

## US Economic Weekly

## Section 899: a taxing tale

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We answer the questions we fielded this week on the Section 899 provision in the House package. Section 899 is expected to raise only about \$12bn/year. That's equivalent to a 0.4pp increase in tariffs, or the cost of a 20-25bp move in yields. The jury is out on whether it will make it into the final package. Meanwhile, we weren't surprised by the large downward revision to 1Q consumer spending. We expect spending to stay tepid, without falling off a cliff, in 2Q-3Q.

**Everything changed, everything stayed the same**

The US Court of International Trade blocked the April 2 and fentanyl-related tariffs on Wednesday. But on Thursday, the Federal appeals court reinstated the tariffs during the appeal process. So nothing has changed on trade policy relative to last week, except that there is even more uncertainty and confusion about the final outcome. The Fed will likely feel vindicated in its patience. With risks in both directions to both trade and fiscal policy, it wouldn't know what to pre-empt even if it wanted to be pre-emptive.

**May FOMC minutes: stale but a bit hawkish**

The May FOMC minutes were stale because the meeting was before the US-China de-escalation. Since then, risks of stagflation have waned. But we were struck by the extent to which the discussion around the balance of risks was skewed toward inflation. "Almost all participants" were concerned that inflation could be more persistent than expected. Meanwhile, "a few participants" noted that downside risks to activity due to uncertainty could dampen inflation.

**1Q GDP: revised up despite weaker spending**

1Q GDP was revised up a tenth to -0.2% q/q saar in the second print. However, consumer spending was marked down from 1.8% to 1.2%. Given the distortion from trade and inventories due to front loading, we continue to suggest focusing on final domestic sales (GDP ex trade and inventories). Due to the decline in spending, final domestic sales were revised down three tenths to 2.0%.

**Data preview: May jobs hold the line despite payback**

Payrolls are likely to rise by a stable 150k after coming in at 177k in April. This is slightly higher than consensus expectations of 130k. Claims in the survey week remained at muted levels. Firms likely paused the hiring of trade & transportation workers after the front-loading driven increase in the previous months. But given elevated uncertainty about the steady state on tariff policy, we don't think they would have already started shedding workers. Risks are to the downside, in our view. We expect the u-rate to remain at 4.2%.

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Economics  
United States

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**Glossary**

OECD: Organization for Economic  
Cooperation and Development

FDAP: Fixed, Annual, Determinable or  
Periodical

PCE: Personal Consumption  
Expenditures

## Section 899: a taxing tale

**Shruti Mishra**

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- We answer the questions we fielded this week on the Section 899 provision in the House package.
- Section 899 is expected to raise only about \$12bn/year. That's equivalent to a 0.4pp increase in tariffs, or the cost of a 20-25bp move in yields. The jury is out on whether it will make it into the final package.
- Meanwhile, we weren't surprised by the large downward revision to 1Q consumer spending. We expect spending to stay tepid, without falling off a cliff, in 2Q-3Q.

### 899 details in the One Big Beautiful Bill Act (OBBBA)

The OBBBA was recently passed by the House. In addition to the discussion on the various tax and spending cuts it contains, the new Section 899 provision has piqued a lot of interest recently. Here we answer some questions on what this provision entails and its potential impact.

#### What is Section 899?

Section 899 (or "Enforcement of Remedies against Unfair Foreign Taxes") aims to impose "retaliatory" taxes on non-US individuals, corporations (with more than 50% ownership by non-US residents) and governments from certain countries that impose "unfair/ discriminatory" taxes on U.S. entities. This is different from similar provisions (such as Section 891), which depend on the discretion of the Executive to declare taxes as "discriminatory" by pre-defining, to some extent, certain taxes as being "unfair".

#### How are "discriminatory" taxes defined?

The "discriminatory" taxes definition broadly covers digital services taxes (DSTs), diverted profits taxes (DPTs) and undertaxed profit rules in the OECD's global minimum tax rate (15%) framework that has been negotiated with about 140 countries. The US has opposed this OECD framework because it likely disproportionately impacts US corporations, which tend to have a larger global presence. "Discriminatory" taxes can also include any other tax the Treasury Secretary deems "unfair".

#### What income is likely to be taxed?

Section 899 measures could raise the statutory tax rate by up to 20pp (5pp per year the country is seen as "discriminatory") on US sourced income from interest, dividends, rents & royalties (FDAP income). It will also modify the scope and tax rate under the existing BEAT (Base Erosion and Anti-Abuse Tax) rules, which are aimed at corporations that potentially try and reduce their US tax liability via deductible payments to foreign entities. Our understanding is that there is an exemption for portfolio interest. But non-US financial institutions might still be impacted if they rely on treaty-based exemptions.

#### How much revenue will this generate?

Section 899 is estimated to raise about \$120bn over the ten-year window. \$12bn per year isn't very significant from the deficit perspective. It is akin to a 0.4pp hike in the US effective tariff rate or a 3pp rise in China tariffs.

#### Will it really move the needle on the deficit?

By impacting current tax treaty provisions, Section 899 may weigh on foreign demand for US assets, including Treasuries. This could on the margin help in closing the current account deficit. But that could come at the cost of higher yields, which could potentially offset some of the revenue benefit. As a rough rule of thumb, our Rates strategists



estimate that a 20bp increase in yields across the curve would raise interest costs by about \$10bn/year.

### **Is it likely to pass in the Senate?**

There is some uncertainty on whether Section 899 will make it into the final package. On the one hand, it could face difficulty in the Senate since it cedes some taxation power to the executive branch. Also, it could face jurisdictional issues since it could in part fall under the purview of the Senate Foreign Relations Committee, which did not get reconciliation instructions (so matters under its purview can't be part of the reconciliation bill). But on the other hand, news reports suggest that Section 899 is an important priority for the Trump Administration. Procedural issues aside, this makes it more likely that the provision will be part of the final bill.

### **Is the consumer falling off a cliff?**

On the data front, 1Q GDP surprised to the upside in yesterday's second revision. The upward revision was driven by inventories, government spending and non-residential investment. However, we got some questions about the consumer outlook, given the six-tenths downward revision to 1Q consumer spending.

#### **Weak 1Q: winter chills and payback**

As we have noted before, services spending estimates are very rough and subject to large revisions until the first QSS (Quarterly Services Survey) release for the given quarter (which occurs between the first and second GDP prints). Based on the 1Q QSS data released earlier this month, we were expecting a three-tenths downward revision to consumer spending.

Consistent with our projection, the downward revision to consumer spending in the second GDP print was led in large part by services, which were marked down from 2.4% q/q saar to 1.7%. Soft 1Q consumer spending likely reflected payback for a strong 4Q, along with the impact of snowstorms, wildfires and a particularly bad flu season in Jan and Feb.

#### **Beyond 1Q: US consumer moderating but not deteriorating**

Beyond 1Q, we are expecting the consumer to moderate and remain at a 1% q/q saar growth pace in the next two quarters, on the back of softening in the labor market due to i) weaker economic activity from trade uncertainty, and ii) tighter immigration restrictions. However, as long as labor income remains above inflation and healthy balance sheets keep providing some buffer, we don't expect spending to fall off a cliff. Additionally, the US-China deal and tax cuts in the impending fiscal bill are supportive of the consumer outlook.

# US GDP Tracking

## 2Q tracking down to 1.8%, 1Q (S) up to -0.2%

The second print of 1Q GDP was revised up a tenth to -0.2% q/q saar. Since our last weekly publication, our 2Q GDP tracking is down two-tenths to +1.8% q/q saar. Here is a rundown of the changes to our tracking estimate.

The second print of 1Q GDP surprised to the upside. We were looking for a downward revision. However, consumer spending was marked down as expected, but that was more than offset by other categories like inventory accumulation and imports which was revised up. Hence, we mark down 2Q inventory and imports tracking.

New home sales in April were slightly weaker than expected, leading to a decline in our 2Q residential investment estimate.

In the April durable goods report, core capital goods orders and shipments which feed into our GDP tracking were much weaker than expected. This led to a decline in our equipment tracking for 2Q. Manufacturing inventories were also weaker than expected.

Next week, April construction spending and trade balance and May vehicle sales and payrolls will impact 1Q and 2Q GDP tracking.

### Exhibit 1: 2Q GDP tracking is down two-tenths to 1.8% q/q saar largely due to weaker than expected April core capital goods orders and shipments

BofA US GDP tracking estimate (% q/q saar)

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
5/22/25	Quarterly Services Survey	<b>2.0</b>	<b>-0.3</b>	<b>1.1</b>	0.3	-4.7	-15.4	-1.0	0.0	0.5	-20.0	-1156.5	80.0
5/23/25	New Home Sales	2.0	-0.3	1.1	<b>0.9</b>	-4.7	-15.4	-1.0	0.0	0.5	-20.0	-1156.5	80.0
5/27/25	Durable goods orders	<b>1.8</b>	<b>-0.6</b>	1.1	0.9	-4.7	<b>-20.0</b>	-1.0	0.0	0.5	-20.0	-1156.5	<b>74.2</b>
5/29/25	1Q GDP (S)	1.8	-0.6	1.1	0.9	-4.7	-20.0	-1.0	0.0	0.5	<b>-21.4</b>	<b>-1139.7</b>	<b>67.6</b>
	GDP tracking	1.8	-0.6	1.1	0.9	-4.7	-20.0	-1.0	0.0	0.5	-21.4	-1139.7	67.6
	Contribution to GDP growth (pp)			0.8	0.0	-0.1	-1.2	-0.1	0.0			3.6	-1.2
	BofA official GDP forecast	2.0	-0.3	1.0	1.0	-4.0	-15.0	-1.0	0.0	0.5	-20.0	-1152.7	80.1

**Source:** BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates

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### Exhibit 2: ISM manufacturing is expected to tick up in May

ISM manufacturing (mfg) index tracker

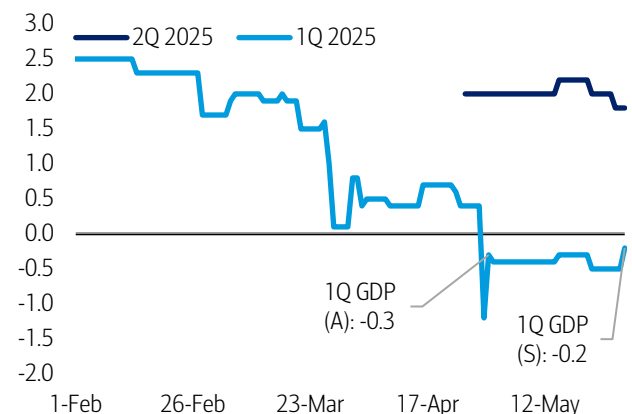
	Print	m/m ch
ISM Manufacturing Index (Apr)	48.7	
Empire ISM adj.	51.1	1.8
Phil. ISM adj.	50.7	7.1
Richmond Fed*	41.0	4.0
KC ISM adj.	48.2	0.0
Dallas ISM adj.	49.2	1.6
ISM Manufacturing tracker (May)	49.6	

**Source:** Haver Analytics, BofA Global research

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### Exhibit 3: The second print of 1Q GDP was revised up a tenth to -0.2% q/q saar. Our 2Q GDP tracking is down two-tenths to +1.8%.

US GDP tracking (% q/q saar)



**Source:** BofA Global Research

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## Data in the past week

**This week, our focus was on FOMC Minutes, Personal Income & Outlays, and GDP**

Data in the past week

Date	Time	Indicator	Period	Actual	Consensus	Previous
5/27/25	8:30	Durable Goods Orders	Apr P	-6.3%	-7.8%	7.6%
5/27/25	8:30	Durables Ex Transportation	Apr P	0.2%	0.0%	-0.2%
5/27/25	8:30	Core Capital Goods Shipments	Apr P	-0.1%	-0.1	0.5%
5/27/25	8:30	Core Capital Goods Orders	Apr P	-1.3%	-0.2%	0.3%
5/27/25	9:00	Case-Shiller HPI (yoy)	Mar	3.4%	—	4.0%
5/27/25	10:00	Consumer Confidence	May	98.0	87.1	85.7
5/28/25	7:00	MBA Mortgage Applications	May 23	-1.2%	—	-5.1%
5/28/25	14:00	FOMC Meeting Minutes	May 7	—	—	—
5/29/25	8:30	GDP (qoq saar)	1Q S	-0.2%	-0.3%	-0.3%
5/29/25	8:30	GDP Price Index (qoq saar)	1Q S	3.7%	3.7%	3.7%
5/29/25	8:30	Core PCE (qoq saar)	1Q S	3.4%	3.5%	3.5%
5/29/25	8:30	Personal consumption (qoq saar)	1Q S	1.2%	1.7%	1.8%
5/29/25	8:30	Initial Jobless Claims	May 24	240k	230k	226k
5/29/25	10:00	Pending Home Sales (mom)	Apr	-6.3%	-1.0%	5.5%3030
5/30/25	8:30	Wholesale Inventories (mom)	Apr P	NR	0.4%	0.4%
5/30/25	8:30	Advance Goods Trade Balance	Apr	NR	-\$143.0bn	-\$163.2b
5/30/25	8:30	PCE Core Prices (mom)	Apr	NR	0.1%	0.0%
5/30/25	8:30	PCE Headline Prices (mom)	Apr	NR	0.1%	0.0%
5/30/25	8:30	PCE Core Prices (yoy)	Apr	NR	2.5%	2.6%
5/30/25	8:30	PCE Headline Prices (yoy)	Apr	NR	2.2%	2.3%
5/30/25	8:30	Personal saving rate	Apr	NR	—	3.9%
5/30/25	8:30	Personal Spending	Apr	NR	0.2%	0.7%
5/30/25	8:30	Personal Income	Apr	NR	0.3%	0.5%
5/30/25	9:45	Chicago Purchasing Managers	May	NR	45.0	44.6
5/30/25	10:00	U. of Michigan Sentiment	May F	NR	51.5	50.8

Source: Bloomberg, BofA Global Research. NR: Not Released

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## Data in the week ahead

**Next week, our focus is on the employment report**

Data in the week ahead

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
6/02/25	9:45	S&P Global US manufacturing PMI	May F	—	52.2	52.3
6/02/25	10:00	Construction Spending (mom)	Apr	0.5%	0.4%	-0.5%
6/02/25	10:00	ISM Manufacturing	May	49.6	49.2	48.7
6/03/25	10:00	Durable Goods Orders	Apr F	—	—	-6.3%
6/03/25	10:00	Factory Orders	Apr	—	-3.1%	3.4%
6/03/25	10:00	JOLTS Job Openings	Apr	—	7100k	7192k
6/03/25	All day	Total Vehicle Sales	May	16.4	n.a.M	17.3M
6/04/25	7:00	MBA Mortgage Applications	May 30	—	—	-1.2%
6/04/25	8:15	ADP Employment	May	—	110k	62k
6/04/25	9:45	S&P Global US services PMI	May F	—	—	52.3
6/04/25	10:00	ISM Services	May	52.0	52.0	51.6
6/05/25	8:30	Nonfarm Productivity	1Q F	-0.8%	-0.8%	-0.8%
6/05/25	8:30	Unit Labor Costs	1Q F	5.7%	5.7%	5.7%
6/05/25	8:30	Initial Jobless Claims	May 24	235k	230k	240k
6/05/25	8:30	Trade Balance	Apr	-\$137.5b	-\$117.3b	-\$140.5b
6/06/25	8:30	Private Payrolls	May	140k	110k	167k
6/06/25	8:30	Change in Nonfarm Payrolls	May	150k	130k	177k
6/06/25	8:30	Unemployment Rate	May	4.2%	4.2%	4.2%
6/06/25	8:30	Average Hourly Earnings mom	May	0.3%	0.3%	0.2%
6/06/25	8:30	Average Weekly Hours	May	34.3	34.3	34.3
6/06/25	15:00	Consumer Credit	Apr	—	—	\$10.2b

Source: Bloomberg, BofA Global Research

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# Federal Reserve Speakers

## Exhibit 4: Key speaking engagements

Upcoming policy speakers

Date	Time	Speaker
May 29	8:30	Fed's Barkin Participates in Fireside Chat
May 29	10:40	Fed's Goolsbee Participates in Moderated Q&A
May 29	11:30	Fed's Goolsbee Appears on Local Radio
May 29	14:00	Fed's Kugler Gives Opening Remarks
May 29	16:00	Fed's Daly Speaks in a Fireside Chat
May 29	20:25	Fed's Logan Gives Remarks, Speaks in Q&A
May 30	16:45	Fed's Daly Speaks in Panel Conversation
May 30	19:30	Fed's Goolsbee on The Interview Show
May 30		Fed's Goolsbee Appears on Freakonomics Radio Podcast
Jun 01	20:00	Fed's Waller Speaks on Economic Outlook
Jun 02	10:15	Fed's Logan Participates in Moderated Q&A
Jun 02	12:45	Fed's Goolsbee Participates in Moderated Q&A
Jun 02	13:00	Fed's Powell Gives Opening Remarks
Jun 03	12:45	Fed's Goolsbee Participates in Moderated Q&A
Jun 03	13:00	Fed's Cook Discusses Economic Outlook
Jun 03	15:30	Fed's Logan Gives Opening Remarks at Fed Listens
Jun 04	8:30	Fed's Bostic, Cook Moderate Fed Listens Event
Jun 05	12:00	Fed's Kugler Speaks on Economic Outlook, Policy
Jun 05	13:30	Fed's Harker Speaks on Economic Outlook

Source: Bloomberg

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## Exhibit 5: Below is a summary of key quotes from Fed speakers over the past weeks

Summary of Fed speak in the previous week

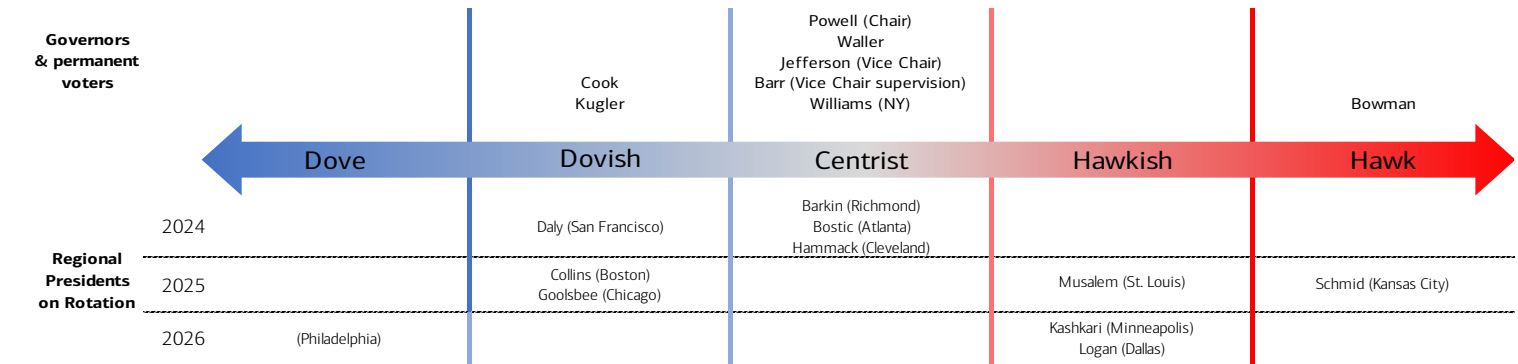
Speaker	Date	Quote
Goolsbee (Chicago)	29-May	A resolution in trade policy could put the US economy back toward its pre-tariff trajectory, which would allow for rate cuts.
Williams (NY)	28-May	"The thing you want to avoid is allowing inflation to become highly persistent, because highly persistent can kind of become permanent."
Barkin (Richmond)	27-May	"They [businesses] do think there's a light at the end of the tunnel, that there will be some certainty, whether it's the tax bill or some of the trade terms, but I think they're just waiting it out."
Musalem (St. Louis)	23-May	Officials are focused are focused on keeping long-run inflation expectations stable.
Goolsbee (Chicago)	23-May	Lower borrowing costs are still possible over the next 10 to 16 months.
Waller (Governor)	22-May	"Then we're in a good position at the Fed to kind of move with rate cuts through the second half of the year."
Hammack (Cleveland)	20-May	Stressed she's assessing the outlook using scenarios, including whether tariffs may spur a one-time or more persistent increase in inflation.

Source: Bloomberg, BofA Global Research

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## Exhibit 6: This year the regional presidents voting on the FOMC (Federal Open Market Committee) will be Collins, Goolsbee, Musalem and Schmid

BofA US Economics Dove-Hawk chart



Source: FRB, BofA Global Research

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## Weekly spending update

### Exhibit 7: Total card spending per HH was up 0.2% y/y in the week ending May 24

Aggregated daily card spending growth per HH by major category, May 17 – May 24 (y/y % change of the 7-day moving average of spending levels)

	5/24	5/23	5/22	5/21	5/20	5/19	5/18	5/17
<b>Total card spending</b>	0.2%	0.8%	0.7%	0.6%	0.5%	0.5%	0.3%	-0.7%
<b>Retail ex-autos</b>	-0.9%	-0.2%	-0.3%	-0.3%	-0.2%	-0.4%	-1.0%	-2.2%
Airlines	-10.9%	-10.6%	-10.4%	-10.5%	-10.3%	-10.7%	-10.2%	-10.0%
Lodging	-2.3%	-1.9%	-1.9%	-1.8%	-1.8%	-1.8%	-1.1%	-3.2%
Entertainment	6.4%	2.0%	-3.5%	-4.5%	-7.1%	-8.5%	-7.9%	-5.0%
Restaurants & bars	0.8%	1.7%	2.1%	2.1%	2.0%	1.0%	-1.5%	0.9%
Transit	5.8%	6.5%	7.4%	7.2%	6.4%	5.3%	0.8%	1.9%
Gas	-9.1%	-8.4%	-8.3%	-8.1%	-8.0%	-8.2%	-8.4%	-9.6%
Clothing	1.2%	1.3%	1.1%	1.1%	1.4%	1.2%	0.0%	-2.8%
Furniture	-0.7%	-2.1%	-3.1%	-3.6%	-4.0%	-4.5%	-3.0%	-4.7%
Department store	-2.5%	-0.8%	-0.9%	-1.7%	-2.1%	-2.4%	-5.7%	-11.6%
Home improvement	-11.6%	-11.3%	-10.8%	-10.4%	-9.7%	-9.4%	-9.4%	-10.4%
Online electronics	3.1%	2.8%	1.4%	-1.5%	-1.9%	-2.2%	-3.2%	-2.6%
Grocery	-0.6%	0.4%	-0.3%	-0.5%	-0.7%	-0.6%	-1.0%	-3.5%
General Merchandise	1.3%	2.8%	2.9%	2.6%	3.0%	3.2%	4.0%	0.1%
Total B&M retail	-2.5%	-1.6%	-1.8%	-1.8%	-1.7%	-1.8%	-2.6%	-3.9%
Total online retail	3.5%	4.0%	4.1%	3.9%	3.8%	3.8%	3.8%	3.1%
Total card debit	0.8%	1.5%	1.3%	1.1%	1.0%	1.0%	0.7%	-0.3%
Total card credit	-0.7%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.4%	-1.2%

**Source:** BAC internal data. Note: The 1-year % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Online electronics and total online retail correspond to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Gas includes some convenience store purchases at gas stations.

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See the report [BofA on USA: Weekly spending update through May 24 2025](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.



# Core views

## Growth: One strange GDP print deserves another

- We have revised our 2Q forecast to incorporate a reversal of the ostensible accounting issue in 1Q. We now expect solid headline GDP growth in 2Q (+2.0% vs. +0.9% previously), with weak final domestic sales (-0.3% vs. +0.3%). Note that this revision is just a mark-to-market based on the unusual 1Q data. Either way, our broader outlook has not changed. Nor have our full-year growth forecasts: we are still projecting 1.0% 4Q/4Q growth, and 1.5% growth on an annual basis, in 2025.

## Inflation: Back to a 3-handle

- Larger-than-expected tariffs mean a higher peak in the core PCE (3.5% y/y in 4Q 2025). But weaker aggregate demand should lead to a faster decline in inflation next year. We expect core PCE to decline to 2.4% by end of 2026. Policy uncertainty creates large risks to our outlook in both directions. On balance we think the risks are skewed towards weaker growth and higher inflation.

## Labor market: Immigration restrictions to weigh on labor supply

- Job growth has stabilized, but is still dominated by the catch-up sectors. Total and involuntary unemployment has been little changed in the last few months with voluntary unemployment continuing to outpace involuntary unemployment. The low pace of layoffs (and claims) has been a silver lining. While immigration restrictions would tighten the labor market, below-trend growth and DOGE actions should cause an uptick in the unemployment rate. On balance we expect the unemployment rate to increase gradually, with a peak of 4.6% in 2Q-3Q 2026.

## Fed: back-loaded cuts

- The question for the Fed is whether it will look through a tariff-driven spike in inflation. We think it won't. Once inflation has peaked, however, the Fed can feel more confident that i) the tariff shock is working itself out of the y/y rate, and ii) demand-driven disinflation due to labor market weakness is overwhelming supply-driven inflation. Therefore, we now forecast 100bp of cuts next year. With low conviction, we pencil these cuts in for 2H 2026. By then, y/y inflation should be below 3% and there would probably be a new Chair, who might guide the Fed in a more dovish direction.





# Economic forecast summary

## Exhibit 8: We forecast significant stagflation (softer growth and higher inflation) along with no cuts in 2025 but 100bp in 2H26

BofA US economic outlook

	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	2024	2025	2026
<b>Real Economic Activity, % SAAR</b>															
Real GDP	1.6	3.0	3.1	2.4	-0.2	2.0	0.6	1.6	1.6	1.6	1.8	1.8	2.8	1.5	1.5
% Change, Year Ago	2.9	3.0	2.7	2.5	2.1	1.8	1.2	1.0	1.5	1.3	1.7	1.7			
Final Sales	2.1	2.0	3.3	3.3	-2.5	2.6	0.9	1.8	1.8	1.6	1.6	1.6	2.7	1.2	1.7
Domestic Demand	2.8	2.9	3.7	3.0	2.3	-0.6	0.1	1.4	1.7	1.6	1.6	1.6	3.0	1.7	1.3
Consumer Spending	1.9	2.8	3.7	4.0	1.2	1.0	1.0	1.6	1.6	1.6	1.8	1.8	2.8	2.1	1.5
Residential Investment	13.7	-2.8	-4.3	5.5	-0.6	1.0	1.0	1.0	1.5	1.5	2.0	2.0	4.2	0.5	1.4
Nonresidential Investment	4.5	3.9	4.0	-3.0	10.4	-7.2	-4.2	1.8	3.8	2.8	1.3	1.3	3.6	0.8	1.0
Structures	6.2	0.2	-5.0	2.9	-1.5	-4.0	-5.0	3.0	5.0	3.0	1.5	1.5	3.5	-1.7	1.7
Equipment	0.3	9.9	10.8	-8.7	24.7	-15.0	-6.0	2.0	4.0	2.5	1.0	1.0	3.4	2.0	0.2
Intellectual Property	7.5	0.7	3.1	-0.5	4.6	-1.0	-2.0	1.0	3.0	3.0	1.5	1.5	3.9	1.1	1.5
Government	1.8	3.0	5.1	3.1	-0.7	0.0	0.0	0.0	0.5	0.4	0.4	0.4	3.4	1.2	0.3
Exports	1.9	1.0	9.6	-0.2	2.4	0.5	0.5	0.5	1.0	1.0	2.0	2.0	3.3	2.0	1.0
Imports	6.1	7.6	10.7	-1.9	42.6	-20.0	-5.0	-3.0	0.5	1.0	1.0	1.0	5.3	5.4	-2.1
Net Exports (Bil 12\$)	-977	-1036	-1069	-1053	-1379	-1157	-1105	-1073	-1071	-1074	-1069	-1064	-1034	-1179	-1069
Contribution to growth (ppts)	-0.6	-0.9	-0.4	0.3	-4.8	3.2	0.8	0.5	0.0	0.0	0.1	0.1	-0.4	-0.5	0.4
Inventory Accumulation (Bil 12\$)	17.7	71.7	57.9	8.9	163.0	103.0	83.0	68.0	58.0	58.0	68.0	78.0	39.1	104.3	65.5
Contribution to growth (ppts)	-0.5	1.1	-0.2	-0.8	2.3	-0.6	-0.3	-0.2	-0.2	0.0	0.2	0.2	0.0	0.3	-0.1
Nominal GDP (Bil \$, SAAR)	28624	29017	29375	29724	29978	30310	30609	30974	31285	31595	31927	32255	29185	30468	31766
% SAAR	4.7	5.6	5.1	4.8	3.4	4.5	4.0	4.9	4.1	4.0	4.3	4.2	5.3	4.4	4.3
<b>Key Indicators</b>															
Fed Funds Rate (midpoint, % EOP)	5.375	5.375	4.875	4.375	4.375	4.375	4.375	4.375	4.375	4.375	3.875	3.375	4.375	4.375	3.375
Industrial Production (% SAAR)	-1.8	2.5	-0.5	-1.0	5.5	1.0	1.0	1.0	1.5	1.5	1.5	1.5	-0.3	1.5	1.2
Capacity Utilization (%)	77.7	78.0	77.5	77.0	78.0	77.5	78.0	78.0	78.0	78.5	78.5	78.5	77.6	77.9	78.5
Nonfarm Payrolls (Avg mom ch, 000s)	196	133	133	209	133	125	40	15	40	40	40	60	168	78	45
Civilian Unemployment Rate (%)	3.8	4.0	4.2	4.2	4.1	4.2	4.3	4.5	4.5	4.6	4.6	4.5	4.0	4.3	4.6
Civilian Participation Rate (%)	62.6	62.6	62.7	62.5	62.5	62.5	62.4	62.3	62.3	62.2	62.2	62.2	62.6	62.5	62.2
Housing Starts (Thous. SAAR)	1415	1345	1340	1385	1395	1365	1380	1385	1385	1405	1415	1430	1370	1380	1410
Current Account (% of GDP)													-3.9	-4.0	-3.8
US Budget Balance (\$bn, Fiscal Year)													-1832	-1950	-2175
<b>Inflation</b>															
GDP Price Index (% SAAR)	3.0	2.5	1.9	2.3	3.7	2.5	3.4	3.2	2.4	2.4	2.4	2.3	2.4	2.8	2.7
% Change, Year Ago	2.4	2.6	2.2	2.5	2.6	2.6	3.0	3.2	2.9	2.9	2.6	2.4			
PCE Chain Prices (% SAAR)	3.4	2.5	1.5	2.4	3.6	2.3	3.7	3.4	2.2	2.2	2.2	2.1	2.5	2.8	2.6
% Change, Year Ago	2.7	2.6	2.3	2.5	2.5	2.5	3.0	3.2	2.9	2.9	2.5	2.2			
Core PCE Chain Prices (% SAAR)	3.7	2.8	2.2	2.6	3.4	2.5	4.2	3.8	2.5	2.4	2.4	2.2	2.8	3.0	2.9
% Change, Year Ago	3.0	2.7	2.7	2.8	2.8	2.7	3.2	3.5	3.2	3.2	2.8	2.4			
CPI, Consumer Prices (% SAAR)	3.7	2.8	1.4	3.0	3.8	2.4	3.8	3.0	2.3	2.4	2.1	2.1	3.0	3.0	2.6
% Change, Year Ago	3.2	3.2	2.7	2.7	2.7	2.6	3.2	3.2	2.9	2.9	2.4	2.2			
CPI ex Food & Energy (% SAAR)	4.2	3.1	2.4	3.4	3.5	2.6	4.4	3.9	2.4	2.5	2.7	2.8	3.4	3.3	3.0
% Change, Year Ago	3.8	3.4	3.3	3.3	3.1	3.0	3.5	3.6	3.3	3.3	2.9	2.6			

Source: BofA Global Research estimates

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# Rates and dollar forecast

## Exhibit 9: We do not foresee any Fed rate cuts in 2025

Rates and dollar forecast

	Spot	25-Jun	25-Sep	25-Dec	26-Mar	26-Jun	26-Sep	26-Dec
<b>Interest rates</b>								
Fed Funds	4.33	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	3.75-4.00	3.25-3.50
Fed Effective Rate	4.33	4.38	4.38	4.38	4.38	4.38	3.88	3.38
2-Year T-Note	3.94	3.90	3.80	3.75	3.75	3.75	-	3.85
5-Year T-Note	4.00	4.00	4.05	4.10	4.15	4.20	-	4.25
10-Year T-Note	4.42	4.35	4.40	4.50	4.55	4.60	-	4.75
30-Year T-Bond	4.92	4.75	4.80	4.90	4.95	5.00	-	5.10
<b>Dollar</b>								
EUR-USD	1.14	1.15	1.16	1.17	1.17	1.18	1.19	1.20
USD-JPY	144	148	152	155	152	148	148	148
USD-CAD	1.38	1.40	1.40	1.38	1.37	1.35	1.35	1.35
AUD-USD	0.64	0.63	0.64	0.66	0.68	0.69	0.70	0.71
NZD-USD	0.60	0.58	0.59	0.60	0.60	0.60	0.61	0.61
GBP-USD	1.35	1.37	1.40	1.43	1.43	1.48	1.51	1.54
USD-CHF	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.83
USD-SEK	9.57	9.30	9.14	8.89	8.89	8.81	8.74	8.58
USD-NOK	10.12	10.17	9.83	9.40	9.40	9.24	9.08	8.92
USD-CNY	7.19	7.50	7.40	7.30	7.30	7.20	7.20	7.00
USD-MXN	19.32	19.50	19.75	20.00	20.25	20.50	20.75	21.00

Source: BofA Global Research estimates

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# Rolling calendar of business indicators

## Next week our focus is on the employment report

Key economic data over the next three weeks

Monday	Tuesday	Wednesday	Thursday	Friday
<b>June 2</b> 9:45 am: S&P Global US Manufacturing PMI – May F 10:00 am: ISM manufacturing – May 10:00 am: Construction Spending – Apr	<b>June 3</b> 10:00 am: Factory Orders – Apr 10:00 am: JOLTS – Apr All Day: Vehicle Sales – May	<b>June 4</b> 7:00 am: MBA Mortgage Applications – week ending 05/30/2025 8:15 am: ADP Employment – May 9:45 am: S&P Global US Services PMI – May F 10:00 am: ISM services– May 2:00 pm: Fed's Beige Book	<b>June 5</b> 8:30 am: Initial Jobless Claims – week ending 05/31/2025 8:30 am: Trade Balance – Apr 8:30 am: Productivity & Costs - 1Q (F)	<b>June 6</b> 8:30 am: Employment Report – May 3:00pm: Consumer Credit – Apr
<b>June 9</b> 10:00 am: Wholesale Inventories – Apr	<b>June 10</b> 6:00 am: NFIB Small Bus. Optimism – May	<b>June 11</b> 7:00 am: MBA Mortgage Applications – week ending 06/06/2025 8:30 am: Consumer Price Index – May 2:00 pm: Monthly Budget Statement - May	<b>June 12</b> 8:30 am: Initial Jobless Claims – week ending 06/07/2025 8:30 am: Producer Price Index – May	<b>June 13</b> 10:00 am: U of Mich Sentiment– Jun (P)
<b>June 16</b> 8:30 am: Empire Manufacturing – Jun	<b>June 17</b> 8:30 am: Advance Retail Sales – May 8:30 am: Import Price Index – May 9:15 am: Industrial Production – May 10:00 am: Business Inventories – Apr 10:00 am: NAHB Housing Index – Jun	<b>June 18</b> 7:00 am: MBA Mortgage Applications – week ending 06/13/2025 8:30 am: Initial Jobless Claims – week ending 06/14/2025 8:30 am: Housing Starts & Permits – May 2:00 pm: FOMC Rates Decision	<b>June 19</b> June 19th	<b>June 20</b> 8:30 am: Philly Fed – Jun

\*Projections- subject to revision as additional data become available. P - preliminary reading, S - second reading, T - third reading, F - final reading

Source: Bloomberg

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# CPI and PCE Forecast tables

## Exhibit 10: We expect a higher peak in inflation in 2025 and then come down more rapidly in 2026

CPI monthly forecast table

	Non-seasonally Adjusted							Seasonally Adjusted									
	Headline CPI			Energy				Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y		Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2024: Jan	308.42	0.54	3.1	270.42	0.39	-4.6		309.79	0.34	3.1			314.39	0.37	3.9		
2024: Feb	310.33	0.62	3.2	276.33	2.19	-1.9		311.02	0.40	3.2			315.56	0.37	3.8		
2024: Mar	312.33	0.65	3.5	285.00	3.14	2.1		312.11	0.35	3.5	3.7	3.2	316.76	0.38	3.8	4.2	3.8
2024: Apr	313.55	0.39	3.4	290.76	2.02	2.6		313.02	0.29	3.4			317.60	0.26	3.6		
2024: May	314.07	0.17	3.3	290.14	-0.21	3.7		313.14	0.04	3.2			318.05	0.14	3.4		
2024: Jun	314.18	0.03	3.0	286.68	-1.19	1.0		313.13	0.00	3.0	2.8	3.2	318.34	0.09	3.3	3.1	3.4
2024: Jul	314.54	0.12	2.9	287.87	0.42	1.1		313.57	0.14	2.9			318.93	0.19	3.2		
2024: Aug	314.80	0.08	2.5	282.61	-1.83	-4.0		314.13	0.18	2.6			319.84	0.28	3.3		
2024: Sep	315.30	0.16	2.4	275.74	-2.43	-6.8		314.85	0.23	2.4	1.4	2.7	320.84	0.31	3.3	2.4	3.3
2024: Oct	315.66	0.12	2.6	272.81	-1.06	-4.9		315.56	0.23	2.6			321.69	0.27	3.3		
2024: Nov	315.49	-0.05	2.7	268.21	-1.68	-3.2		316.45	0.28	2.7			322.62	0.29	3.3		
2024: Dec	315.61	0.04	2.9	267.96	-0.09	-0.5		317.60	0.36	2.9	3.0	2.7	323.30	0.21	3.2	3.4	3.3
2025: Jan	317.67	0.65	3.0	273.05	1.90	1.0		319.09	0.47	3.0			324.74	0.45	3.3		
2025: Feb	319.08	0.44	2.8	275.87	1.03	-0.2		319.78	0.22	2.8			325.48	0.23	3.1		
2025: Mar	319.80	0.22	2.4	275.73	-0.05	-3.3		319.62	-0.05	2.4	3.8	2.7	325.66	0.06	2.8	3.5	3.1
2025: Apr	320.80	0.31	2.3	279.89	1.51	-3.7		320.32	0.22	2.3			326.43	0.24	2.8		
2025: May	322.08	0.40	2.5	283.98	1.46	-2.1		321.14	0.26	2.6			327.38	0.29	2.9		
2025: Jun	323.83	0.54	3.1	293.42	3.32	2.4		322.71	0.49	3.1	2.4	2.6	328.42	0.32	3.2	2.6	3.0
2025: Jul	324.44	0.19	3.1	289.90	-1.20	0.7		323.28	0.18	3.1			329.62	0.37	3.4		
2025: Aug	325.41	0.30	3.4	288.21	-0.58	2.0		324.52	0.38	3.3			331.01	0.42	3.5		
2025: Sep	325.75	0.10	3.3	281.34	-2.38	2.0		325.31	0.24	3.3	3.8	3.2	332.23	0.37	3.6	4.4	3.5
2025: Oct	326.11	0.11	3.3	275.60	-2.04	1.0		326.06	0.23	3.3			333.46	0.37	3.7		
2025: Nov	325.58	-0.16	3.2	270.45	-1.87	0.8		326.64	0.18	3.2			334.13	0.20	3.6		
2025: Dec	325.45	-0.04	3.1	268.00	-0.91	0.0		327.60	0.29	3.1	3.0	3.2	334.81	0.20	3.6	3.9	3.6
2026: Jan	326.69	0.38	2.8	269.78	0.66	-1.2		328.17	0.17	2.8			335.45	0.19	3.3		
2026: Feb	327.78	0.33	2.7	269.45	-0.12	-2.3		328.53	0.11	2.7			336.09	0.19	3.3		
2026: Mar	329.46	0.51	3.0	277.48	2.98	0.6		329.25	0.22	3.0	2.3	2.9	336.76	0.20	3.4	2.4	3.3
2026: Apr	330.54	0.33	3.0	281.98	1.62	0.7		329.99	0.22	3.0			337.47	0.21	3.4		
2026: May	331.32	0.24	2.9	282.84	0.31	-0.4		330.35	0.11	2.9			338.19	0.21	3.3		
2026: Jun	332.63	0.40	2.7	290.16	2.59	-1.1		331.49	0.34	2.7	2.4	2.9	338.93	0.22	3.2	2.5	3.3
2026: Jul	332.84	0.06	2.6	287.12	-1.05	-1.0		331.67	0.06	2.6			339.68	0.22	3.1		
2026: Aug	333.28	0.13	2.4	285.90	-0.42	-0.8		332.40	0.22	2.4			340.43	0.22	2.8		
2026: Sep	333.29	0.00	2.3	279.36	-2.29	-0.7		332.81	0.12	2.3	2.1	2.4	341.18	0.22	2.7	2.7	2.9
2026: Oct	333.29	0.00	2.2	273.98	-1.92	-0.6		333.22	0.12	2.2			341.98	0.24	2.6		
2026: Nov	332.83	-0.14	2.2	269.44	-1.66	-0.4		333.90	0.21	2.2			342.79	0.24	2.6		
2026: Dec	332.78	-0.02	2.3	267.44	-0.74	-0.2		334.96	0.32	2.2	2.1	2.2	343.60	0.24	2.6	2.8	2.6

Source: BEA, BofA Global Research estimates

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**Exhibit 11: We expect a higher peak in inflation in 2025**

PCE inflation monthly forecast table (Seasonally adjusted)

	%y/y				% m/m			
	Headline	Core	Core goods	Core services	Headline	Core	Core goods	Core services
2023: Jan	5.5%	4.9%	2.7%	5.8%	0.51%	0.47%	0.42%	0.49%
2023: Feb	5.2%	4.9%	2.3%	5.8%	0.33%	0.37%	0.18%	0.44%
2023: Mar	4.4%	4.8%	2.5%	5.6%	0.13%	0.29%	0.20%	0.32%
2023: Apr	4.5%	4.8%	2.5%	5.6%	0.35%	0.35%	0.11%	0.43%
2023: May	4.0%	4.7%	2.5%	5.5%	0.14%	0.29%	0.28%	0.30%
2023: Jun	3.3%	4.4%	1.7%	5.3%	0.25%	0.26%	-0.15%	0.40%
2023: Jul	3.4%	4.3%	1.2%	5.4%	0.14%	0.14%	-0.43%	0.33%
2023: Aug	3.4%	3.8%	0.6%	4.9%	0.30%	0.10%	-0.08%	0.16%
2023: Sep	3.4%	3.7%	0.2%	4.9%	0.35%	0.32%	-0.02%	0.43%
2023: Oct	3.0%	3.4%	0.4%	4.5%	0.03%	0.13%	0.04%	0.17%
2023: Nov	2.7%	3.2%	0.2%	4.3%	0.00%	0.09%	-0.34%	0.24%
2023: Dec	2.7%	3.0%	0.0%	4.1%	0.15%	0.18%	-0.26%	0.33%
2024: Jan	2.6%	3.1%	-0.5%	4.3%	0.42%	0.50%	-0.05%	0.68%
2024: Feb	2.6%	2.9%	-0.4%	4.1%	0.31%	0.24%	0.29%	0.22%
2024: Mar	2.8%	3.0%	-0.5%	4.2%	0.34%	0.34%	0.07%	0.43%
2024: Apr	2.7%	2.9%	-0.5%	4.1%	0.26%	0.26%	0.11%	0.30%
2024: May	2.6%	2.7%	-1.0%	3.9%	-0.01%	0.08%	-0.17%	0.16%
2024: Jun	2.4%	2.6%	-0.7%	3.8%	0.12%	0.22%	0.10%	0.26%
2024: Jul	2.5%	2.7%	-0.4%	3.7%	0.17%	0.17%	-0.10%	0.26%
2024: Aug	2.3%	2.7%	-0.5%	3.8%	0.12%	0.17%	-0.17%	0.28%
2024: Sep	2.1%	2.7%	-0.4%	3.7%	0.17%	0.25%	0.11%	0.30%
2024: Oct	2.3%	2.8%	-0.4%	3.9%	0.26%	0.29%	0.06%	0.37%
2024: Nov	2.5%	2.8%	-0.1%	3.8%	0.11%	0.10%	-0.12%	0.17%
2024: Dec	2.6%	2.9%	-0.2%	3.9%	0.30%	0.21%	-0.28%	0.38%
2025: Jan	2.6%	2.7%	0.3%	3.5%	0.37%	0.34%	0.41%	0.31%
2025: Feb	2.7%	3.0%	0.4%	3.8%	0.44%	0.50%	0.41%	0.52%
2025: Mar	2.3%	2.6%	0.1%	3.5%	-0.04%	0.03%	-0.27%	0.12%
2025: Apr	2.2%	2.5%	0.1%	3.3%	0.15%	0.14%	0.11%	0.15%
2025: May	2.5%	2.7%	0.6%	3.4%	0.26%	0.28%	0.39%	0.25%
2025: Jun	2.7%	2.8%	1.0%	3.4%	0.38%	0.29%	0.49%	0.23%
2025: Jul	2.8%	3.0%	1.9%	3.3%	0.25%	0.35%	0.74%	0.22%
2025: Aug	3.1%	3.2%	3.1%	3.3%	0.39%	0.41%	0.98%	0.23%
2025: Sep	3.2%	3.4%	3.7%	3.2%	0.30%	0.36%	0.74%	0.24%
2025: Oct	3.3%	3.4%	4.4%	3.1%	0.29%	0.36%	0.73%	0.25%
2025: Nov	3.3%	3.5%	4.5%	3.2%	0.17%	0.19%	0.00%	0.25%
2025: Dec	3.3%	3.5%	4.8%	3.1%	0.23%	0.19%	0.00%	0.25%
2026: Jan	3.1%	3.4%	4.3%	3.1%	0.23%	0.24%	-0.05%	0.33%
2026: Feb	2.8%	3.1%	3.9%	2.8%	0.14%	0.18%	-0.05%	0.26%
2026: Mar	3.0%	3.2%	4.1%	3.0%	0.20%	0.19%	-0.05%	0.26%
2026: Apr	3.1%	3.3%	4.0%	3.1%	0.21%	0.20%	0.00%	0.26%
2026: May	3.0%	3.2%	3.6%	3.1%	0.15%	0.20%	0.00%	0.26%
2026: Jun	2.9%	3.1%	3.1%	3.1%	0.27%	0.20%	0.00%	0.27%
2026: Jul	2.7%	3.0%	2.3%	3.2%	0.12%	0.20%	0.00%	0.27%
2026: Aug	2.5%	2.7%	1.3%	3.2%	0.20%	0.20%	0.00%	0.27%
2026: Sep	2.4%	2.6%	0.6%	3.2%	0.14%	0.18%	0.00%	0.24%
2026: Oct	2.2%	2.4%	-0.1%	3.2%	0.12%	0.17%	0.05%	0.22%
2026: Nov	2.2%	2.4%	-0.1%	3.2%	0.17%	0.17%	0.05%	0.22%
2026: Dec	2.2%	2.3%	0.0%	3.1%	0.22%	0.17%	0.05%	0.22%

Source: BEA, BofA Global Research estimates

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# Federal Reserve Balance Sheet

## Exhibit 12: Factors affecting reserve balances of depository institutions (H.4.1 Table 1)

The balance sheet of the Federal Reserve (\$bn, Wednesday, end of period values)

	28 May	7-day chg	4 week chg	Chg since June 1, 2022
<b>Supplying reserve funds (Federal Reserve assets)</b>				
Reserve Bank credit outstanding	6625.6	-15.8	-35.5	-2253.0
Securities held outright	6372.2	-12.9	-18.9	-2108.3
US Treasuries	4213.7	0.2	-2.1	-1557.0
Federal Agency	2.3	0.0	0.0	0.0
Mortgage-backed securities	2156.2	-13.1	-16.8	-551.3
Unamortized premiums on securities held outright	239.1	-0.7	-2.0	-98.1
Unamortized discounts on securities held outright	239.1	-0.7	-2.0	-98.1
Repurchase agreements	0.0	0.0	-0.1	0.0
Foreign official (FIMA repo facility)	0.0	0.0	0.0	0.0
Others	0.0	0.0	-0.1	0.0
Loans	3.8	0.2	-1.5	-16.9
of which:				
Discount window (primary and secondary credit)	2.0	0.2	-1.5	1.1
Paycheck protection program (PPPLF)	1.8	0.0	0.0	-18.0
Bank Term Funding Program (BTFP)	0.0	0.0	0.0	0.0
Other credit extensions	0.0	0.0	0.0	0.0
Other factors supplying reserve funds	-228.5	-1.7	-11.0	68.4
Total factors supplying reserve funds	6724.1	-15.9	-35.7	-2240.2
<b>Absorbing reserve funds (Federal Reserve liabilities)</b>				
Currency in circulation	2391.4	4.9	9.5	111.4
Reverse repo agreements	544.1	10.0	-88.0	-1686.4
Foreign official accounts	370.5	-0.9	-11.1	104.9
Others (ON RRP)	173.6	10.8	-77.0	-1791.4
Treasury cash holdings	0.5	0.0	0.0	0.4
Other deposits with Federal Reserve Banks	666.7	-41.6	-248.1	-361.7
of which:				
Treasury General Account	436.6	-39.3	-241.0	-343.9
Treasury contributions to credit facilities	2.0	-1.4	-1.4	-15.9
Other Federal Reserve liabilities and capital	-174.6	2.0	-1.4	-224.7
Factors absorbing reserves, other than reserves	3430.1	-26.1	-329.4	-2176.9
Reserve balances with Federal Reserve banks	3294.0	10.2	293.7	-63.4

Source: Federal Reserve, Haver Analytics, BofA Global Research. Note: Quantitative tightening began on June 1, 2022.

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