



# Monthly charts: Will labor market déjà vu bring earlier Fed easing?

August 2025

Matthew Luzzetti  
Chief US Economist

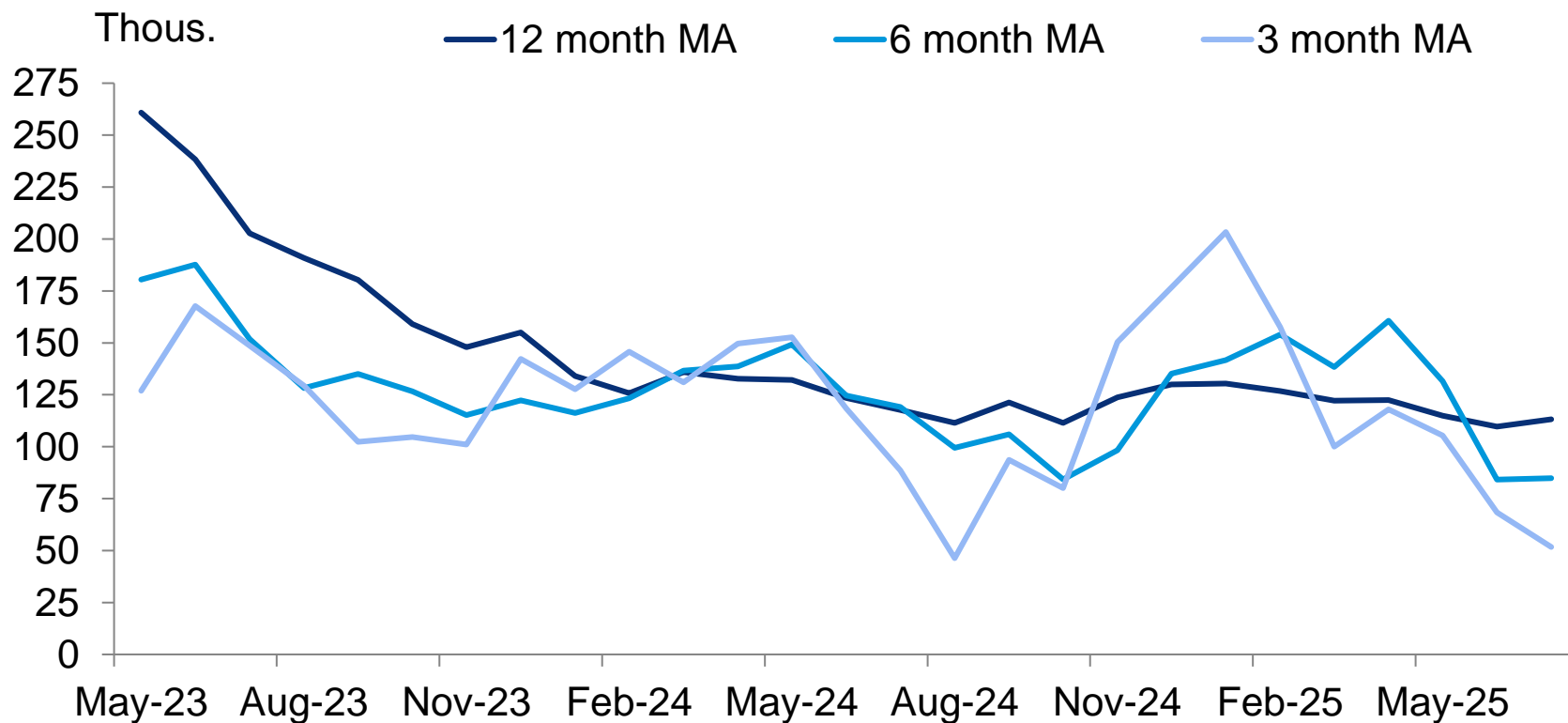


# Labor market: Steady slack despite sharply slowing payrolls



# Payroll gains have decelerated sharply in recent months after downward revisions

## Change in total private employment

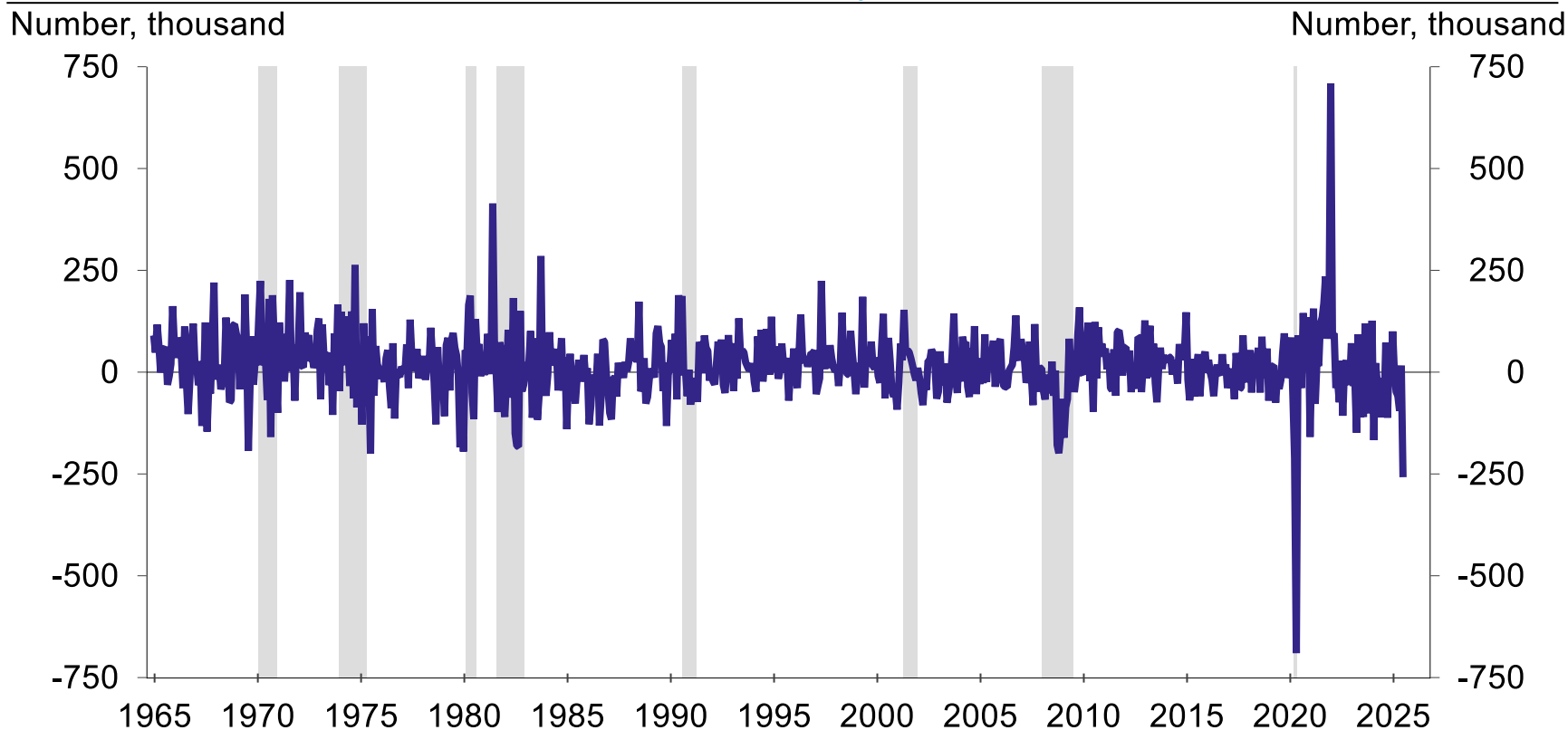


Source: BLS, Haver Analytics, Deutsche Bank



# Largest two-month downward revision outside of covid, 133k fewer jobs for June and 125k for May

## Two-month net revisions to nonfarm payrolls



Source: BLS, Macrobond, Deutsche Bank



# Detailed breakdown of revisions

## Payroll revisions

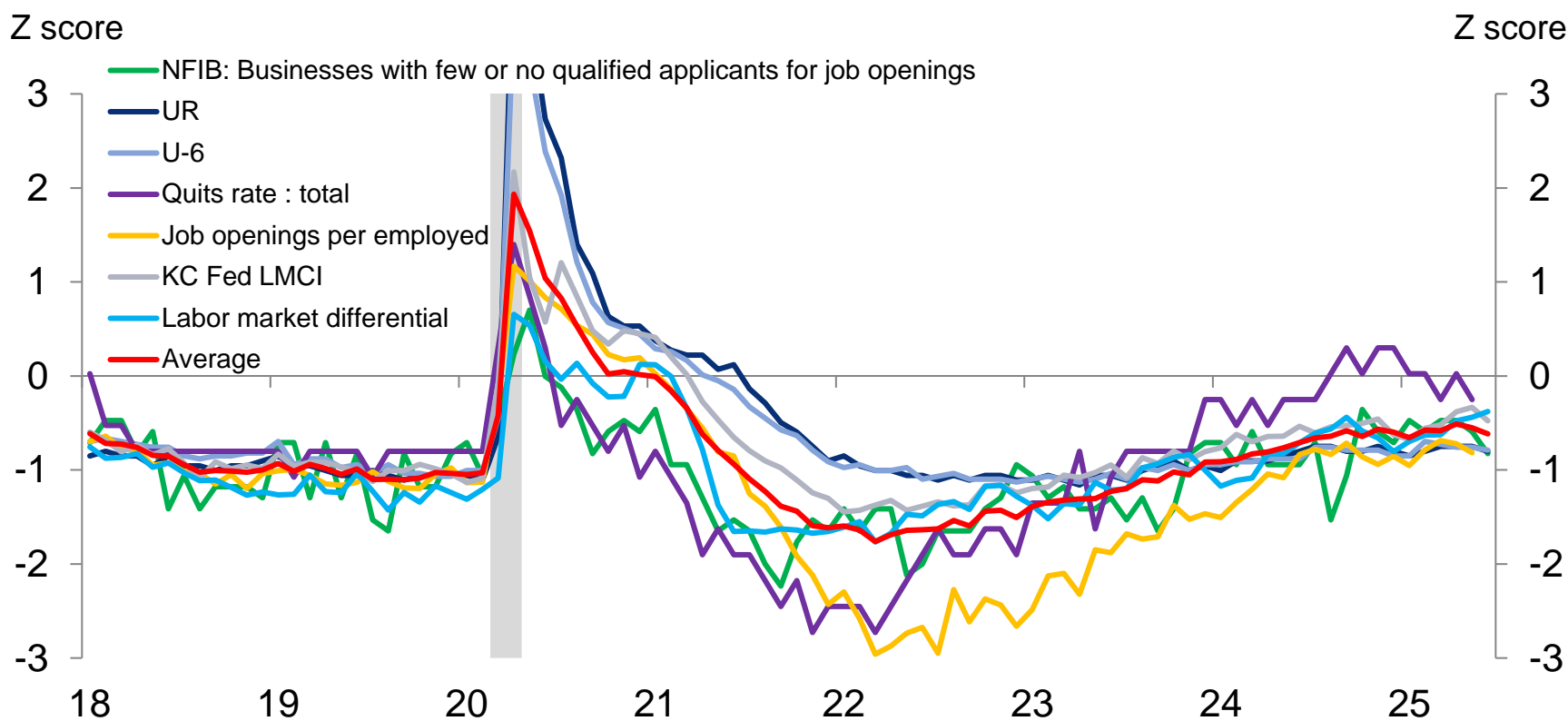
	Two-month total	One month ago	Two months ago
Total Nonfarm	-258.0	-133.0	-125.0
Private	-139.0	-71.0	-68.0
Goods-Producing	-28.0	-19.0	-9.0
Mining & Logging	0.0	1.0	-1.0
Construction	-16.0	-12.0	-4.0
Manufacturing	-12.0	-8.0	-4.0
Durable Goods	-9.0	-8.0	-1.0
Non-Durable Goods	-3.0	0.0	-3.0
Private Service-Providing	-111.0	-52.0	-59.0
Wholesale Trade	-3.6	-1.5	-2.1
Retail Trade	-24.4	-16.7	-7.7
Transportation & Warehousing	-11.9	-6.9	-5.0
Utilities	-0.5	-0.3	-0.2
Information	-6.0	-3.0	-3.0
Financial Activities	-8.0	-5.0	-3.0
Professional & Business Services	-27.0	-4.0	-23.0
Education & Health Services	-12.0	1.0	-13.0
Educational Services	-4.3	-0.1	-4.2
Health Care & Social Assistance	-8.3	0.4	-8.7
Leisure & Hospitality	-18.0	-16.0	-2.0
Other Services	0.0	0.0	0.0
Government	-119.0	-62.0	-57.0
Federal	-3.0	-2.0	-1.0
State Government	-55.0	-37.0	-18.0
State Government Education	-47.9	-32.4	-15.5
State Government, Excluding Education	-7.4	-4.8	-2.6
Local Government	-61.0	-23.0	-38.0
Local Government Education	-61.2	-23.6	-37.6
Local Government, Excluding Education	-0.3	-0.3	0.0

Source: BLS, Macrobond, Deutsche Bank



# Nonetheless, unemployment is 4.2% and most measures of slack have been stable over the past year

## Z-score of labor market indicators

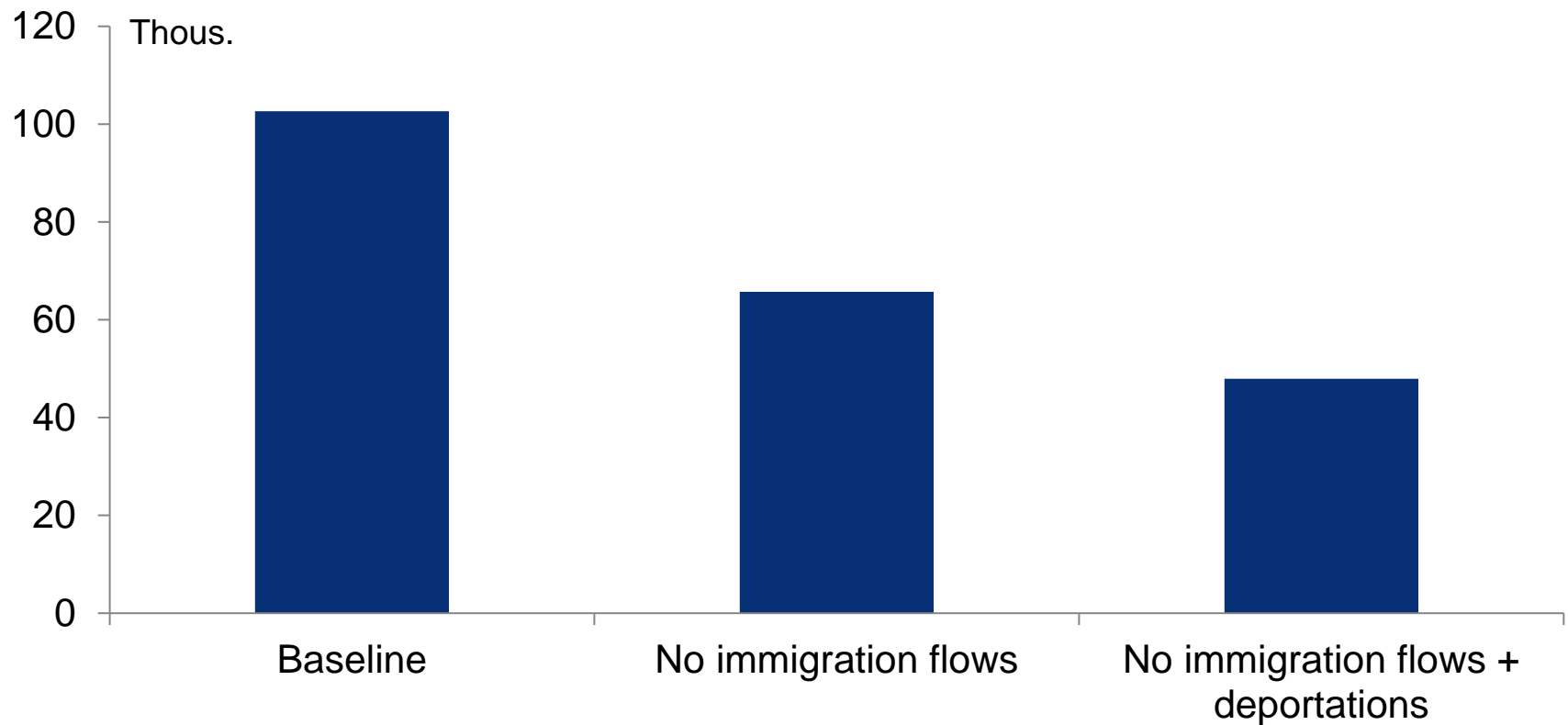


Source: BLS, Conference Board, KC Fed, Haver Analytics, Deutsche Bank



# As immigration policies are dramatically slowing labor supply growth and lowering breakeven payrolls

## Breakeven monthly payroll gains



Source: BLS, Haver Analytics, Deutsche Bank



The report was better from an aggregate income perspective due to a rise in the workweek and firmer AHEs

## Payroll proxy for nominal income growth



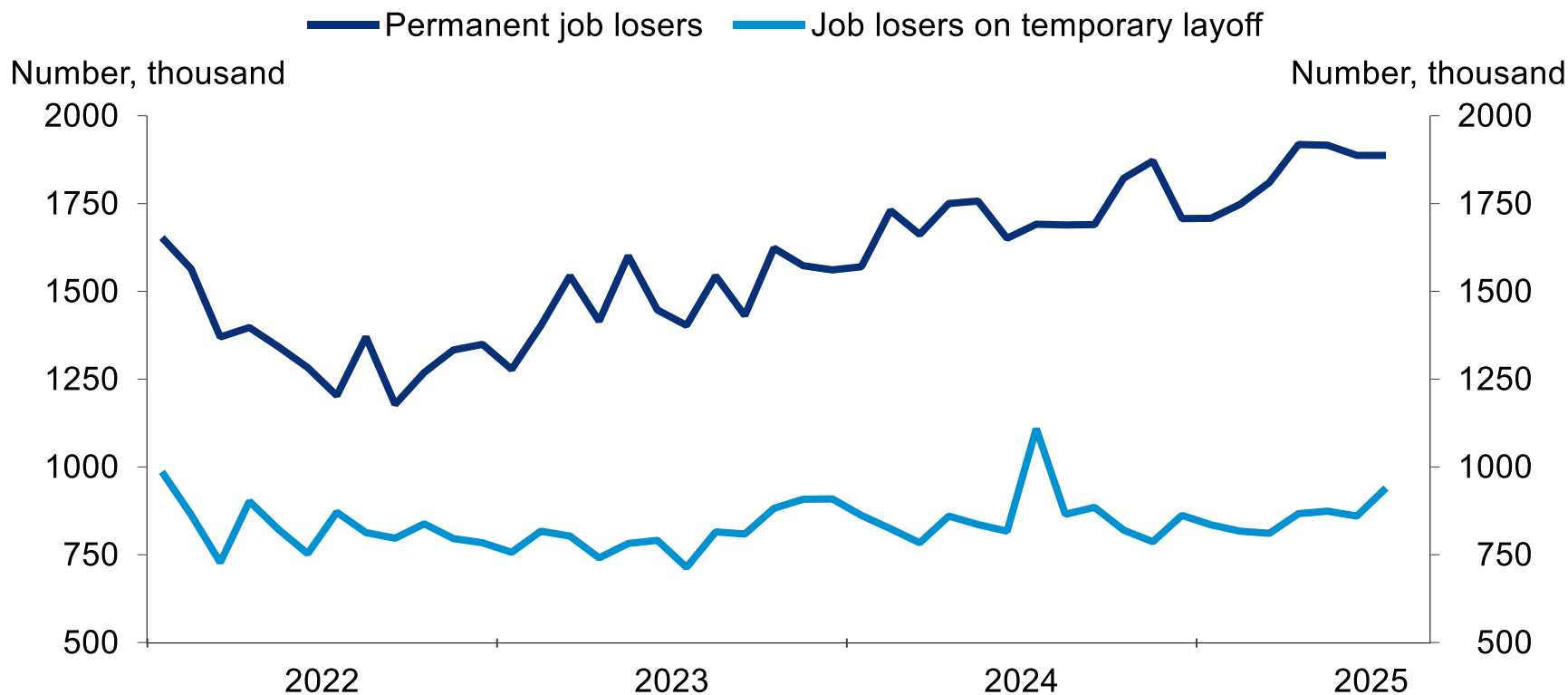
Source: BLS, Macrobond, Deutsche Bank





# Permanent job losers steady

## Permanent job losers vs those on temporary layoff

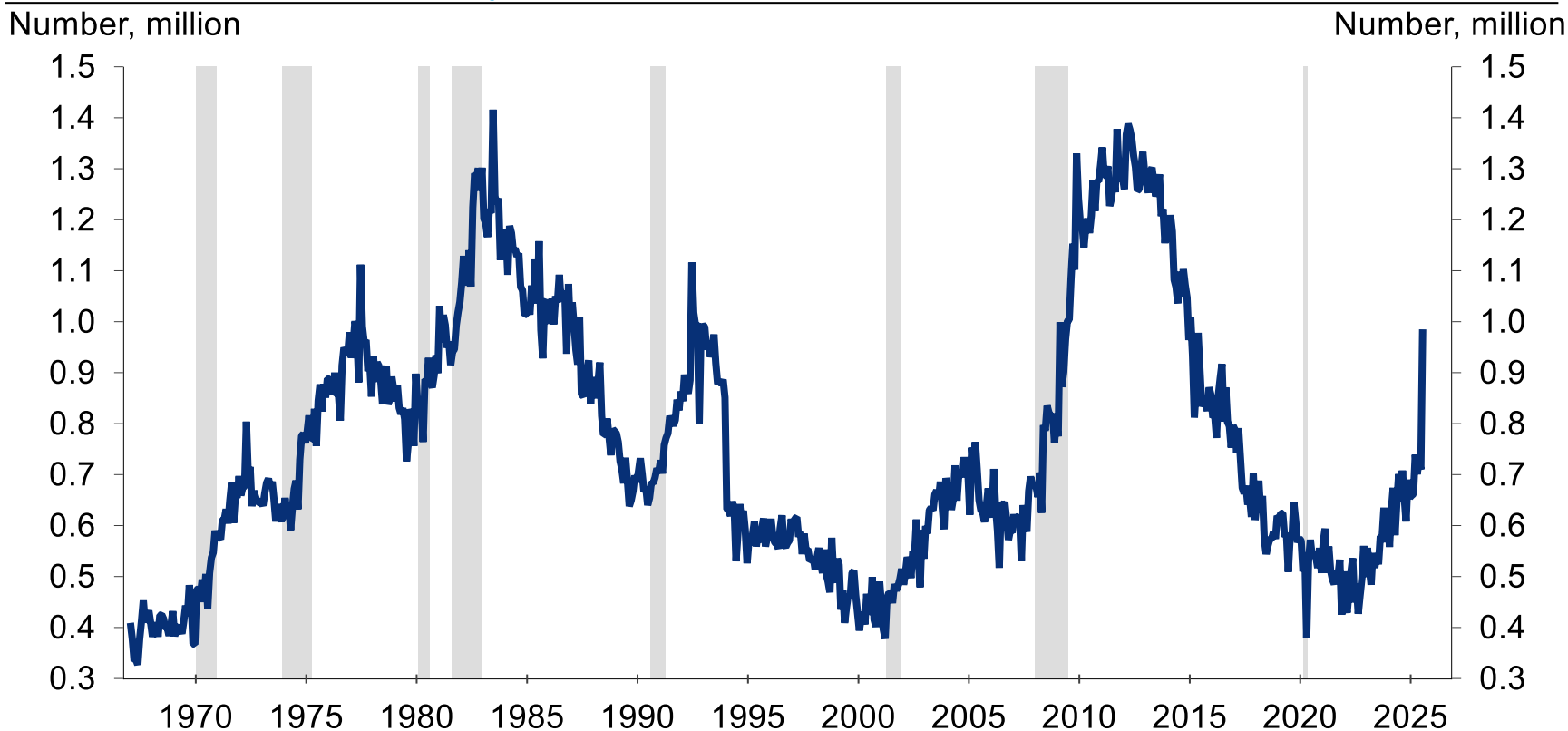


Source: BLS, Macrobond, Deutsche Bank



# Unusual spike in new entrants to labor force, which typically reverses the next month

## Reasons for Unemployment: New Entrants

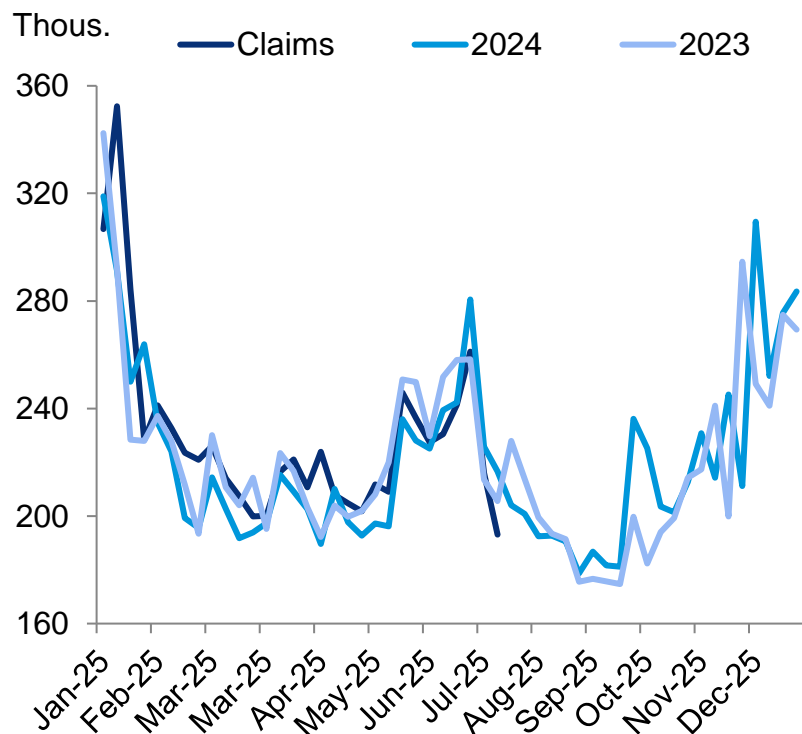


Source: BLS, Macrobond, Deutsche Bank

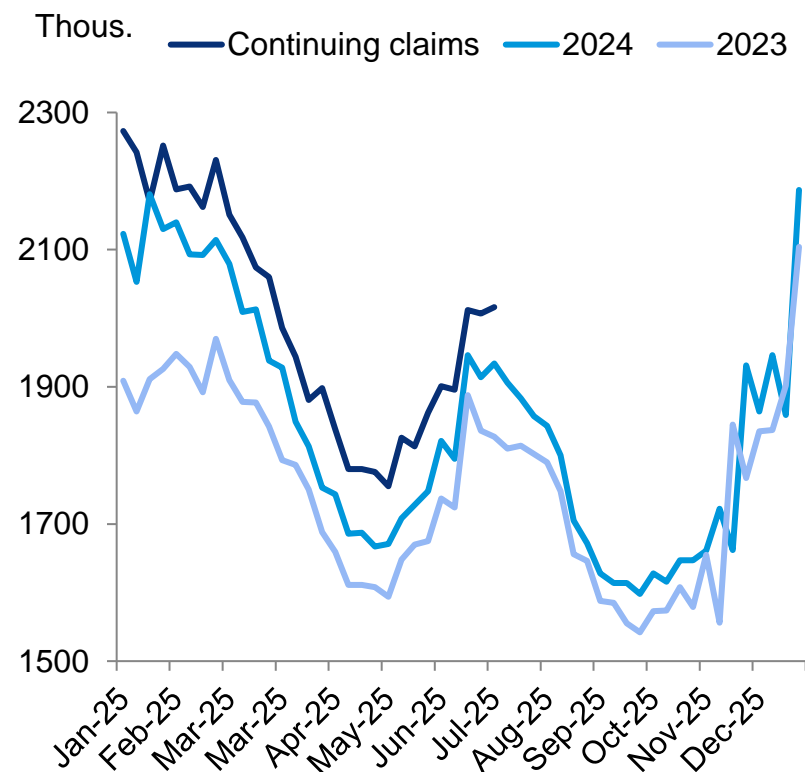


# Continuing jobless claims point to a slightly softer labor market in 2025 compared to past years

## Initial unemployment claims



## Continuing claims

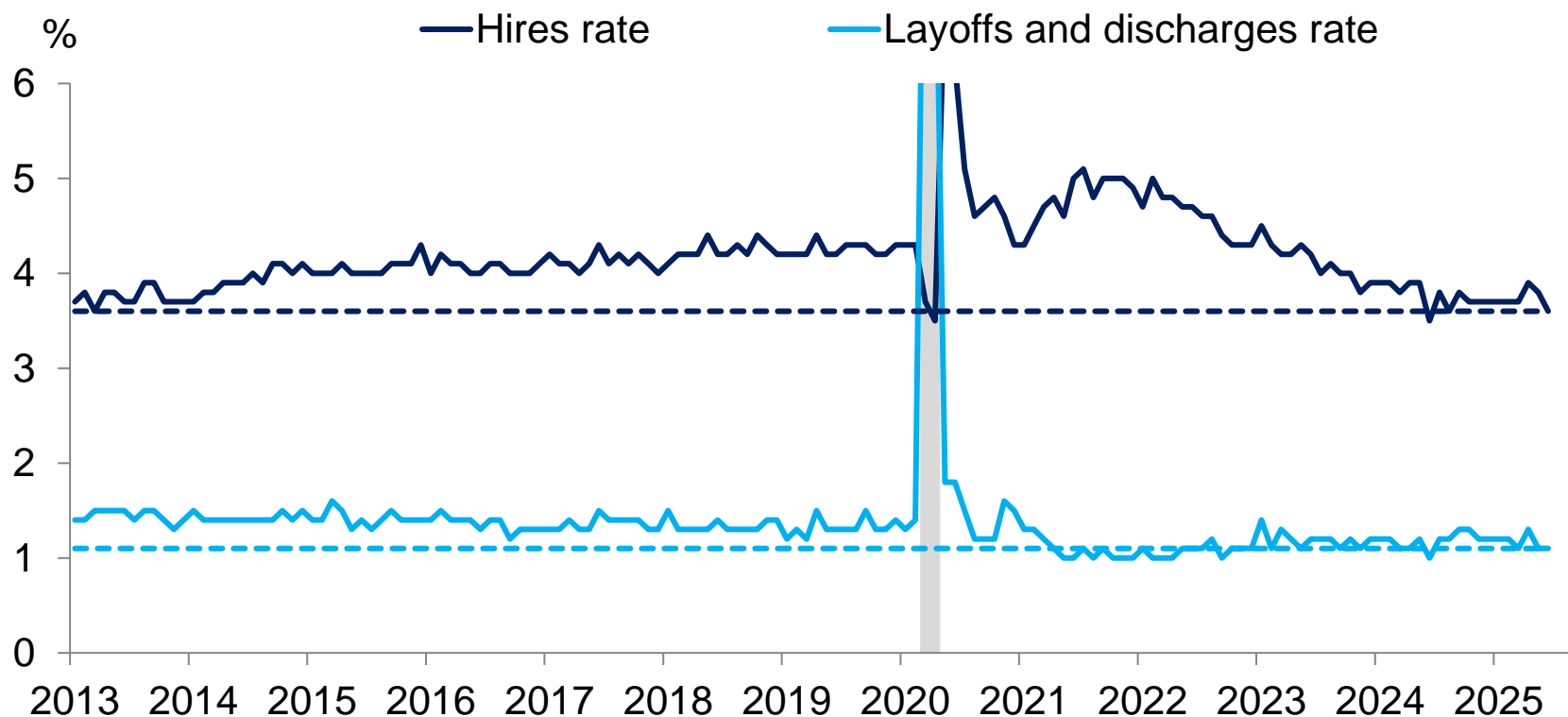


Source: DoL, Haver Analytics, Deutsche Bank



# The labor market continues a fragile equilibrium with low hiring and firing

## Hires, discharge and layoff rates



Source: BLS, Haver Analytics, Deutsche Bank

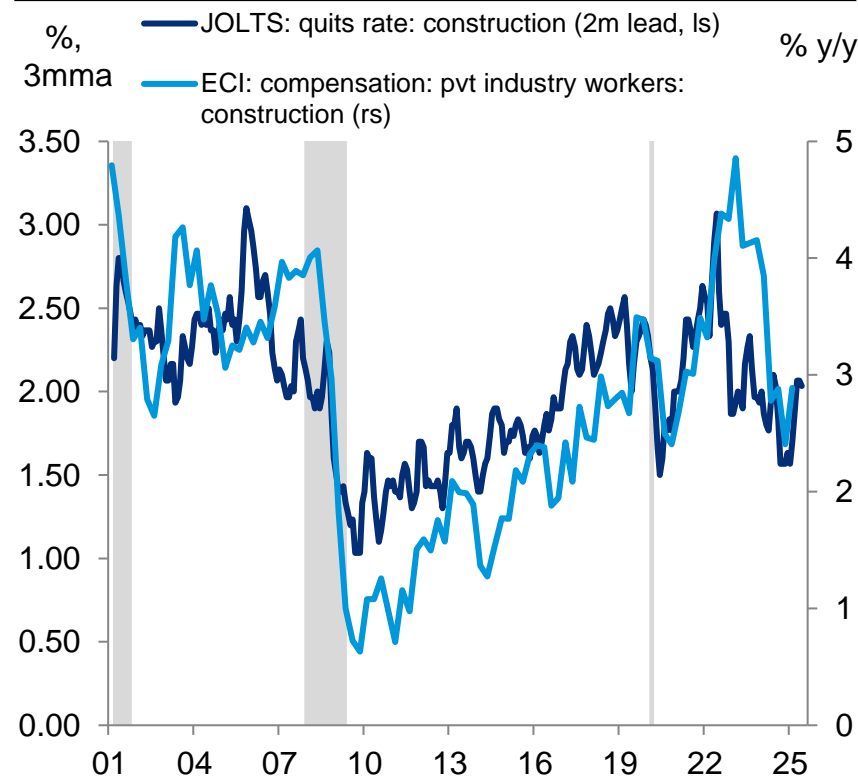


# Could be some evidence that wage pressures are set to emerge in high foreign-born worker share industries

## Quits versus ECI: Leisure and hospitality



## Quits versus ECI: construction



Source: BLS, Haver Analytics, Deutsche Bank

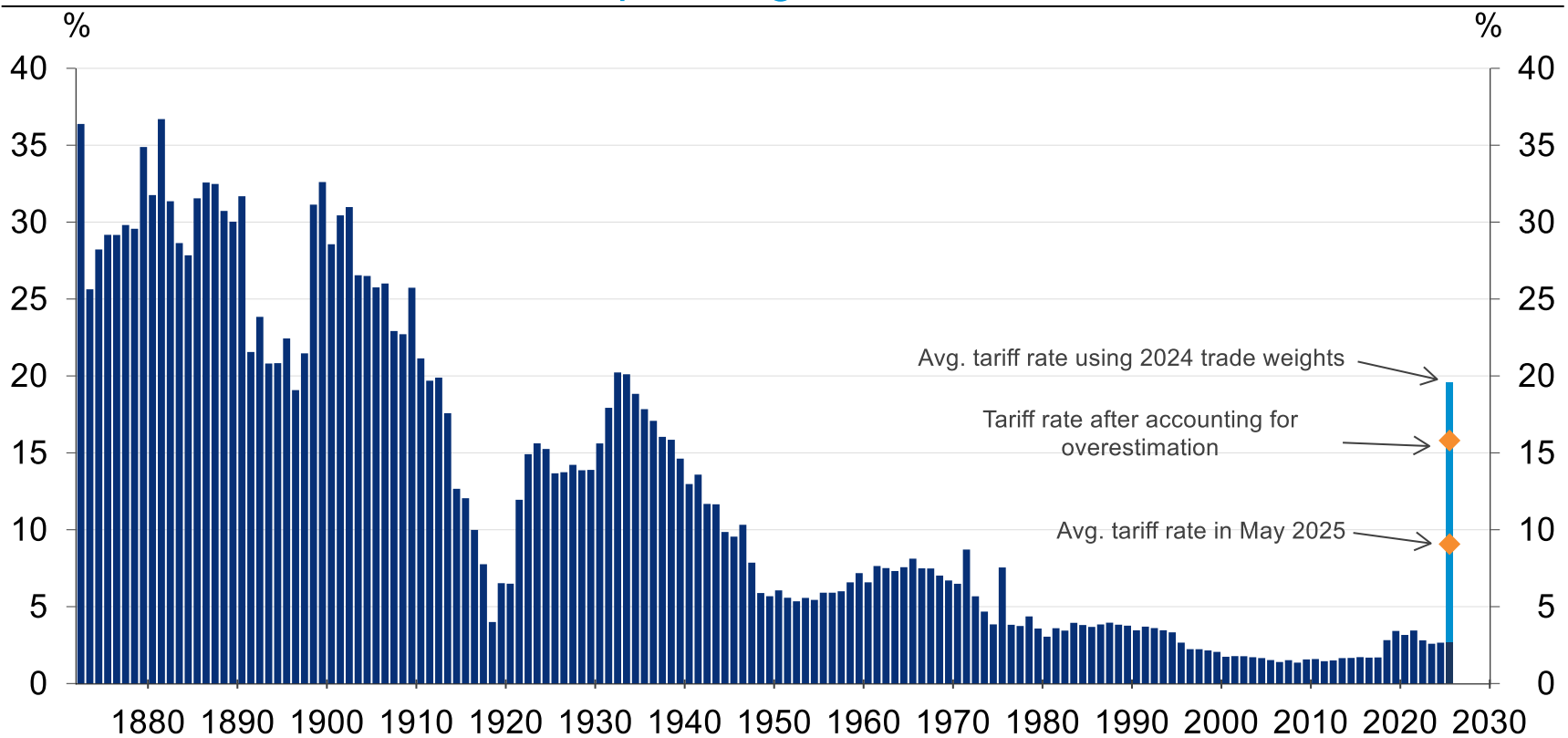


# The impact of trade and fiscal policies



# Effective tariff rate near highest in a century; we expect it to settle over time around 15%

## Tariff duties as a share of imported goods



Source: St. Louis Fed, BEA, USITC, USCB, Macrobond, Deutsche Bank



# DB estimates of the "One big beautiful bill"

	Fiscal Outlook							
	Fiscal Year				Calendar Year			
	2025	2026	2027	2028	2025	2026	2027	2028
CBO baseline Jan 2025 (no TCJA extension) (\$bn)	-1865	-1713	-1687	-1911	-1827	-1707	-1743	-1918
CBO latest score (6/29)* (\$bn)	-131	-479	-588	-535	-218	-507	-575	-510
DB additional tariff revenue estimate (\$bn)	161	272	278	285	228	273	280	287
DB weaker 2025 growth estimate (\$bn)	-18	-23	-25	-26	-19	-24	-25	-27
<b>Deficit before additional interest expense</b>	<b>-1854</b>	<b>-1944</b>	<b>-2022</b>	<b>-2187</b>	<b>-1837</b>	<b>-1964</b>	<b>-2063</b>	<b>-2167</b>
DB additional interest expense estimate (\$bn)	-29	-91	-138	-164	-45	-103	-145	-157
DB nominal GDP (\$bn)	30153	31412	32803	34234	30452	31750	33156	34599
<b>DB deficit forecast (\$bn)</b>	<b>-1883</b>	<b>-2035</b>	<b>-2160</b>	<b>-2351</b>	<b>-1881</b>	<b>-2066</b>	<b>-2208</b>	<b>-2324</b>
<b>DB Deficit / GDP (%)</b>	<b>-6.2</b>	<b>-6.5</b>	<b>-6.6</b>	<b>-6.9</b>	<b>-6.2</b>	<b>-6.5</b>	<b>-6.7</b>	<b>-6.7</b>

\*2025 estimate excludes Education Dep. non-cash expenditures savings of ~170bn

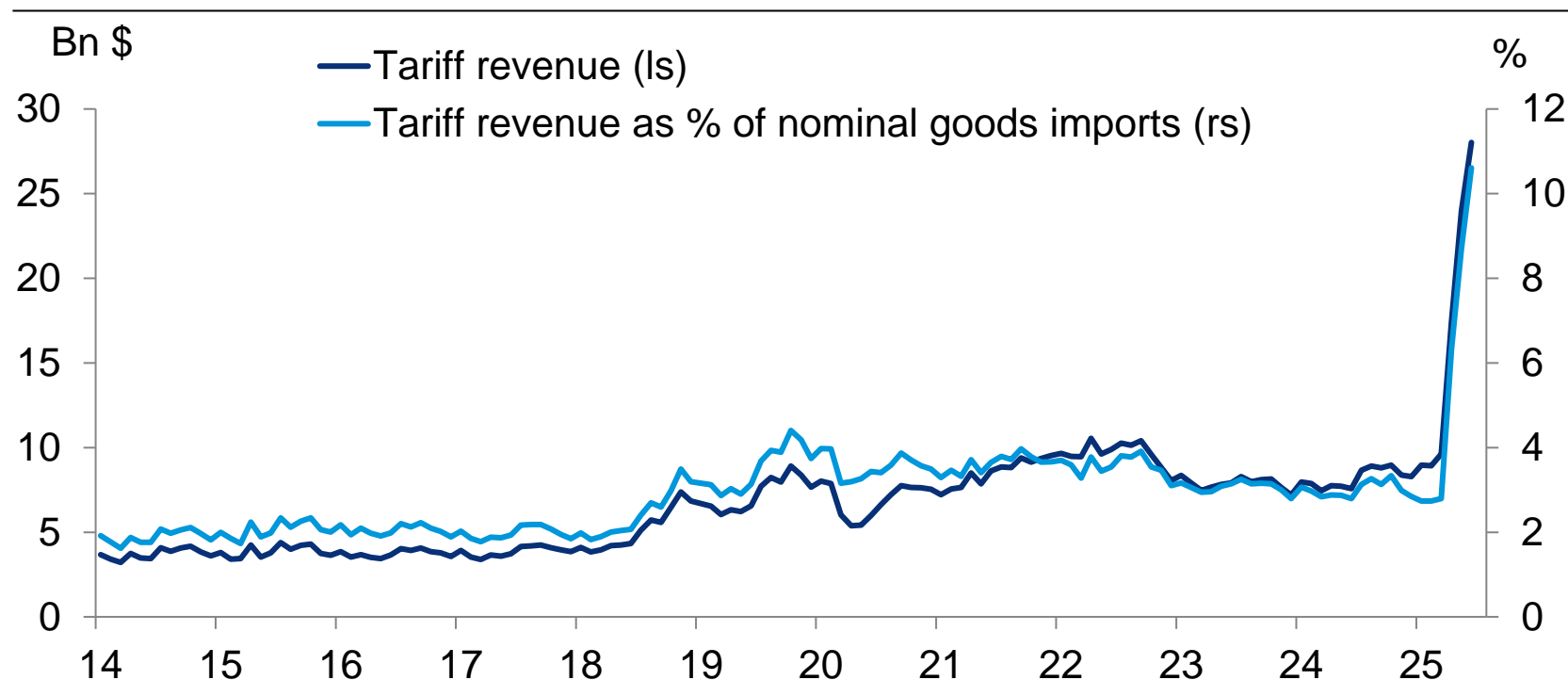
Source: CBO, Treasury, Penn-Wharton tariff model, Tax Foundation, Deutsche Bank





# Treasury statement shows sharp rise in tariff revenue

## Tariff revenues

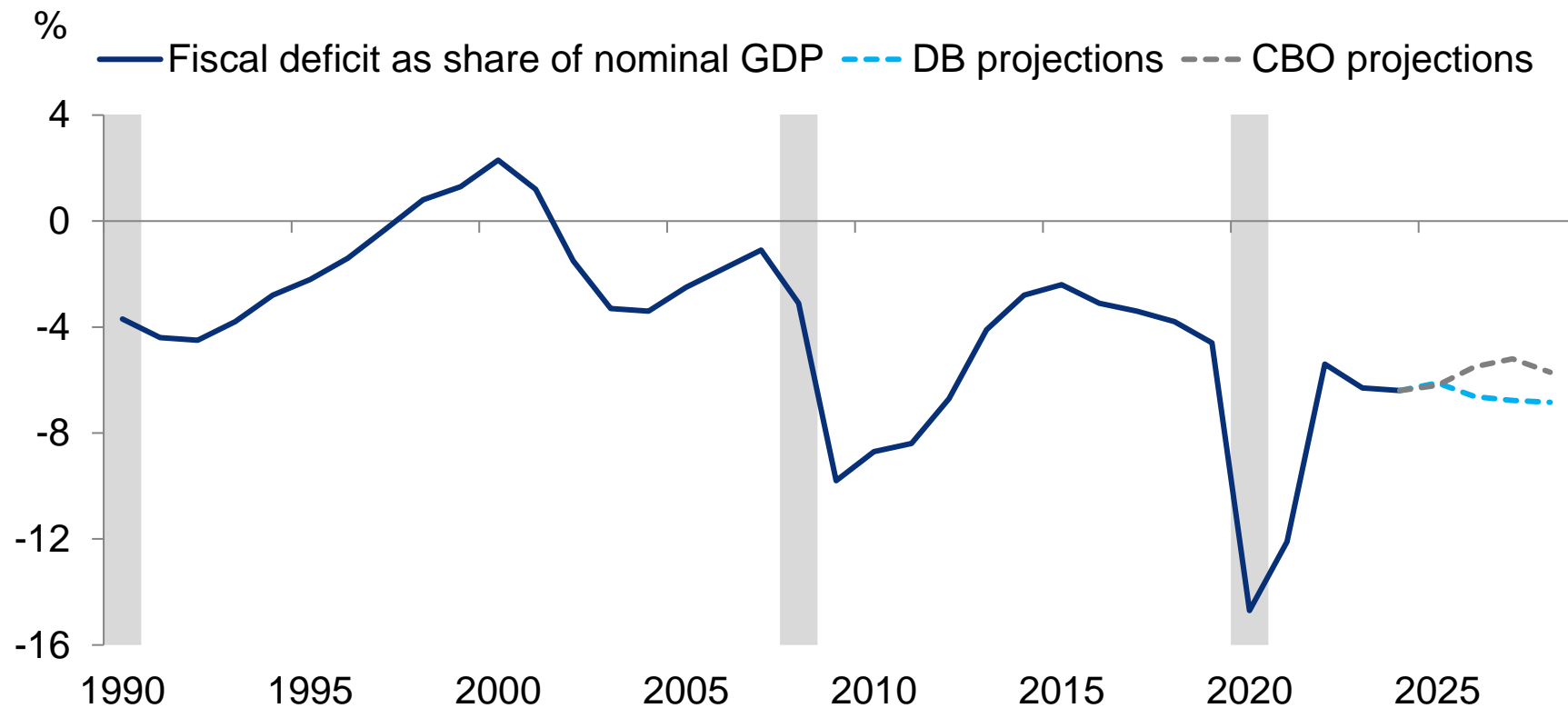


Source: Treasury, Census Bureau, Haver Analytics, Deutsche Bank



# Our baseline anticipates that the federal budget deficit-to-GDP ratio will remain 6.5-7% over next few years

## Fiscal deficit as share of nominal GDP



Source: CBO, BLS, Haver Analytics, Deutsche Bank



# Budget deficit will remain historically elevated, particularly for an economy with a low unemployment rate

## Federal budget deficits versus unemployment rates

CBO surplus/deficit as % GDP (1956-2028)

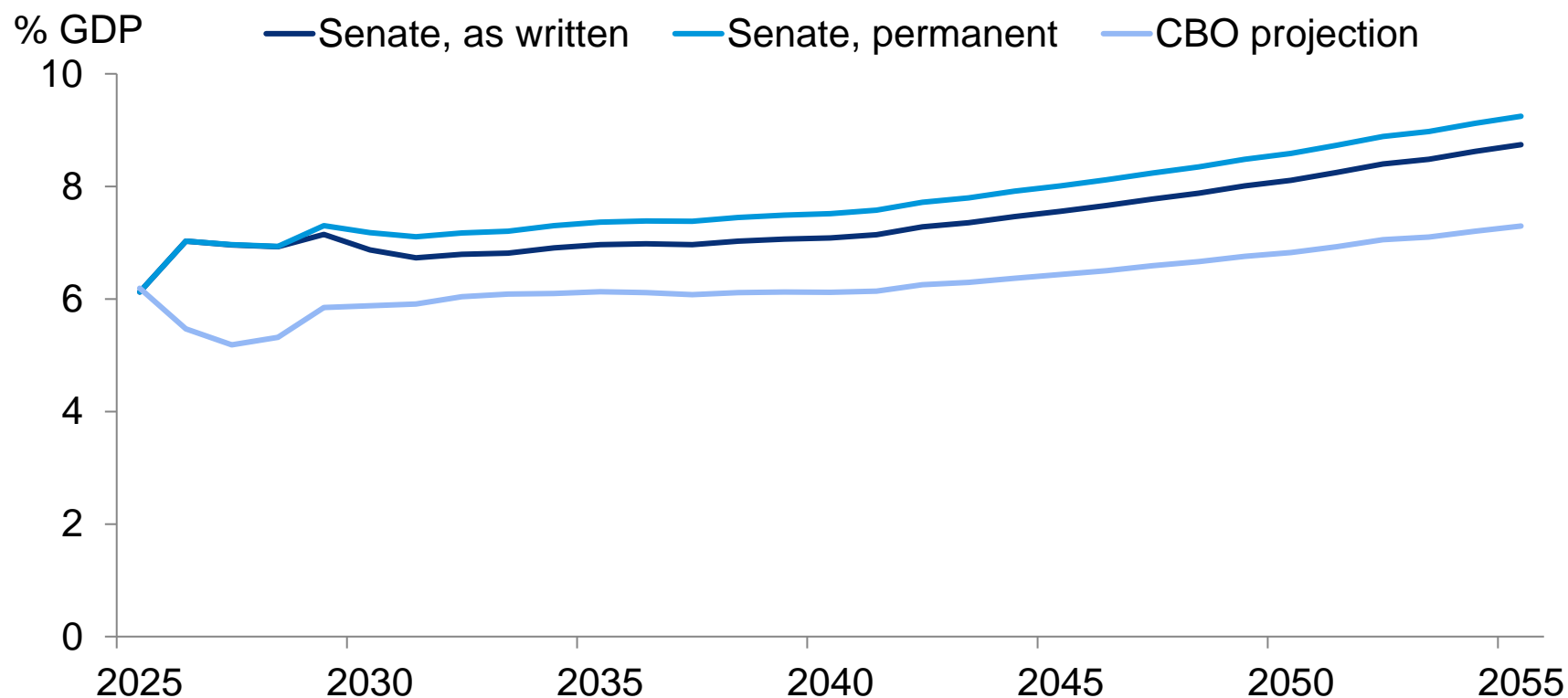


Source: CBO, BLS, Haver Analytics, Deutsche Bank



# Budget deficits would remain even higher if the provisions in the fiscal package were made permanent

## Total deficit to GDP across fiscal scenarios:



Source: Yale The Budget Lab, Deutsche Bank

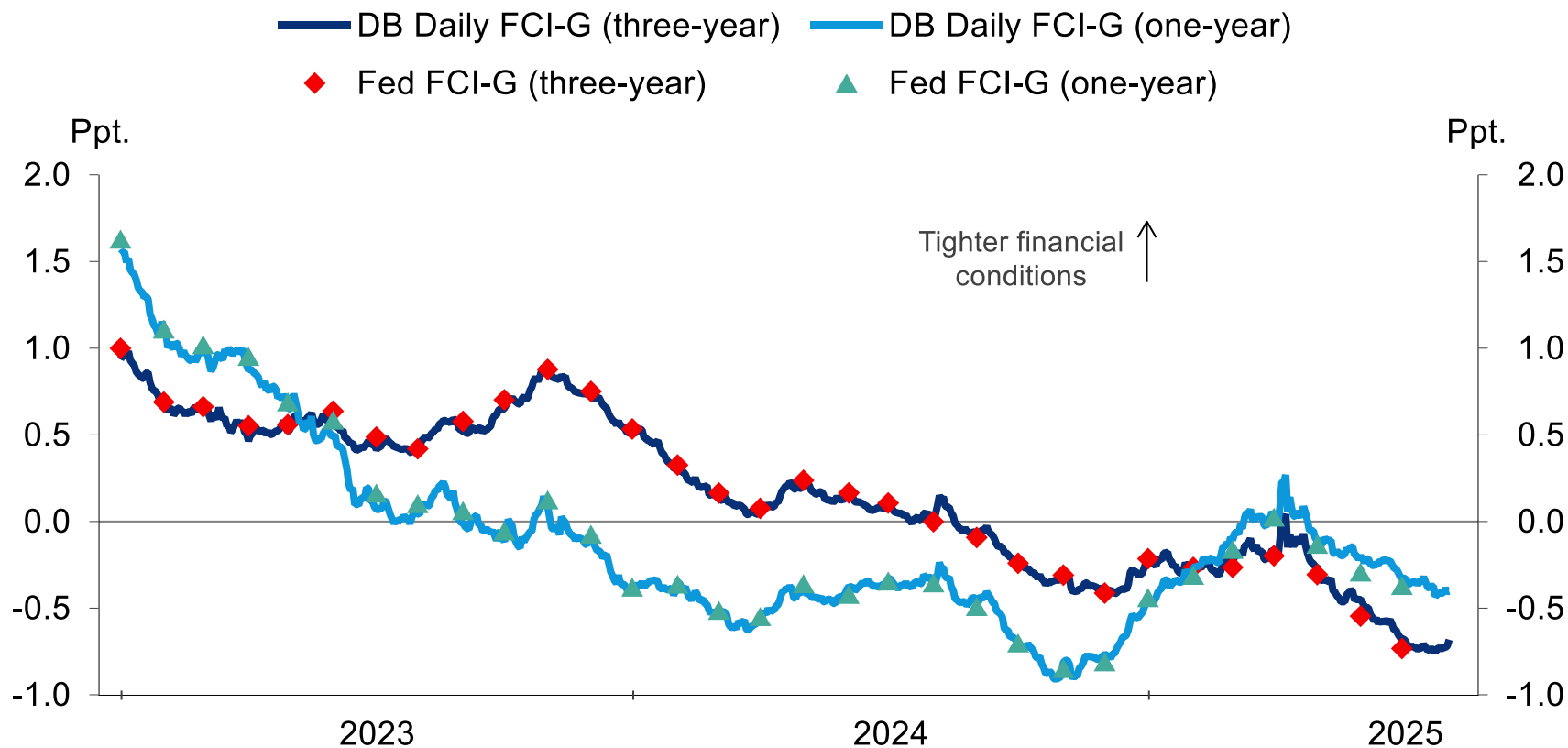


# Near-term outlook: Reasons to expect resilience



# Financial conditions remain near the easiest since H1 2022 on the Fed's three-year lookback measure

## Financial conditions

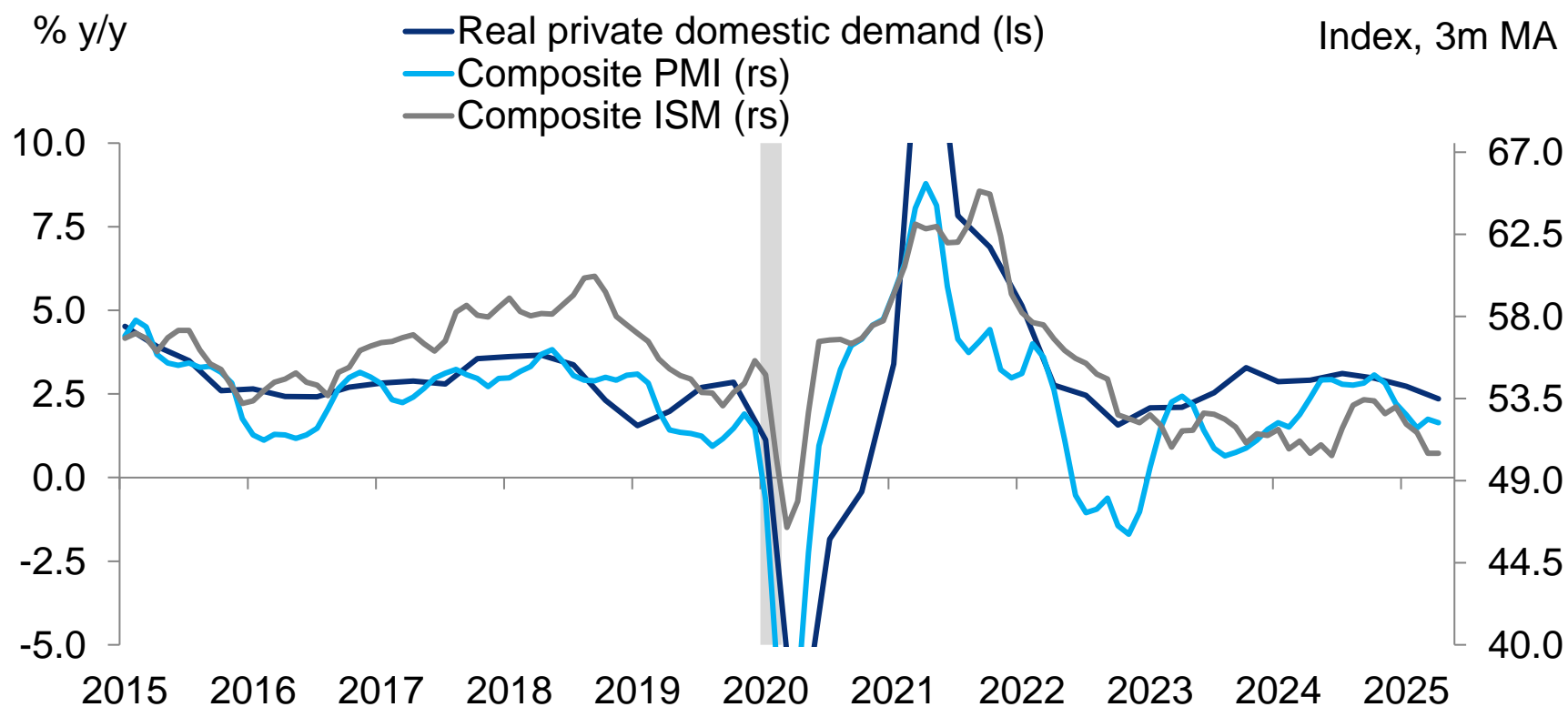


Source: Fed, US Treasury, Macrobond, S&P Global, Zillow, Redfin, ICE, Bloomberg Finance LP, Deutsche Bank



# Composite sentiment indicators consistent with slowing growth

## Real private domestic demand versus surveys

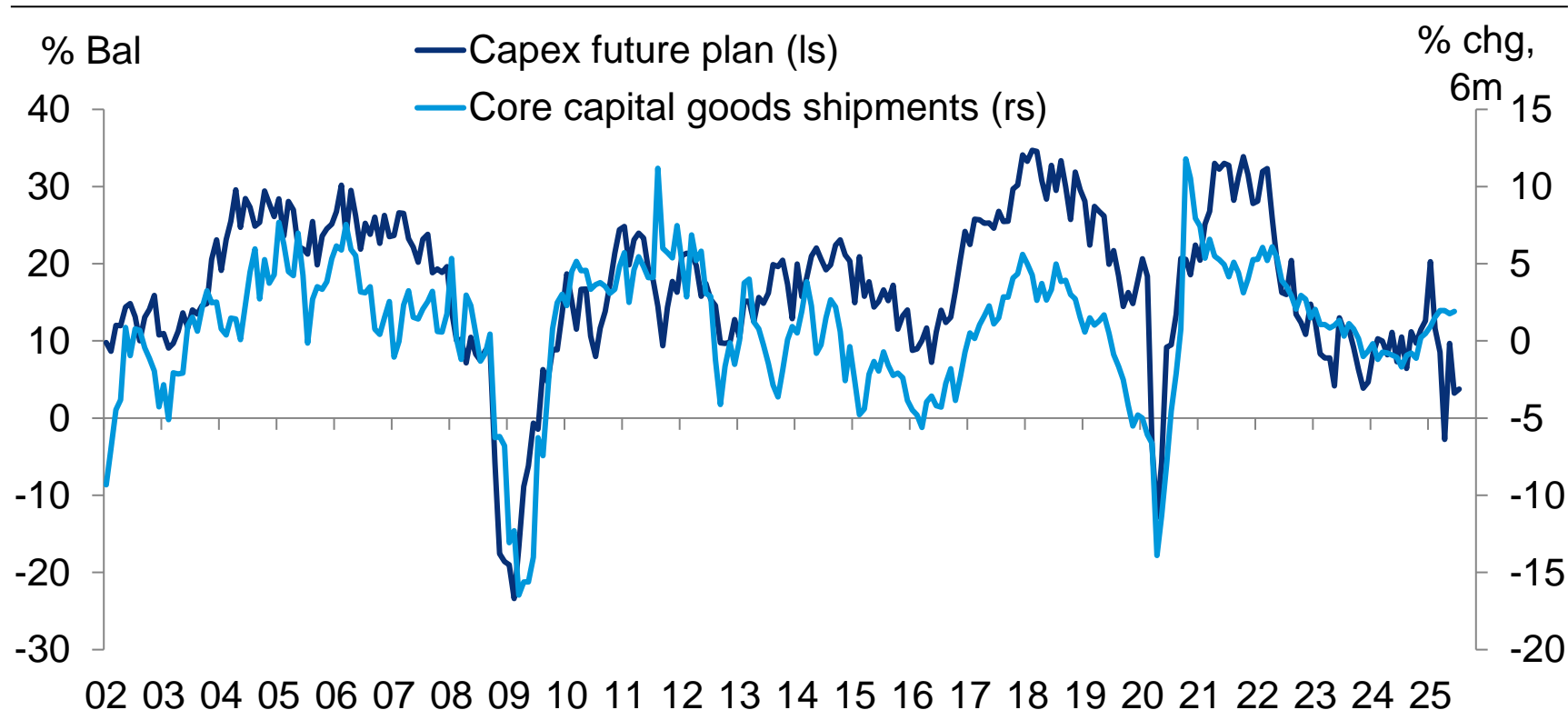


Source: BEA, S&P Global, ISM, Haver Analytics, Deutsche Bank



# Firm capex plans have oscillated since April; they are currently off the lows

## Capex plans



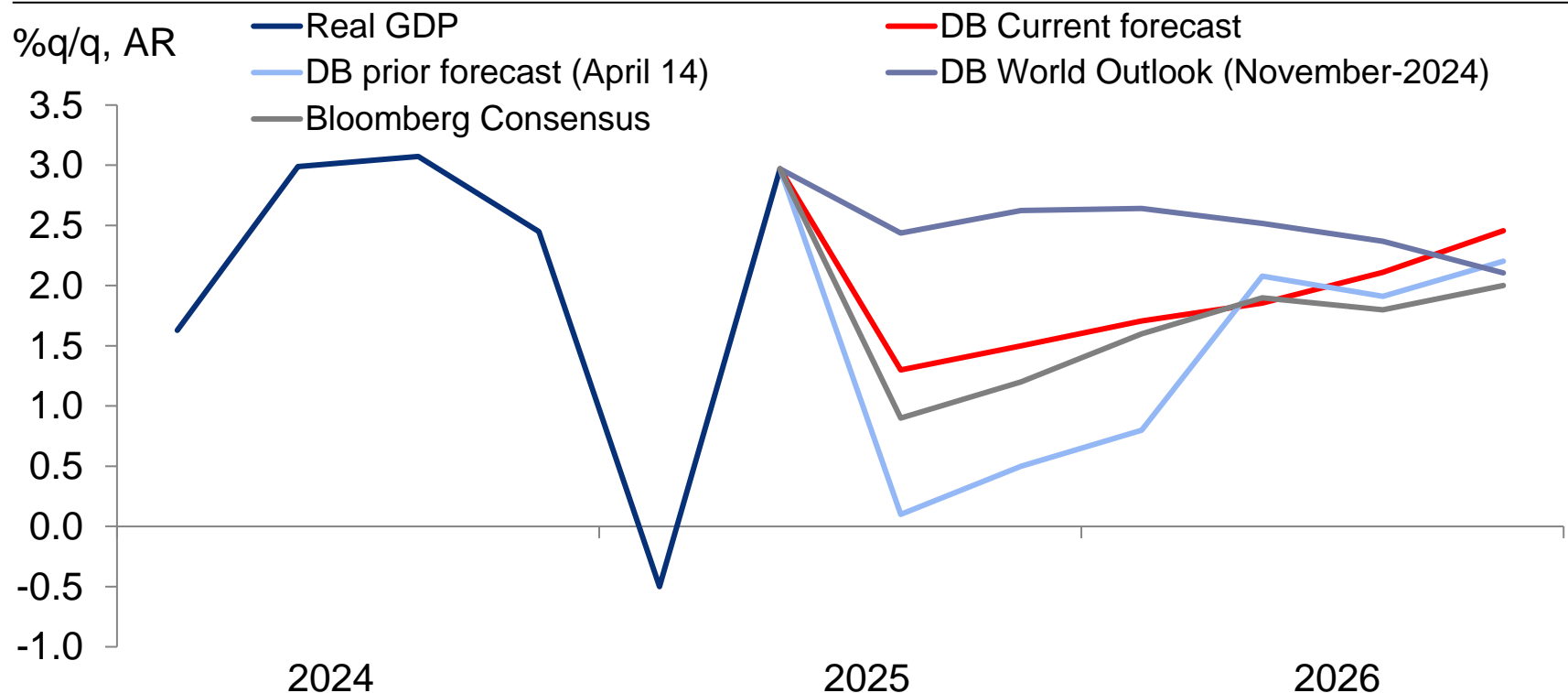
Source: Census Bureau, Richmond Fed, Philly Fed, New York Fed, Kansas City Fed, Dallas Fed, Haver Analytics, Deutsche Bank





# Our forecast sees an H2 slowdown but avoiding a recession; modestly above consensus

## Real GDP growth forecasts



Source: BEA, Haver Analytics, Bloomberg Finance LP, Deutsche Bank

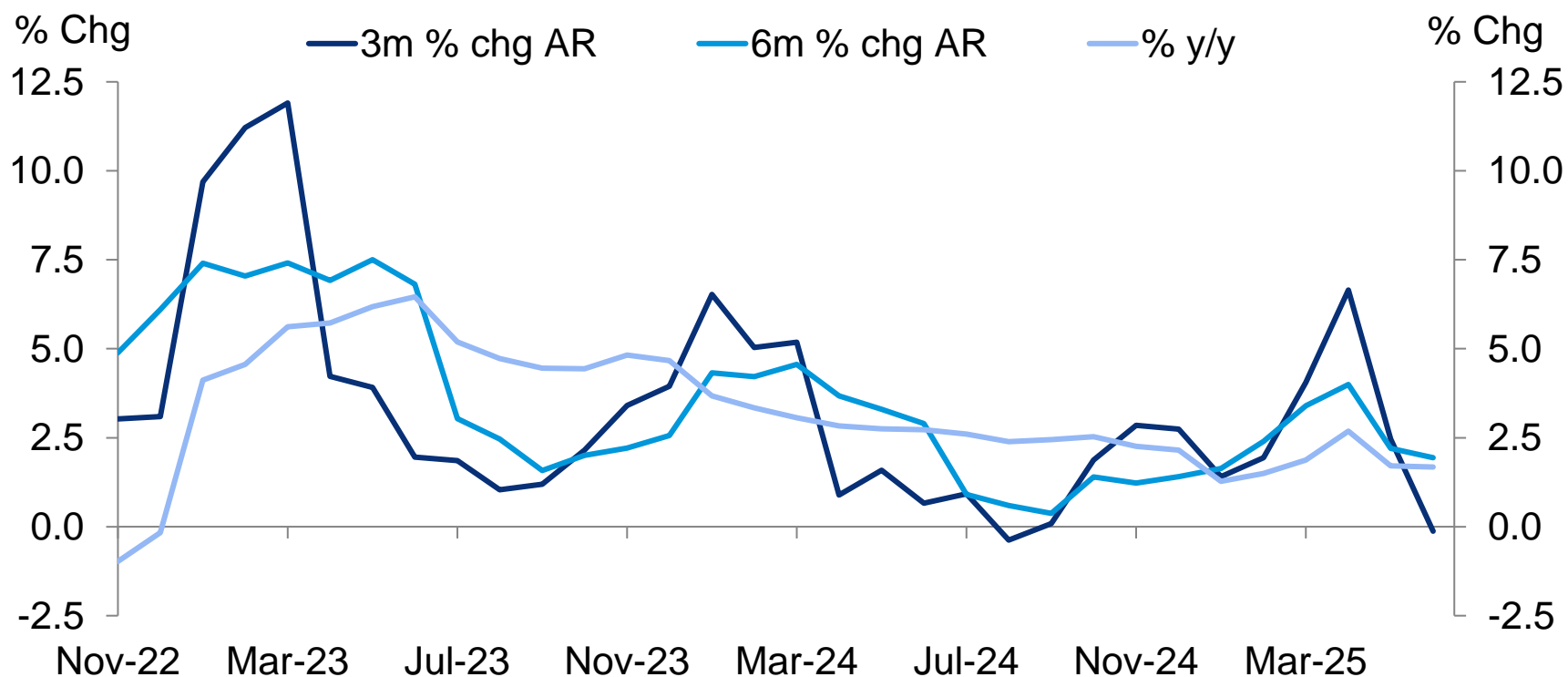


# Consumer: Aggregate fundamentals solid despite sour sentiment



# Real disposable income growth steady

## Real disposable personal income

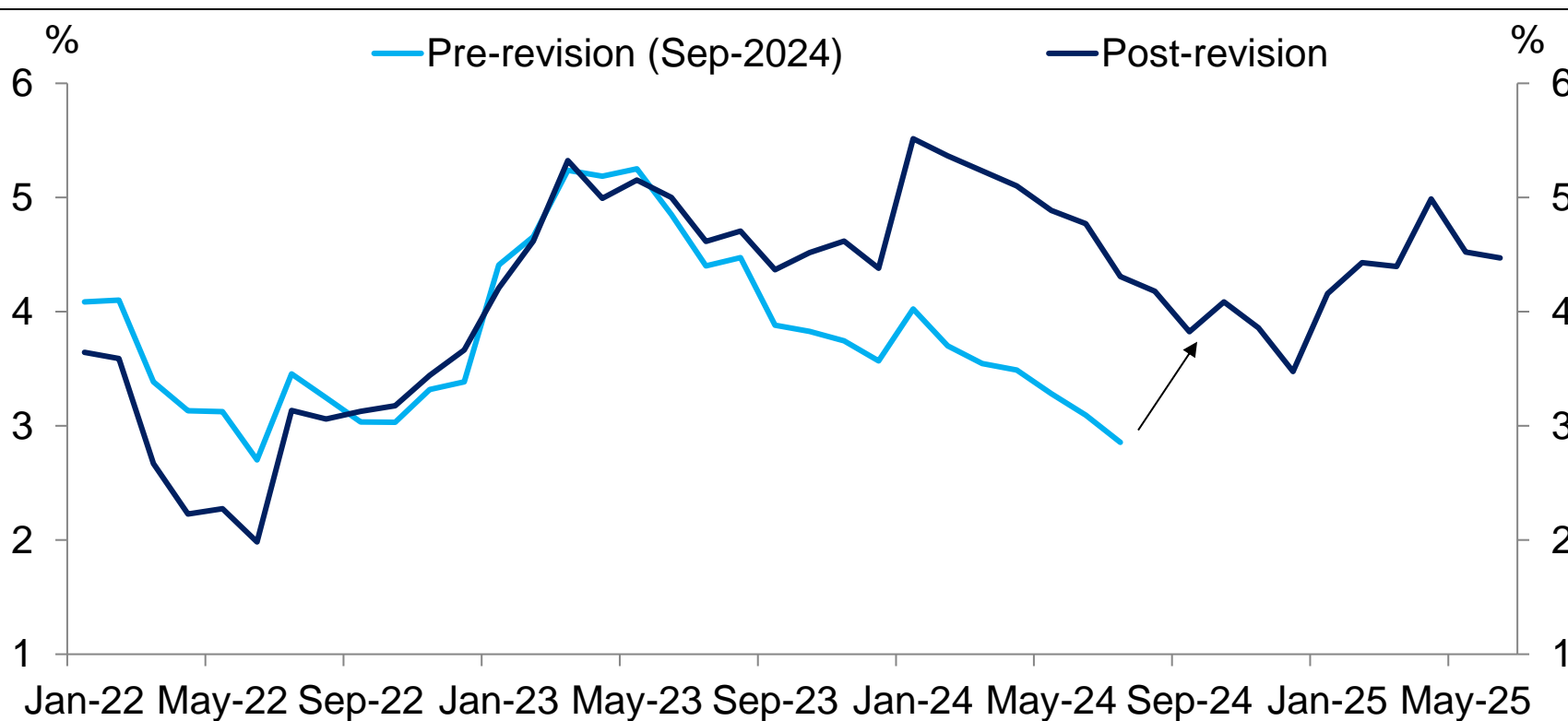


Source: BEA, Haver Analytics, Deutsche Bank



# Personal saving rate has risen noticeably

## Personal saving rate

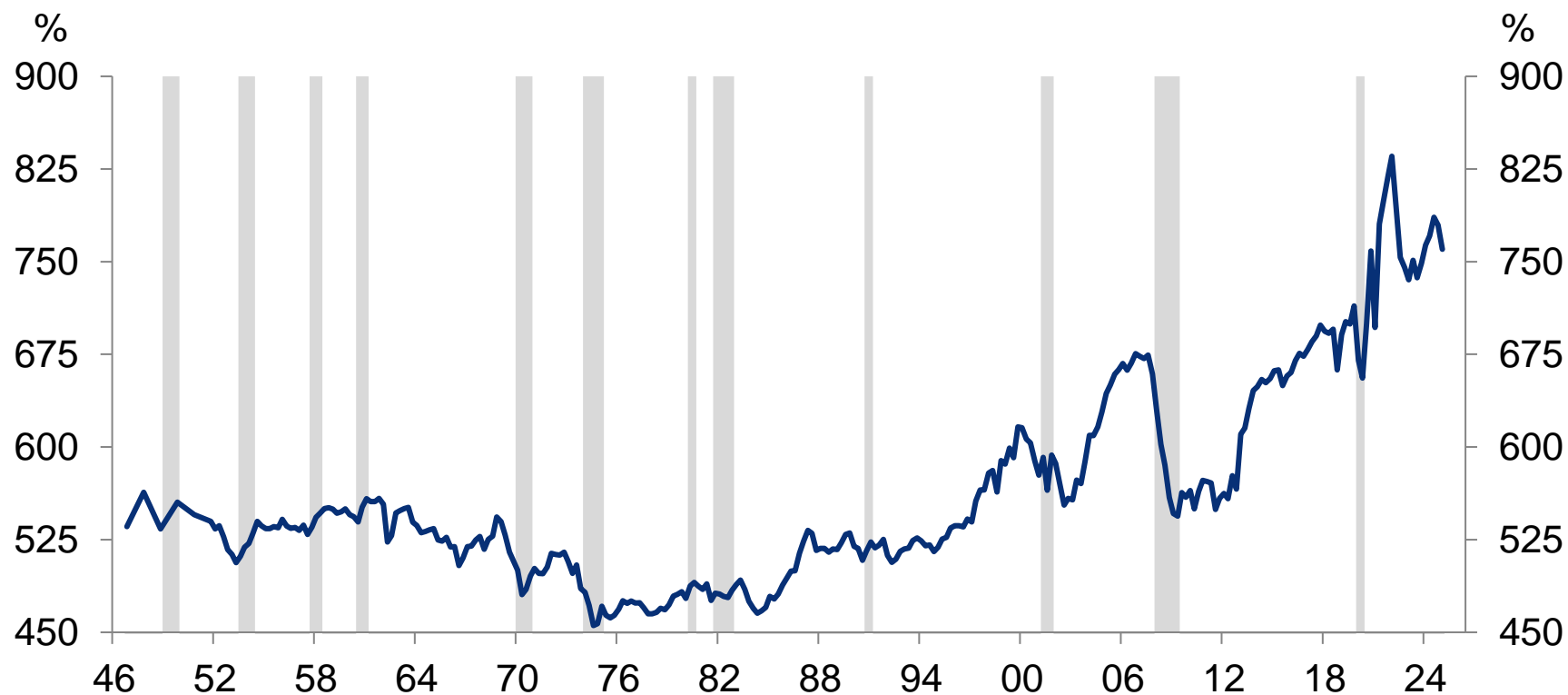


Source: BEA, Haver Analytics, Deutsche Bank



# Household net worth-to-income ratio near record highs

## Household net worth as % of disposable personal income

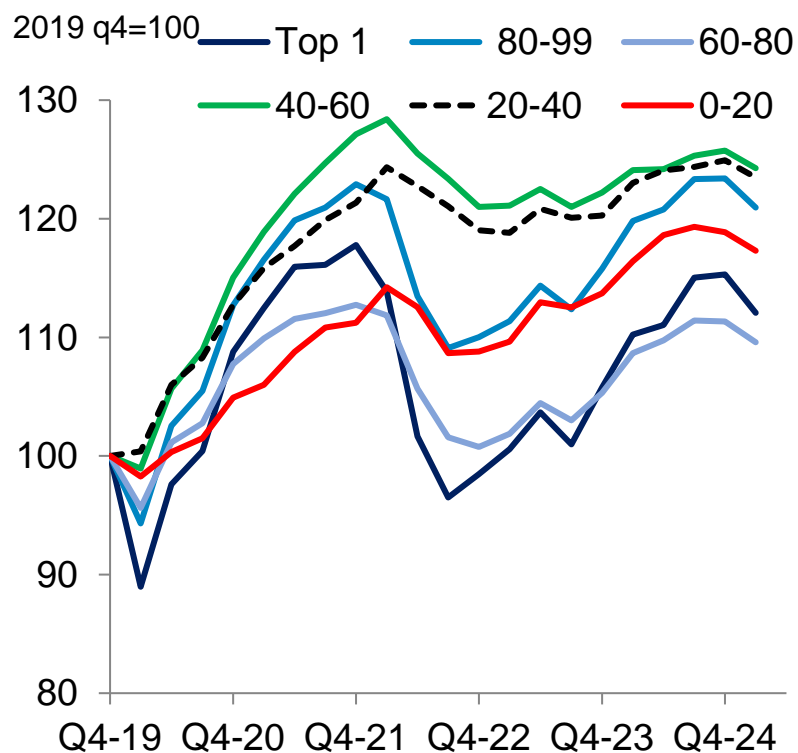


Source: FRB, Haver Analytics, Deutsche Bank

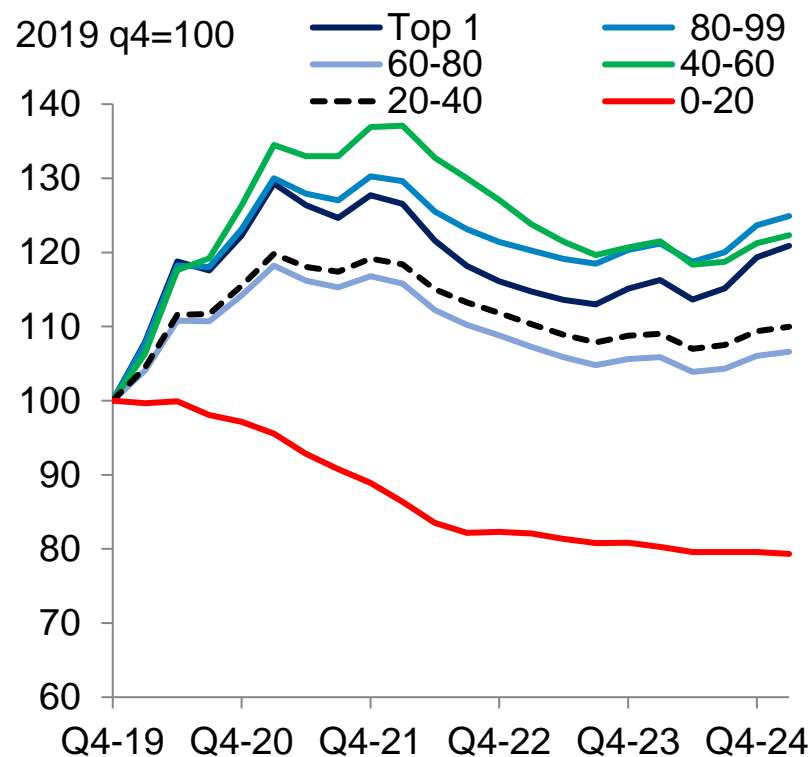


# Real net worth has risen across the income distribution. Liquid assets up except for lowest quintile

## Real net worth of assets



## Real liquid assets



Source: FRB Distributional Financial Accounts (DFAs), Haver Analytics, Deutsche Bank

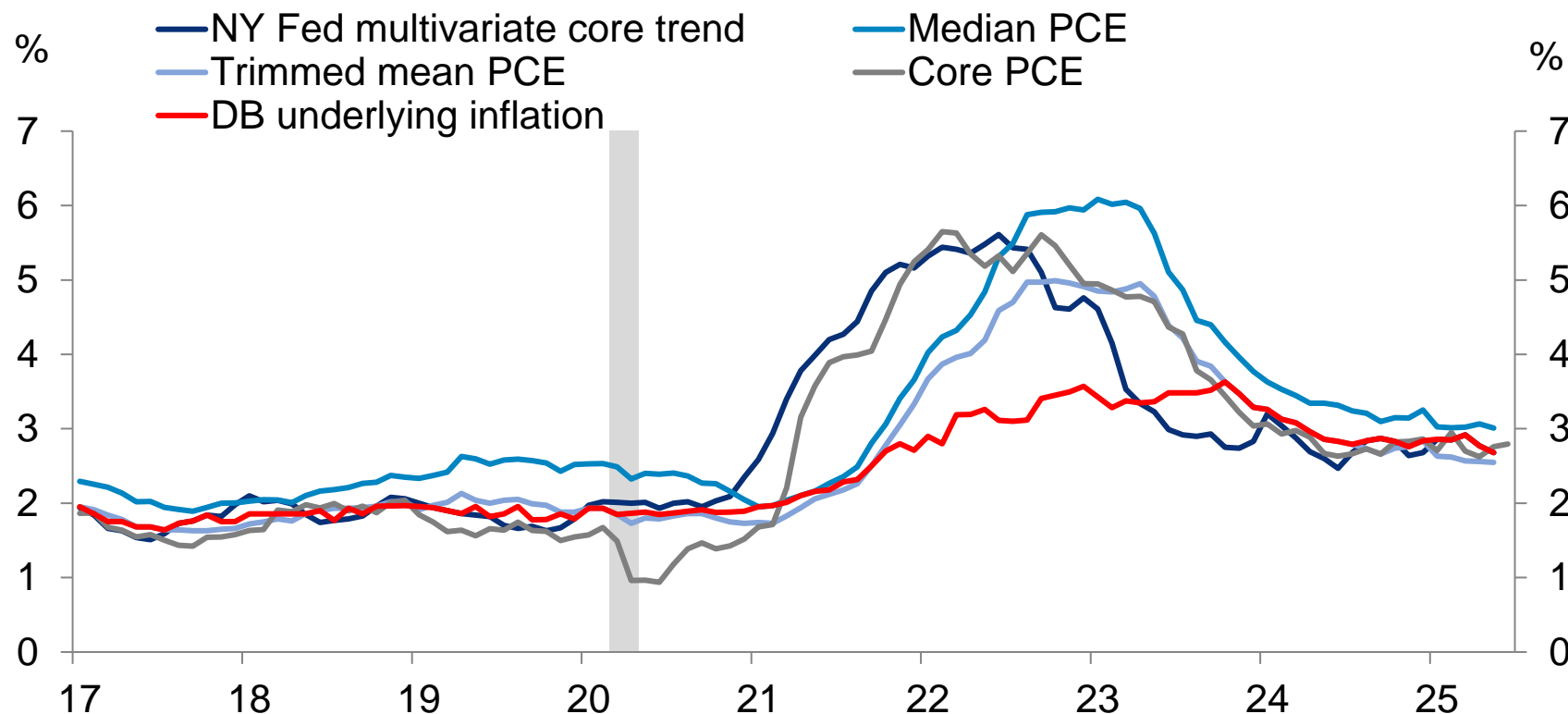


# Inflation: Tip of the tariff iceberg



# Trend measures of inflation largely unchanged for most of the past year

## Trend measures of PCE inflation



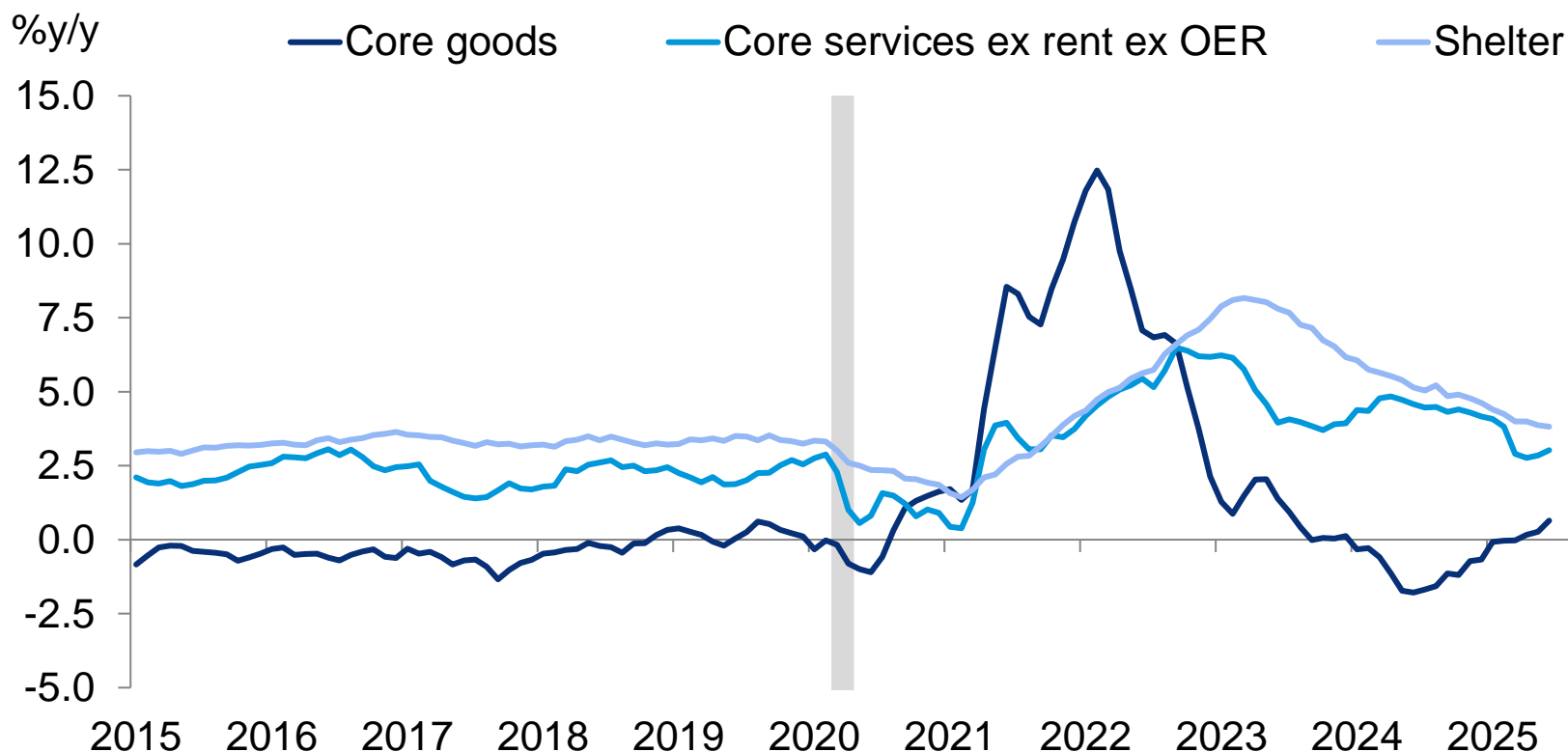
Source: FRB NY, FRB Cleveland, FRB Dallas, BEA, Haver Analytics, Deutsche Bank





# Core goods moving higher, disinflation proceeding in services for the CPI

## CPI inflation

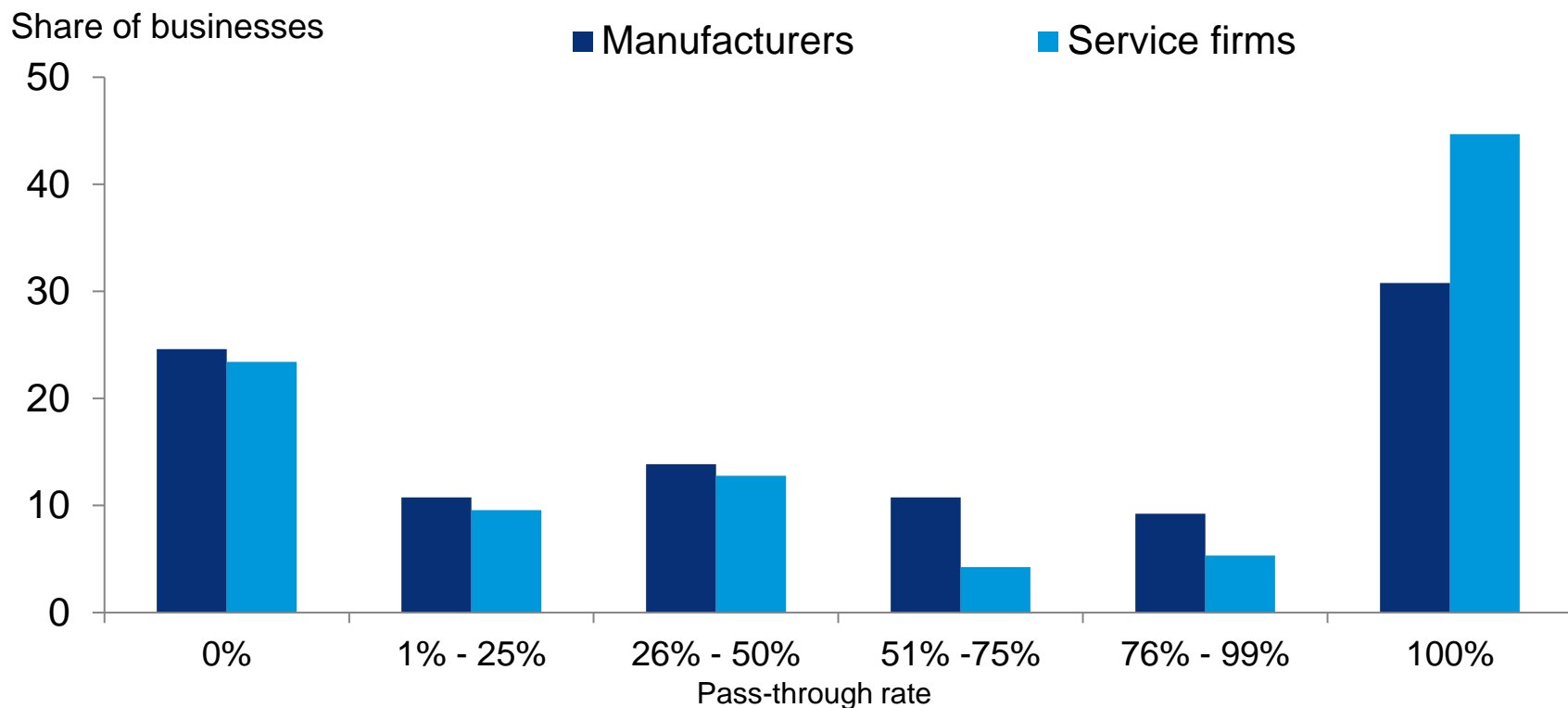


Source: BLS, Haver Analytics, Deutsche Bank



# NY Fed survey shows firms passing through 50% or more of tariffs to prices

## Most businesses passed through some or all of the tariffs

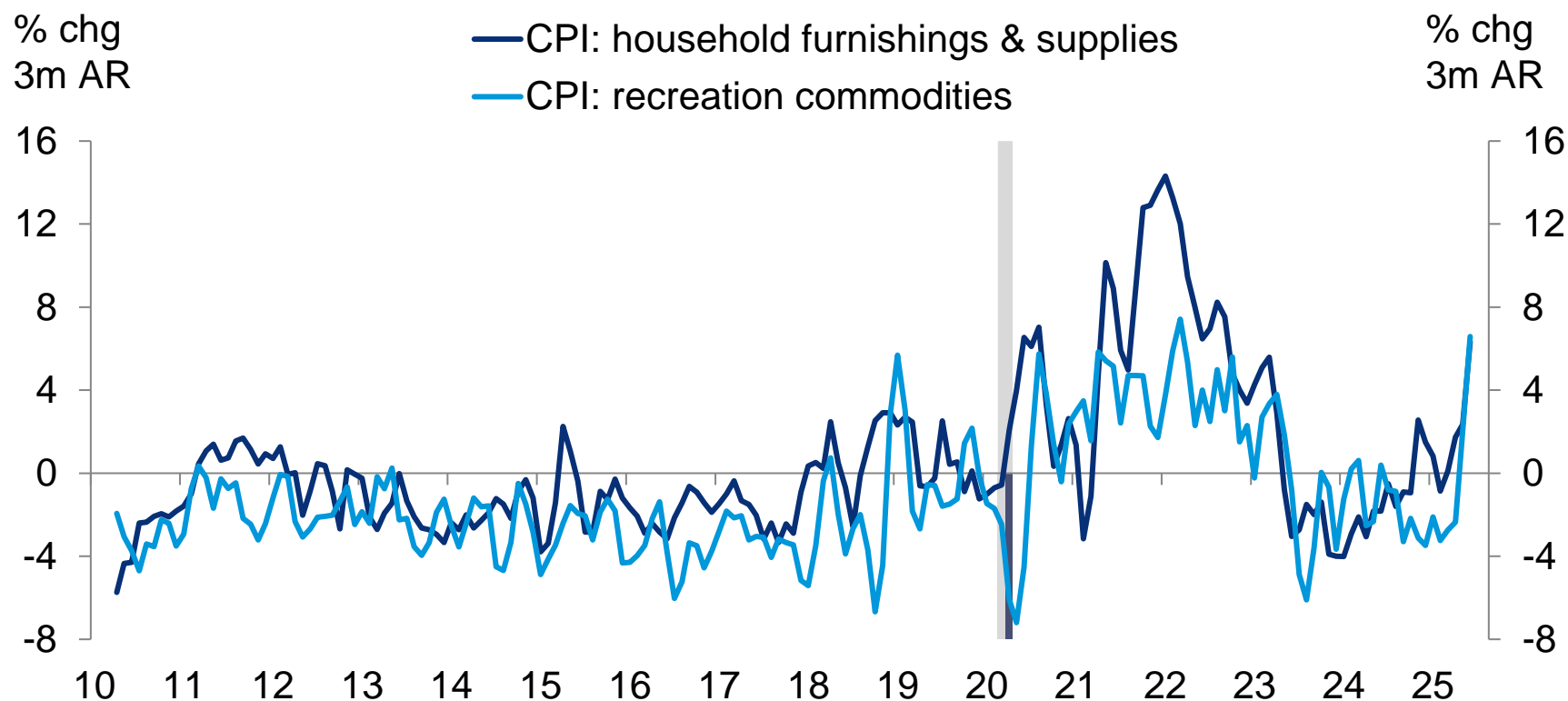


Note: Figures are based on businesses that reported an increase in the cost of their imported goods owing to tariffs over the past six months. Source: FRB NY, Deutsche Bank



# Tariff effects clear for some goods categories – prices for furnishings and rec commodities on the rise

## CPI goods inflation

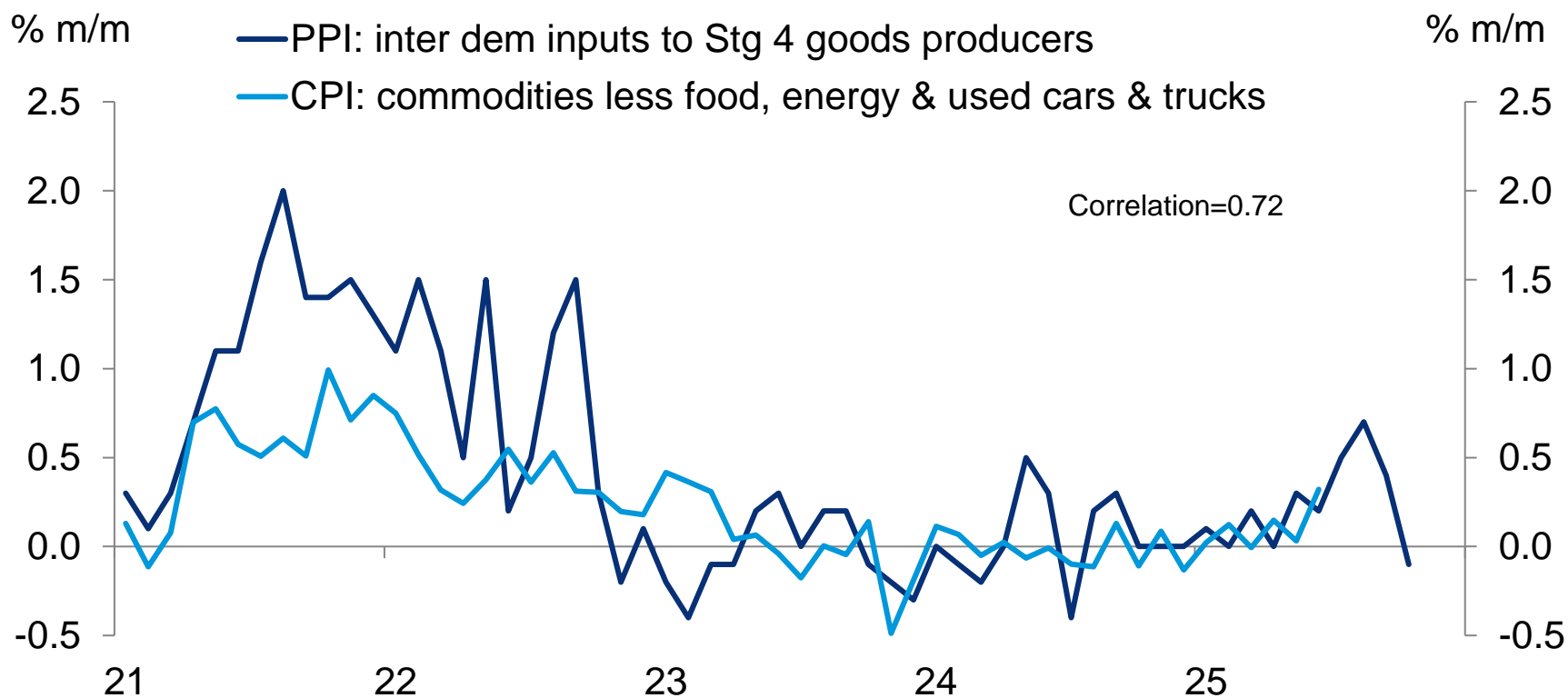


Source: BLS, Haver Analytics, Deutsche Bank



# PPI data suggest core goods inflation is likely to accelerate further in the next few months

## PPI versus CPI core goods

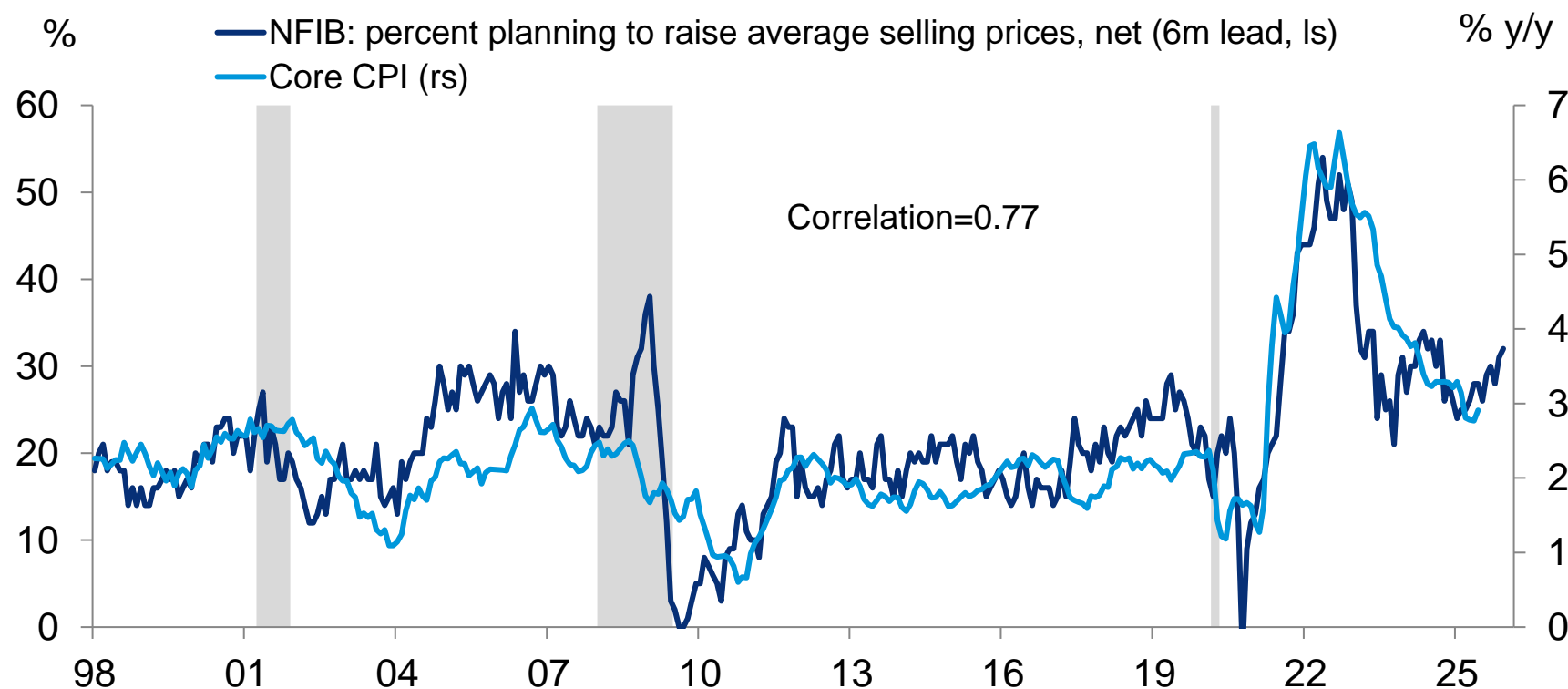


Source: BLS, Haver Analytics, Deutsche Bank



# Small businesses suggest price pressures are likely to pick up

## NFIB and core CPI

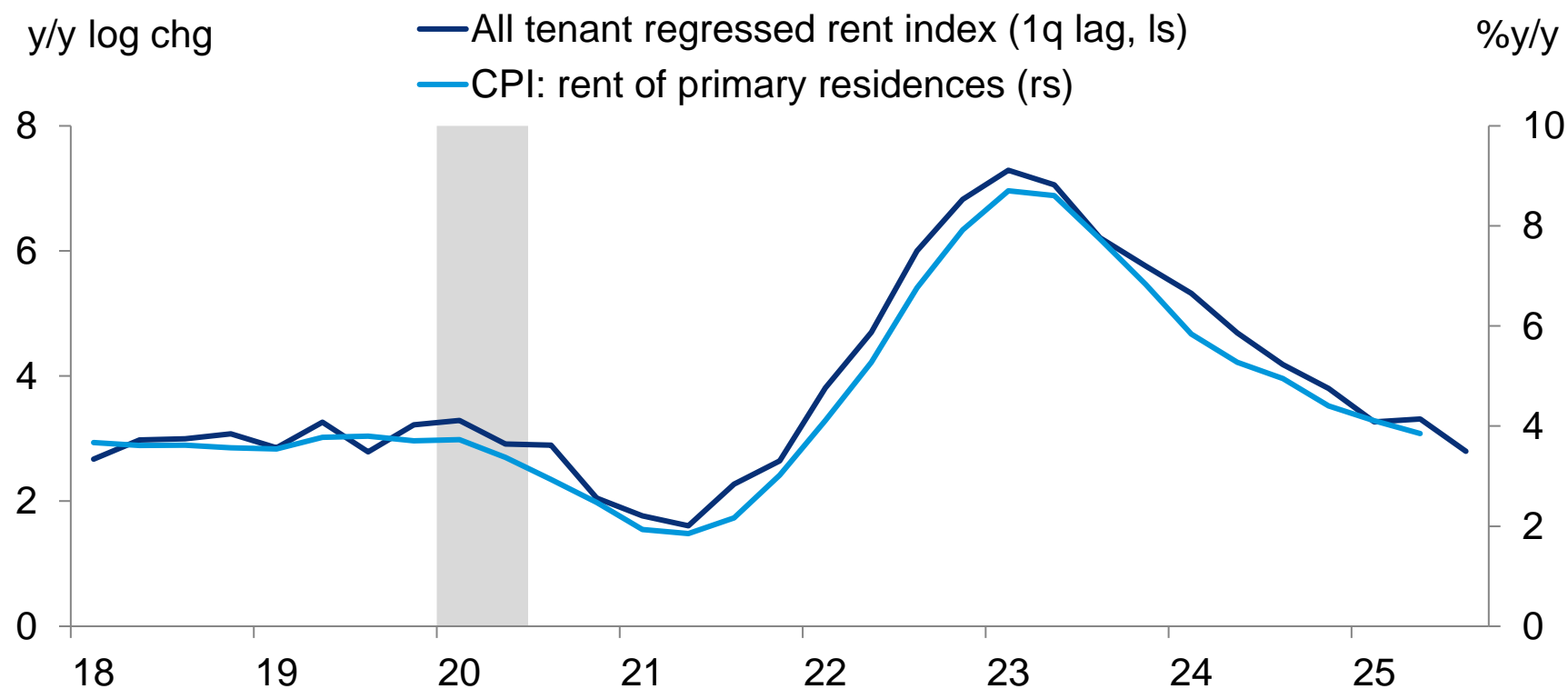


Source: NFIB, BLS, Haver Analytics, Deutsche Bank



# Rents could decelerate further in the near term

## Rent inflation

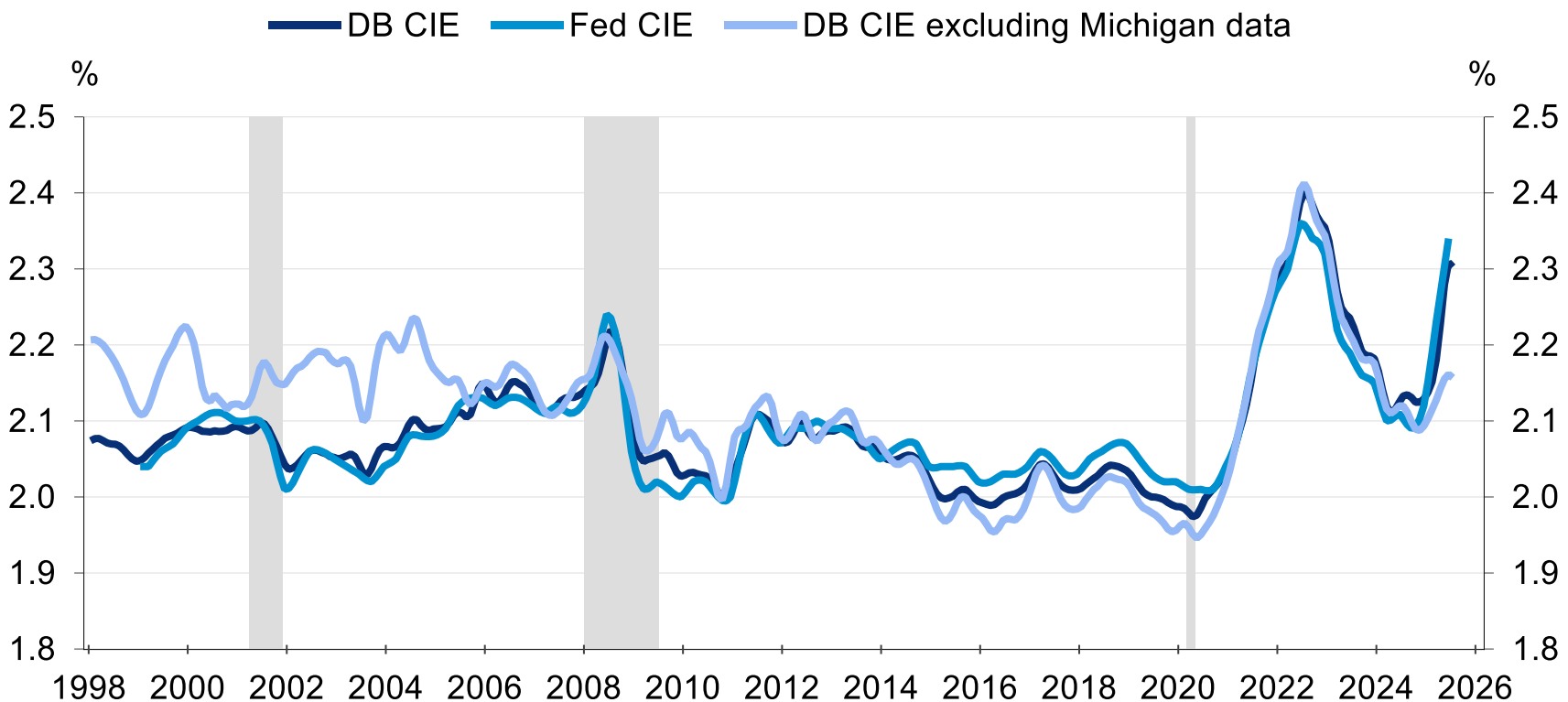


Source: BLS, Haver Analytics, Deutsche Bank



# Some, but not all, of the increase in common inflation expectations (CIE) index is due to U of Michigan data

## Index of common inflation expectations

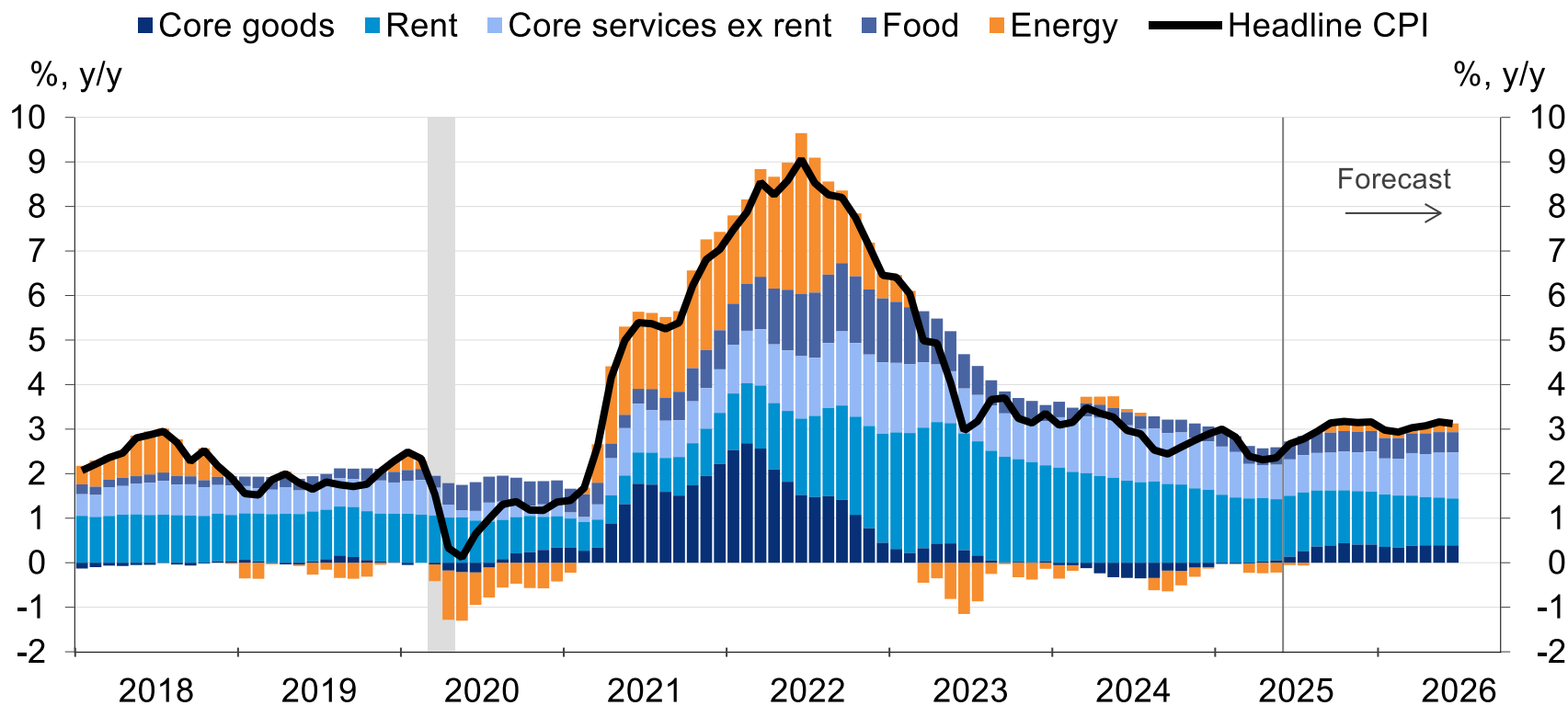


Source: Fed, Macrobond, Deutsche Bank



# Our forecast has a price level impact from tariffs beginning in June

## DB headline CPI decomposition



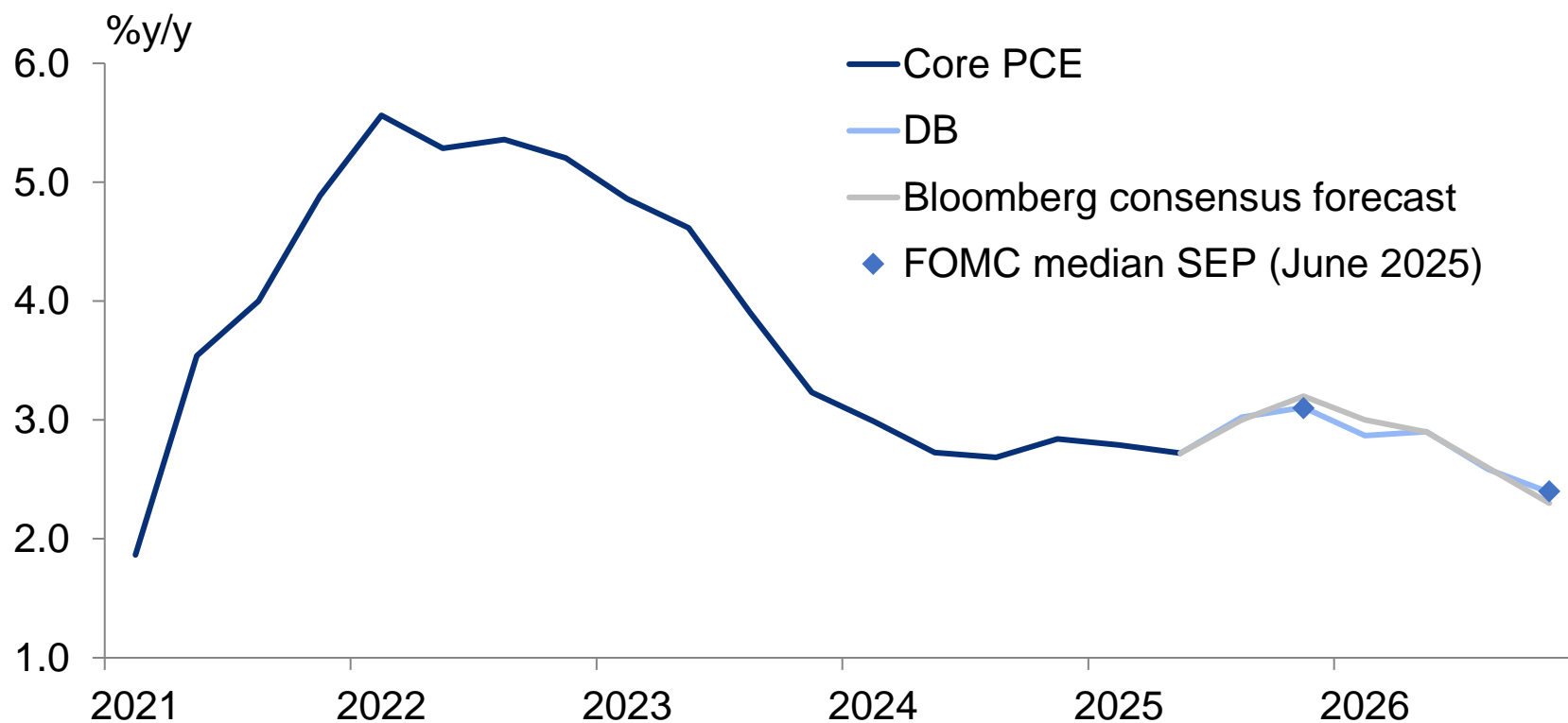
Source: BLS, Macrobond, Deutsche Bank





# DB inflation forecasts are similar to consensus and Fed

## Core PCE inflation forecasts



Source: BEA, FOMC, Haver Analytics, Bloomberg Finance LP, Deutsche Bank

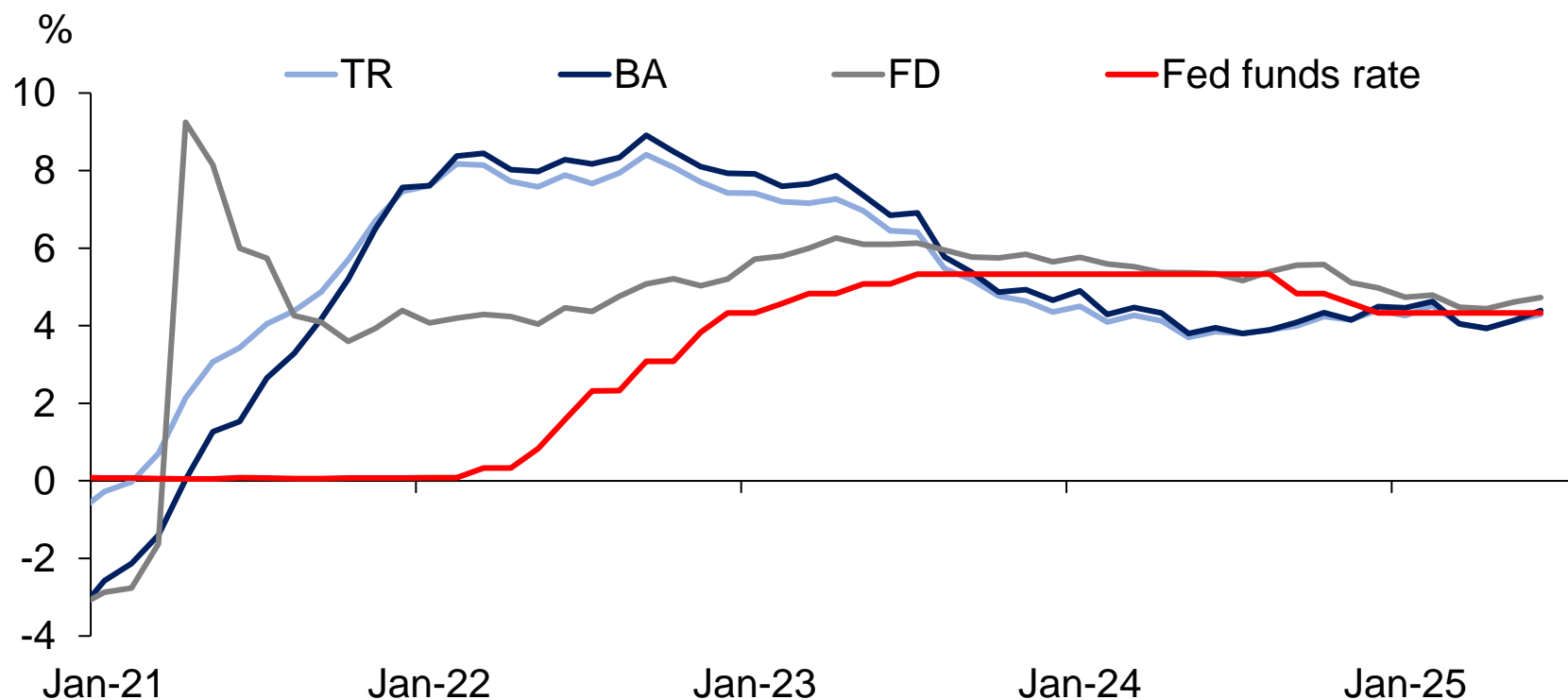


# Fed: Is the case for near-term cuts clear?



# Policy rules support Fed view that current stance is “fully appropriate”

## Policy rules

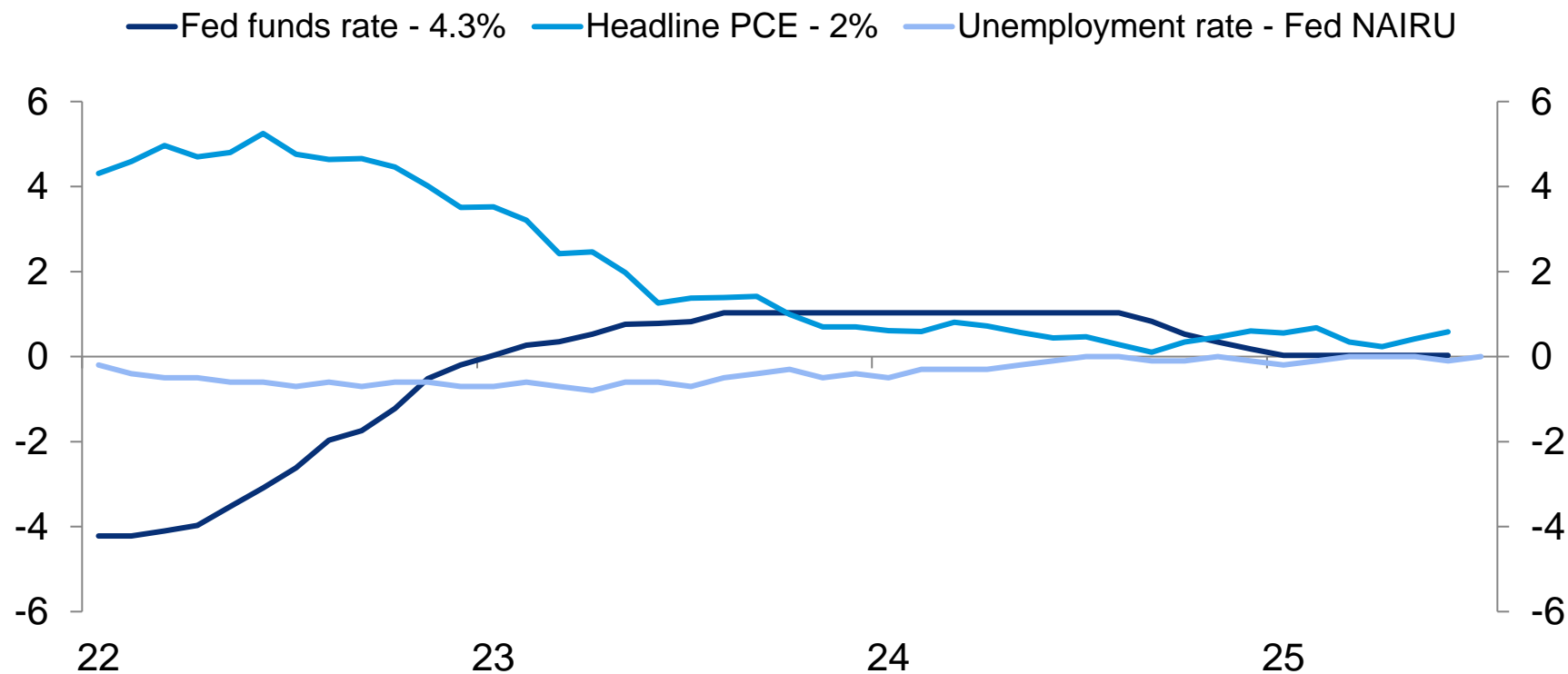


Source: FRB, CBO, BLS, BEA, Haver Analytics, Deutsche Bank



# Is the Fed at neutral? Economy appears to have converged to steady state with rates at 4.3%

## Variables versus current value / targets

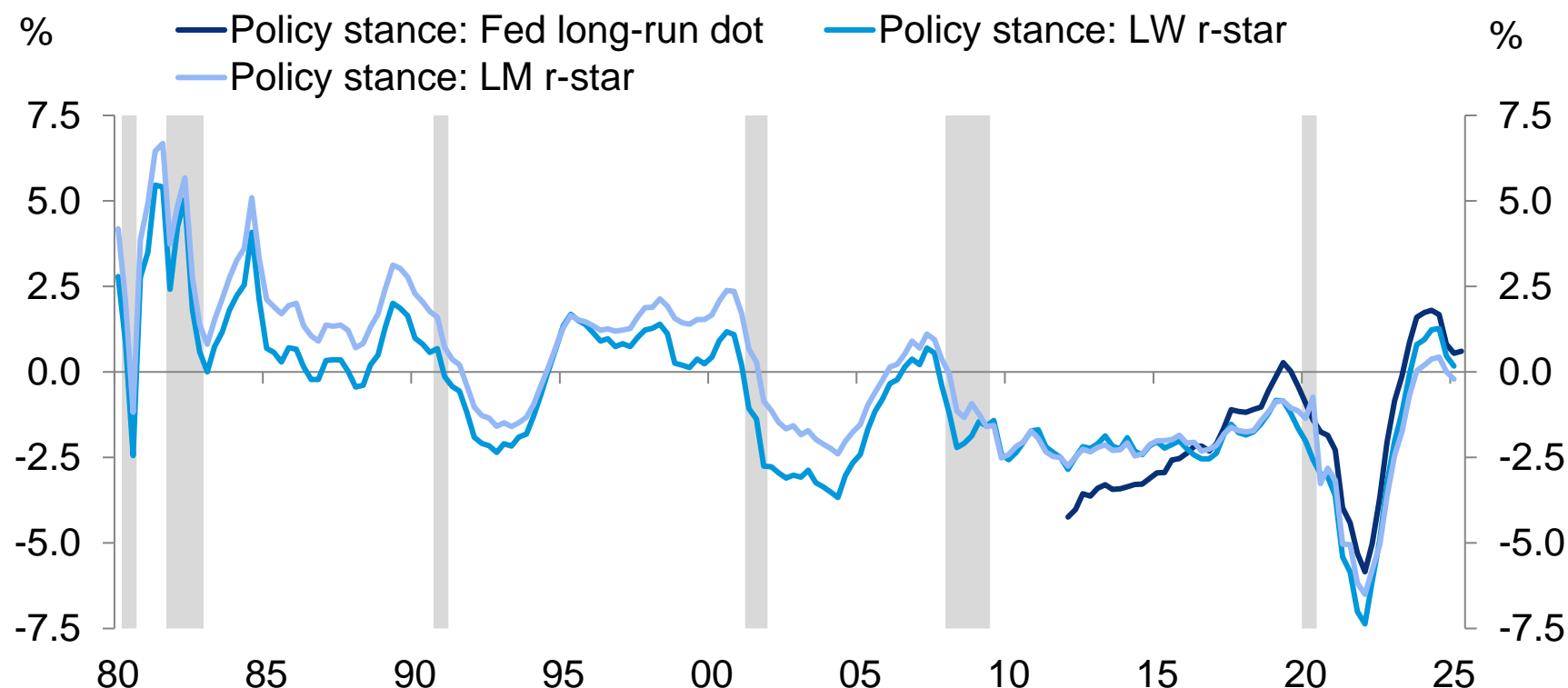


Source: FRB, BEA, BLS, Haver Analytics, Deutsche Bank



# How restrictive is policy? Depends on the measure of r-star

## Measures of policy stance

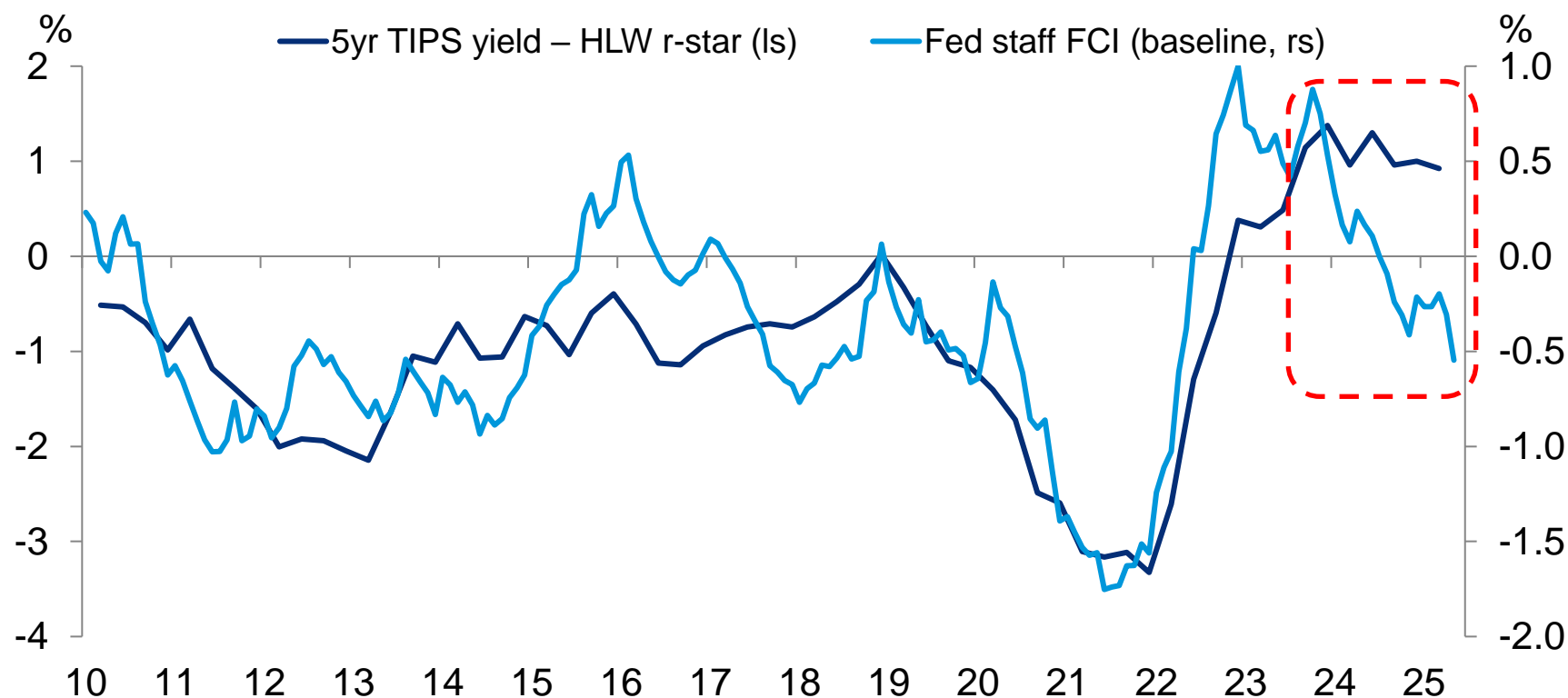


Note: Data series are intended to capture the degree of policy restraint and is measured as the nominal fed funds rate less core PCE inflation (%yoy) minus a measure of r-star. Source: FRB, BEA, FRBNY, FRB Richmond, Haver Analytics, Deutsche Bank



# Loose financial conditions indicate that R-star is likely higher

## Fed policy stance and FCI

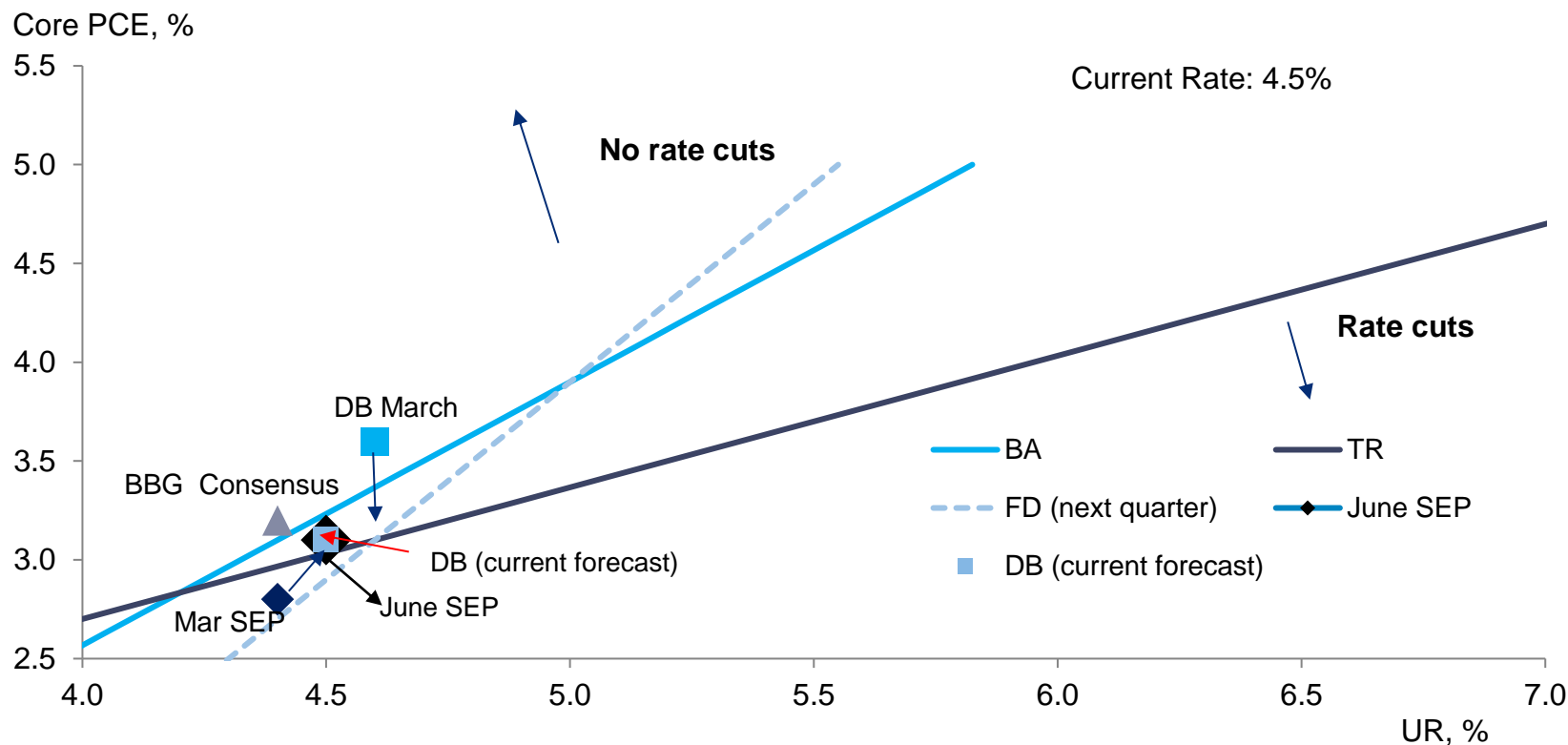


Source: FRB, Haver Analytics, Deutsche Bank



# Rate cut frontier: Combinations of inflation / unemployment consistent with cuts from policy rules

## Rate cut frontier

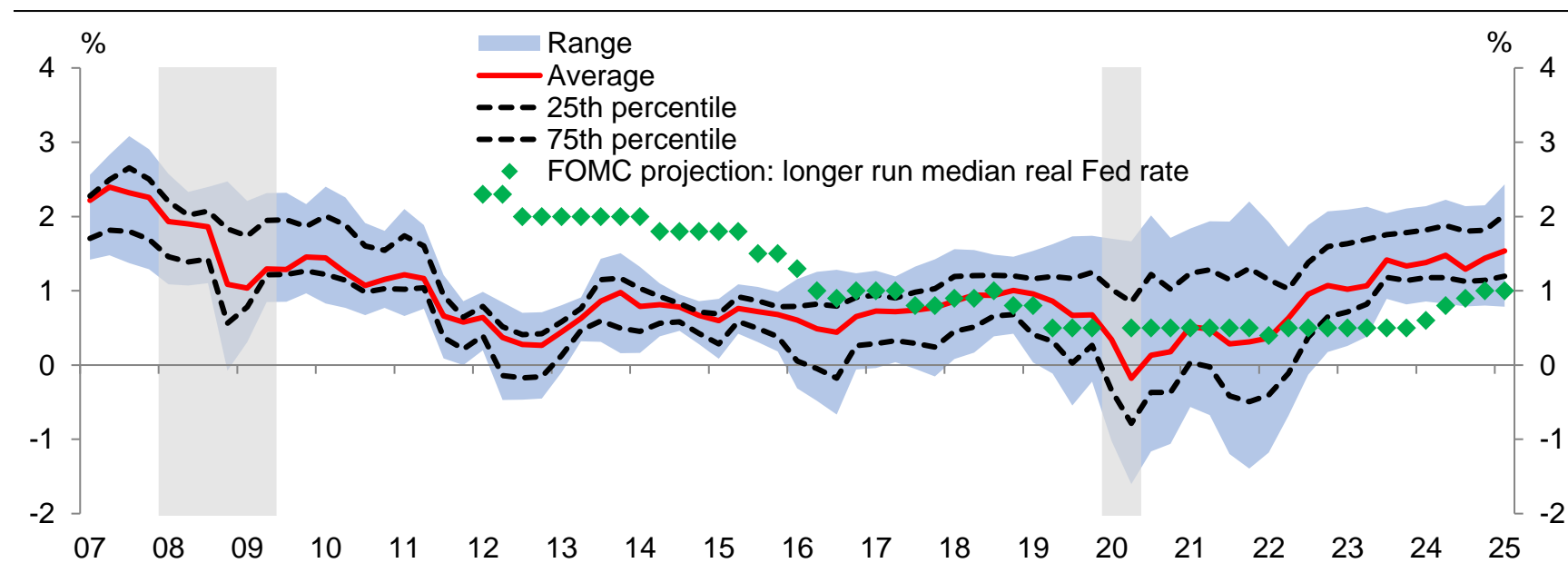


Source: Deutsche Bank



# Higher for longer? R-star estimates on average remain anchored in 1.5-1.75% range

## R-star estimates



Latest	LW	HLW	Lubik-Matthes	DB Macro (core PCE)	DKW model	High frequency	5y5y real OIS	5y5y TIPS	Bond-equity correlation	Average
Avg (2012-19)	1.11	0.91	1.06	0.83	0.42	0.59	0.12	0.70	0.55	0.70
Latest	1.37	0.78	1.76	2.28	1.30	1.62	1.52	2.41	1.87	1.66
Difference	0.26	-0.12	0.70	1.45	0.89	1.03	1.39	1.71	1.32	0.96

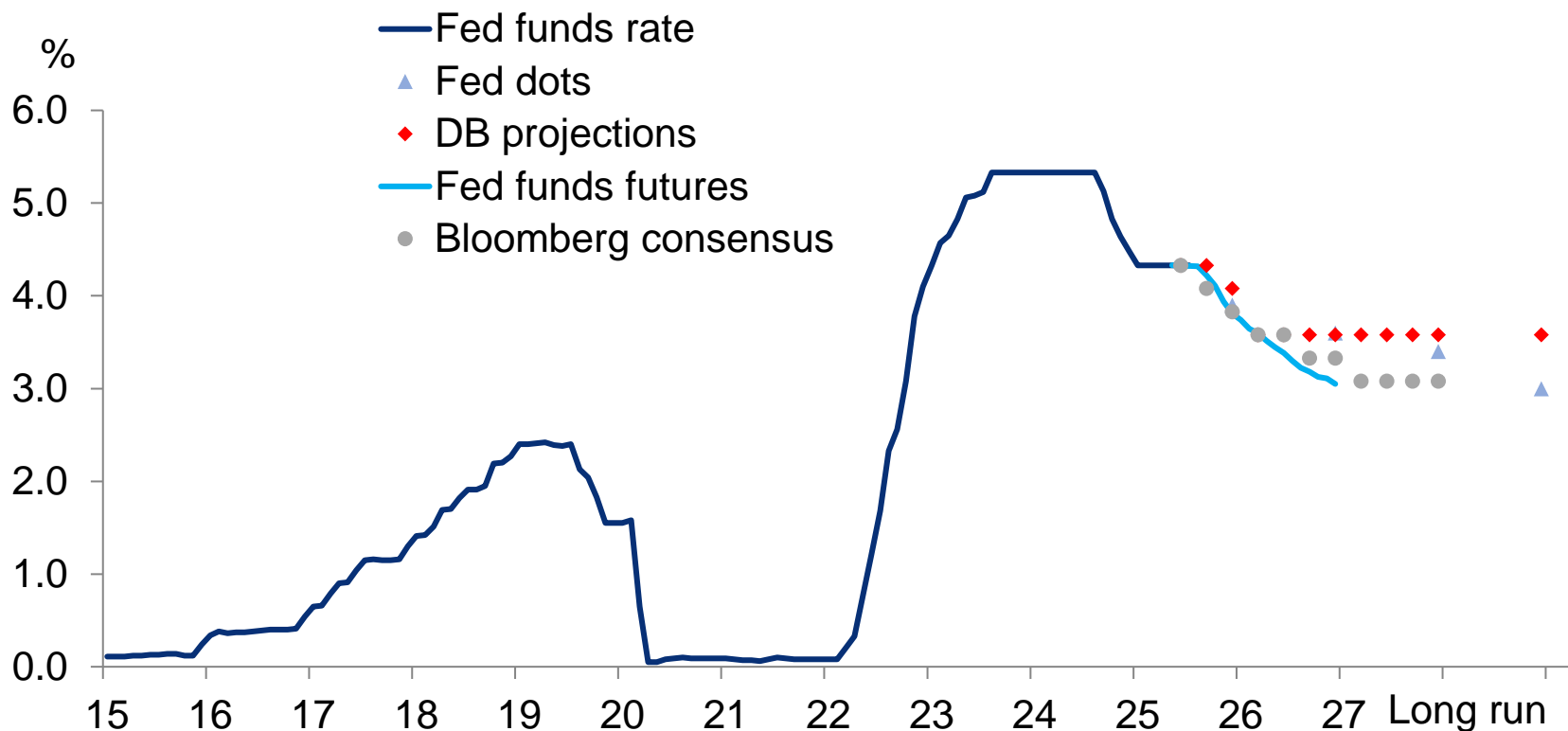
Source: FRBNY, Federal Reserve Board, Federal Reserve Bank of Richmond, Haver Analytics, Bloomberg Finance LP, Deutsche Bank





# DB Fed forecast versus alternatives – we are modestly more hawkish over the medium term

## Fed rate forecasts

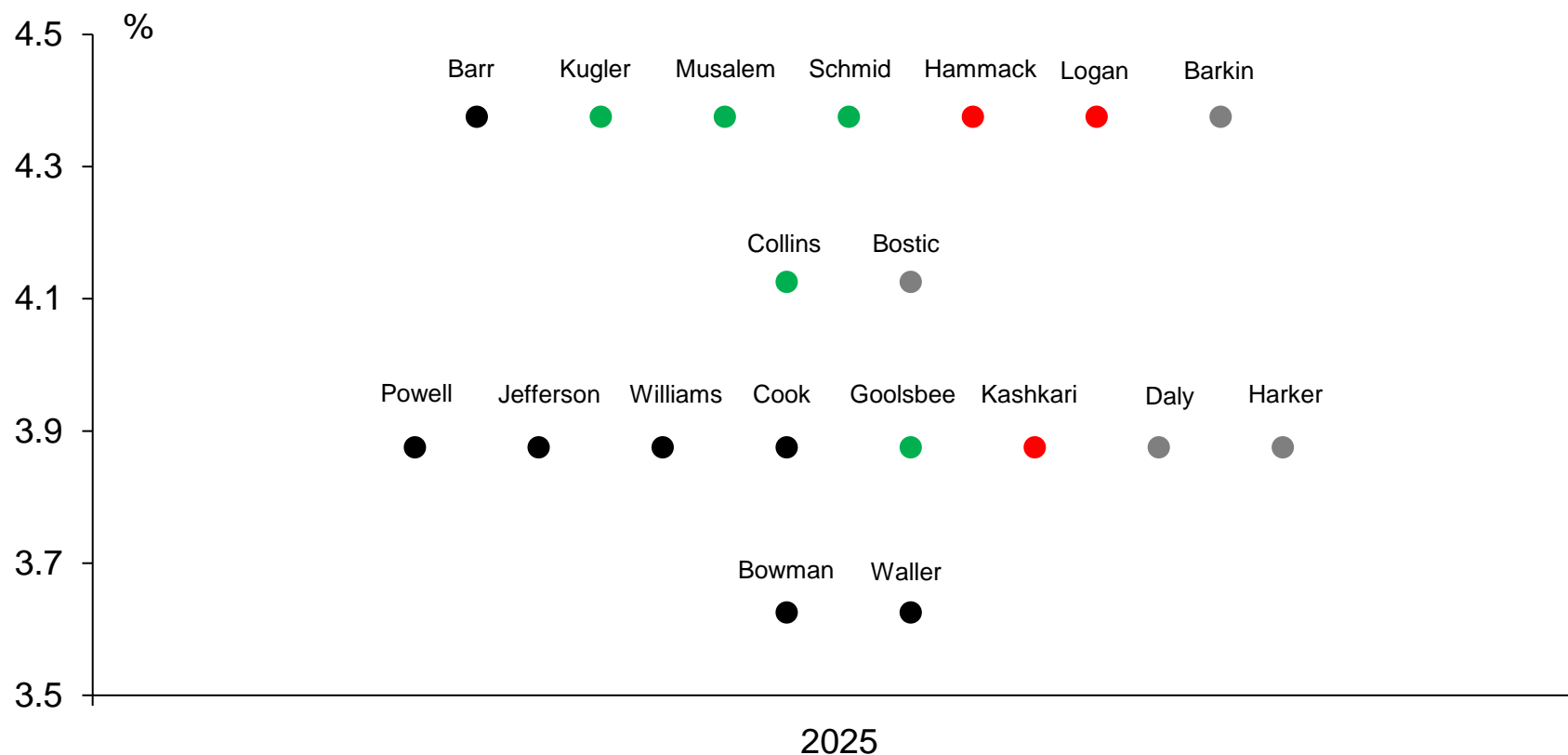


Source: FRB, Haver Analytics, Bloomberg Finance LP, Deutsche Bank



# DB identification of the 2025 dots in the June SEP

## 2025 dots from June SEP



Source: Deutsche Bank

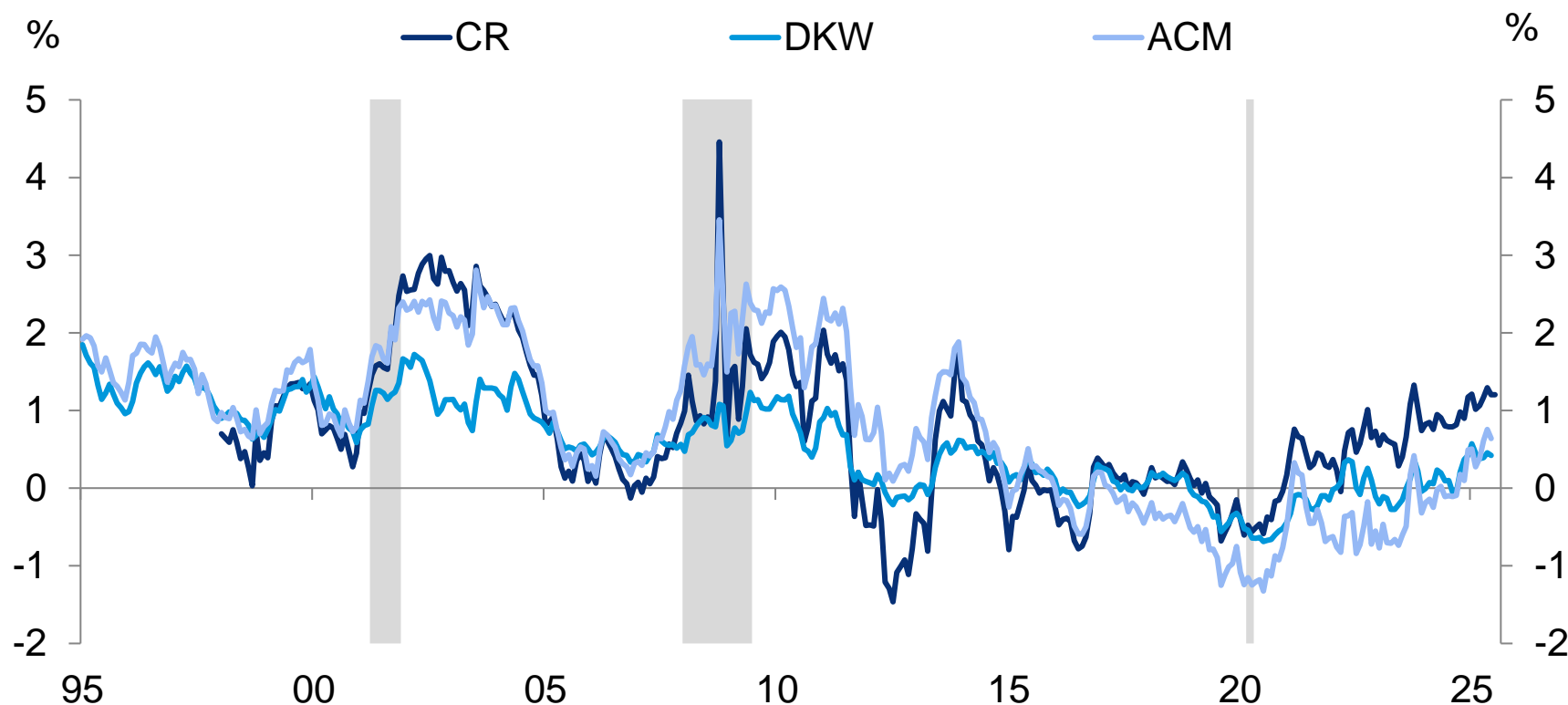


# US deficit: Sustaining the unsustainable



# Various measures of term premia have risen to highest levels in a decade

## 10-year term premium estimates

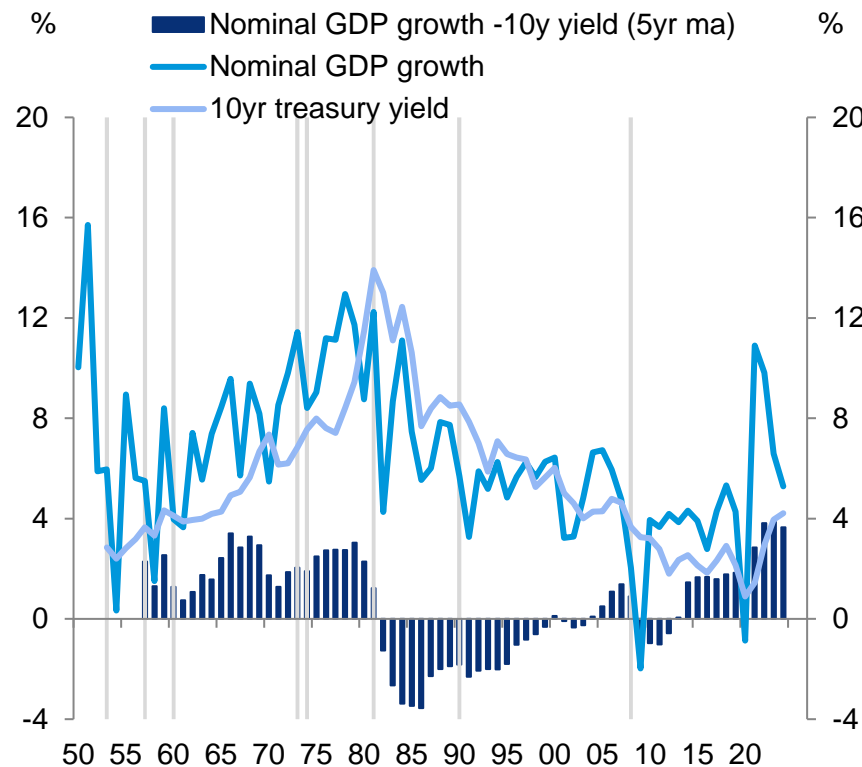


Source: FRBSF, Federal Reserve Board, FRBNY, Haver Analytics, Deutsche Bank

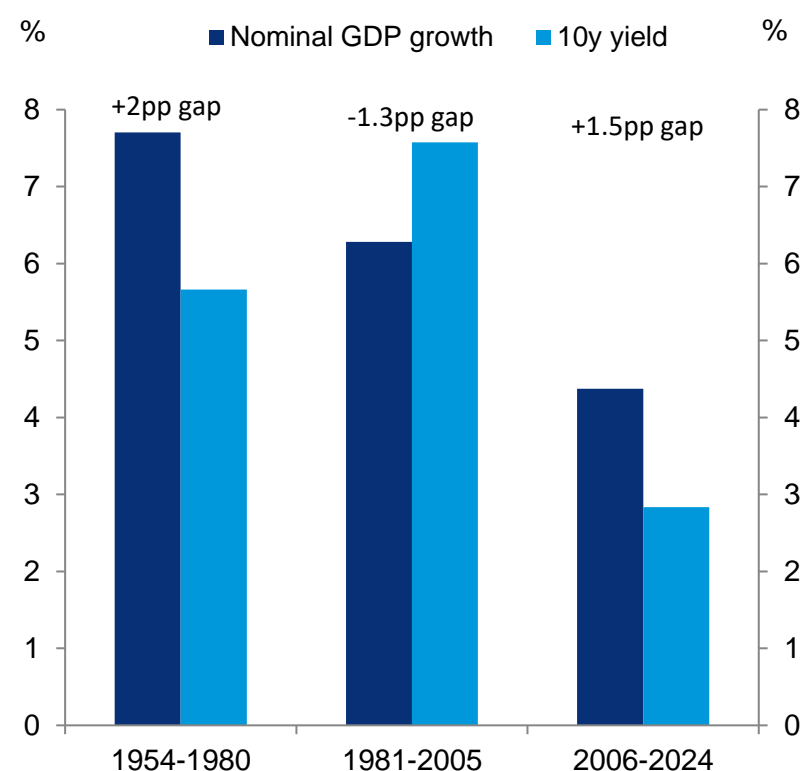


# For much of the past two decades, fiscal arithmetic has been pleasant ( $G > R$ ), but this could be changing

## G – R over time



## Three G – R regimes over the past 70 years

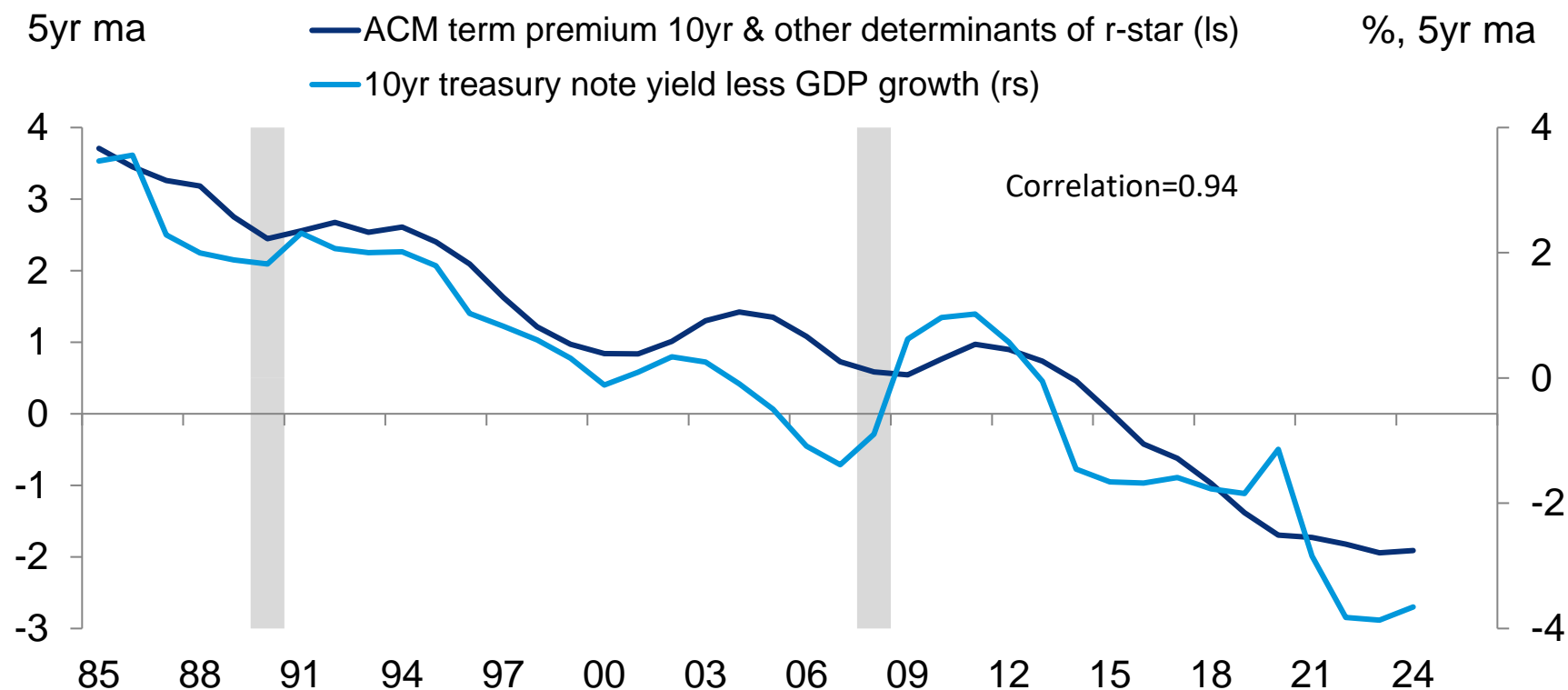


Source: FRB, BEA, Haver Analytics, Deutsche Bank



# “Dark matter” of yield curve is highly correlated with R-G, consistent with theory

## “Dark matter” versus R-G



Note: “Dark matter” of the yield curve refers to the term premium plus “other determinants” of r-star.

Source: FRBNY, Federal Reserve Board, BEA, Haver Analytics, Deutsche Bank



# The steady state level of the primary deficit consistent with debt stability has fallen as “dark matter” increased

	Term premium (%)	Other determinants of r-star (%)	Steady state primary budget deficit (%)
Current	0.60	-1.60	-1.2
March 2024	0.05	-1.93	-2.4
95-07 average	1.40	-0.40	1.2
Most favorable	-1.25	-1.93	-4.1

Note: Primary budget deficit is negative and surplus is positive. "Current" is data as of May 2025 for ACM 10y term premium and HLW r-star. "Most favorable" represents the record lows for term premium and other determinants

Source: Deutsche Bank



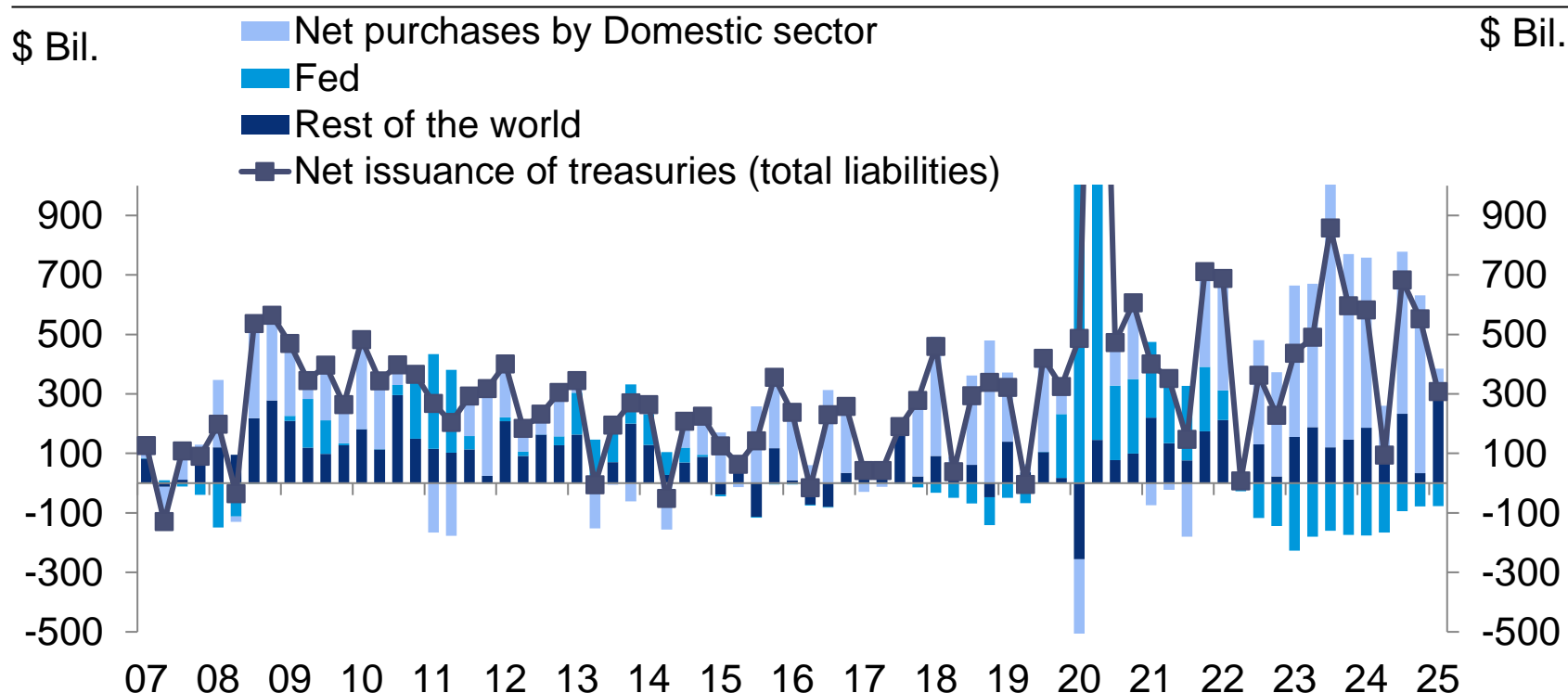
# Who is buying US Treasuries?





# Rest of world funded more of US deficit in Q1

## Transactions in US Treasury securities



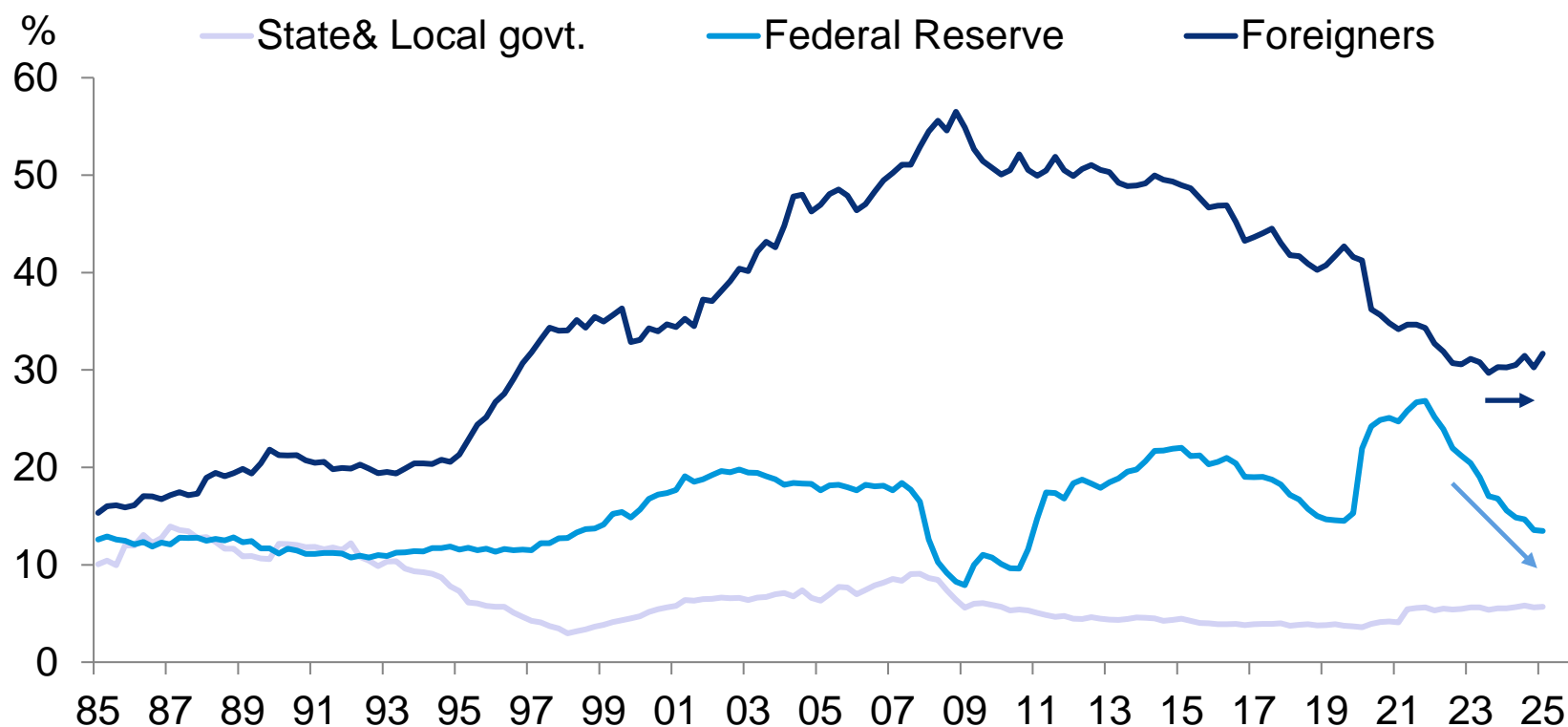
*Note: Domestic sector includes households, banks, pension funds, insurance, govt. retirement funds, mutual funds, GSEs and others.*

Source: FRB, Haver Analytics, Deutsche Bank



# Foreign investor share of Treasury securities has risen slightly

## Holdings of Treasuries as % of treasury debt outstanding

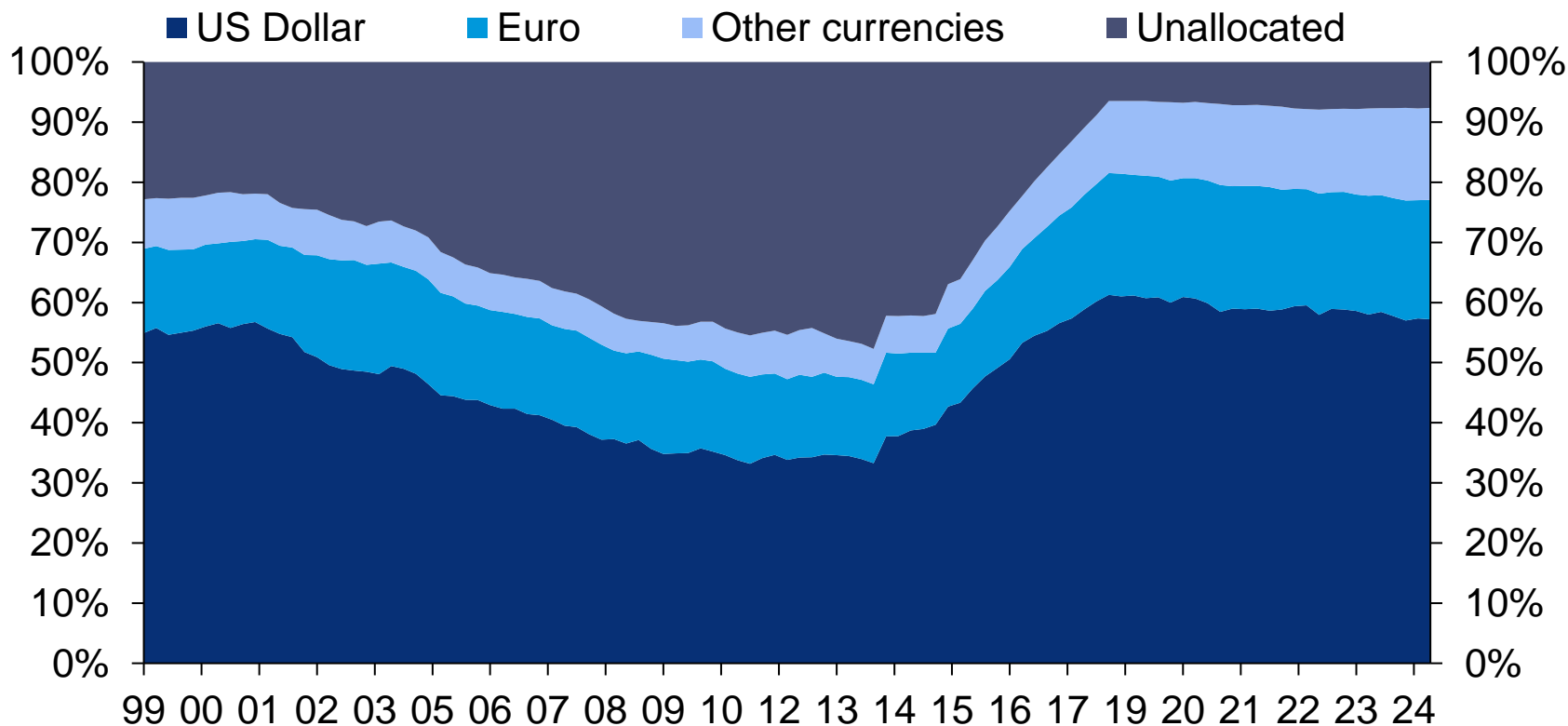


Source: FRB, Haver Analytics, Deutsche Bank



# Share of global FX reserves invested in USD assets very slowly moderating

## Reserves in different currencies

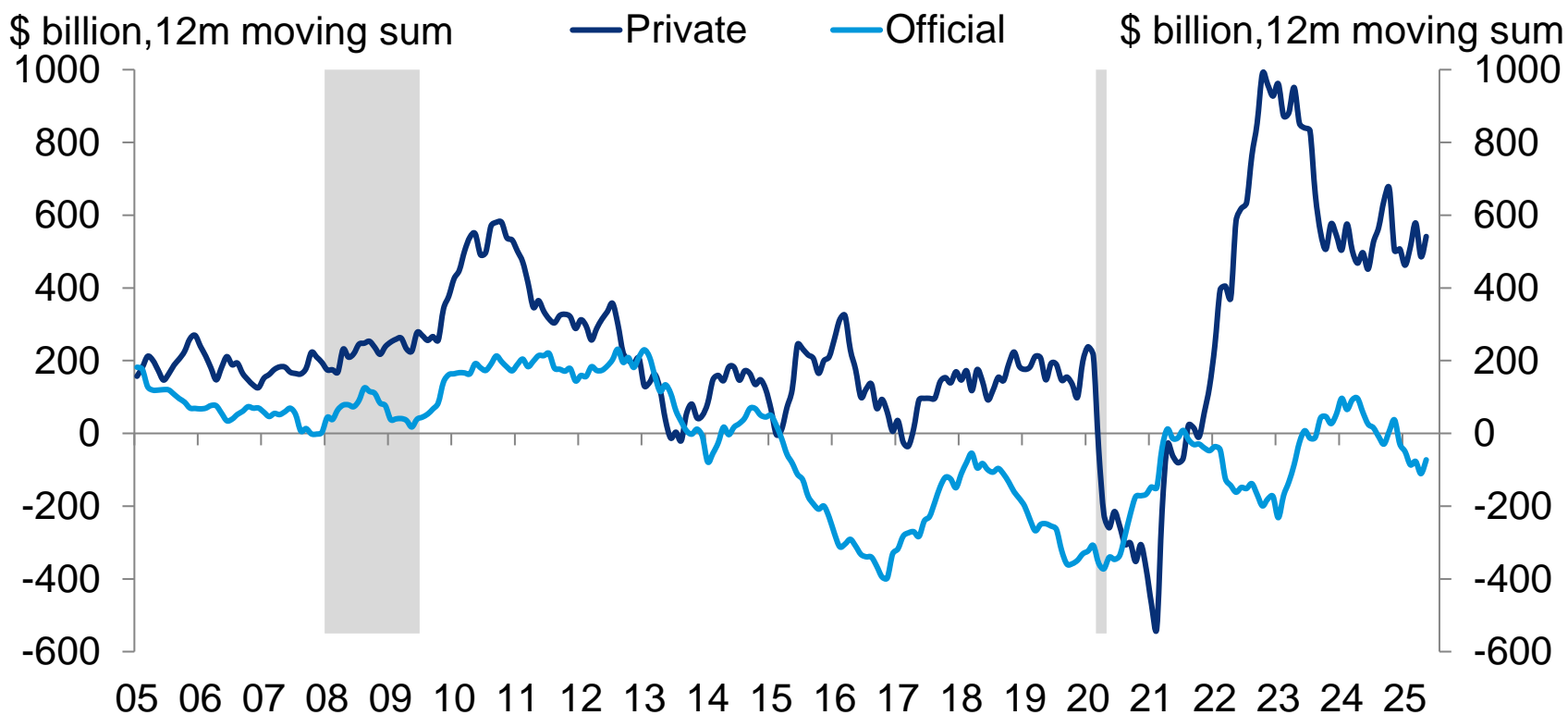


Source: IMF COFER, Haver Analytics, Deutsche Bank



# Overseas buying of Treasury securities driven by the foreign private sector

## Net foreign purchases: Treasury bonds and notes

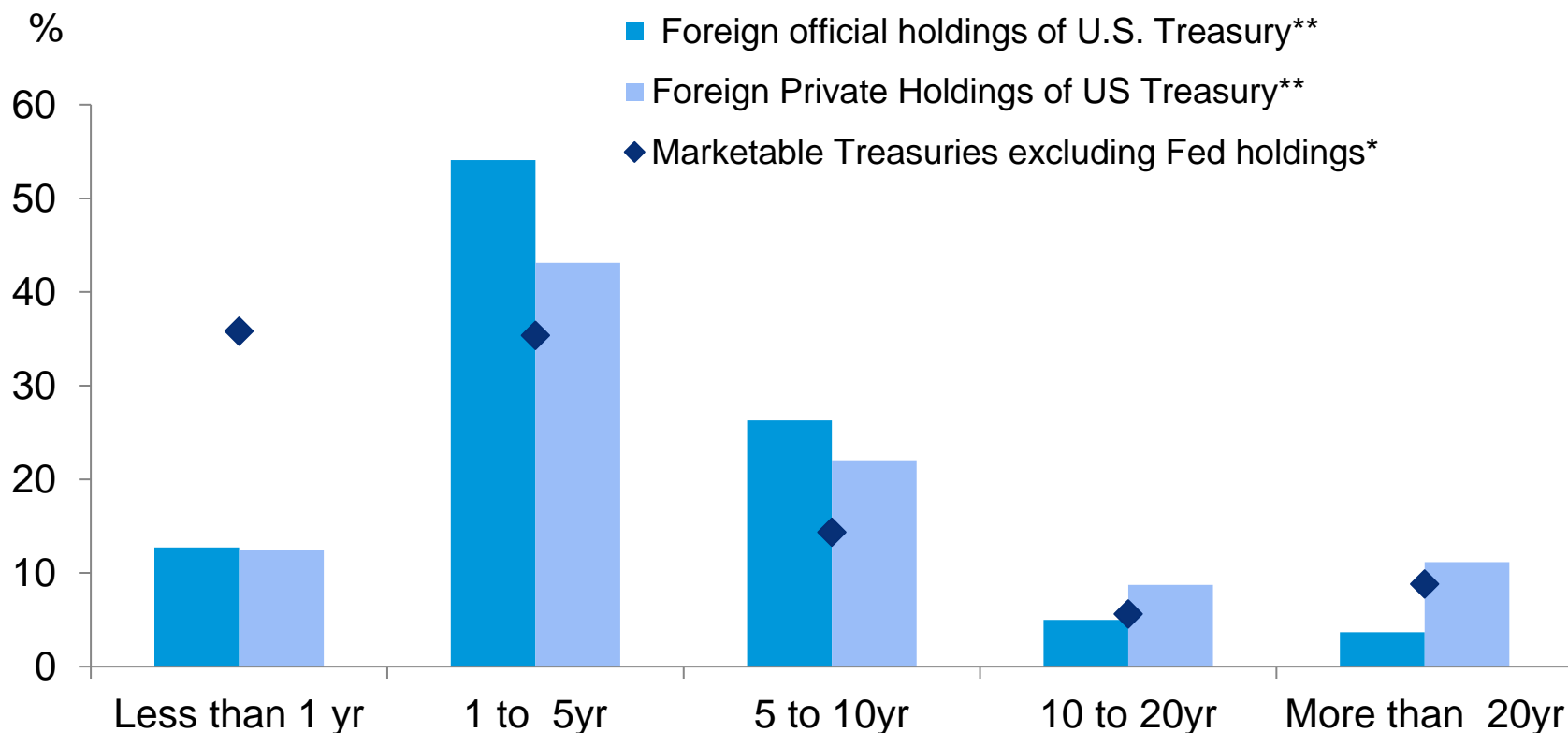


Source: Treasury, Haver Analytics, Deutsche Bank



# Foreign holdings of Treasuries concentrated in maturities from 1 to 5 years

## Maturity structure of debt



\*Data as of June 2024, \*\* Latest data available as of June 28,2024

Source: Department of the Treasury , Haver Analytics, Deutsche Bank



# DB US economic forecast summary

Economic Activity (% qoq, saar)	2025				2026				2027				2025F	2026F	2027F
	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	-0.5	3.0	1.1	1.3	1.7	1.8	2.2	2.4	2.2	2.4	2.1	2.2	1.2	2.0	2.2
Private consumption	0.5	1.4	1.4	1.5	1.6	1.7	1.9	2.1	2.1	2.2	2.1	2.2	1.2	1.8	2.1
Investment	23.8	-15.6	1.3	2.5	2.4	2.5	3.1	4.3	3.1	3.6	2.7	2.5	2.1	3.1	3.0
Nonresidential	10.3	1.9	0.8	0.9	1.2	2.2	2.5	2.4	2.8	2.9	3.3	3.2	3.4	2.1	3.0
Residential	-1.3	-4.6	-3.0	-3.0	-2.0	2.0	3.0	3.0	2.5	2.4	2.6	2.3	-3.0	1.5	2.4
Gov't consumption	-0.6	0.5	-0.7	-0.3	1.1	1.8	1.6	1.6	1.5	1.5	1.5	1.5	-0.3	1.6	1.5
Exports	0.4	-1.8	2.0	1.5	1.6	2.1	2.1	2.0	2.0	2.1	2.0	2.1	0.5	1.9	2.0
Imports	38.0	-30.3	2.5	2.1	1.7	1.9	1.7	1.9	2.1	2.0	1.9	2.0	0.2	1.8	2.0
Contribution (pp):															
Inventories	2.6	-3.2	0.1	0.4	0.3	0.1	0.1	0.3	0.1	0.2	-0.1	-0.1	0.0	0.0	0.1
Net trade	-4.6	5.0	-0.2	-0.2	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
Unemployment rate, %	4.1	4.2	4.4	4.5	4.5	4.5	4.4	4.4	4.4	4.3	4.3	4.3	4.5	4.4	4.3
<b>Prices (% yoy)</b>															
CPI	2.7	2.5	3.0	3.1	3.0	3.1	2.9	2.6	2.6	2.6	2.5	2.5	3.1	2.6	2.5
Core CPI	3.1	2.8	3.1	3.1	3.0	3.1	2.8	2.6	2.5	2.5	2.4	2.4	3.1	2.6	2.4
PCE	2.5	2.4	2.9	3.1	2.9	3.0	2.6	2.4	2.4	2.2	2.2	2.2	3.1	2.4	2.2
Core PCE	2.8	2.7	3.1	3.1	2.9	2.9	2.6	2.4	2.3	2.1	2.1	2.1	3.1	2.4	2.1
Fed Funds	4.375	4.375	4.375	4.125	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	4.125	3.625	3.625

Source: Deutsche Bank



Matthew Luzzetti  
212-250-6161  
[matthew.luzzetti@db.com](mailto:matthew.luzzetti@db.com)

Matthew Luzzetti is Chief US Economist and Head of US Economic Research at Deutsche Bank in New York. He was previously an economist in DB's Office of the Chief Economist in London. Matthew is a panelist for the US Monetary Policy Forum (USMPF) and Senior Vice President for the Forecasters Club of New York. His research has appeared in several books on economic policy and in refereed macroeconomics journals.

Matthew holds a Ph.D. in Economics from the University of California, Los Angeles. While at UCLA, he worked at the U.S. Department of the Treasury in the Office of Financial Research. Prior to graduate school, he spent two years as a research analyst in the macroeconomics department at the Federal Reserve Bank of Philadelphia.



# Appendix 1

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