes in the annual revision are likely to trim core PCE price inflation...**



Source: BLS, BEA, Haver Analytics

FIGURE 6. **...including contributions from the AI-related run-up in computer software and accessories**



Source: BLS, BEA, Haver Analytics

US Q2 GDP TRACKING AT 2.1%

Colin Johanson, BCI, US | Jonathan Millar, BCI, US

We began this week with the release of May construction spending data, which reduced our GDP tracker 0.1pp, to 2.1% q/q saar, as our tracker for residential investment was reduced. We then updated for vehicle sales for June, the employment report for June and factory orders data for May, which all provided no change to our GDP tracker, but did provide some offsetting compositional changes to our component trackers.

FIGURE 7. The effect of incoming data on our GDP tracking model

		Details of Q2 2026 GDP tracking estimate (% q/q saar, unless indicated)											
Date	**Data release**	**GDP**	**Final sales**	**PCE**	**Res. inv.**	**Equip**	**Struct**	**IPP**	**Gov**	**Exports**	**Imports**	**Net exports (level)**	**CIPI (level)**
Jul-1	Construction Spending	**2.1**	**2.7**	2.0	**-1.3**	11.9	**1.2**	9.0	1.4	8.0	9.8	-1037.0	-29.2
Jul-1	Vehicle Sales	2.1	**2.6**	**2.1**	-1.3	**10.2**	1.2	9.0	1.4	8.0	9.8	-1037.0	**-25.3**
Jul-2	Employment report	2.1	2.6	2.1	-1.3	10.2	1.2	9.0	**1.5**	8.0	9.8	-1037.0	-25.3
Jul-2	Factory Orders	2.1	2.6	2.1	-1.3	10.2	1.2	9.0	1.5	8.0	9.8	-1037.0	-28.8
	Current quarter tracking	**2.1**	**2.6**	**2.1**	**-1.3**	**10.2**	**1.2**	**9.0**	**1.5**	**8.0**	**9.8**	**-1037.0**	**-28.8**
	Contribution to GDP growth (pp)		*2.6*	*1.4*	*0.0*	*0.6*	*0.0*	*0.5*	*0.3*			*-0.4*	*-0.2*
	Barclays official forecast	**2.5**	**3.2**	**2.5**	**2.0**	**12.0**	**2.0**	**9.0**	**1.5**	**8.0**	**10.0**	**-1038.9**	**-32.7**

Note: Our GDP tracking estimate is distinct from our official published GDP forecast. It reflects the mechanical aggregation of monthly activity data that feed directly into the BEA's GDP calculation. Where data releases have implications for the tracking components, cells have been bolded
Source: Barclays Research

US DATA REVIEW & PREVIEW

Marc Giannoni, BCI, US | Jonathan Millar, BCI, US | Pooja Sriram, BCI, US | Colin Johanson, BCI, US

Review of last week's data releases

Main indicators	Period	Previous	Barclays	Actual	Comments
FHFA purchase-only HPI, % m/m (y/y)	Apr	0.2 (1.9) R	0.2 (2.2)	-0.1 (2.0)	The S&P Cotality 20-City house price index (-0.04% m/m) and the FHFA index (-0.1% m/m) declined in April. The data provide signs that price relief occurred across the country during the month. If moves like this are sustained, housing demand should increase.
S&P Cotality CS 20-City HPI, % m/m (y/y)	Apr	-0.2 (0.9) R	-0.2 (1.0)	0.0 (1.1)	
Chicago PMI index	Jun	62.7	-	56.7	The Chicago PMI eased to 56.7 in June, after a rebound in May but remained in expansionary territory for a second consecutive month. The index eased mainly due to lower new orders and production.
Conference Board Consumer confidence index	Jun	90.6 R	95.5	91.2	The Conference Board's consumer confidence index increased 0.6pts in June, to 91.2. The gain reflects a more optimistic assessment of future economic activity that offsets a weaker view of current conditions. Stronger expectations of business activity, the labor market, and income drove the gain.
JOLTS, k job openings	May	7585 R	7300	7594	Job openings were little changed in May, at 7.6mn, with an increase in leisure and hospitality offset by a drop in health services. Turnover was broadly unchanged, with small increases in quits and layoffs, and a decline in hiring. The vacancies-to-unemployment ratio edged up to 1.04.
ADP private employment, chg., k	Jun	122	-	98	Private payrolls increased by 98k in June, down from 122k in May, pointing to a slowdown in hiring momentum. Job gains were led by financial activities and information, while leisure and hospitality posted a sixth consecutive month of weak hiring.
"Final" S&P Global manufacturing PMI, index	Jun	55.7 P	-	53.9	The final manufacturing index fell to 53.9 in June from 55.1 in May, remaining in expansionary territory for an eleventh consecutive month, though the rate of expansion eased to a three-month low.
ISM manufacturing index	Jun	54.0	54.5	53.3	June ISM softened somewhat amid mixed component readings, but remains in a range consistent with solid growth and gains in labor demand. Pipeline cost pressures softened following recent declines in energy prices, but remain elevated relative to historical norms.
Construction spending, % m/m	May	0.3 R	0.0	0.1	Construction spending rose 0.1% m/m in May after a revised 0.3% increase in April, with gains in private residential and public construction partly offset by a decline in private nonresidential spending.
Vehicle sales, mn saar	Jun	16.1	16.2	16.5	Light vehicle sales increased to 16.5mn saar in June from 16.1mn in May, above expectations.
Nonfarm payrolls, chg., k	Jun	129 R	100	57	The June employment report suggests labour demand softened, with non-farm payrolls slowing to just 57k and the prior month revised down. The unemployment rate declined slightly to 4.2%, and labor force participation decreased by 0.3pp to 61.5%.
Private payrolls, chg., k	Jun	97 R	100	49	
Unemployment rate, %	Jun	4.3	4.3	4.2	
Average hourly earnings, % m/m (y/y)	Jun	0.3 (3.4)	0.3 (3.5)	0.3 (3.5)	
Average weekly hours	Jun	34.3	34.3	34.3	
Initial jobless claims, k (4wma)	Jun-27	216 (225) R	215	215 (222)	Initial claims declined to 215k from an upwardly revised 216k, while continued claims rose to 1814k from a downwardly revised 1812k.
Insured unemployment (continued claims), k	Jun-20	1812 R	-	1814	

Main indicators	Period	Previous	Barclays	Actual	Comments
Factory orders, % m/m	May	5.3 R	-2.1	-1.3	Factory orders fell 1.3% m/m in May, declining after four consecutive monthly increases, even as shipments, unfilled orders and inventories increased.
Durable goods orders-f, % m/m	May	-4.5 P	-4.5	-4.5	Durable goods orders fell 4.5% m/m in May, driven by a 14.0% decline in transportation equipment, while orders excluding transportation declined by 1.3%.
Durable goods ex transportation-f, % m/m	May	1.3 P	1.3	1.4	
Core capital goods orders-f, % m/m	May	1.6 P	1.6	1.4	

Preview of upcoming data

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Note: Consensus data from Bloomberg.
Source: BEA, BLS, Bloomberg, Census Bureau, Federal Reserve, ISM, University of Michigan, S&P Global, Haver Analytics, Barclays Research

US SNAPSHOT

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	2025				2026				2027				Calendar year average		
% Change q/q saar	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2025**	**2026**	**2027**
Real GDP (% q/q saar)	-0.6	3.8	4.4	0.5	2.1	2.5	2.5	2.0	1.5	1.5	1.5	1.5	2.1	2.3	1.8
Real GDP (% y/y)	2.0	2.1	2.3	2.0	2.7	2.4	1.9	2.3	2.1	1.9	1.7	1.5	...	...	...
Private consumption	0.6	2.5	3.5	1.9	0.5	2.5	1.5	1.5	1.5	1.5	1.5	1.5	2.6	1.8	1.5
Public consump and invest	-1.0	-0.1	2.2	-5.6	4.4	1.5	1.5	1.5	0.5	0.5	0.5	0.5	1.1	0.8	0.9
Gross private investment	23.3	-13.8	0.0	2.3	7.9	5.8	8.0	6.1	4.4	4.4	2.8	2.8	1.9	3.9	4.9
Residential investment	-1.0	-5.1	-7.1	-1.7	-7.8	2.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.2	-3.2	0.1
Nonresidential investment	9.5	7.3	3.2	2.4	10.6	8.8	8.4	7.2	5.6	5.6	3.9	3.9	4.1	7.1	6.1
Equipment	21.4	8.5	5.2	4.3	15.8	12.0	10.0	9.0	6.0	6.0	4.0	4.0	8.3	9.9	7.0
Intellectual property	6.5	15.0	5.6	5.4	13.8	9.0	9.0	7.0	5.0	5.0	4.0	4.0	5.6	9.3	5.9
Structures	-3.1	-7.5	-5.0	-6.5	-4.7	2.0	4.0	4.0	6.0	6.0	3.5	3.5	-5.3	-2.5	4.7
Ch. inventories (contr to GDP, pp)	2.6	-3.4	-0.1	0.1	0.2	-0.3	0.2	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.2	0.0
Net exports (contr to GDP, pp)	-4.7	4.8	1.6	-0.2	-0.4	-0.4	-0.2	-0.3	-0.3	-0.3	-0.1	-0.1	-0.2	0.2	-0.3
Exports	0.2	-1.8	9.6	-3.2	10.9	8.0	4.0	2.5	2.5	2.5	2.5	2.5	1.6	5.2	3.0
Imports	38.0	-29.3	-4.4	-1.0	11.8	10.0	4.5	4.5	4.5	4.5	2.5	2.5	2.7	2.5	4.4
Final sales to domestic purchasers	1.4	2.4	2.8	0.6	2.2	3.2	2.4	2.2	1.8	1.9	1.6	1.6	2.4	2.4	2.1
Industrial production (% y/y)	0.7	0.5	1.7	1.6	0.8	1.6	1.8	2.8	2.8	3.0	3.0	3.0	1.1	1.8	2.9
GDP price index	3.6	2.1	3.8	3.7	3.6	5.0	2.2	2.7	2.4	2.3	2.6	2.9	2.8	3.6	2.6
Nominal GDP	2.9	6.0	8.3	4.2	5.8	7.7	4.8	4.7	4.0	3.9	4.2	4.4	5.0	6.0	4.5
Employment (avg mthly chg, K)	20	34	23	-39	73	111	50	50	25	0	0	0	10	71	6
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.3	4.3	4.2	4.0	4.0	4.0	4.0	4.0	4.3	4.2	4.0
CPI inflation (% y/y)	2.7	2.4	2.9	2.7	2.7	4.0	3.5	3.5	3.1	1.9	2.3	2.4	2.7	3.4	2.4
Core CPI inflation (% y/y)	3.1	2.8	3.1	2.7	2.5	2.8	2.7	2.9	2.8	2.6	2.5	2.4	2.9	2.7	2.6
PCE price index (% y/y)	2.6	2.4	2.7	2.8	3.1	3.9	3.7	3.6	3.0	2.2	2.3	2.3	2.6	3.6	2.4
Core PCE price index (% y/y)	2.8	2.7	2.9	2.9	3.1	3.4	3.4	3.3	2.9	2.5	2.4	2.3	2.8	3.3	2.5
Current account (% GDP)	-5.8	-3.3	-3.4	-2.8	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5	-3.6	-3.7	-3.8	-3.0	-3.5
Federal budget bal. ($bn)	...	...	...	...	...	...	...	...	...	...	...	...	-1,775	-2,015	-1,999
Federal budget bal. (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-5.8	-6.3	-5.9
Government debt (% GDP)	...	...	...	...	...	...	...	...	...	...	...	...	125.2	125.1	127.2
Federal funds target range															
Upper bound (%)	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	...	...	...
Lower bound (%)	4.25	4.25	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	...	...	...

Note: % q/q saar unless indicated. The budget balance is fiscal year.
Source: BEA, BLS, FRB, US Treasury, Barclays Research

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