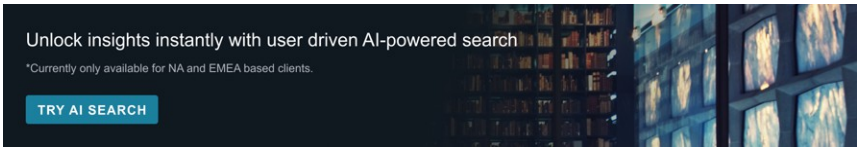
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North America Economic Research
30 October 2026

US Weekly Prospects



Economic and Policy Research

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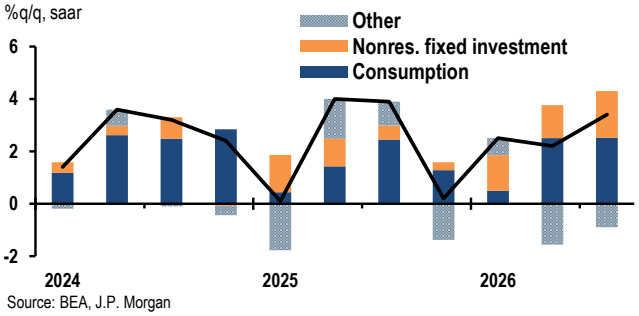
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United States

- **The Fed was on hold this week, but the meeting statement still points to a likely December hike**
- **Real GDP expanded at a brisk 3.4% pace in 3Q, supported by robust gains in private demand**
- **Consumer price inflation remained firm in September, but wage inflation was modest in 3Q**
- **The midterm elections will be in focus next week, though we don't see big macroeconomic implications**

The FOMC met this week and, as expected, left the funds rate unchanged at 3.75-4.0%. There were two dissents, from the reliably hawkish Hammack, and from the surprisingly hawkish Cook. They had good reason to dissent—inflation remains above target at a time when the labor market appears healthy. That said, the decision to leave rates on hold was defensible, as various Fed speakers gave arguments as to why there was no urgency to hike in the period leading up to the meeting. However, Chair Warsh did not fully explain why they opted not to hike this week, and the market read this as mildly dovish. The post-meeting statement indicated that the broader Committee is focused on potentially acting again to bring inflation lower. As Fed speakers come out of the blackout period, we expect they will reinforce this message, confirming the consensus and our expectations that the FOMC will hike at its next meeting in December.

Figure 1: Real GDP growth and key contributions



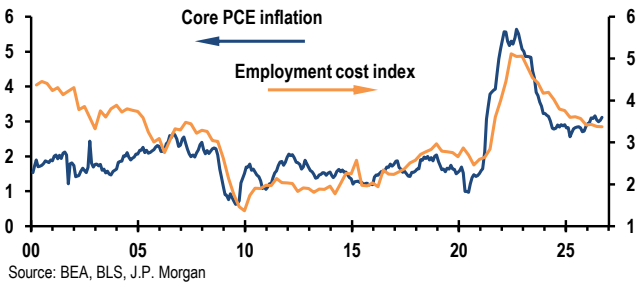
Source: BEA, J.P. Morgan

The two major themes of the Fed's communications this week were: growth is strong but inflation is high. This was also apparent in the data released this week. The first look at 3Q GDP indicated that real output expanded at an impressive 3.4% annual rate last quarter. Both private investment and consumption expanded at a brisk pace (Figure 1). The 12.7% annualized increase in real business fixed investment spending was underpinned by rapid growth in spending related to the AI buildout. For the second straight quarter, real consumption grew at a rapid 3.8% annual rate. Since real income growth was tepid, this growth was arithmetically the result of a falling saving rate. Economic theory suggests that this decline in the saving rate was a result of the rise in household wealth. Wealth has been boosted by rising equity prices for tech stocks, underscoring the importance of the AI cycle for the broader economy.

We continue to look for GDP growth to step down to a 1.75% pace in the current quarter. Momentum in consumer spending slowed towards the end of last quarter, and real consumption was unchanged in September. Moreover, Chase card spending data suggest that retail spending growth was subdued in October and our equity analysts think auto sales fell. Unlike consumer spending growth, labor market indicators point to stability, and next week we expect to see nonfarm employment increase by 75,000 and the unemployment rate edge down to 4.1%.

The inflation news continues to come in hotter than desired. Following the already-reported fast increase in the September core CPI report, this week's October core PCE figure increased 0.32%, lifting the year-ago increase from 3.0% to 3.1%. The three-month annualized increase rose from 2.2% to 2.9%. Wage inflation remains moderate, however, as the Employment Cost Index (ECI) increased 0.8% in 3Q, or 3.4% over a year ago (Figure 2).

Figure 2: Core PCE inflation and compensation growth



Source: BEA, BLS, J.P. Morgan

High inflation and lackluster wage growth will be on voters' minds as they head to the polls for the midterm elections next Tuesday. Polling and prediction markets point to Democrats retaking the House of Representatives from the Republicans. The fate of the currently Republican-controlled Senate is more in question. We don't expect these elections to have first-order implications for the macro outlook. The currently Republican-controlled Congress has no major remaining tax or spending priorities, while any Democratic gains on Capitol Hill seem unlikely to get major changes in policy past the White House.

Fed still pointing to December hike

The broad contours of this week's FOMC decision largely played out according to expectations: the Committee left rates on hold with a few hawkish dissents. And the insertion of the

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sentence "The accumulation of more information will help the Committee determine the policy stance appropriate to ensure a timely return of inflation to the Committee's 2 percent goal," conveyed a clear bias to tighten, leaving most's expectations for a December hike unchanged.

However, there were a few twists. In an eye-opening development, one of the hawkish dissents came from Governor Cook. In the September dot plot, four participants expected a hike at every remaining meeting this year. Most observers believe those four were easily accounted for by the hawkish reserve bank presidents. Few would have placed Cook in that group. The administration, which has been vocal in wanting lower rates, has been trying to remove Cook from office for over a year. In December, she is scheduled to go to the White House for an administrative hearing on her alleged mortgage fraud case. This week's dissent is unlikely to make that hearing any less contentious.

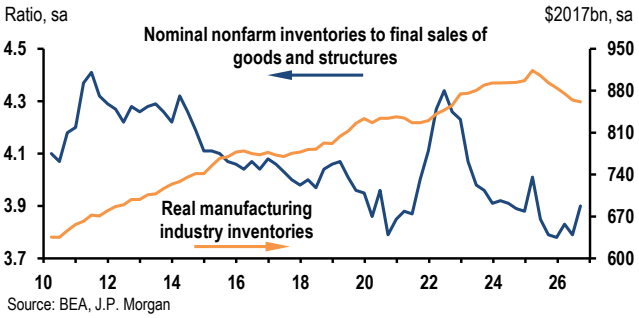
The post-meeting press conference left many Fed observers, including ourselves, scratching their heads. The first question at that press conference, and the most obvious question, was to ask about the rationale for pausing when there had been no progress on inflation since the last meeting. Warsh gave a reply that lasted over three minutes, but that didn't directly answer the question. We know the Fed chair "looks out the window" and "interrogates reality," but to get a better sense of the direction of monetary policy we will likely need to focus more on the speeches of the other 18 participants on the FOMC. In the last inter-meeting period, those other Fed speakers gave an accurate sense of the outcome of this week's meeting and will be particularly important in understanding the Fed's evolving reaction function.

A punchy growth quarter

Since the late summer it has been apparent that 3Q was shaping up to be a solid quarter for GDP growth, and this week's release didn't disappoint those expectations. The booming 12.7% annualized increase in real business investment spending was led by a 20.9% increase in equipment spending, though there was also good growth in the other two major subcategories of business capex, structures (5.4%) and intellectual property products (8.4%). Across all three major subcategories of business capex, there is evidence in the underlying details that this capex cycle is firing on one very important cylinder: the AI buildout, something we discuss in this week's focus. Unfortunately, non-AI spending growth wasn't much in evidence, unlike 2Q when it was an important contributor to equipment gains.

Inventory building also returned after five straight quarters of falling inventories, which contributed 1.6%-pt to growth. The ratio of nonfarm inventories to final sales of goods and structures is already back to where it was at the end of 2024, which could argue that inventories won't make much of a contribution to growth in coming quarters. However, the manufacturing sector, which drove much of the drop in stocks since last year, kept reducing inventories last quarter. That could argue for a more extended recovery in inventory accumulation (Figure 3).

Figure 3: NIPA inventory/sales ratio; real mfg inventories

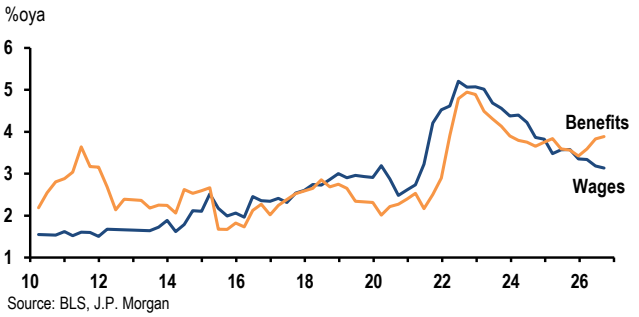


Source: BEA, J.P. Morgan

Different trends for benefits and wages

The over-year-ago pace of compensation as measured by the ECI has now held at 3.4% in each of the last four quarters, a sign that compensation growth is stabilizing. This reflects two offsetting trends in the components of compensation. Wage growth has continued to gradually moderate, and the over-year-ago rate hit a new cycle low of 3.1%. Monthly average hourly earnings have exhibited the same behavior. In contrast, benefit cost inflation has accelerated (Figure 4).

Figure 4: ECI for wages vs. benefits



Source: BLS, J.P. Morgan

Health care costs (6.4%oya) are one reason that benefit cost inflation is accelerating. Note that while this tends to move with PCE prices for health care, it is not necessarily a leading indicator.

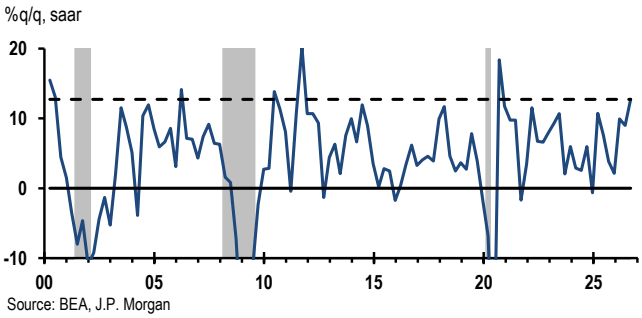
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US Focus: AI capex is all you need

AI-related capex continued to soar in 3Q, driving 13%q/q saar growth in total nonresidential business fixed investment. Excluding the recovery periods after recessions, that's the fastest gain in 20 years (Figure 1). The only downside here is that growth was more narrowly concentrated in technology investment in 3Q than it was in 2Q, creating almost all the net growth in equipment and buildings. Much of the related equipment is manufactured abroad, and some of it is produced in a very capital-intensive manner, so the immediate employment impact is probably more limited than the dollar figures might suggest. It also means investment is that much more dependent on the trajectory of a single industry.

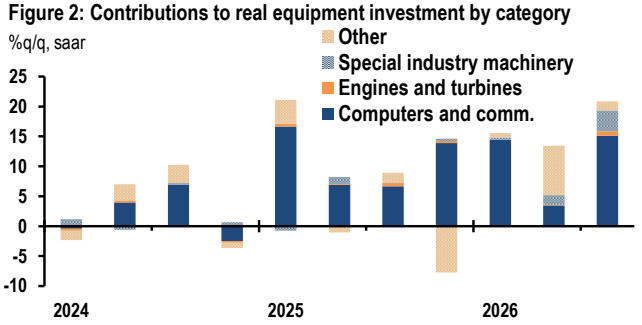
Figure 1: Real nonresidential business fixed investment growth



Source: BEA, J.P. Morgan

Figure 2 shows the contribution to growth in real equipment investment from key tech and tech-adjacent segments. This includes computers and communications equipment, engines and turbines which are linked to data center power demand, and special industry machinery, which includes semiconductor manufacturing equipment. Overall equipment investment rose 21%, but non-technology investment contributed only 1.6%-pt of that, compared to 8.2% in the prior quarter. Looking across the last couple years, the broadening into non-tech investment in 2Q now looks to be somewhat of an aberration. The "other" non-tech group in Figure 2 rose 1.1%oya in 3Q, the same as in 3Q25 and down from 1.8% in 3Q24.

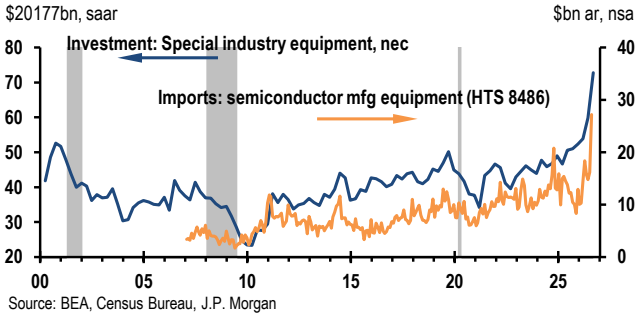
Figure 2: Contributions to real equipment investment by category



Source: BEA, J.P. Morgan. Engines exclude transportation

Semiconductor manufacturing equipment is not broken out in the quarterly GDP data, so what basis is there to think it's driving growth in the wider special industry machinery category? First, after decades of holding within a narrow range, the level of real total expenditure has suddenly surged 43% in just the last year (Figure 3), a hockey stick pattern that shows up in other tech series. That follows on the back of the huge surge in domestic semiconductor manufacturing construction that began back in 2022; for example, TSMC's second Arizona fab was started at the end of 2022, but they are only now installing tooling. Second, imports of semiconductor manufacturing equipment through August have surged.

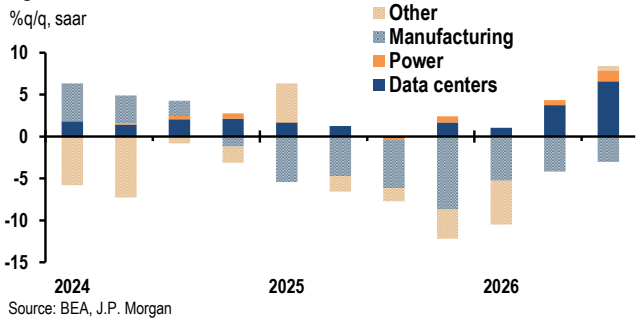
Figure 3: Investment in special industry eqpt, semi eqpt mfg imports



Source: BEA, Census Bureau, J.P. Morgan

Turning to nonresidential structures, data centers contributed 6.6%-pt to growth, more than accounting for the 5.4% increase in total structures (Figure 4). Power, which is now data center-adjacent, also contributed 1.2%-pt. Manufacturing structures, which includes semiconductor manufacturing, is still a drag, though data through August shows nominal spending on computer, electronic, and electrical manufacturing facilities has stabilized in the last couple of months following a very steady decline since 2024. CHIPS Act funding drove an earlier surge that has been unwinding.

Figure 4: Contributions to real nonresidential structures investment



Source: BEA, J.P. Morgan

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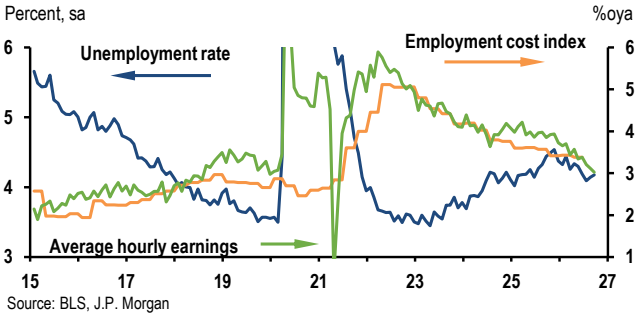
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US: A piece of the puzzle - wages, slack and inflation

- **A tightening labor market and end to wage disinflation will pressure already elevated inflation**
- **The effects should be small, likely no more than a couple tenths on core inflation relative to a scenario where slack remains constant and wage disinflation continues, with effects most evident in supercore**
- **We continue to look for core inflation to moderate later next year, assuming recent shocks to goods pricing fade, but remain above the Fed's 2% target**
- **Low unit labor costs should support that process, as should the assumption that pricing power only goes so much further given already high profit margins and weak real wage growth**
- **In the near term, business surveys point to elevated inflation, and we still see core PCE inflation rising more than 2.5% Q4/Q4 in 2027**

Labor market weakness and slowing wage inflation moved together in 2H25. This year, labor market conditions have strengthened while wage growth has continued to moderate (Figure 1). The divergence is unlikely to last. Stability in compensation growth after a period of gradual slowing could remove a disinflationary impulse, as could a further drop in unemployment, a topic our global colleagues recently touched on for the US and other major DM economies. None of the expected changes in compensation growth or unemployment in our forecast are large, and consequently neither are the implied inflation effects. But any firming in inflation pressures is noteworthy when core PCE inflation has struggled to return to the Fed's 2% target.

Figure 1: Unemployment and compensation growth



Source: BLS, J.P. Morgan

Even if labor markets raise inflation pressures relative to recent quarters, we still expect the overall level of inflation to fall later next year, assuming that energy prices pull back from recent levels, supply chains improve, and higher tech prices finish passing through. Beyond shocks to goods prices, low unit labor costs still provide one avenue toward lower inflation over time, even if they are in practice less useful than wages in near-term inflation forecasts. Real income growth is likewise mild, which could limit the ability of firms to pass through higher prices over time. In the near-term, though, business surveys still point to firm pricing in coming months, and we continue to expect that core PCE inflation will exceed 2.5% on a Q4/Q4 basis next year.

The role of slack and wages in the inflation outlook

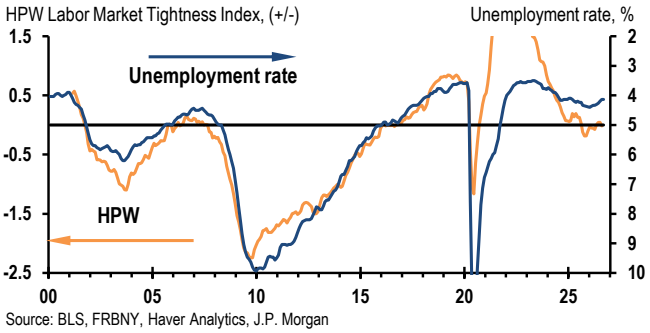
Limited inflation pressure from declining slack, though everything is meaningful at these starting levels of inflation. Our forecast calls for the unemployment rate to fall to 4.0% next year, a minor change from the current 4.2% rate or last year's 4.5% peak. Given low continuing claims, a decline below 4.0% is also a possibility. Consequently, we contemplate a decline of anywhere from 0.5% to 1.0% relative to last year's short-lived 4.5% peak. The standard mechanism to link slack to inflation is the Phillips curve, whose empirical estimates we discuss later in this piece, although as economist Greg Mankiw recently remarked, it's "not a very useful practical tool." Under a Phillips curve slope of -0.15, core inflation would be pushed up by 7–15bp depending on how much unemployment falls, while under a slope of -0.4 inflation would rise by 20–40bp.

We lean toward the lower end of this range given the low inflation experience in 2019 and the post-COVID normalization of the labor market, which suggests a return to a flatter Phillips curve. On the other hand, household and business inflation expectations could have become less anchored after COVID, and tough immigration enforcement could create additional price pressures, such as in construction. More importantly, even if we assume at most a couple tenths of a percent impulse to core inflation, that is meaningful given the already-high starting level of inflation. Conversely, if our forecast is incorrect and unemployment rises, say 0.5%, then it could create another 10-20bp of disinflation.

Wage disinflation abates, leaving services sticky. Various compensation measures are still decelerating even as unemployment has come off its peak (Figure 2). Short-term divergence is not unusual. Other predictive measures of compensation, such as the FRBNY's HPW index, which blends quit rates and vacancies per effective searcher, have also improved a bit, even if the index remains worse than unemployment relative to its own history.

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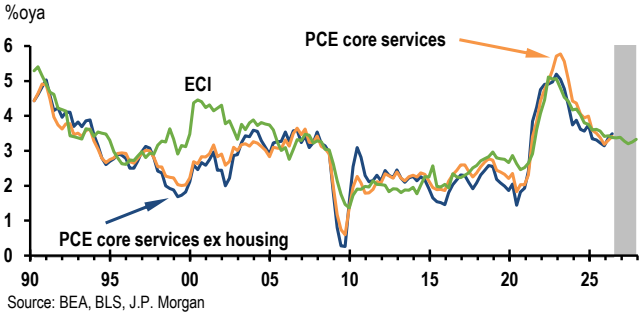
Figure 2: Stable alternative measures of slack



Source: BLS, FRBNY, Haver Analytics, J.P. Morgan

Given this, we expect the annual change in the ECI will stop the disinflation it has been on since COVID by next year. In the last year the 12-month change in the ECI has dropped by 20bp, to 3.4%, and we expect a similar moderation over the coming year followed by an acceleration of a couple tenths of a percent into the end of 2027 (Figure 3). Given pass-through estimates discussed below, moves up and down in compensation growth of a couple tenths of a percent wouldn't have that much impact on total core PCE. **But we see our forecast here as consistent with continued stickiness in core services inflation, especially excluding housing. That puts more of the onus on goods and shelter to drive inflation back toward 2%.** For shelter, new market rents have begun to re-accelerate, though in the near-term we still think CPI/PCE shelter inflation should moderate. Goods inflation pressures, meanwhile, remain elevated in the near-term.

Figure 3: PCE core services and core serv. ex housing vs. ECI



Source: BEA, BLS, J.P. Morgan

But is today's slack already deflationary?

Even if changes in slack and wages were to create additional pressure on inflation, there are other parts of that story that could support ongoing disinflation, in particular unit labor costs (ULC) and uncertainty about the NAIRU.

Theoretically, unit labor costs should have a more direct link to inflation than wages, since they adjust for time-varying worker productivity. A 2% inflation target should thus be achievable with ULC around 2% or lower. In fact, ULC is lower, rising 1.4% over the last year and 1.9% annualized over three years. But ULC are much more volatile than wages, and in practice are not as correlated to inflation. For example, Table 1 reports the R2 from four-quarter log changes in prices against four-quarter log changes in either the ECI or ULC. ECI growth is almost always much more useful in explaining inflation than is ULC; similar results hold if we include one-year lagged changes in ECI or ULC. And for core services ex housing in particular, averaged annualized growth since 1990 has differed from ECI by just 0.3%-pt.

Table 1: Inflation moves explained by ECI vs. ULC

R2 from regression of 4Q log difference in prices against 4Q log difference in ECI/ULC

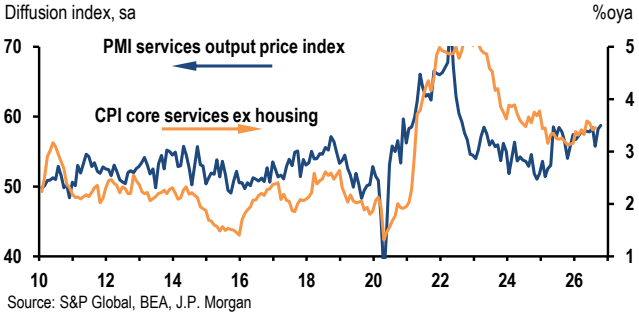
		Core	Core goods	Core services	Supercore
CPI	ECI	0.3	0.0	0.6	0.5
	ULC	0.0	0.0	0.0	0.0
PCE	ECI	0.3	0.0	0.6	0.5
	ULC	0.1	0.1	0.1	0.1

Source: BLS, BEA, J.P. Morgan. Supercore = core services ex housing. Regression uses the MM robust regression estimator, and data 1990-2019

Another consideration is whether today's 4.2% unemployment rate, and potentially rates even lower than that, could be above NAIRU and thus disinflationary, given how imprecise NAIRU estimates are. Unemployment over the past few years has almost always been below CBO's NAIRU estimate of 4.4%, even as wage growth decelerated and price inflation held in a narrow range. We see this as a possibility, but precisely because the NAIRU is hard to measure, it is not the most useful to near-term forecasting.

Even if ULC and the unemployment rate allow for the possibility of further disinflation—which again we do expect some of—the near-term signal from business surveys points to ongoing firmness. To some extent, the business surveys reflect energy prices, which could quickly reverse in the future. But output prices in the PMI services survey are also at a cycle high (Figure 4). While including the energy-linked transportation sector, exclude the goods-related wholesale/retail industries, and are broadly within the elevated range they were in before energy prices spiked.

Figure 4: PMI services output prices vs. supercore inflation



Source: S&P Global, BEA, J.P. Morgan

One other consideration is what inflation markets imply for the outlook. Our preferred gauge of long-run expectations,

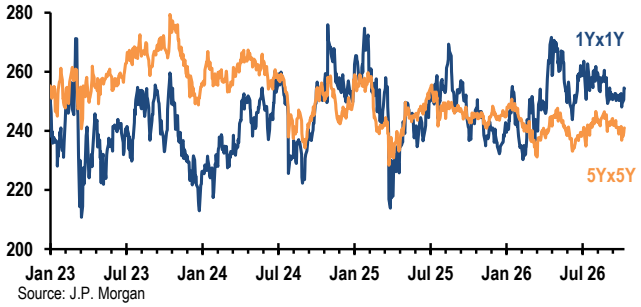
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5Yx5Y inflation pricing, remains subdued ~10bp below its 3- and 5-year averages. Near-term pricing tells a different story: 1Yx1Y sits at ~250bp, above its 3-year average. This is notable because the energy strip is backwardated and prices disinflation over the same window, implying the core component embedded in front-end pricing is firmer still (Figure 5). We read this as higher near-term inflation risk premia rather than any de-anchoring of expectations and note that on a contemporaneous basis we still see 1Yx1Y as too narrow at these levels. Inflation pricing has been well behaved historically given Fed credibility, which may have muted the response to the recent move in energy; that stability could be tested if the Fed is perceived as increasingly patient. On balance, the level of 1Yx1Y implies a marginally firmer core pass-through, consistent with the signals from business surveys.

Figure 5: Front-end inflation markets elevated but 5Yx5Y anchored

1Yx1Y and 5Yx5Y zero-coupon inflation swap; bp



Source: J.P. Morgan

Pass-through of wages into inflation

In this section we provide more details on how we link wages to inflation. Compensation growth moves closely with core inflation, particularly core services, which have a higher labor cost share than goods and are less subject to international trade competition (Table 2). This relationship holds whether CPI or PCE is used as the price measure. At a minimum, internal consistency requires that if wage disinflation abates in our forecast, services inflation should remain sticky too.

Table 2: Inflation and wage correlation

Regression of 4Q log difference in prices against 4Q log difference in ECI

		Core	Core goods	Core services	Supercore
CPI	1990-2019	0.4	0.4	0.8	0.8
	1990-2026	0.8	0.3	0.9	0.9
PCE	1990-2019	0.4	-0.2	0.6	0.7
	1990-2026	0.6	0.3	0.8	0.8

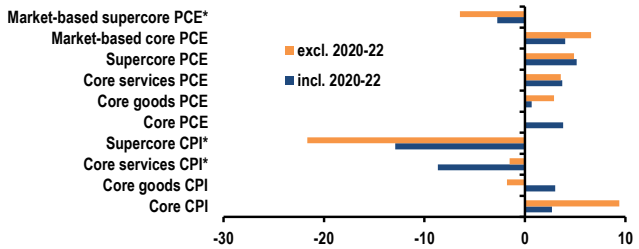
Source: BLS, BEA, J.P. Morgan. Supercore = core services ex housing.
Regression uses the MM robust regression estimator

The strong co-movement between inflation and compensation raises a further question: whether compensation predicts future inflation after controlling for current inflation and other cyclical factors. Wages may respond to prices instead of the reverse. Even if prices respond to wages, firms may adjust prices today in response to anticipated future wage pressures, making it hard to forecast inflation with wages. Indeed, past studies have often found a limited role for wages or unit labor costs in inflation forecasts, with examples including Peneva and Rudd (2017), Shapiro (2023), Barlevy and Hu (2023), and Bernanke and Blanchard (2023).

Some of these studies have nevertheless identified partial pass-through from wages into services inflation, especially labor-intensive nonhousing services. Our results confirm this. Adding ECI compensation growth to a regression of inflation on its own past lags improves out-of-sample inflation forecasts for core services ex-housing.[1] (Figure 6). These gains in forecast accuracy remain when excluding the pandemic period and when controlling for broader demand conditions through measures such as the ISM manufacturing composite (which moves closely with its services counterpart but is available over a longer history). In contrast, ECI usually doesn't improve forecast accuracy for other subsets of inflation, and using other compensation concepts like average hourly earnings and ULC also do less well.

Figure 6: Change to forecast errors from adding wage growth

Percent change in RMSE of forecast on inflation oya from including ECI total



*Significant Clark-West one sided P < 0.05. Source: J.P. Morgan, BLS, BEA, Haver Analytics

Although the drop in out-of-sample forecasting error is somewhat small, the estimated magnitude of pass-through from wages to non-housing services inflation is meaningful. Excluding the pandemic years and using a quarterly model to estimate an impulse response, a sustained 1%-pt increase in ECI growth raises over-year-ago CPI core services ex-housing inflation rate by roughly 0.30%-pts over the subsequent four quarters.[2] (Figure 7). The pandemic period appears to

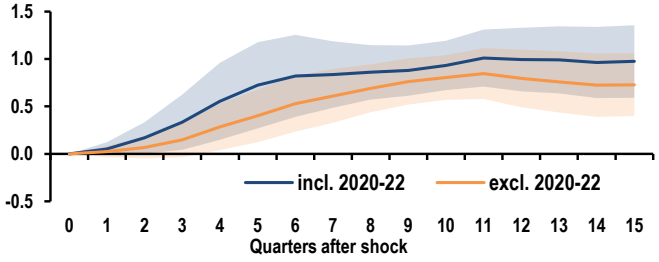
1. The base model uses OLS to predict the next 4 quarters of inflation from lagged 4-quarter inflation at times t, t−4, t−8. The base model is then augmented by adding the three matching lags of ECI growth. RMSE is calculated from an expanding window re-estimated each quarter. Bars are the change in out-of-sample RMSE from adding the ECI, over forecasts from 2006Q2; common sample 1990Q1–2025Q2, forecasting until 2026Q2.
2. Model uses supercore CPI, q/q annualized, on 12 of its own lags and 12 lags of ECI total compensation q/q. Shock is a permanent +1%-pt to ECI growth

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have strengthened this transmission mechanism, though the COVID period may not be as good a guide to the future. Including the 2020-22 experience increases the four-quarter pass-through estimate by almost double to 0.55%-pt.

Figure 7: Estimated impact on supercore CPI

Effect of a sustained 1%-pt rise in ECI on oya supercore CPI rate; %-pts



Note: Shaded area denotes 95% confidence interval. Source: J.P. Morgan, BLS, Haver Analytics

Although ECI growth actually raised the out-of-sample forecast error for supercore PCE, our models, fitted excluding 2020-22, show a similar pass-through of roughly 0.35%-pts to the oya rate over the subsequent four quarters. Given supercore makes up 25% of core CPI and 58% of core PCE, they imply 4-quarter impacts of 7bp and 20bp respectively from a sustained 1%-pt rise in ECI growth.

In some cases these estimates are larger than those in the literature. For example, Shapiro (2023)'s replication package shows the response of core non-housing services inflation to a 1%-pt ECI shock is just 2bp over the following year. Shapiro includes a range of controls, including unemployment, industrial production, import prices, credit spreads, and oil supply shocks, which may absorb some of the explanatory effect we attribute to wages. Peneva and Rudd also write that "We find little evidence that changes in labor costs have had a material effect on price inflation in recent years." But using their impulse response charts, we estimate that a 1%-pt rise in ECI as of 2012 would have implied a roughly 20bp rise in market-based core PCE, similar to what our supercore model above implies for total core PCE given an ECI shock.

Pass-through of slack into inflation

We've previously estimated Phillips curve models. One typical specification linked quarterly core PCE inflation to lagged core PCE inflation, inflation expectations from the Survey of Professional Forecasters, an unemployment gap measured as unemployment less the CBO's NAIRU estimate, PPI fuel prices, and non-oil import prices. The coefficient on the unemployment gap is the slope of the Phillips curve.

Estimated on pre-COVID data from 1975 to 2019, this model delivers a Phillips curve slope of -0.14, so a 1%-pt increase in the unemployment rate gap lowers annualized core PCE inflation by 0.14%-pt (Table 3). Alternatively, close to a 7%-pt increase in unemployment would be required to lower core inflation by a percentage point.[3] This flat slope is consistent with inflation that is relatively insensitive to slack, perhaps reflecting stable inflation expectations.

Table 3: Phillips curve model of quarterly core PCE inflation

	Sum of coefficients
Lagged core PCE	0.38
PPI energy goods / core PCE	0.01
Unemployment-NAIRU	-0.14
Import prices ex energy / core PCE	0.06
10Y SPF inflation expectations	0.83

Source: J.P. Morgan. All terms are lagged and can include multiple lags, see footnote. Estimate is 1975-2019

It did not take such a large increase in unemployment to lower core inflation in the post-COVID period. This has spurred interest in kinked Phillips curves that become steeper at lower levels of unemployment. However, unemployment alone did not fully capture post-COVID labor market tightness. Core inflation posted its first major decline in 2022–23 while unemployment was effectively stable. Indeed, re-running our model with data up to 2026 pushes the Phillips curve slope to about zero. The pre-COVID period is also sensitive to the exact time range used: choosing 1990-2019 instead of 1975-2019 also pushes the slope near zero.

With unemployment already low, though, steeper Phillips curve estimates do warrant consideration. For example, Smith, Timmermann, and Wright (2024) used MSA-level CPI data and unemployment rates to estimate a kinked Phillips curve. Using data from 1980-2022, they find that the magnitude of the Phillips curve slope increases to about -0.4 from -0.2 when the unemployment rate falls below 5%.

One downside of these Phillips curve estimates is that they blend together episodes in which the unemployment rate is rising for different reasons, which can then affect inflation differently. Ahn and Rudd (2024) estimate slopes that depend on the reason for a change in unemployment. A rise in unemployment driven by sector-specific job losses likely lowers inflation, while a rise driven by workers choosing to increase their quit rates raises inflation. Falling unemployment in the current moment is likely closest to their aggregate demand scenario, which has a slope of -0.15 for the 12-month change in inflation, similar to our pre-COVID estimate above.

3. We regress quarterly annualized log changes in core PCE inflation against an Almon lag polynomial of core PCE, four lags of the unemployment-NAIRU gap, four lags of the log difference in finished energy goods PPI relative to core PCE, four lags of the log difference in non-petroleum import prices relative to core PCE, and one lag of SPF 10-year core inflation expectations.

Global Data Watch: Breadth but not balance

- **Strong 3Q growth still in need of more balanced labor driver**
- **Major DM central banks pause but emphasize hikes on deck**
- **Surprise Brazil election leaves narrow path to maintain mkt confidence**
- **Up next: US NFP (75k); Global PMI; BoE, RBA, Riks, BCB, Banxico**

Incoming 3Q26 GDP reports show 3Q global growth tracking 3.1%ar, aligning with our expectation for growth that is nearly a percentage point above our estimate of potential. As impressive as the expansion has been this year in the face of the large energy shock, growth continues to be somewhat imbalanced. The strength in activity is most visible across Asia: Taiwan 3Q GDP surged past expectations with a 13.5%ar jump, and September IP jumped back in Korea and Japan. Whereas previous manufacturing strength in Asia was driven by export demand for select tech goods, the current lift from the AI capex cycle is increasingly spilling over to a broader set of industries, and domestic investment is increasingly complementing relentless external demand. We revised up Korea 4Q GDP to 4.5%ar, and continue to expect above-trend growth in Taiwan and Japan this quarter.

Notwithstanding the constructive signs from Asia, strong global growth and broad-based business spending have not yet produced the balance in demand and income generation that we have been anticipating. Expected returns on AI investments are reflected in equity markets, which in turn are supporting consumers via wealth effects. However, we maintain that a more sustainable expansion will require a firming in real incomes, which continue to lag as the lift in labor markets has been slow and now a new energy shock is looming.

The US stands out with a boomy 3.4%ar gain last quarter, adding to its strong 2.3%ar gain in 1H26. Last quarter also saw a broader upturn in US business spending (Table 1). Investments have expanded beyond data centers as companies apply new technologies, generating strong software and other intellectual property spending gains. Last quarter also saw a positive turn in stock-building. With the public sector and consumption also posting strong gains, US domestic demand surged to a 6.6%ar gain last quarter, its fastest increase in a quarter century outside the post COVID bounce.

As the US leads the way, we continue to see two key imbalances. Specifically,

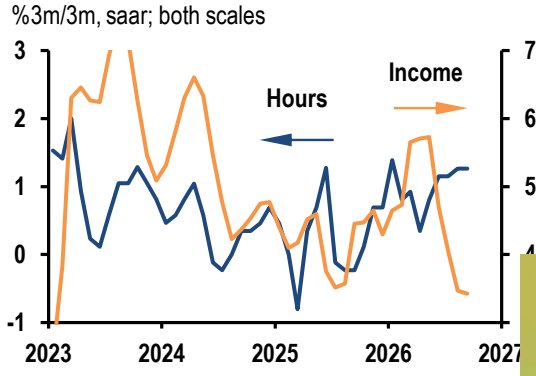
- **Demand surge not yet boosting labor income.** We have linked reduced business caution and stronger profit gains to our expectation for both faster spending and labor income gains. While a modest pickup in hours has

Table 1: US GDP components

	1Q26 (%oya)	2Q26 (%q/q, saar)	3Q26 (%q/q, saar)
Real GDP	2.6	2.2	3.4
Domestic demand	1.3	3.3	6.6
Consumption	2.1	3.8	3.8
Tech capex	27.0	7.6	37.4
Non-tech capex	-1.1	18.0	8.8
Software	14.5	14.0	9.6
Non-residential structures	-8.1	0.1	5.4
Inventories*	0.2	-0.5	1.6
Net trade*	0.0	-1.1	-3.3
Services	1.8	2.2	4.4

Source: BEA, J.P. Morgan. *Contributions to real GDP growth.

Figure 1: US hours worked and labor income



Source: BEA, J.P. Morgan

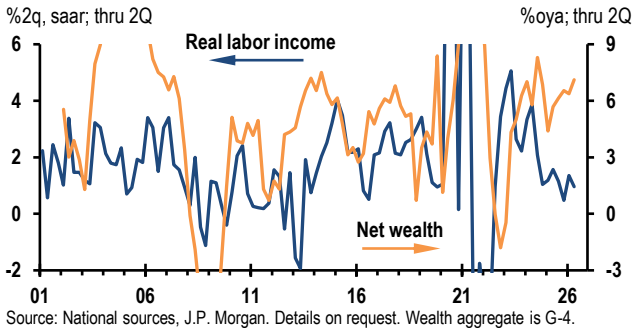
accompanied the recent acceleration in demand, labor income gains have slowed to a 3.4%ar last quarter (Figure 1). Against the backdrop of an estimated 5.6%ar rise in nominal global GDP, profit margins appear to have expanded amidst a further slide in labor's share of value last quarter

- **US remains a dominant global demand engine.** Offsetting last quarter's robust US domestic demand growth was a larger-than-expected 3.3%pt net trade drag. Our estimates suggest that US demand may have contributed as much as a full percentage point to growth elsewhere last quarter, an outcome that points to elevated dependence on a US growth engine.

The vulnerabilities associated with these imbalances are linked, and the latest news sends conflicting signals about the path ahead. US consumption growth appears to be downshifting with a flat September real consumption reading and a soft signal coming from October Chase card spending. At the same time, news on business spending remains upbeat, as signaled by the September US durables report and our global capex nowcaster. Constructive readings also came from Asian industry as September production rebounded sharply. Amid resilience, our forecast envisions two key rotations this quarter that keep the global expansion on sound footing:

- **Labor income takes the baton.** The central call for our outlook this year has been that fading business caution would spark a reacceleration in hiring, promoting a rotation from unsustainable wealth effect-driven spending to more sustainable labor income-driven spending (Figure 2). Employment growth has improved this year, but less than anticipated. With profits booming and demand resilient, surveys point to a sharp pick-up in hiring. Next week's US payrolls report for October (fcst: 75k) will be an important checkup on this.

Figure 2: DM real labor income and household net wealth



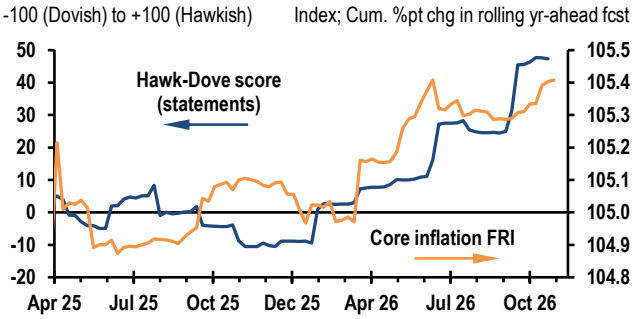
Source: National sources, J.P. Morgan. Details on request. Wealth aggregate is G-4.

- **US lets RoW catch up.** Even with labor income firming, some cooling in US consumer spending growth is anticipated and we look for US GDP to decelerate to a trend-like pace (1.8%ar). By contrast, growth accelerates elsewhere as a range of idiosyncratic drags fade in EMU and Japan, and fiscal supports kick in for China.

A measured path to higher rates

The major central banks showed patience this week by not hiking, but also signaled a need for more tightening in the near future. This hawkish pivot that began in 2Q has continued alongside the reassessment higher of underlying inflation (Figure 3). The Fed paused at 4% in a 10-2 vote, with Cook and Hammack preferring another 25bp hike. The statement upgraded activity from "solid" to "strong" and retained a clear concern about above-target inflation. Chair Warsh was unsurprisingly less explicit about the next move, emphasizing the value of accumulating more information and noting that September's hike and tighter financial conditions are already having some effect. The ECB similarly paused, but Lagarde revealed that a hike was actively debated and said that, barring surprises, the direction of travel is clear. We continue to expect hikes in December and March, with underlying inflation, energy prices, and financial conditions key to the timing.

Figure 3: Global central bank speak and forecast revisions



Source: J.P. Morgan Global Economics. *Global ex. China, based on central bank statements.

The BoJ also delivered a hawkish hold, keeping its policy rate at 1.25%, with Takata dissenting in favor of a hike. Importantly, the Bank for the first time judged underlying inflation to be broadly consistent with its 2% target while also maintaining upside risks. The Bank also accelerated planned ETF sales. Ueda stressed that financial conditions remain accommodative and that policy needs to adjust in an "appropriate and timely" manner. His reference to deciding at every meeting "including the next one" reinforces our view that a December hike is now quite likely, with the broader normalization process expected to continue thereafter.

The BoC was the lone DM hiking this week. The BoC raised rates 25bp to 2.50%, its first hike since 2023, framing the move as risk management against persistent energy pressures spilling into broader inflation. Its new forecasts show materially higher inflation, but underlying inflation remains com-

paratively benign and excess supply persists. We expect the BoC to pause in December before hiking again in January. The RBNZ surprised us and consensus by holding at 2.75% in a narrow 4-3 vote, reflecting greater concern about fragile global growth and the domestic recovery. It retained a hawkish bias and we expect 25bp hikes in December and February, taking the cash rate to 3.25%.

Next week, we look for hikes from the BoE and Riksbank. The BoE has been cautious because of weak growth and a soft labor market, but growth has materially exceeded expectations, averaging close to 2.5% annualized over the first three quarters. Elsewhere, strong 3Q inflation and increasingly hawkish commentary have made another RBA hike next week likely, despite signs that policy is already weighing on Australia's labor market and housing.

Domestic pressures at work on EM CBs

Even as EM Asia faces hawkish pressures, central banks are moving at different speeds, reflecting differential exposure to the tech cycle, domestic demand dynamics, energy pass through, and financial stability risks. A subtle hawkish pivot from the BOT this week amidst macro-financial stability concerns supports our forecast for three 25bp hikes to start in 1Q27. Bank Indonesia also held this week, but we expect hiking in the coming months to stave off currency pressures. In Taiwan, the CBC's 3Q minutes reinforced our view that the current inflation backdrop does not yet warrant tightening, but the combination of possible spillovers from a longer AI up-cycle and fiscal expansion raises risks for hikes in 2027. Next week, Malaysia's BNM should stay on hold but continue to emphasize improving growth and rising inflation risks, leaving the door open for a one-off 25bp hike in 1Q27.

In the CEE, the CNB and NBP will set rates next week after receiving flash October CPI releases. In Poland, a downside surprise in headline and core this week reinforces our sense that Poland currently lacks the same degree of domestically generated price pressures and reinforces our call for the NBP to stay put next week. By contrast, we expect CNB to hike amidst decent growth and inflation that recently breached 3%, though we think communication should once again push back against an overly hawkish market.

In Latam, there are increasing risks that Banxico will go against the tide (and its own macro backdrop) and surprise with a cut next week. Last meeting's minutes showed that several board members (three out of five) entertained the idea of reopening the door for a one off cut, arguing cyclical differences between Mexico and the US, no demand-side pressures on inflation, and a well-behaved currency. We think they will remain on hold amidst rising inflation and above-trend growth. The risk of expectations de-anchoring and a sharp depreciation of the currency as the rate spread compresses further should deter the board, but at any rate, the door is open ahead.

Brazil election resets policy outlook

President Lula's surprising victory in Brazil's presidential election prompted a sharp negative market reaction. Economic policy now faces a narrow window to anchor expectations, with risks that debt dynamics deteriorate further. Combined with intensifying inflation pressures, the post-election repricing raises the bar for further easing and should lead the BCB to keep rates unchanged next week, after a series of 25bp cuts. Alongside adding downside risks to growth, there is also potential spillover to Argentina, where a strong currency will damp exports while political misalignment could complicate the broader trade relationship.

New political realities take shape

Israel's Knesset elections surprised with a stronger performance of the government coalition and of Arab parties, but neither Netanyahu's bloc nor the Change bloc reached an outright majority. Two main scenarios are now a re-run of the election in spring 2027 (negative for risk assets) or a unity government (somewhat positive). In both, Prime Minister Netanyahu is likely to stick around. For our BoI call, increased market optimism and currency strength would imply wider room for the BoI to ease. There is less space for such an outcome now, and we see a substantial risk that the last 25bp cut of the cycle, which we expect in November, will never be delivered.

In Venezuela, the return of Maria Corina Machado and the US laying out a clearer roadmap to elections are two impactful signals that the efforts towards a democratic transition are close. In separate addresses on Thursday, Machado and Interim President Delcy Rodriguez each endorsed a three-stage process set out by the US State Department. That said, as the roadmap would need to happen in parallel to (and perhaps competing with) priorities on the economic front (oil, debt, stabilization), we are putting a higher probability of elections happening in 2028.

In Serbia, last Sunday's election delivered a major political reset, with the Student List securing an outright parliamentary majority and ending 14 years of SNS dominance. Despite the scale of the political change, we see this primarily as an institutional rather than macro-policy regime shift, given the relatively strong fiscal and external buffers alongside the existing IMF framework. The Student List's limited governing experience raises questions over the effectiveness of policymaking during the transition, but over the medium term, the election could accelerate EU convergence.

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US Indicator forecasts

J.P. Morgan Research versus the consensus

Release date/ Indicator	J.P. Morgan forecast	Consensus median	Consensus range
Mon, Nov 02			
Manufacturing PMI (Oct final)	55.5	56.0	56.0 to 56.0
ISM manufacturing (Oct)	54.5	54.6	52.4 to 55.5
Construction spending (Sep)	0.2%	0.3%	-0.1% to 0.5%
Tue, Nov 03			
JOLTS (Sep)	7100	7100k	7000k to 7357k
Light vehicle sales (Oct)	15.6 mn	15.9 mn	15.5 mn to 16.1 mn
Wed, Nov 04			
International trade (Sep)	-$108.3bn	-$108.0 bn	-$115.6 bn to -$98.0 bn
Services PMI (Oct final)	58.0	57.9	54.8 to 57.9
ISM services (Oct)	55.5	54.9	54.0 to 56.1
Thu, Nov 05			
Initial claims (w/e Oct 31)	195k	195k	195k to 200k
Productivity (3Q pre)	3.0%	2.7%	1.9% to 3.8%
Unit labor costs	-0.5%	0.2%	-0.4% to 1.6%
Fri, Nov 06			
Employment (Oct)	75	62k	35k to 125k
Unemployment rate	4.1%	4.2%	4.1% to 4.3%
Average hourly earnings	0.2%	0.3%	0.2% to 0.4%
Average weekly hours	34.4	34.4	34.3 to 34.4
Consumer sentiment (Nov pre)	48.0	47.8	45.7 to 53.0

Source: J.P. Morgan, consensus forecasts reported by Bloomberg Finance L.P.

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Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

Mon Nov 2 9:45am — **S&P Global manufacturing PMI (US final)**
Index, sa

	Sep 25	Sep 26	Flash Oct 26	Final Oct 26
Composite	52.0	55.9	56.0	55.5
Output	52.4	56.2	55.8	
ISM-weighted composite	52.0	55.6	56.1	

Mon Nov 2 10:00am — **ISM manufacturing**
Sa

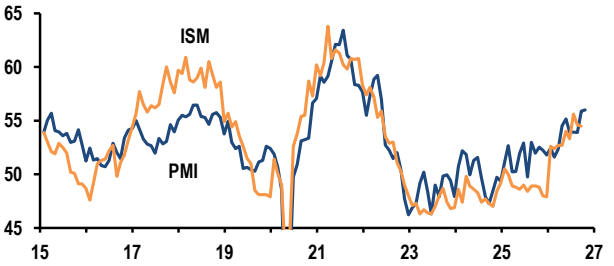
	Jul	Aug	Sep	Oct
Overall index	55.6	54.6	54.5	54.5
New orders	56.7	53.7	55.3	
Production	58.5	58.3	56.7	
Employment	52.8	51.2	52.7	
Supplier deliveries	58.9	59.3	59.0	
Inventories	51.2	50.6	48.6	
Export orders	53.0	53.2	50.9	
Imports	55.7	52.5	51.0	
Prices	71.1	71.1	77.9	

We look for the October ISM manufacturing composite to remain unchanged from its September print of 54.5. The index reached a recent peak of 55.6 in July, its highest reading since May 2022. We also expect the final manufacturing PMI to inch down slightly to 55.5 from 56.0 in the October flash reading. The weighted composite of the regional Empire, Philadelphia, Richmond, Dallas, and Kansas City Fed manufacturing surveys edged lower from 55.6 to 53.9 in October. Backlogs of work in the preliminary manufacturing PMI report increased from 52.2 to 52.7, marking the second best level since mid-2022.

The headline manufacturing PMI stands at multi-year high, with both new orders and output metrics at historically elevated levels despite inching down on the month. The October flash report attributed the strength to some precautionary inventory accumulation by firms, consistent with a gradual increase in the stocks of purchases. The measure of employment in the PMI has risen rapidly since reaching a recent cycle low of 47.0 in June. The employment gauge jumped to 56.5 in the last report. Its ISM counterpart has also climbed from a recent trough of 46.4 in April to 52.7 in September.

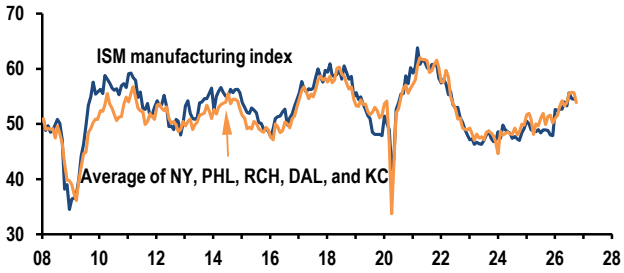
Signs of persistent inflation pressures remain a concerning feature of both surveys. The flash PMI report showed input prices climbing to 74.0 from 65.6 in September and output prices rising to 66.1 from 59.0. The latter of which marked the highest reading since the summer of 2022.

PMI and ISM manufacturing composites
Diffusion index, sa



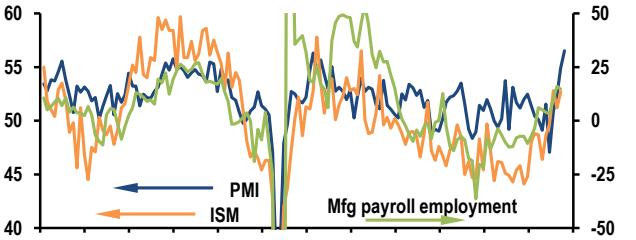
Source: S&P Global, ISM, J.P. Morgan

ISM manufacturing index and regional ISM-weighted composites
Index, sa



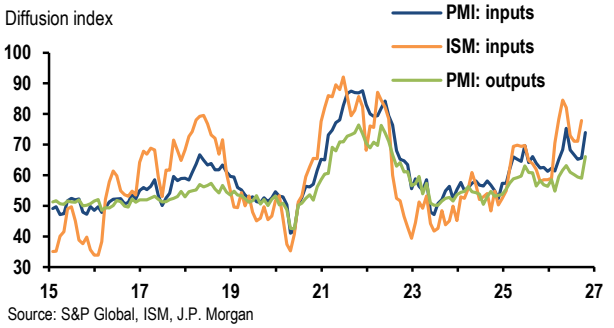
Source: ISM, NY Fed, Philadelphia Fed, Richmond Fed, KC Fed, Dallas Fed, J.P. Morgan

PMI and ISM manufacturing employment and payroll employment
Diffusion index, sa — ch in 000s, 3mma



Source: S&P Global, ISM, BLS, J.P. Morgan

PMI and ISM manufacturing prices
Diffusion index



Source: S&P Global, ISM, J.P. Morgan

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Mon
Nov 2
10:00am

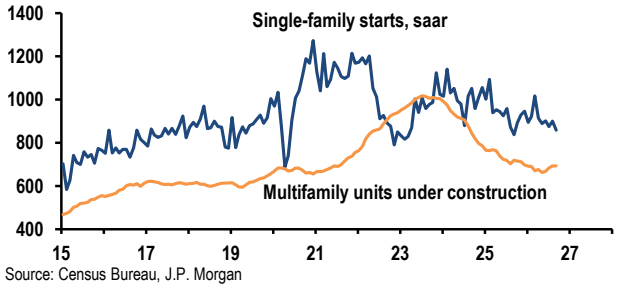
Construction spending
%m/m, sa

	Jun	Jul	Aug	Sep
Nominal	0.9	-0.1	0.9	0.2
Private	1.0	-0.2	1.1	0.1
Residential	0.8	-1.1	1.1	-0.7
New residential	0.4	-1.6	0.2	-1.3
Improvements	1.5	-0.3	2.5	
Nonresidential	1.3	0.8	1.0	1.1
Public	0.4	0.1	0.2	0.3

We project that total construction spending grew 0.2%m/m in September after a strong 0.9% rise in August. Much of this strength is likely to be driven by nonresidential spending, while growth in the new residential category should remain muted as builders remain hesitant to begin new construction. Mortgage rates remain elevated, curtailing demand amidst affordability challenges, which has forced homebuilders to offer incentives and price cuts to work through existing inventories. This has been evident in stagnant single-family housing starts and permits over much of the year.

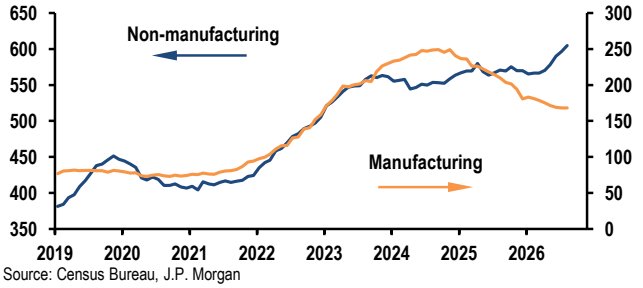
At the same time, the nonresidential segment is benefiting from the ongoing surge in AI-related investment, as data center construction spending continues to rise. Power-related construction has also been increasing, likely to keep up with increased electrification demand for data center buildouts. Manufacturing construction, which for most of the year had been a drag on headline readings due to the waning of an earlier boost from semiconductor facilities supported by the CHIPS Act, has begun to plateau. That could provide a further boost to private nonresidential spending.

Leading indicators of residential construction spending
Mn units, sa



Source: Census Bureau, J.P. Morgan

Private nonresidential construction
$bn, sa; both scales



Source: Census Bureau, J.P. Morgan

Tue
Nov 3
10:00am

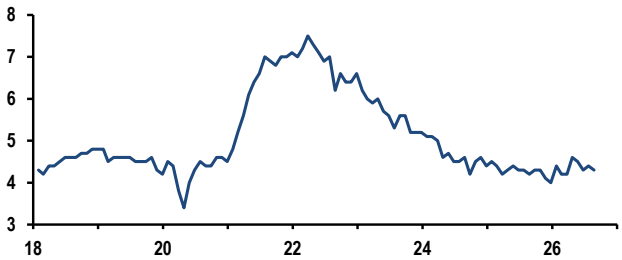
JOLTS
Thousands, sa, unless noted

	Jun	Jul	Aug	Sep
Job openings	7182	7335	7079	7100
Job openings rate (%)	4.3	4.4	4.3	4.3
Hires	5332	5146	5192	
Hires rate (%)	3.4	3.2	3.3	
Separations	5337	5128	5070	
Separations rate (%)	3.4	3.2	3.2	
Quits	3213	3089	3066	
Quits rate (%)	2.0	1.9	1.9	
Layoffs	1785	1702	1641	
Layoffs rate (%)	1.1	1.1	1.0	

We project job openings in September as reported by the JOLTS to rise slightly to 7110mn from 7079mn in the prior month, leaving the openings rate stable at 4.3%. The September employment report showed a 29k rise in payrolls and the unemployment rate rounding up to 4.2%. The message from other hiring indicators has been mixed. The Indeed index of new job openings was broadly flat in the middle of the year before improving in recent months to an average of 103.8 in September from 101.9 in August.

However, the labor market differential, which has been sending a concerning message for hiring activity, fell close to cycle lows, down to 2.9% from 4.2% in August. Meanwhile, the NFIB survey's share of firms planning to increase employment remained flat at 17%. The layoff and discharge rate inched down in the last JOLTS print to 1.0% from 1.1%, and layoffs in the information sector have receded from an earlier spike.

Job openings rate
Percent, sa



Source: BLS, J.P. Morgan

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Daily Indeed job postings

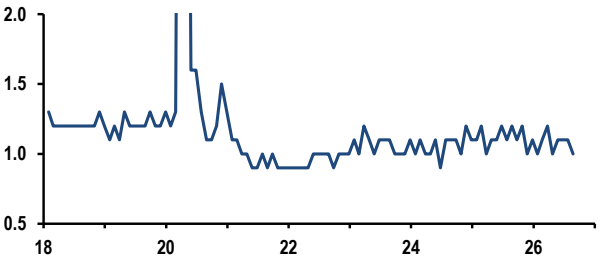
Index, sa



Source: Indeed, J.P. Morgan

Layoff and discharges rate

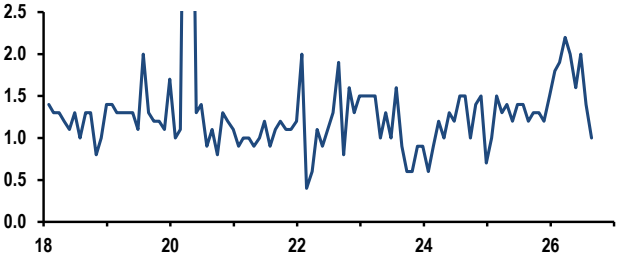
Percent, sa



Source: BLS, J.P. Morgan

Layoff and discharge rate, information

Percent, sa



Source: BLS, J.P. Morgan

Tue
Nov 3

Light vehicle sales

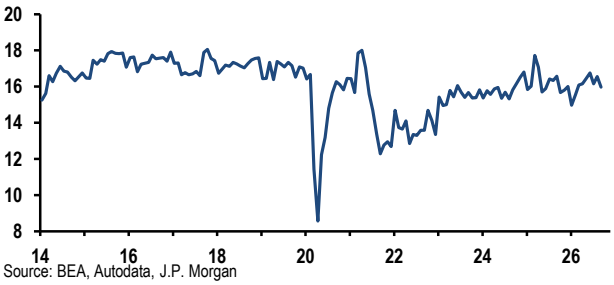
Millions, saar

	Jul	Aug	Sep	Oct
Light trucks and autos	16.2	16.6	16.0	15.6
Domestics	12.3	12.7	12.1	
Autos	1.8	1.8	1.6	
Light trucks	10.5	10.9	10.5	
Imports	3.8	3.9	3.9	

Our auto equities team expects light vehicle sales to step down further to 15.6mn in October from 16.0mn in September and 16.6mn in the prior month. They note steady demand from consumers, but some drag from the recent weakness in capital markets.

Light vehicle sales

Mn units, saar



Source: BEA, Autodata, J.P. Morgan

Wed
Nov 4
8:30am

International trade

$billion, samr

	Jun	Jul	Aug	Sep
Balance(BOP basis)	-71.2	-92.8	-105.6	-108.3
Services	30.8	31.0	31.0	31.2
Goods	-102.0	-123.8	-136.6	-139.4
Exports (%m/m)	-0.8	-2.1	1.4	1.8
Services	1.1	-0.6	0.0	0.3
Goods	-1.8	-2.9	2.2	2.6
Imports (%m/m)	-1.8	3.9	4.3	2.0
Services	1.1	-1.0	0.0	0.2
Goods	-2.6	5.1	5.3	2.4

We expect the trade deficit to widen to $108.3bn in September from $105.6bn in the prior month. Much of this reflects the already released advance goods trade report, which saw goods exports rise by 2.6%m/m and imports grow 2.4%m/m. Much of this reflected the increase in capital and non-auto consumer goods trade.

Wed
Nov 4
9:45am

S&P Global services PMI (US final)

Index, sa

	Sep 25	Sep 26	Flash Oct 26	Final Oct 26
Business activity	54.2	58.8	57.9	58.0
New business	53.5	58.5	58.9	

Wed
Nov 4
10:00am

ISM services

Sa

	Jul	Aug	Sep	Oct
Headline composite	54.1	55.4	54.9	55.5
Business activity	59.1	61.7	56.5	
New orders	57.2	60.9	59.8	
Employment	47.4	47.8	50.1	
Prices	70.3	72.6	74.0	

We expect the ISM series composite to improve to 55.5 in October from 54.9 in the prior month. The September ISM report saw new orders decline 1.1-pt from the peak in August, while business activity was down 5.2-pt. That widened the wedge between the two series to one of the largest levels in the current cycle. We look for business activity in the October PMI series report to remain steady at 58.0.

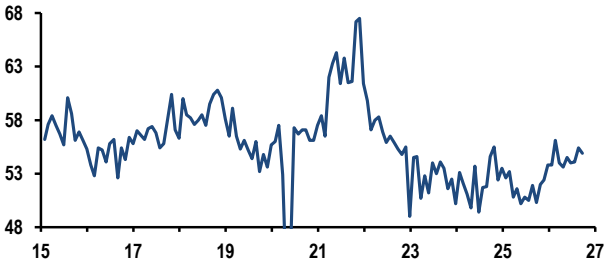
Services demand has been strong since the middle of the year, as new orders in both surveys reached cycle high levels in recent months, running ahead of operating capacity. This is evident in the surge in backlogs of work in the PMI that have

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climbed to 55.9 in the early October print, close to levels seen during the post-pandemic demand surge. The employment PMI has also surged in recent months, reaching 55.2 in September before falling slightly to 53.8 in October. Improvement in the PMI employment gauge has far outpaced its ISM counterpart, which has remained rangebound at a more subdued level for much of this year.

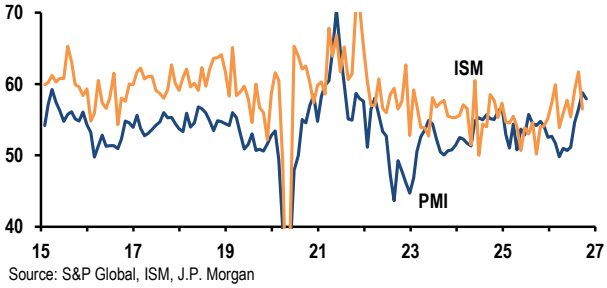
Price pressures also remain a worrying theme in the services surveys. The ISM prices index reached a cycle high of 74.0 in September, higher than the spike in March following the beginning of the Middle East conflict. The early October PMI report displayed mixed signals for any moderation, as input prices edged down to a still elevated level of 63.4 from 65.9 in September, while output prices rose further to 58.7 from 58.2.

ISM services composite
Diffusion index, sa



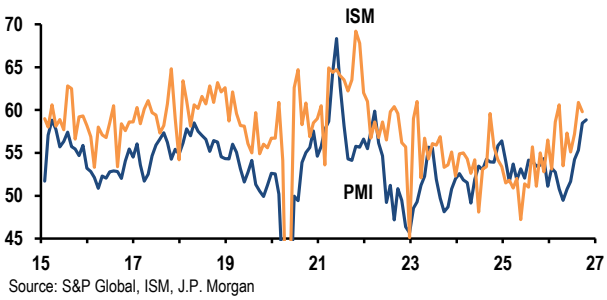
Source: ISM, J.P. Morgan

PMI and ISM services business activity
Diffusion index, sa



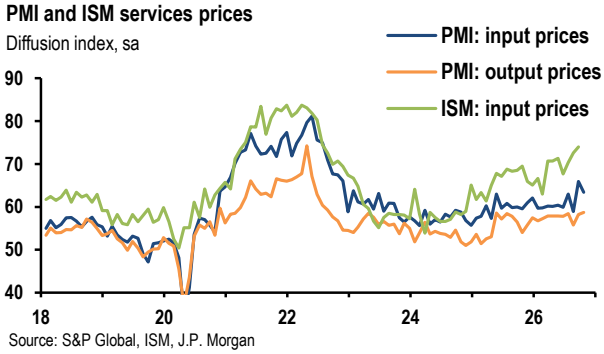
Source: S&P Global, ISM, J.P. Morgan

PMI and ISM services new orders
Diffusion index, sa



Source: S&P Global, ISM, J.P. Morgan

PMI and ISM services prices
Diffusion index, sa



Source: S&P Global, ISM, J.P. Morgan

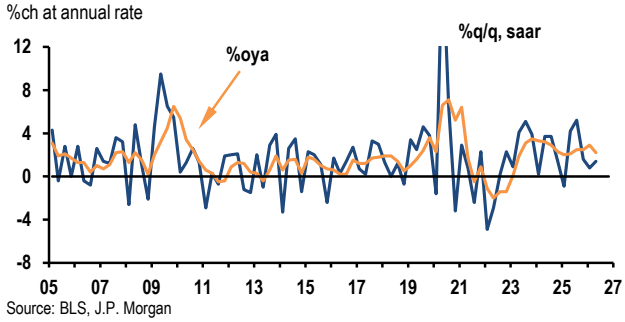
Thu
Nov 5
8:30am

Productivity and costs
Nonfarm business sector, %q/q, saar, unless noted

	4Q25	1Q26	2Q26	Prel 3Q26
Productivity	1.6	0.8	1.4	3.0
%oya	2.5	2.9	2.2	1.7
Output	1.3	1.5	1.7	3.7
%oya	2.7	3.3	2.5	2.1
Hours	-0.2	0.7	0.3	0.7
%oya	0.2	0.4	0.2	0.4
Hourly compensation	3.7	2.1	2.6	2.5
%oya	4.3	3.3	3.7	2.7
Unit labor costs	2.1	1.3	1.2	-0.5
%oya	1.8	0.4	1.4	1.0

We expect nonfarm business productivity to have risen 3.0%q/q saar in 3Q. While quarterly readings of productivity are generally volatile, the resulting 1.7%oya rise would mark the lowest in three years. We also look for unit labor costs to fall 0.5%q/q saar, which could point to a lack of wage pressure for inflation. We expect hours worked to grow 0.7%q/q saar, a pickup from the soft 0.3%q/q print in 2Q. Payroll hours worked rose 1.3%, but we look for some offsetting decline in self-employed hours worked.

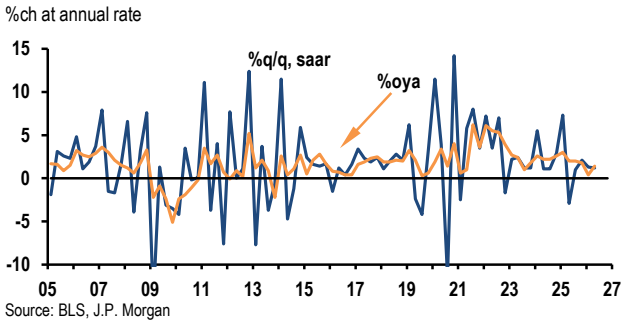
Nonfarm business productivity
%ch at annual rate



Source: BLS, J.P. Morgan

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Nonfarm business unit labor costs



Source: BLS, J.P. Morgan

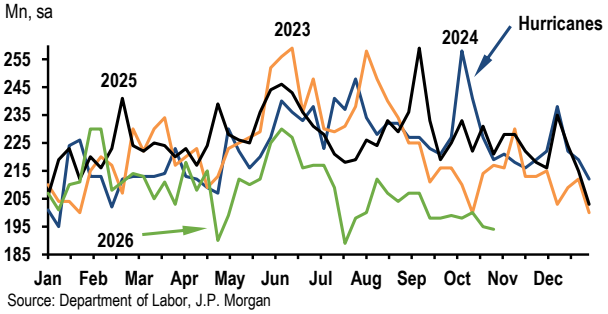
Thu Nov 5 8:30am **Jobless claims**
Thousands, sa

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless,%
Aug 22	204	206	1775	1781	1.2
Aug 29	207	208	1765	1777	1.1
Sep 5	207	206	1717	1757	1.1
Sep 12[1]	198	204	1712	1742	1.1
Sep 19	198	203	1699	1723	1.1
Sep 26	199	201	1714	1711	1.1
Oct 3	198	198	1703	1707	1.1
Oct 10	200	199	1722	1710	1.1
Oct 17[1]	195	198	1701	1710	1.1
Oct 24	194	197			
Oct 31	195	196			

1. Payroll survey week

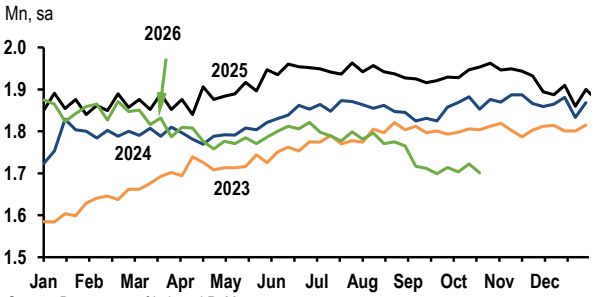
We expect initial jobless claims to remain stable, coming in at 195k in the week ending October 31 from 194k in the prior week. The series remains below levels seen in prior years, lowering the four-week average to 197k, the lowest in almost four years. Residual seasonality is likely to push jobless claims lower into the end of the year. Continuing claims in the household survey reference week fell 21k to 1.701mn from the prior week, leaving the four-week average at 1.710mn, signaling easing pressure on the unemployment rate.

Initial jobless claims, comparison by week to prior years (SA)



Source: Department of Labor, J.P. Morgan

Continuing jobless claims, by week of the year (SA)



Source: Department of Labor, J.P. Morgan

Fri Nov 6 8:30am **Labor-market report**
Sa

	Jul	Aug	Sep	Oct
Payroll employment (ch, m/m, 000s)	-10	133	29	75
Private payrolls	28	89	46	75
Goods-producing	35	34	18	25
Construction	18	16	11	10
Manufacturing	20	15	9	15
Service-providing	-45	99	11	50
Private service-providing	-7	55	28	50
Wholesale trade	6	8	5	
Retail trade	6	-5	6	
Professional services	-6	-5	-9	
Temporary help	-10	0	-11	
Education/health	14	38	20	
Leisure and hospitality	-38	37	10	
Government	-38	44	-17	0
Average weekly hours	34.3	34.4	34.4	34.4
Index, hrs worked (%m/m)	0.0	0.4	0.0	0.1
Hourly earnings (%m/m)	0.1	0.3	0.1	0.20
(%oya)	3.2	3.1	3.0	2.8
Unemployment rate (%)	4.1	4.1	4.2	4.1
Participation rate (%)	61.4	61.6	61.8	61.9

We forecast that nonfarm payrolls rose 75k in October, slightly faster than the recent trend, and that the unemployment rate fell from 4.2% to 4.1%. We also expect average hourly earnings to rise 0.2%m/m, dropping the over-year-ago pace to a new cycle-low of 2.8%, and for the workweek to hold at 34.4.

Establishment survey

Employment growth continues to average just over 50k per month in recent months, so our 75k forecast is a marginal rise over the trend. Total jobs rose just 29k in September and we expect some bounceback, as high-frequency employment signals have remained encouraging.

NFP growth, average over recent months (000s)

	12 months	6 months	3 months
Total	41	66	51
Private	59	67	54
Federal govt	-19	0	-1
S&L govt	1	-1	-3
Total ex federal govt	61	66	52

Source: BLS, J.P. Morgan

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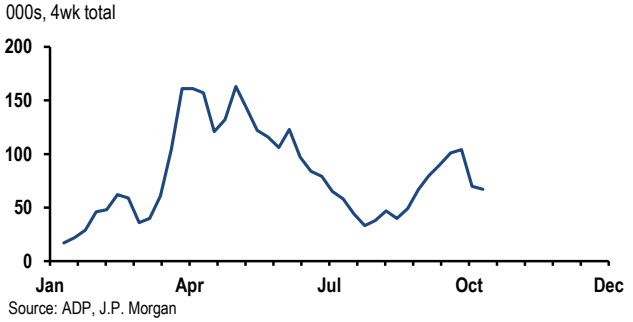
Labor market indicators

	Oct 25	May 26	Jun 26	Jul 26	Aug 26	Sep 26	Oct 26
Nonfarm payroll employment (m/m ch, 000s)	-140	63	31	-10	133	29	
Ex federal government	26	59	31	-11	136	30	
Private	13	61	26	28	89	46	
Initial jobless claims (payroll reference week)	231	210	227	189	207	198	195
Four-week average	228	203	224	208	204	204	198
Continuing jobless claims (payroll reference week)	1.953	1.785	1.812	1.777	1.771	1.712	1.701
Four-week average	1.939	1.773	1.792	1.796	1.787	1.742	1.710
CB labor market differential	10.3	5.0	3.8	2.7	4.2	2.9	5.3
PMI all-industry employment	51.3	47.9	49.1	50.8	53.3	55.2	54.2
ISM all-industry employment	47.9	48.0	51.1	47.8	48.1	50.3	
Fed surveys all-industry employment	49.4	51.5	51.7	51.8	51.0	51.2	52.1
Chicago Fed CFSEC current hiring	-16.6	-3.6	-2.6	2.6	-14.7	-5.1	-12.8
NFIB: net % percent planning to increase employment	15	9	11	20	17	17	
NFIB: % of firms with open positions	32	29	32	36	35	32	
Indeed job openings index (average)	101.0	101.9	100.8	101.6	101.9	103.3	103.9
FRB Cleveland WARN factor (layoff indicator, nsa)	0.27	-0.16	-0.52	-0.35	-0.26	-0.38	
Challenger announced job cuts (000s, nsa)	153	97	46	33	53	43	
Ex government	145	93	44	30	51	43	
Census BTOS employee index (average, nsa)	47.9	48.4	48.7	48.6	48.2	47.8	47.8
ADP private employment (m/m ch, 000s)	20	122	95	44	36	90	
Revelio private employment (m/m ch, 000s)	8	-44	-15	-10	21	40	
Revelio government employment (m/m ch, 000s)	-135	-7	-7	6	20	17	
Intuit small business employment (%m/m)	0.35	-0.05	-0.08	-0.09	-0.08	-0.05	

Source: BLS, DoL, S&P Global, ISM, Federal Reserve system, NFIB, Indeed, Challenger, ADP, Revelio, Inuit, J.P. Morgan

Both weekly jobless claims and ADP have been solid, at least by the standards of recent times. ADP's four-week sum of private payrolls was 67k in the week ending October 10, the week ahead of the payroll survey week. That is down from 90k in the September survey week, so there is actually slowing in this measure, but the BLS figure (46k private) underperformed ADP in September and so has some room to accelerate. Jobless claims, meanwhile, have remained very low, both for initial and continuing claims.

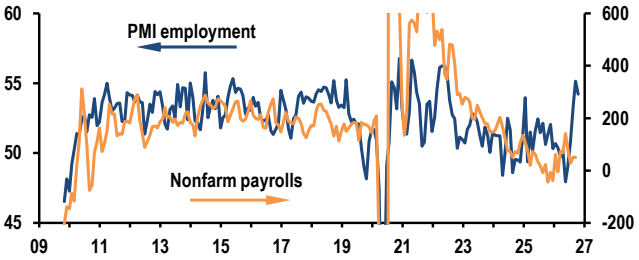
ADP estimate of private payroll growth



Source: ADP, J.P. Morgan

Perhaps the most upbeat survey has been the PMI. It's having its best couple months this cycle, after hitting a cycle low in May, though the connection to payrolls is quite loose outside of recessions. Taking out 2010 and 2020, the R2 in a regression of three-month payroll changes against three-month average PMI employment is 16%. The estimated model looks for an increase in payrolls of 267k. That is very strong by current standards. While that number probably won't be achieved, the PMI does suggest a small amount of upside risk.

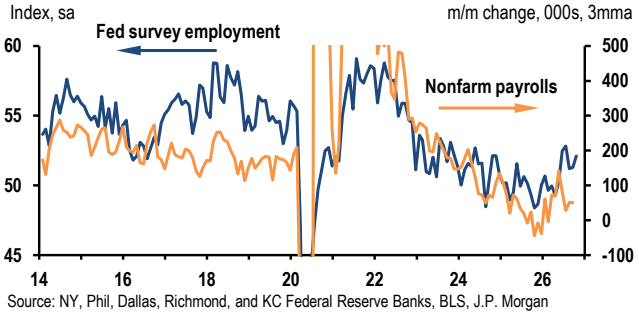
PMI all-industry employment vs. nonfarm payrolls



Source: S&P Global, BLS, J.P. Morgan

The Fed regional surveys have also been decent if not as strong as the PMI. A weighted composite of all 10 manufacturing and services surveys is back near recent summer highs, which had been the best reading in a couple years.

All-industry employment from regional Fed surveys, payroll changes



Source: NY, Phil, Dallas, Richmond, and KC Federal Reserve Banks, BLS, J.P. Morgan

Among other metrics, the Conference Board labor market differential has shown signs of finally leveling off and made a slight improvement in October. Indeed job openings also continued to edge up.

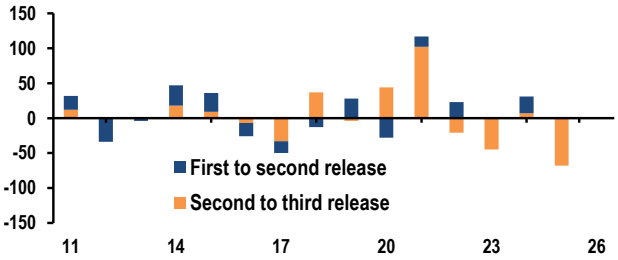
Hurricane Isaias is one weather event that hit around the November payroll period, but we suspect it won't affect the payroll figures much, if at all. It made landfall as a Category 2 hurricane in Florida on October 9, so the timing is right to be disruptive. But Florida state jobless claims don't show any unusual changes around that period.

Revisions

There isn't a clear revision pattern for October data. For prior months, August has had a tendency to be revised down in its last update. September used to be routinely revised up before the pandemic, but after the pandemic there isn't a clear directional bias.

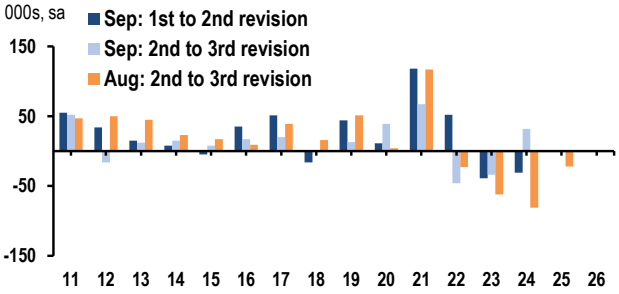
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Revisions to October nonfarm payrolls



Source: BLS, J.P. Morgan

Revision pattern for August and September payrolls

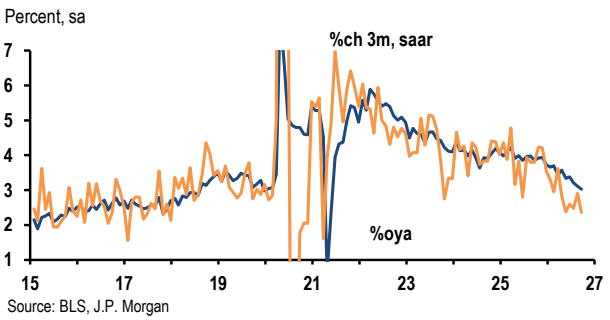


Source: BLS, J.P. Morgan

Earnings and hours

There may be a slight downward calendar bias to average hourly earnings this October, though with September already so low (0.13%m/m) we are comfortable with a 0.2% forecast, right in line with the three month average. October can have 21-23 weekdays, with this year having 22, and more weekdays typically causing lower earnings growth across months. Over the last 20 years, 4 out of 5 years with 22 weekdays have had hourly earnings growth below the trailing 3-month average. If our 0.2%m/m forecast is realized, the over-year-ago pace would fall to 2.8%, a new cycle low.

Average hourly earnings growth



Source: BLS, J.P. Morgan

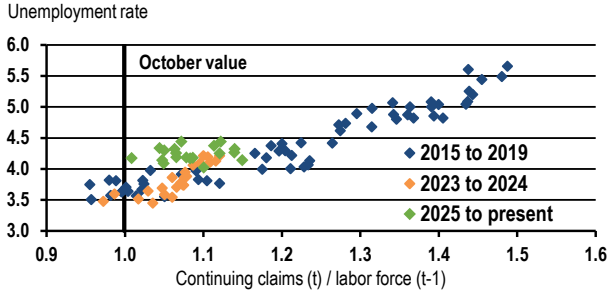
We forecast the workweek will hold at 34.4, the same as the prior couple months. The workweek hit that level for the first time in August, a sign of cyclical improvement.

Household survey

The unrounded unemployment rate has risen in each of the last two months, but we look for a return to the prior downward trend in October. We forecast the rounded rate drops to 4.1% from 4.2%, which would only return a 3bp decline in the unrounded rate, which was 4.175% in September.

Early indicators of unemployment have been encouraging. The most optimistic continues to be continuing claims, which are down 11k between the September and October household survey reference weeks, despite a seasonal tendency to increase in October. In the latest week claims fell 12.9%oya, the fastest rate of decline so far this year. The number of unemployed who are job losers or who completed temporary jobs has been falling even as the unemployment rate has increased, which aligns with the message from claims. In September, unemployment rose among new entrants and re-entrants, though dropped sharply among job leavers.

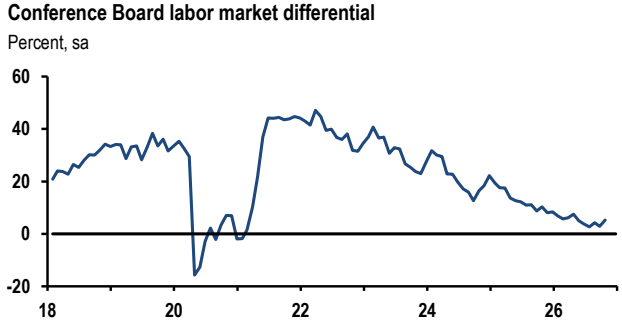
Unemployment rate vs. continuing claims to labor force ratio



Source: Department of Labor, BLS, J.P. Morgan

The Conference Board labor market differential has been slow to pick up on the drop in the unemployment rate since last November's peak, but it may finally be stabilizing, and in October it posted a small improvement. Still, the level remains below where it was since the start of the year. We are currently more focused on the change, given that the level would still imply unemployment materially higher than current levels, which appears at odds with the signal from jobless claims.

Conference Board labor market differential



Source: Conference Board, J.P. Morgan

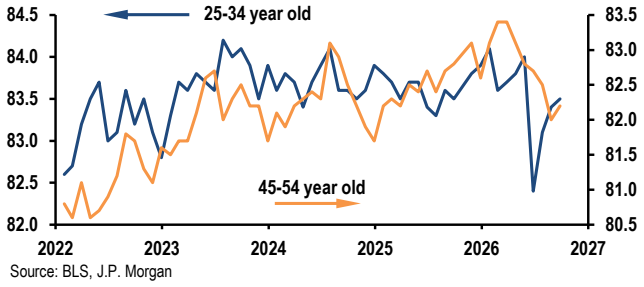
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Another factor that could be relevant for the unemployment rate forecast is the flow-consistent unemployment rate (FCR), defined as s/(s+f), where s = separate rate into unemployment and f = job-finding rate out of unemployment. See the technical notes of this Chicago Fed piece on how these are calculated from monthly household survey data. This captures the idea that if inflows to unemployment exceed outflows, then the unemployment stock will increase until these flows equalize, or vice versa. The FCR was 4.26% in September, so points to some upside risk. The FCR is one input to the Chicago Fed's unemployment rate tracker, whose 50th percentile forecast for October is 4.19% (note this forecast also includes the Bloomberg consensus figure).

We expect the participation rate will increase from 61.8% to 61.9%, which would be the highest since March. The 16-24 year old rate has some residual seasonality but has already increased sharply since July and may not have far to run. However, the 25-34 year old rate is still slightly low following an unusual plunge in June, and the 45-54 year old rate rate could keep recovering after a large decline between March and August.

Participation rate by age

Percent, sa, both scales



Source: BLS, J.P. Morgan

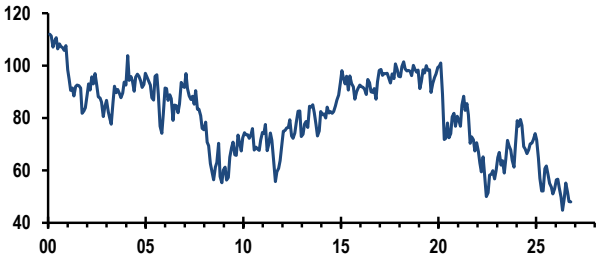
Fri Nov 6 10:00am — **Consumer sentiment** Michigan preliminary

	Aug	Sep	Oct	Nov
Univ. of Mich. Index (nsa)	51.7	48.1	48.0	48.0
Current conditions	51.9	50.9	46.7	
Expectations	51.5	46.3	48.8	
Inflation expectations				
Short term	4.0	4.6	4.7	
Long term	3.3	3.4	3.5	

We expect the preliminary November University of Michigan consumer sentiment index to remain flat from its October print of 48.0. The series has been losing altitude in the last few months after reaching a recent high of 55.2 in July, but could stabilize in the coming report as consumers react to some relief in gasoline prices. In October, the current conditions index dropped to 46.7 from 50.9 in September, while the expectations series inched up to 48.8 from 46.3. Inflation expectations have been rising, with the one-year ahead metric now at 4.7% from 4.6% in September and 4.0% in August, and the long-term measure coming in at 3.5%, up from 3.4% in the prior month.

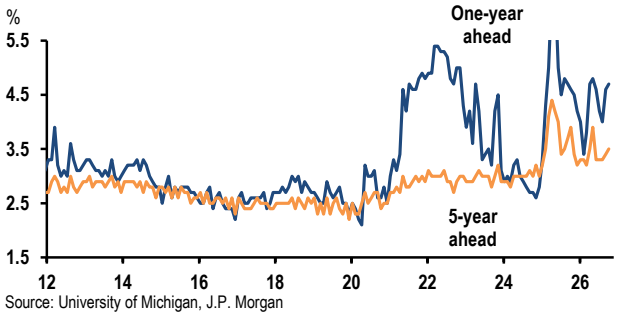
U. of Michigan consumer sentiment index

Index, nsa



Source: University of Michigan, J.P. Morgan

Michigan survey inflation expectations



Source: University of Michigan, J.P. Morgan

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J.P. Morgan US forecast

	%q/q, saar								%q4/q4			%y/y		
	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026	2027	2025	2026	2027
Gross domestic product														
Real GDP	2.5	2.2	3.4	1.8	2.3	2.3	1.8	1.8	2.0	2.5	2.0	2.3	2.3	2.2
Final sales	2.3	2.8	1.7	1.4	2.2	2.2	1.8	1.8	2.3	2.0	2.0	2.4	2.4	2.0
Domestic	2.3	3.8	5.0	2.5	2.4	2.5	1.9	1.9	1.9	3.4	2.2	2.6	2.7	2.7
Consumer spending	0.7	3.8	3.8	1.5	2.0	2.0	1.5	1.5	2.1	2.4	1.7	2.6	2.4	2.1
Business investment	9.9	9.0	12.7	7.9	4.5	4.6	3.7	3.7	6.0	9.9	4.1	5.4	7.6	6.3
Equipment	15.5	13.4	20.9	10.0	5.0	5.0	4.0	4.0	10.7	14.9	4.5	8.8	12.5	8.0
Structures	-9.4	0.1	5.4	5.0	2.0	2.0	2.0	2.0	-5.6	0.1	2.0	-2.2	-4.7	2.9
Intellectual property products	15.6	9.2	8.4	7.0	5.0	5.0	4.0	4.0	8.5	10.0	4.5	6.8	9.6	5.8
Residential investment	-7.6	2.8	-3.3	0.0	4.0	6.0	3.0	3.0	-3.8	-2.1	4.0	-2.7	-3.3	2.4
Government	4.7	-0.1	5.3	1.4	1.5	1.5	1.5	1.5	-0.6	2.8	1.5	1.6	1.1	1.8
Net exports ($bn, chained $2017)	-1019	-1099	-1320	-1392	-1413	-1434	-1448	-1462	-	-	-	-	-	-
Exports (goods and services)	13.9	5.0	-5.7	2.5	1.5	1.5	1.0	1.0	1.3	3.7	1.2	2.1	3.9	0.9
Imports (goods and services)	11.5	12.6	19.7	9.0	3.0	3.0	2.0	2.0	-1.1	13.1	2.5	3.6	5.6	6.4
Inventories (ch $bn, chained $2017)	-34.7	-63.4	20.3	42.1	46.6	47.3	45.6	43.8	-	-	-	-	-	-
Contribution to real GDP growth (% pts):														
Domestic final sales	2.4	3.8	5.1	2.6	2.5	2.6	2.0	2.0	1.9	3.4	2.2	2.6	2.7	2.7
Net exports	0.0	-1.1	-3.3	-1.2	-0.3	-0.3	-0.2	-0.2	0.3	-1.3	-0.2	-0.2	-0.3	-0.8
Inventories	0.2	-0.5	1.6	0.4	0.1	0.0	0.0	0.0	-0.3	0.4	0.0	-0.1	-0.1	0.2
Income and profits (NIPA basis)														
Adjusted corp profits	6.1	40.5	4.3	14.0	6.9	6.2	6.0	5.6	7.0	15.4	6.2	7.7	16.2	9.3
Real disposable personal income	2.4	-0.2	2.3	-0.4	1.6	1.8	1.3	1.4	1.4	1.0	1.5	1.6	1.2	1.2
Nominal disposable personal income	6.6	4.8	4.4	3.6	4.0	3.9	3.8	3.8	4.1	4.9	3.8	4.2	4.7	3.9
Saving rate[1]	5.3	4.4	4.1	3.7	3.6	3.5	3.5	3.4	-	-	-	5.4	4.4	3.5
Prices and labor cost														
Consumer price index	3.6	6.1	1.7	4.8	1.7	1.5	2.2	2.1	2.7	4.0	1.9	2.7	3.5	2.6
Core	2.8	2.9	2.3	3.1	2.6	2.5	2.6	2.5	2.7	2.8	2.6	2.9	2.6	2.7
PCE deflator	4.2	5.0	2.1	4.1	2.3	2.1	2.5	2.4	2.7	3.8	2.3	2.6	3.5	2.8
Core	3.9	3.3	2.5	3.2	2.8	2.6	2.7	2.6	2.8	3.2	2.7	2.8	3.1	2.8
GDP chain-type price index	3.2	6.1	2.3	4.1	2.3	2.1	2.5	2.4	3.0	3.9	2.3	2.6	3.7	2.9
S&P/C-S house price index (%oya)	0.9	1.3	2.2	0.0	3.0	3.0	3.0	3.0	1.3	0.0	3.0	2.2	1.1	3.0
Employment Cost Index	3.7	3.6	3.2	3.1	3.2	3.3	3.4	3.4	3.4	3.4	3.3	3.5	3.4	3.3
Productivity	0.8	1.4	2.3	1.4	1.7	2.0	1.6	1.6	2.5	1.5	1.7	2.3	2.0	1.7
Other indicators														
Housing starts (mn units, saar)[1]	1.418	1.345	1.293	1.350	1.350	1.400	1.400	1.400	-	-	-	1.356	1.351	1.388
Industrial production, mfg.	1.7	5.6	0.7	1.0	1.0	1.0	1.0	1.0	1.3	2.2	1.0	0.8	1.4	1.2
Light vehicle sales (mn units, saar)[1]	15.5	16.5	16.2	16.0	16.0	16.0	16.0	16.0	-	-	-	16.3	16.1	16.0
Unemployment rate[1]	4.3	4.3	4.1	4.1	4.0	4.0	4.0	4.0	-	-	-	4.3	4.2	4.0
Payroll employment (ch, '000s, samr)[1]	43	97	43	100	100	50	50	50	-	-	-	26	71	63
Nominal GDP	5.8	8.5	5.6	5.9	4.6	4.4	4.3	4.2	5.1	6.4	4.4	5.0	6.1	5.1
Current account balance ($bn)[1]	-213	-246	-333	-342	-353	-353	-353	-355	-	-	-	-1177	-1134	-1413
% of GDP	-2.7	-3.0	-4.0	-4.1	-4.2	-4.1	-4.1	-4.1	-	-	-	-3.8	-3.5	-4.1
Federal budget balance ($bn)[1]	-	-	-	-	-	-	-	-	-	-	-	-1775	-2020	-1960
% of GDP	-	-	-	-	-	-	-	-	-	-	-	-5.8	-6.3	-5.8

1. Entries are average level for the period. Federal balance figures are for fiscal years.

	Oct 30	4Q26	1Q27	2Q27	3Q27	4Q27
Interest rate forecast (end of period)						
Fed funds target (top of range)	4.00	4.25	4.25	4.25	4.25	4.25
2-yr Treasury	4.58	4.70	4.65	4.60	4.55	
5-yr Treasury	4.72	4.90	4.95	4.90	4.85	
10-yr Treasury	4.93	5.05	5.10	5.05	5.00	
30-yr Treasury	5.31	5.45	5.50	5.45	5.45	

Source: J.P. Morgan

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US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
2 Nov **Manufacturing PMI**(9:45am) Oct final 55.5 **ISM manufacturing**(10:00am) Oct 54.5 **Construction spending**(10:00am) Sep 0.2% **Senior loan officer survey**(2:00pm) 4Q Chicago Fed President Goolsbee speaks(11:15am)	**3 Nov** **Durable goods**(10:00am) Sep **JOLTS**(10:00am) Sep 7.1mm **Factory orders**(10:00am) Sep **Light vehicle sales** Oct 15.6mm	**4 Nov** **ADP employment**(8:15am) Oct **International trade**(8:30am) Sep -$108.3bn **Services PMI**(9:45am) Oct final 58.0 **ISM services**(10:00am) Oct 55.5 Announce 3-year note $58bn Announce 10-year note $42bn Announce 30-year bond $25bn	**5 Nov** **Productivity and costs prelim**(8:30am) 3Q 3.0% Unit labor costs -0.5% **Initial claims**(8:30am) w/e Oct 31 195,000 Cleveland Fed President Hammack speaks(8:50am) Richmond Fed President Barkin speaks(9:10am) Dallas Fed President Logan speaks(7:00pm)	**6 Nov** **Employment**(8:30am) Oct 75,000 Unemployment rate 4.1% Average weekly hours 34.4 Average hourly earnings 0.2% **Consumer sentiment**(10:00am) Nov prelim 48.0 **Consumer credit**(3:00pm) Sep New York Fed President Williams speaks(4:30am) St. Louis Fed President Musalem speaks(9:10am) Fed Vice Chair Bowman speaks(12:15pm)
9 Nov **Wholesale trade final**(10:00am) Sep Auction 3-year note $58bn Chicago Fed President Goolsbee speaks(10:00am)	**10 Nov** **NFIB survey**(6:00am) Oct **CPI**(8:30am) Oct Auction 10-year note $42bn	**11 Nov** **Veterans Day, Bond market closed**	**12 Nov** **Initial claims**(8:30am) w/e Nov 7 **Existing home sales**(10:00am) Oct **Federal budget**(2:00pm) Oct Auction 30-year bond $25bn Announce 10-year TIPS (r) $19bn Announce 20-year bond $16bn Cleveland Fed President Hammack speaks(9:00am) Chicago Fed President Goolsbee speaks(11:30am) San Francisco Fed President Daly speaks(1:10pm) New York Fed President Williams speaks(6:30pm)	**13 Nov** **PPI**(8:30am) Oct San Francisco Fed President Daly speaks(12:00pm) Fed Vice Chair Jefferson speaks(7:00pm)
16 Nov **Empire State survey**(8:30am) Nov	**17 Nov** **Import prices**(8:30am) Oct **Retail sales**(8:30am) Oct **Business leaders survey**(8:30am) Nov **Industrial production**(9:15am) Oct **NAHB survey**(10:00am) Nov **Business inventories**(10:00am) Sep Cleveland Fed President Hammack speaks(9:30am)	**18 Nov** **Housing starts**(8:30am) Oct **Pending home sales**(10:00am) Oct **TIC data**(4:00pm) Sep Auction 20-year bond $16bn **FOMC minutes**(2:00pm)	**19 Nov** **Initial claims**(8:30am) w/e Nov 14 **Philadelphia Fed manufacturing**(8:30am) Nov **QSS**(10:00am) 3Q adv **Leading indicators**(10:00am) Oct **KC Fed survey**(11:00am) Nov Auction 10-year TIPS (r) $19bn Announce 2-year FRN (r) $28bn Announce 7-year note $44bn Announce 2-year note $69bn Announce 5-year note $70bn Cleveland Fed President Hammack speaks(8:50am) Chicago Fed President Goolsbee speaks(12:30pm)	**20 Nov** **Consumer sentiment**(10:00am) Nov final
23 Nov **Services PMI**(9:45am) Nov flash Auction 2-year note $69bn	**24 Nov** **FHFA HPI**(9:00am) Sep, 3Q **S&P/Case-Shiller HPI**(9:00am) Sep, 3Q **Consumer confidence**(10:00am) Nov **Richmond Fed survey**(10:00am) Nov Auction 5-year note $70bn Auction 2-year FRN (r) $28bn	**25 Nov** **Durable goods**(8:30am) **Real GDP**(8:30am) 3Q second **Initial claims**(8:30am) w/e Nov 21 **Personal income**(8:30am) Oct **New home sales**(10:00am) Oct **Beige book**(2:00pm) Auction 7-year note $44bn	**26 Nov** **Thanksgiving Day, Markets closed**	**27 Nov** **Wholesale trade**(8:30am) Sep

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Completed 30 Oct 2026 08:20 PM EDT
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