

# BEHIND THE HEADLINES

with Ronald Temple, Chief Market Strategist

5 September 2025

## The Headlines

- United States: Job openings declined more than expected. Nonfarm payroll growth for August fell short of expectations at 22,000 while the previous two months' results were revised downward. The unemployment rate rose slightly to 4.324% from 4.248%. While the third decimal might seem overly precise, the point is that the increase in unemployment was very small. The International Emergency Economic Powers Act (IEEPA) was judged an illegal basis for tariffs.
- China: Purchasing Managers' Index (PMI) data improved marginally.
- Eurozone: Preliminary August inflation figures were largely in line with expectations but demonstrate progress on reaching the European Central Bank's (ECB) 2% target.
- United Kingdom: July retail sales beat expectations but prior months' data were revised downward.
- Looking ahead, next week's headlines will include US Consumer Price Index (CPI) inflation, Chinese inflation data, and the ECB's decision regarding interest rates. Political news will also be important as Japan's Liberal Democratic Party (LDP) decides whether to have a presidential election and France's parliament determines whether the current government will fall.

### The Two Weeks Behind

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	Headline PCE Inflation	29 August	July	m-o-m	0.2%	0.2%	0.3%
	Headline PCE Inflation	29 August	July	y-o-y	2.6%	2.6%	2.6%
	Core PCE Inflation	29 August	July	m-o-m	0.3%	0.3%	0.3%
	Core PCE Inflation	29 August	July	y-o-y	2.9%	2.9%	2.8%
	Nonfarm Payroll Growth	5 September	August	m-o-m	75k	22k	79k
	Unemployment Rate	5 September	August	Level	4.3%	4.3%	4.2%
China	NBS Manufacturing PMI	30 August	August	Level	49.5	49.4	49.3
	NBS Non-Manufacturing PMI	30 August	August	Level	50.2	50.3	50.1

### The Week Ahead

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	Headline CPI Inflation	11 September	August	y-o-y	2.9%		2.7%
	Headline CPI Inflation	11 September	August	m-o-m	0.3%		0.2%
	Core CPI Inflation	11 September	August	y-o-y	3.1%		3.1%
	Core CPI Inflation	11 September	August	m-o-m	0.3%		0.3%
China	CPI Inflation	9 September	August	y-o-y	-0.2%		0.0%
	PPI Inflation	9 September	August	y-o-y	-2.9%		-3.6%
Eurozone	ECB Deposit Rate	11 September		Level	2.00%		2.00%

## The Two Weeks Behind

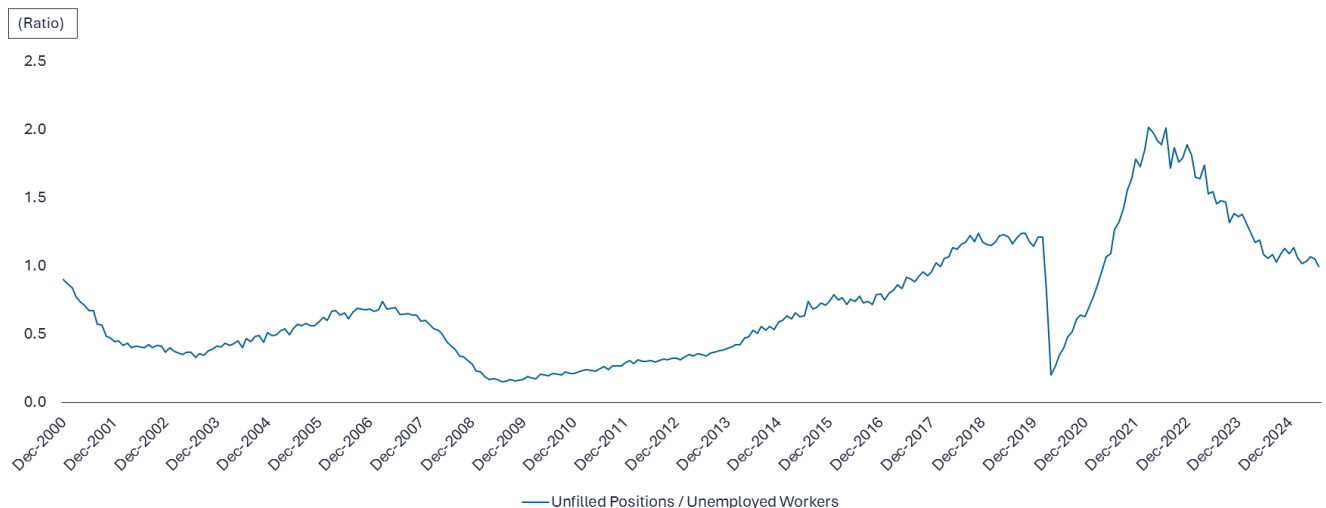
### 1. US data suggested further weakening of the US labor market.

The outlook: I increasingly believe that the US unemployment rate is likely to end 2025 between 4.2% and 4.5% even while nonfarm payroll growth remains very sluggish. About a decade ago, the United States needed ~140,000 jobs per month to maintain a stable unemployment rate, but the recent collapse in inward migration combined with a sharp increase in arrests and deportations of undocumented workers has likely lowered the “break-even” rate of job growth relative to unemployment to 50,000 or fewer jobs per month. If I am correct, markets are misinterpreting slower job growth as a clear signal for Federal Reserve rate cuts when the reality is that the United States remains at or near full employment despite relatively weak job creation.

The details: The Job Openings and Labor Turnover Survey (JOLTS) for July showed that the ratio of job openings to unemployed workers fell to 0.99, the first reading below 1.00 in over four years. The hiring and quit rates remained stable while the layoff rate ticked up to 1.1% from 1.0% in June.

US Labor Market Tightness Has Eased from 2.0 Open Jobs per Unemployed Worker to 1.0

Unfilled Jobs per Unemployed Worker



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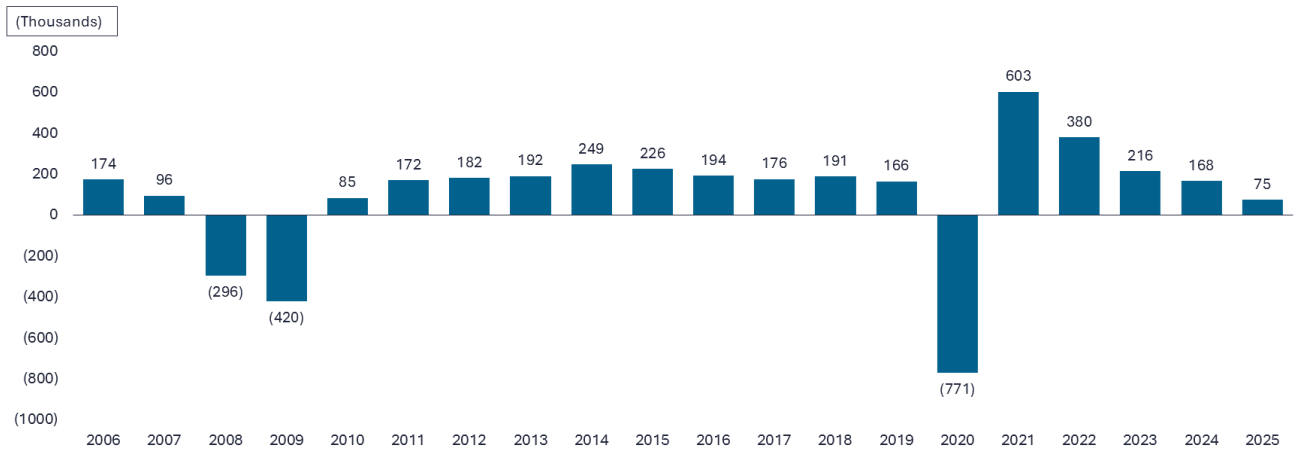
Source: Bureau of Labor Statistics, Haver Analytics  
Note: As of July 2025

The August Employment Situation report indicated that the United States created 22,000 nonfarm jobs versus the consensus expectation for a 75,000 increase. The prior two months' results were lowered by 21,000 jobs leading to a three-month nonfarm payroll growth rate of only 29,000 per month. The unemployment rate rose to 4.324% from 4.248%, I note the three decimal place unemployment rate to highlight that the increase in unemployment was not dramatic, reflecting the lower “break-even” nonfarm payroll growth required to achieve a stable unemployment rate.

Average hourly earnings rose 0.3% month-on-month (m-o-m), as expected, but the year-on-year (y-o-y) increase was slightly less than expected at 3.7% versus consensus of 3.8% and the prior month's 3.9%.

## Year-to-Date US Job Creation Has Slowed to the Lowest Level since the Global Financial Crisis

Average Monthly Change in Private Nonfarm Payrolls



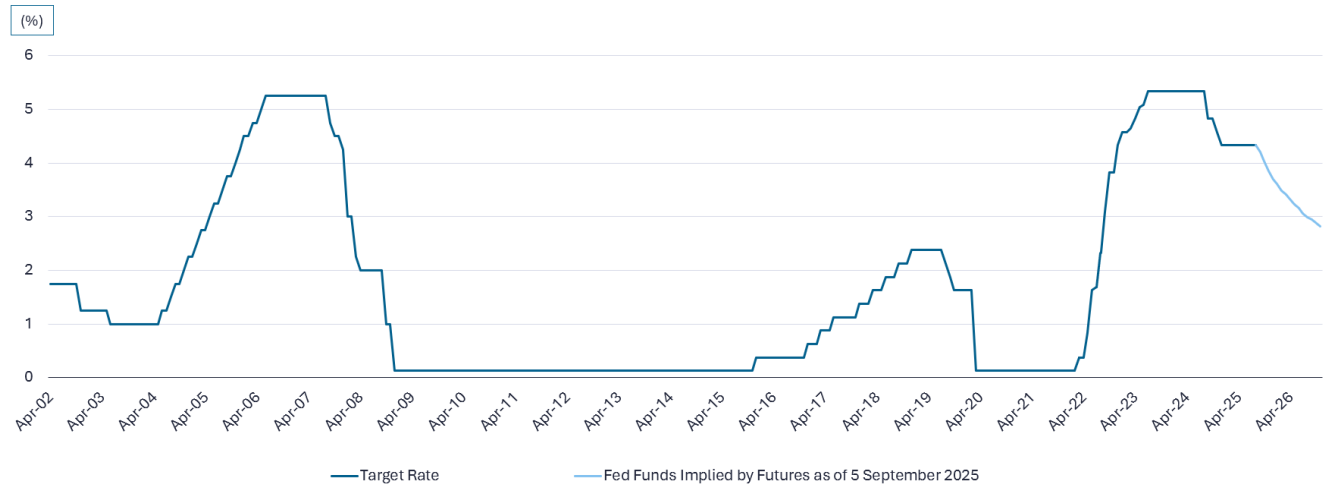
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Source: Bureau of Labor Statistics, Haver Analytics  
Note: As of August 2025

After the payroll report was released, market expectations for Fed rate cuts rose to 70 basis points (bps) by year end with end of 2026 expectations now pricing a Fed Funds rate of only 2.8%.

Markets Are Pricing ~70 bps of Fed Easing in 2025\* and a Fed Funds Rate of 2.8% by the End of 2026

Federal Reserve Target Rate and Implied Rate through November 2026



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Source: Bloomberg, Chicago Mercantile Exchange, Federal Reserve  
Note: As of 5 September 2025  
\* Markets imply a 100% chance of a 25-bps rate cut at the September meeting with a 17% chance of a 50-bps rate cut and a 94% chance of 50 bps of rate reductions through the October meeting.

## 2. The US Court of Appeals for the Federal Circuit ruled that IEEPA cannot be used to impose tariffs.

The outlook: This ruling upheld the previous judgment on 28 May from the US Court on International Trade that the IEEPA statute did not allow for the president to impose tariffs. We expect this ruling to be adjudicated by the Supreme Court with a view that the Trump administration appears poised to lose the case again on appeal.

However, the absence of IEEPA as a justification for tariffs does not preclude the president from imposing tariffs under multiple other legal statutes including Sections 122, 232, 301, and 338. The key difference between using IEEPA and alternative statutes is that IEEPA allowed extreme flexibility that could be used as leverage in negotiations with other countries. The other statutes typically require lengthy investigations and documentation to warrant the imposition of tariffs. As a result, I would argue that a Supreme Court judgment against the Trump administration regarding IEEPA would be positive for the economy and markets, as the process of imposing tariffs would become more predictable and would require compliance with certain processes.

The details: The US Court of Appeals for the Federal Circuit ruled 7-4 that the use of IEEPA was not legal to impose tariffs. A key part of the rationale of the ruling was that there are multiple other legal authorities that explicitly permit the president to impose tariffs while the language of the IEEPA statute never mentions the words “tariff” or “duty.” The court allowed the US government to continue collecting tariffs until 14 October, but we expect the US Supreme Court to put a stay on this deadline to allow tariffs to continue being collected.

If the US government loses the IEEPA case, there could be litigation on behalf of companies that paid tariffs for months demanding refunds. This process could be very complicated and, for lack of a better term, messy. That said, I expect that IEEPA tariffs would be replaced quite quickly under the auspices of other statutes.

### **3. US PCE inflation was in line with expectations.**

The outlook: Headline Personal Consumption Expenditures (PCE) inflation rose 0.2% m-o-m and 2.6% y-o-y versus 0.3% and 2.6%, respectively, in June. Core PCE inflation rose 0.3% m-o-m and 2.9% y-o-y versus 0.3% and 2.8%, respectively in June. I continue to expect core PCE inflation to grind higher with a likely peak in Q1-26 as tariff increases feed through to higher goods prices with an indirect effect on services prices as well over time.

The details: Core goods prices were flat m-o-m, but prices for goods that are more exposed to tariffs rose while those that are less exposed declined. Core services inflation stood at 0.36%. Personal income rose 0.4% m-o-m while consumer spending rose 0.5%. The savings rate was unchanged at 4.4%.

### **4. China PMI data slightly exceeded expectations.**

The outlook: I expect continued weakness from China’s macroeconomic data until the government acts decisively to put a floor under the housing market. Longer-term, sustaining elevated real GDP growth will require structural reforms related to the social safety net and funding models for local and provincial governments. Fortunately, weak economic data of late might be increasing the sense of urgency among central government leaders, but investors’ expectations for stimulative policies could well be disappointed again.

The details: The National Bureau of Statistics’ (NBS) PMI figures were slightly better than expected with the NBS manufacturing PMI inching upward in August but remaining in contractionary territory. The NBS non-manufacturing PMI (which includes construction and services) also rose slightly. Large enterprises reported a larger increase in PMI manufacturing readings than did smaller firms.

The non-manufacturing PMI held up well despite a meaningful decline in the construction PMI to 49.1 from 50.6. This reading marked the lowest construction PMI since early 2020. The NBS attributed the weak construction reading to elevated temperatures and heavy rainfall in August.

The unofficial PMI from RatingDog (formerly the Caixin PMI) was released subsequently and showed a more significant improvement in sentiment with larger increases in both manufacturing and services.

### August China PMI Data

Release Date		Consensus	Actual	Prior Month
8/30/2025 NBS	Manufacturing	49.5	49.4	49.3
	Non-Manufacturing	50.2	50.3	50.1
	Composite	*	50.5	50.2
8/31/2025 RatingDog	Manufacturing	49.8	50.5	49.5
9/2/2025 (formerly Caixin)	Services	52.5	53.0	52.6
9/2/2025	Composite	*	51.9	50.8

Source: Bloomberg, China Federation of Logistics & Purchasing, S&P Global

\* No consensus estimate available on Bloomberg.

## 5. Preliminary readings for August Eurozone inflation were largely in line with expectations.

The outlook: Eurozone inflation has quickly subsided to levels consistent with the ECB's 2% inflation target. While there is some degree of dispersion around the target level, aggregate Eurozone inflation stands at 2.1% y-o-y as of August with core inflation at 2.2%. I expect inflation to dip further in the months ahead as a strong euro reduces the cost of imports.

The details: France, Italy, and Spain reported slightly lower-than-expected inflation, while Germany's inflation was slightly above expectations. Aggregate Eurozone inflation figures showed an ongoing deceleration of services inflation which subsided to 3.1% y-o-y from 3.2% in July. Non-energy industrial goods prices rose 0.8% y-o-y, in line with July's reading. Energy prices fell 1.9% y-o-y.

### Eurozone Harmonised Index of Consumer Prices for July

Release Date	Region		Consensus	Actual	Prior Reading
8/29/2025 Spain		Headline m-o-m	0.1%	0.0%	-0.3%
		Headline y-o-y	2.8%	2.7%	2.7%
8/29/2025 France		Headline m-o-m	0.5%	0.5%	0.3%
		Headline y-o-y	0.9%	0.8%	0.9%
8/29/2025 Germany		Headline m-o-m	0.0%	0.1%	0.4%
		Headline y-o-y	2.0%	2.1%	1.8%
8/29/2025 Italy		Headline m-o-m	0.0%	-0.2%	-1.0%
		Headline y-o-y	1.8%	1.7%	1.7%
9/2/2025 Eurozone		Headline m-o-m	0.1%	0.2%	0.0%
		Headline y-o-y	2.1%	2.1%	2.0%
		Core y-o-y	2.2%	2.3%	2.3%

Source: Bloomberg

## 6. UK retail sales rose more than expected in July, but prior results were revised downward.

The outlook: The UK economy has endured a bumpier ride than the Eurozone or US economies have. Inflation has been stickier, and retail sales figures have been more erratic. Retail sales figures in July are better than the prior quarter's average run rate, but it is too early to extrapolate to a materially more optimistic macroeconomic outlook.

The details: The table below provides the details of the monthly report.

July UK Retail Sales	Consensus	Actual	Prior Month	Revised
Retail Sales including Auto Fuel m-o-m	0.2%	0.6%	0.9%	0.3%
Retail Sales including Auto Fuel y-o-y	1.3%	1.1%	1.7%	0.9%
Retail Sales excluding Auto Fuel m-o-m	0.3%	0.5%	0.6%	
Retail Sales excluding Auto Fuel y-o-y	1.1%	1.3%	1.8%	1.3%

Source: Bloomberg, UK Office for National Statistics

## The Week Ahead

### 1. The US CPI is expected to show stable y-o-y core inflation.

The outlook: I continue to expect US core CPI to grind higher into early 2026. Given the rise in the weighted average US tariff on goods imports from 2.7% as of 19 January 2025 to 17.4% as of 4 September (according to Yale Budget Lab), I expect core CPI inflation to top 4% by Q1-25.

The biggest risks to my inflation expectation are 1) decelerating rent inflation and 2) the possibility that importing companies might absorb tariffs as a reduction in profit margins rather than passing through price increases. In the case of the former factor, the Zillow Observed Rent index has historically led CPI shelter inflation by about 12 months. In June and July, Zillow's rent inflation slowed from a consistent 3.2% – 3.6% y-o-y pace over the prior 18 months to 2.9% in June and 2.6% in July. To the extent this feeds through to lower shelter inflation in the CPI, it could offset some of the upward pressure from tariffs.

To the extent that companies absorb the tariff cost through margins, this would be positive for the macro economy but negative for US equities, as current earnings expectations assume stable to higher operating margins rather than compression.

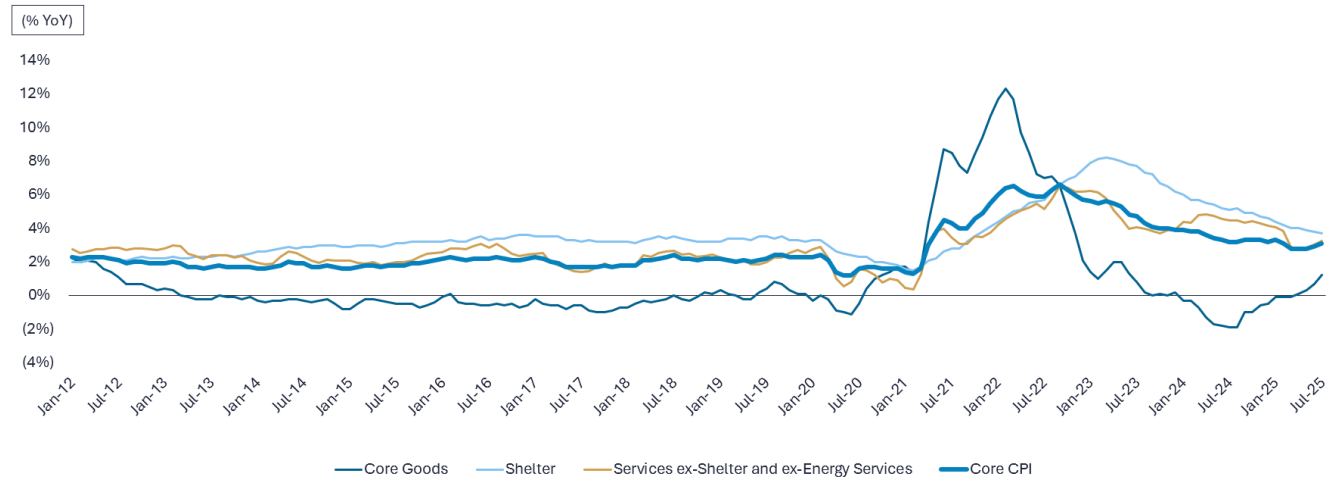
The consensus expectation for August CPI is for headline inflation of 0.3% m-o-m and 2.9% y-o-y, while core inflation is expected to be 0.3% m-o-m and 3.1% y-o-y. The chart below illustrates the progression of core inflation in recent years from a peak of 6.6% y-o-y in 2022 to a trough of 2.8% y-o-y from March to May of 2025.

In August, it will be key to observe the degree to which core goods price increases accelerate. To date, the pass through of tariffs to consumers has been slower than most economists expected, but in my view, this is merely a matter of when, not if, prices will rise. As noted above, rent inflation could be an offset, but given the historical 12-month lag between Zillow readings and CPI, it is likely

too early to see a meaningful offset from rent. Services ex-shelter and ex-energy services will then be the key determinant of the total core CPI number alongside core goods.

## US Core CPI Inflation Is Likely to Reaccelerate through Year-End 2025

US Consumer Price Index Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics

Note: As of July 2025

Core goods represent ~24% of core CPI, shelter represents ~44%, and services ex-shelter and ex-energy services represent ~32%.

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## 2. China CPI and Producer Price Index (PPI) are expected to be in deflationary territory.

The outlook: China's PPI deflation is expected to moderate with the y-o-y price decline easing to 2.8% from July's decline of 3.6%. The August result will be the 35th consecutive month of deflation absent a major upside surprise. CPI is expected to slip back into mild deflation with a 0.2% y-o-y decline in prices after July's flat reading.

I see the persistence of deflationary pressure in China as an increasingly dangerous situation. The government has announced an anti-involution campaign aiming to reduce "excessive competition". Unfortunately, to date there are few signs of deflationary pressure easing because of the campaign.

## 3. China trade data are expected to show decelerating growth in exports and imports.

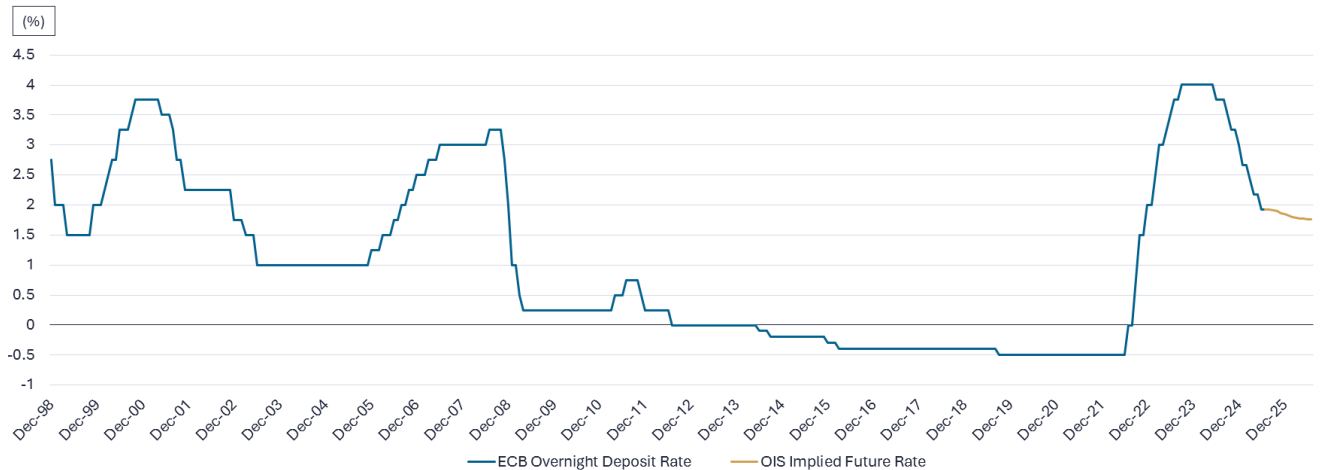
The outlook: Exports are expected to rise by 5.6% y-o-y in August versus 7.2% in July as the effects of front loading of US imports from China in particular fade. Imports are expected to increase 3.8% y-o-y versus the 4.1% July increase.

## 4. The ECB is expected to hold rates constant.

The outlook: Markets imply less than a 1% chance of a 25-bps rate reduction at the 11 September ECB meeting. Through year end, markets suggest only a 32% chance of a 25-bps rate cut. I believe one or two rate cuts are more probable than the current rates markets suggest. My logic is that Eurozone inflation has already reached the ECB's 2% target and is likely to fall below the target in the months ahead. Euro currency strength and lower y-o-y energy prices combined with demand destruction resulting from US trade policies should open the door to at least one more rate cut into stimulative territory in the months ahead.

## Markets Suggest ~8 bps of Additional ECB Rate Cuts through 2025\*

Implied Eurozone Deposit Rate through July 2026



Source: Bloomberg  
 Note: As of 5 September 2025  
 \* Markets imply a 1% chance of a 25-bps rate cut at the September meeting and an 8% chance of a 25-bps cut at the October meeting.

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### 5. The government of French Prime Minister François Bayrou appears likely to collapse after a confidence vote on Monday 8 September.

The outlook: If the government loses the confidence vote, President Emmanuel Macron can choose to either appoint another prime minister or dissolve the National Assembly again and call for elections. While neither option is particularly palatable, the former appears more likely. Given recent commentary from the far-right National Rally party as well as the Socialists, it appears unlikely that Bayrou can cobble together enough support to survive the vote.

If the government falls, there is no constitutional deadline for President Macron to appoint a new prime minister or call for elections, but he will be under pressure to pass a budget before year end which will require a new administration.

The current situation is precisely the type of disruption that decreases investor optimism regarding the Eurozone more broadly. While there have been positive steps year to date in terms of increased defense and infrastructure spending commitments, the inability of France (and other nations) to muster the collective will to address large fiscal deficits while also increasing defense spending puts a lid on the upside that can be anticipated from a more aggressive approach to self-defense.

Note that it is not lost on me that the United States also has failed to muster the courage to address fiscal deficits. This fact adds to my concern over continued unsustainable deficits across multiple (but not all) developed economies and the likely impact on long-term interest rates.

### 6. On 8 September, Japan's LDP will vote on whether to hold presidential elections.

The outlook: Despite presiding over three election losses for the LDP, Prime Minister Shigeru Ishiba has refused to step down. On 8 September, the LDP members of the Diet will have the opportunity to submit signed, sealed requests to the party to hold a presidential election. If requests for an election are filed by more than 172 LDP Diet members, an LDP presidential election will be held, likely after the beginning of October. If there are not enough votes to call a presidential election, Ishiba will remain in place as head of the LDP and Prime Minister.



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