

Powell vs. Waller & Weekend Links

Unless you're prone to hyperventilation over the President's public commentary on monetary policy, it's been a relatively drama-free few months for the Fed, with policy firmly and uncontroversially on hold.

Enter Governor Chris Waller, in what seems like a naked campaign for the Chairman's seat, to spice things up!

To be fair, Waller is correct when he points out that the position he enunciated on CNBC this morning broadly reflects things he's been saying since late 2023. I don't believe he's dramatically altered his outlook to curry favor with the President. But if you hold sincere views that the President is likely to find favor in, and you want the job, why not grab a megaphone?

There's no bigger megaphone in US markets than a 9 a.m. CNBC interview the day after an FOMC meeting, and when a sitting Governor uses it to directly rebut the previous day's comments from the Chairman, that's high drama in the buttoned-down world of central banking.

As we break down the debate, full disclosure: I side firmly with Waller on all points.

While Waller makes the case for "looking through" a tariff-driven pop in prices, Powell answered the first question of yesterday's presser by telling us that **rather than looking through resultant price increases, he's looking for them - with a microscope.**

COLBY SMITH. To what extent has the more limited impact from tariffs at this stage on inflation changed your view on what the ultimate economic fallout will be from these policies, and the timing of when they will materialize in the data?

*CHAIRPOWELL. So, we've had three months of favorable inflation readings since the high readings of January and February, and that's, of course, highly welcome news. Part of that just is that services, **core services**, both housing services and non-housing services, **have really been grinding down toward levels that are consistent with 2 percent inflation.** So that's the good news. We've had goods inflation just moving up a bit, and of course, we expect, as you point out, **we do expect to see more of that over the course of the summer. It takes some time for tariffs to work their way through the chain of distribution to the end consumer. A good example of that would be goods being sold at retailers today may have been imported several months ago, before tariffs were imposed. So, we're beginning to see some effects, and we do expect to see more of them over coming months. We do, we do also see price increases in some of the relevant categories like **personal computers and audiovisual equipment, things like that, that are attributable to tariff increases.**** In addition, we look at surveys of businesses and there are many of those*

and you do see a range of things, but many, many companies do expect to -- to put all or -- some or all of the effect of tariffs through to the next -- the next person in the chain, and ultimately to the consumer.

I perceived a different tone in Wednesday's presser. After a meeting at which the SEP, with its nearly 50:50 split between action and inaction, gave Powell a perfect excuse to play the two-handed economist, he seemed personally more invested in the hawkish narrative. Powell, the preternatural dove, didn't appear to be merely reflecting the committee's view. **He's personally joined the hawk camp.**

Nick Timiraous was the first of several questioners to wonder why the Board seemed to be discounting the recent favorable inflation readings. Data-dependence is out. "Setting policy to a forecast," even an unusually uncertain one, is in.

*CHAIR POWELL. **So if you just look backward at the data, that's what you would say, but that's not -- we have to be forward-looking, and the thing that every forecaster, every outside forecaster, and the Fed is saying is that we expect a meaningful amount of inflation to arrive in coming months, and we have to take that into account.** So, I think a backward-looking look would lead you to a neutral stance, but we can't -- we have to look at that and because the economy is still solid, we can take the time to actually see what's going to happen. It's -- there's a range of possibilities on how large the inflation effects and the other effects are going to be. So, we'll **make smarter and better decisions if we just wait a couple of months, or however long it takes to get a sense of really what is going to be the pass-through of inflation** and what's going to be the effects on spending and on hiring and all those things.*

Waller jumped on the opportunity to hoist Powell on his own "data dependence" petard.

*Waller: Right, so we've been on pause for six months, thinking that there was going to be a big tariff shock to inflation. We haven't seen it. We followed the data - that is what we do - we look at the data. And **we should be basing policy based on the data.** And as I said, if you look forward to - if you think this inflation's going to hit in August, in September - it doesn't matter. It's the same impact, it's just a matter of timing. And I've been arguing since a year ago that central banks should be looking through this, and this has been debated for 50 years in central banking, and the standard rule of thumb is you look through these types of price shocks, and that's what I think I'm arguing. That's what we should do, and so if that's the case, start moving on cutting the policy rate.*

To Waller's point, what exactly is it the Fed is waiting for – a possible (but by no means certain) pop in prices that the economic literature (and simple AS/AD logic) suggest they're supposed to be "looking through" anyway?

Powell and Waller also part ways on the labor market, and the root of the disagreement goes to the heart of how a central bank is supposed to address a supply shock.

ANDREW ACKERMAN. Thanks, Mr. Chairman. I guess with workplace raids increasing, picking up significantly, what kind of effect would that have on the labor market –

CHAIR POWELL. Sorry, what picking up?

ANDREW ACKERMAN. Workplace raids.

CHAIR POWELL. Ah. So you're asking immigration?

ANDREW ACKERMAN. Yeah.

CHAIR POWELL. I wouldn't want to speculate. One way to get at that from an economic standpoint, we of course don't comment on immigration policy, it's not ours to make or comment on, but what you see is an unemployment rate that has been really solid and at a low level, not really increasing. It's been in a good range and well within the range of mainstream estimates of maximum employment. And that means, like part of that is that labor demand and labor supply are kind of moving down at the same rate. Labor demand is softening, you see that in job creation, but it's still kind of at a healthy level. And labor supply is diminishing because the immigration numbers that we see are much lower than they were. So there's two factors, supply and demand, that's what has kept the unemployment rate in a reasonably stable place.

Powell, is assessing the labor market on the basis of “slack,” which is a concept of supply relative to demand. This is a reasonable approach in a normal economic environment in which the supply side is relatively stable and the Fed is trying to manage volatility in demand.

If labor supply is stable, targeting slack is functionally equivalent to trying to equilibrate labor demand at price-stable levels.

However, in the context of a reduction of labor supply, targeting unchanged slack is functionally equivalent to trying to engineer a reduction in labor demand. While this is the proper response if the inflation target is deemed to be paramount *even in the short term*, the economic logic of exacerbating a supply shock with a demand shock is clear: a sharp decline in real output.

The reaction function that minimizes the loss of economic welfare in the face of a supply shock is to allow inflation to overshoot in the short term by maintaining nominal demand growth at steady levels. **Measures of labor market slack should be allowed to tighten moderately** in this environment.

Waller, more appropriately, is focused on signs of softening labor demand, despite what he acknowledges is steady slack.

Liesman: Do you have concerns now for the labor market?

Waller: Yeah, I'm watching it. I mean it's solid it's it's been kind of amazing, the unemployment rate has stayed right around 4.2 to 4.3 for a year, just hardly moving. But we are starting to see things like if you look at - there was a story in the Wall Street Journal earlier this week that the unemployment rate for new graduates is at a 20 or 25-year high. College graduates are not finding jobs - their unemployment rate is 7%. Pre-pandemic it was 5. So it's that kind of data that's starting to make me a little worried. We're seeing job creation coming down, we're seeing a lot of things like you just said with the Philly Fed that are suggesting that maybe the labor markets starting to soften more than we might want it to. And so in my view, if you're starting to worry about the downside risk to the labor market move now, don't wait. People love to talk about long and variable lags - why do we want to wait until we actually see it crash before we start cutting rates? So I'm all in favor of saying maybe we should start thinking about cutting the policy rate at the next meeting because we don't want to wait till the job market tanks before we start cutting the policy rate.

In the presence of what are clear supply shocks hitting the economy, one a direct blow to labor force growth, the central bank's focus should move off of "slack" variables towards a clearer focus on labor demand. To the extent the Fed remains comfortable with labor demand and labor supply declining in train (as the May household employment survey tentatively suggested), they're on course for a policy error.

Powell seems oblivious...

EDWARD LAWRENCE. So, are you indicating here that Americans should expect some sort of economic pain in the second half of the year?

CHAIR POWELL. I'm not, I'm not saying that at all. From our standpoint, what I can say is that the U.S. economy is in solid shape, inflation has come down, the unemployment rate remains at 4.2 percent, as I mentioned, real wages are moving up, it's a good -- job creation is at a healthy level, unemployment again, as I said, low. Labor force participation is at a good place. What we're waiting for to reduce rates is to understand

what will happen with, really the tariff inflation. And there's a lot of uncertainty about that, ...everyone that I know is forecasting a meaningful increase in inflation in coming months from tariffs, because someone has to pay for the tariffs... And some of it will fall on the end consumer. So we know that's coming. And we just want to see -- see a little bit of that before we make judgments prematurely.

To Waller's point, what the heck are they waiting for – some tariff passthrough that Powell acknowledges is already expected by just about everyone? No, he's waiting for something bad to happen – either in the form of a clear break in the labor market or the kind of sharp decline in inflation expectations that would be likely in a hard “risk-off” environment.

I don't know if Waller is actively running for the job of Fed Chair, but if he is, he made a decent case today. Given the lack of credible, Trump-favored candidates outside of the Treasury Secretary, who is indispensable in his current role, Waller probably has a shot at the job.

And as far as Fed drama goes, could there be anything more delicious than installing a shadow Fed chair *on the board*?

On to the links...

US-China relations and global trade

A Reuters report on the London meetings suggests that US-China trade relations may be in a holding pattern beyond the current August 10th “deadline.”

Exclusive: US-China trade truce leaves military-use rare earth issue unresolved, sources say

U.S. officials also signaled they are looking to extend existing tariffs on China for a further 90 days beyond the August 10 deadline agreed in Geneva last month, both sources said, suggesting a more permanent trade deal between the world's two largest economies is unlikely before then.

Yet, relations remain contentious. The rare earth licenses don't seem to be getting approval “right away,” as Commerce Secretary Lutnick told us was agreed to in London, and the US still feels the need to issue veiled chip-control threats in response.

Trump Pledge of Quick China Magnet Flows Has Yet to Materialize

While there has been a trickle of required permits, many American firms that need Chinese minerals are still waiting on Beijing's approval for shipments, according to people familiar with the process. China's system is improving but remains cumbersome, they said, contrary to Trump's assurances rare earths would flow "up front" after a June 11 accord struck in London.

China's Ministry of Commerce, which administers export licenses, hasn't responded to Bloomberg's questions on how many for rare earths have been granted since the London talks. At a regular briefing in Beijing on Thursday, spokesperson He Yadong said Beijing was "accelerating" its process and had given the go-ahead to a "certain number of compliant applications."

Exclusive | U.S. Prepares Action Targeting Allies' Chip Plants in China

Currently, South Korea's Samsung Electronics and SK Hynix, as well as Taiwan Semiconductor Manufacturing, enjoy blanket waivers that allow them to ship American chip-making equipment to their factories in China without applying for a separate license each time.

Jeffrey Kessler, head of the Commerce Department unit in charge of export controls, told the three companies this week he wanted to cancel those waivers, according to people familiar with the meetings. They said Kessler described the action as part of the Trump administration's crackdown on critical U.S. technology going to China.

If carried out, the move could be disruptive both diplomatically and economically.

"Chip makers will still be able to operate in China. The new enforcement mechanisms on chips mirror licensing requirements that apply to other semiconductor companies that export to China and ensure the United States has an equal and reciprocal process," a Commerce Department spokesman said.

President Trump continues to bark at the EU. Is he just pressuring them to get on board with the strategic decoupling policy? Or is he preparing to hit the EU for their trade indiscretions? Or some combination of the two?

Trump blasts EU over 'unfair' trade offer

U.S. President Donald Trump criticized the European Union for not proposing a favorable trade deal to Washington — within hours of his first formal meeting with European Commission President Ursula von der Leyen.

"We're talking, but I don't feel that they're offering a fair deal yet," Trump told reporters aboard Air Force One, after leaving the G7 Summit in Canada early on Monday.

"They're either going to make a good deal, or they'll just pay whatever we say they have to pay," he said. He reiterated his long-standing belief that the bloc was created to "hurt the United States on trade."

European Commission President von der Leyen made a strong appeal to President Trump at G7: "Lay off us on trade and we're all in on the strategic decoupling stuff!"

'A new China shock': von der Leyen revives hard line on Beijing at G7 summit

"On this point, Donald is right – there is a serious problem," von der Leyen said at a round-table leaders' meeting.

"But we strongly feel that the biggest challenges are not the trade between G7 partners. Rather, the sources of the biggest collective problem we have has its origins in the accession of China to the WTO in 2001."

"While [others] opened their market, China focused [on] undercutting intellectual property protections, [with] massive subsidies with the aim to dominate global manufacturing and supply chains. This is not market competition – it is distortion with intent. And it undermines our manufacturing sectors."

Statement by President von der Leyen at Session II - working lunch of the G7, \"Economic growth, security and resilience\"

Second, we need to take a closer look at other key sectors where distortions are the biggest.

Take steel.

We all take measures to address this.

But we could maximize their impact with more coordination among us.

This is why we are interested in creating a metals club.

The same goes for pharma.

Finally, we need to act together on non-market policies and practices.

Let us jointly monitor what is happening in a few specific sectors and technologies to coordinate policies and tools.

A common G7 response increases our leverage – pressuring China to take more responsibility for the impact of its state-led growth model

That's literally the strategic decoupling playbook.

Meanwhile, the EU also scuttled the "EU-China High-Level Economic and Trade Dialogue," because what's the point?

EU spurns economic dialogue with China over deepening trade rift

"China would like to have it [the economic dialogue], but we are seeing no progress in all of our talks," one of the people said. The bloc would hold the meeting only if there were agreements at the summit to implement, said a senior EU official who requested anonymity.

US-Japan talks are proving more contentious than hoped and the chatter (unconfirmed) is that the hang-up is US demands that Japan lessen supply-chain dependencies on China...

Japan's Ishiba departs G7 with US trade deal and political future in doubt

"Despite our persistent efforts to find common ground through serious discussions, yesterday's meeting with President Trump confirmed that we still have discrepancies in our understanding," Ishiba told reporters on Tuesday before his departure from Canada.

Trump earlier told reporters aboard Air Force One that "there was a chance of a deal," but appeared in little mood to cede ground. "Ultimately, you have to understand we're just going to send a letter saying this is what you're going to pay, otherwise you don't have to do business with us," he said.

Publicly, Ishiba's government has said it aims to win total exemption from Trump's auto tariffs, but behind the scenes, its negotiators had been trying to convince Washington to knock them down to around 10%, the sources said, requesting anonymity due to the sensitivity of the matter.

Trump's trade deal with Britain, where he agreed to allow a quota of cars to be subject to a lower 10% levy has provided somewhat of a template, although Japan is a far larger exporter of cars to the United States.

Ultimately, US trade partners aren't going to have much choice in joining in the strategic decoupling, unless they want to see their domestic manufacturing wiped out...

China Is Unleashing a New Export Shock on the World

*As President Trump's tariffs start to shut China out of the United States, its biggest market, Chinese factories are sending their toys, cars, and shoes to other countries at a pace that is **reshaping economies and geopolitics**.*

Even while making more advanced products, Chinese manufacturers doubled down on making tchotchkes, the kinds of cheaper things that China excelled at making two decades ago.

China has made 45 percent more electric vehicles this year, even as Chinese companies are engaged in a vicious price war at home because of flagging consumer appetite. Exports of electric vehicles have soared 64.6 percent this year, according to the Chinese Association of Automobile Manufacturers.

Countries that have borne the brunt of the jump in Chinese imports have also seen sharp declines in their own manufacturing, leading to job losses and bankruptcies.

In Indonesia, garment factories are closing, citing their inability to compete with cheaper clothes from China. Some 250,000 people lost their jobs in the garment industry in 2023 and 2024, said Redma Gita Wirawasta, the chairman of the Indonesian Filament Yarn and Fiber Producers Association.

Thai auto parts manufacturers have shut down because of Chinese electric vehicles.

Even those nations with a friendlier disposition towards China will have little choice but to defend themselves...

China floods Brazil with cheap EVs triggering backlash

Brazilian auto-industry officials and labor leaders worry that the vast influx of cars from BYD and other Chinese automakers will set back domestic auto production and hurt jobs.

BYD, the world's top producer of electric and plug-in hybrid cars, is the largest among several Chinese brands targeting Brazil for growth. China-built vehicle imports are expected to grow nearly 40% this year, to about 200,000, according to Brazil's main auto association. That would account for roughly 8% of total light-vehicle registrations.

Industry and labor groups say China is taking advantage of Brazil's temporarily low tariff barriers to ramp up its exports rather than investing to build Brazilian factories and create jobs. They are lobbying Brazil's government to accelerate by a year a plan to increase Brazil's tariff on all EV imports to 35% from 10%, rather than gradually phasing in higher levies.

The US Slowdown

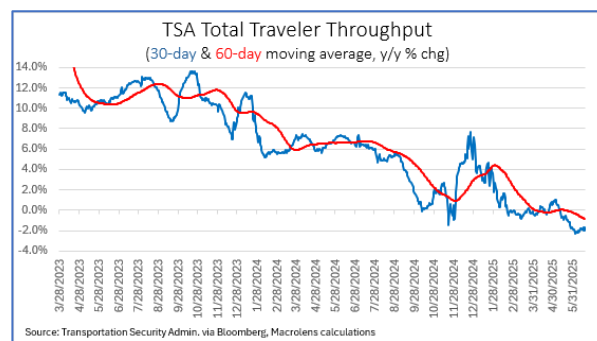
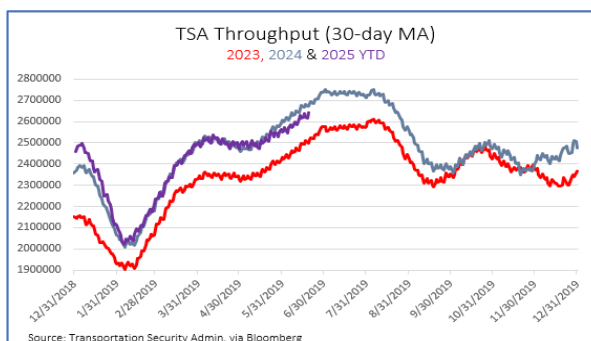
Despite strangely robust restaurant sales in March and April (May softened), I maintain the view that the air is continuing to come out of the balloon in terms of experiential spending. Hotels have been soft and summer concert tickets are on sale...

Concert Ticket Prices Are Falling For the First Time in Years

The average price of the top 100 tours in the world has slipped by about 6% from last year, according to Pollstar. That's the most since 2012. Pollstar said the prices reflect "2025's uneven economic conditions marred by trade wars, a volatile stock market, shaky consumer confidence, inflation and mixed employment reports."

Going to a concert is still a lot more expensive than it used to be. The average cost to see one of the top 100 tours so far this year is \$120, up almost 70% from 2010. Yet concert promoters and ticket sellers have noticed the downward trend, and they are trying to suss out if this is just a temporary dip, a response to the aforementioned economic uncertainty, or something else.

And TSA throughput has been running negative year-on-year for the past two months now.



Housing is rolling over...

Builder Sentiment at Third Lowest Reading Since 2012

Builder confidence in the market for newly built single-family homes was 32 in June, down two points from May, according to the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) released today. The index has only posted a lower reading twice since 2012 – in December 2022 when it hit 31 and in April 2020 at the start of the pandemic when it plunged more than 40 points to 30.

“Buyers are increasingly moving to the sidelines due to elevated mortgage rates and tariff and economic uncertainty,” said NAHB Chairman Buddy Hughes, a home builder and developer from Lexington, N.C. “To help address affordability concerns and bring hesitant buyers off the fence, a growing number of builders are moving to cut prices.”

Indeed, the latest HMI survey also revealed that 37% of builders reported cutting prices in June, the highest percentage since NAHB began tracking this figure on a monthly basis in 2022. This compares with 34% of builders who reported cutting prices in May and 29% in April. Meanwhile, the average price reduction was 5% in June, the same as it’s been every month since last November. The use of sales incentives was 62% in June, up one percentage point from May.

As for prices, while I doubt exporters can absorb this much of the tariffs indefinitely, this was an eye-opener...

Japan auto export prices to US fall 20% as Trump tariffs hit

Export prices of Japanese vehicles bound for the U.S. in May fell 20% per unit on the year, according to figures released Wednesday, as automakers appear to largely be absorbing costs from President Donald Trump's tariffs to maintain prices in the market.

And after gorging on TACOs, the market has fallen into a slumber, oblivious to the tariff onslaught to come. Irrespective of the IEEPA lawsuits, the 232 tariffs have increasingly wide tentacles...

Trump Flexes Security Powers to Keep Global Tariff Goal Alive

The US Commerce Department is set within weeks to announce the outcomes of its investigations into sectors deemed vital to national security, including semiconductors,

pharmaceuticals, and critical minerals. The probes are widely expected to result in levies on a range of foreign-made products in those industries.

*President Donald Trump is already using that authority, under Section 232 of the Trade Expansion Act, to impose import taxes on steel and aluminum he launched in 2018. Recently, **he's widened the scope by targeting consumer goods that contain the metals.***

The latest example of Trump's wider targeting under his 232 powers came last week when the Commerce Department announced that 50% duties on steel and aluminum products would be expanded to cover home appliances, including dishwashers, dryers, and washing machines. All of those items are deemed vital to national security under the law Trump invoked to impose duties.

Nazak Nikakhtar, a partner at Wiley Rein and former senior Commerce official during Trump's first term, said the 232 measures are shaping up to amount to "something close to global tariffs."

"These 232 actions are very likely going to result in import restrictions on almost every good entering the US, and the size and scale of these restrictions will be so massive because China's distortion has been so massive," she added.

China Economy & Finance

They tell us they're growing at 5%, yet imports are flat on 2.5 years ago. Although to be fair, it sounds like that's also a function of discrete policies to reduce import dependencies... Almost as if they're preparing for something that curtails their ability to import...

Trade With China Is Becoming a One-Way Street

Whether for cars, chemicals, or commodities, Chinese demand for many of the exports other countries produce is flat or falling, even as its economy reports modest growth of around 5% a year.

*In volume terms, which adjust for the effect of exchange rates, **Chinese imports through March haven't grown at all since the end of 2022**—while exports have rocketed 33% higher, according to data from the Netherlands Bureau of Economic Policy Analysis, a Dutch research institute.*

Chinese companies say they are replacing overseas suppliers with China-based ones to "localize" their supply chains and push out imports—a trend given extra impetus by the

trade conflict with the U.S. State-owned companies in some sectors have been ordered to replace foreign software in their IT systems by 2027, an initiative some refer to as “Delete A,” referring to Delete America.

Companies in the U.S., Europe, and Japan say they are also seeing Chinese demand for their products wither as they battle intensifying competition from deep-pocketed Chinese rivals, many of whom are cutting prices aggressively in China in a battle for market share.

The German medical technology company Drägerwerk said sales of its ventilators and other medical products in China fell by half in 2024 compared with 2023, hurt by what it said were “buy local” policies by Chinese hospitals. The

They tell us China is growing at 5%, yet government revenues are declining...

China's January-to-May fiscal revenue falls 0.3%

China's fiscal revenue declined by 0.3% in the first five months of 2025 from a year earlier, finance ministry data showed on Friday, as global trade uncertainty intensified by U.S. tariffs weighed on the economy.

Tax revenue fell 1.6% in the January-May period from the previous year and non-tax revenue grew 6.2%.

Friday's data also showed revenue from land sales by China's local governments remained subdued and maintained a double-digit year-on-year contraction of 11.9% in the first five months, reflecting the extent of the property downturn.

They tell us they're growing at 5%, yet local governments are so far behind in paying contractors that the central government had to give them a special bond quota to start cleaning up their arrears...

地方政府新增专项债用途再扩大 用于清偿拖欠企业账款、存量PPP项目建设

Amid growing fiscal pressure, local governments have broadened the scope of newly issued special bonds—which were initially restricted to new project financing. In recent years, they have been allowed to supplement government-run funds and support debt resolution. Recently, their authorized uses have been extended to include repaying overdue payments to enterprises and financing existing PPP projects.

They tell us they're growing at 5%... You get the point.

China 'stepping in' as property concerns mount, but no 'treading the old path'

The meeting underscored the need to "further optimize existing policies and enhance systematic synergy of implementation" to stabilize expectations, stimulate demand, and mitigate risks, the state's Xinhua reported.

Specifically, there will be a thorough stocktake of ongoing projects and land supplies, and urban-renewal projects will receive more land supply and financing aid.

Once again, the meeting stated that the ultimate goal is to "halt the decline and stabilize the sector".