



Summary

U.S. stocks rallied on Friday and ended the week higher, ending a three-week losing streak. For the week, the Dow Jones Industrial Average increased 2.7%, the S&P 500 rose 3.6%, and the NASDAQ advanced 4.1%. Last week was light for economic data. The U.S. trade deficit contracted as exports

rose while imports fell. Initial unemployment claims for the week ending September 3 decreased 6,000 to 222,000, a three-month low. Wholesale inventories advanced 0.6% in July while wholesale sales were down 1.4%. Consumer credit rose \$23.8 billion in July as nonrevolving credit (mainly auto and

student loans) increased \$12.9 billion and revolving credit climbed \$10.9 billion. The ISM Services Index edged up 0.2 percentage points to 56.9%; the index has been above 50.0%, signaling an expansion in the services sector, for 27 consecutive months.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Services (Aug – Tu 10:00)	56.9%	55.2%	27 th straight month above 50
Trade Balance (Jul – We 8:30)	-\$70.6 Bil.	-\$70.2 Bil.	Imports fell while exports rose
Initial Unemployment Claims (9/3 – Th 8:30)	222 K	246 K	Lowest level since May
Continuing Claims (8/27 – Th 8:30)	1,473 K	NA	
Consumer Credit (Jul – Th 3:00)	+\$23.8 Bil.	NA	Both revolving and nonrevolving credit increased
Wholesale Inventories (Jul – Fr 10:00)	+0.6%	+0.8%	Wholesale sales declined 1.4%
Upcoming Week: Indicator	Consensus Expectation*	Last Period	Comment
Consumer Price Index (Aug – Tu 8:30)	-0.2%	-0.1%	
Core Consumer Price Index (Aug – Tu 8:30)	+0.4%	+0.3%	
Producer Price Index (Aug – We 8:30)	-0.1%	-0.5%	
Core Producer Price Index (Aug – We 8:30)	+0.3%	+0.2%	
Retail Sales (Aug – Th 8:30)	+0.0%	+0.0%	
Retail Sales ex-auto (Aug – Th 8:30)	+0.0%	+0.4%	
Initial Unemployment Claims (9/10 – Th 8:30)	233 K	222 K	
Continuing Claims (9/3 – Th 8:30)	NA	NA	Not available
Industrial Production (Aug – Th 9:15)	+0.0%	+0.6%	
Capacity Utilization (Aug – Th 9:15)	80.3%	80.3%	
Business Inventories (Jul – Th 10:00)	+0.6%	+1.4%	
Michigan Sentiment (Sep – Fr 10:00)	60.0	58.2	Preliminary estimate

*Sources: www.briefing.com and www.federalreserve.gov



Economic Review

The U.S. trade deficit contracted in July as exports increased and imports declined. The INTERNATIONAL TRADE DEFICIT decreased to \$70.6 billion in July from an upwardly revised \$80.9 billion in June. Exports advanced \$0.5 billion in July to \$259.3 billion. Goods exports were \$0.3 billion lower while exports of services increased \$0.8 billion. Imports decreased \$9.7 billion to \$329.9 billion; goods imports fell \$8.5 billion and imports of services declined \$1.2 billion. Compared with a year ago, the total deficit was \$1.3 billion higher with exports rising \$45.2 billion or 21.1% and imports climbing \$46.4 billion or 16.4%.

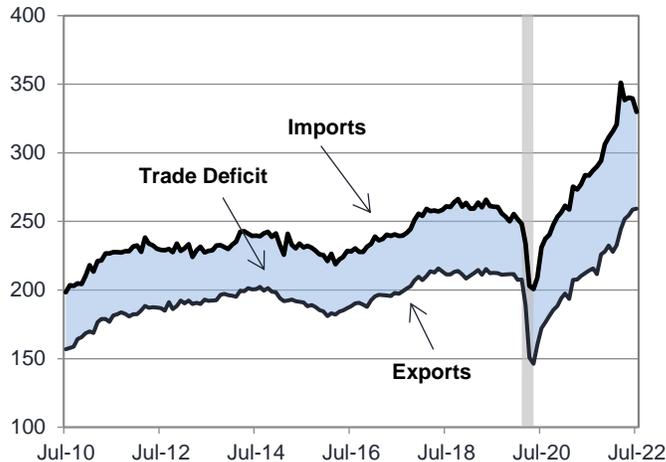
Consumer credit increased at a healthy pace in July as both revolving and non-revolving credit rose. CONSUMER CREDIT OUTSTANDING expanded \$23.8 billion in July after climbing a downwardly revised \$39.1 billion in June. At a seasonally adjusted annualized rate, consumer credit increased 6.2%. Non-revolving credit (mainly auto and school loans) was up \$12.9 billion in July; revolving credit (mainly credit cards) climbed \$10.9 billion.

First-time jobless claims declined unexpectedly last

week. INITIAL UNEMPLOYMENT CLAIMS decreased 6,000 to 222,000 for the week ending September 3. The four-week moving average of initial claims was down 7,500 to 233,000. CONTINUED BENEFITS fell 36,000 to 1,473,000 for the week ending August 27. The four-week moving average, a better measure of underlying trends, increased 10,750 to 1,439,000.

Wholesale inventories increased in July while wholesale sales declined. After rising 1.8% in June, WHOLESALE INVENTORIES were up 0.6% in July and climbed 25.1% on a year-over-year basis. Durable inventories rose 1.0% in July—led by a 1.8% increase in machinery inventories—while nondurable inventories edged down 0.1%. Wholesale sales decreased 1.4% in July after advancing 1.6% in June. Demand at the wholesale level for durable goods rose 0.6% while sales of nondurable goods fell 3.2%. The inventory-to-sales ratio, which measures how long it would take to clear shelves at the current sales pace, increased to 1.29 in July.

U.S. Trade Balance \$ Billions



Consumer Credit Percent Change, Year-Over-Year



Initial Unemployment Claims Thousands, 4-Week Moving Average





Fed Speeches

Federal Reserve Bank of Cleveland President and CEO Loretta Mester spoke via videoconference on the Market News International webcast last week. President Mester, who is currently a Federal Open Market Committee voting member, said the Fed's actions will slow down the U.S. economy.

President Mester does not, however, expect the U.S. economy to contract due to the central bank's rate hikes.

At this point, I have not incorporated a recession into my baseline outlook for the U.S., but instead expect a fairly sharp slowing in activity, especially when compared to the

“This will entail further rate increases to tighten financial conditions, resulting in an economic transition to below-trend growth in nominal output, slower employment growth, and a higher unemployment rate.”

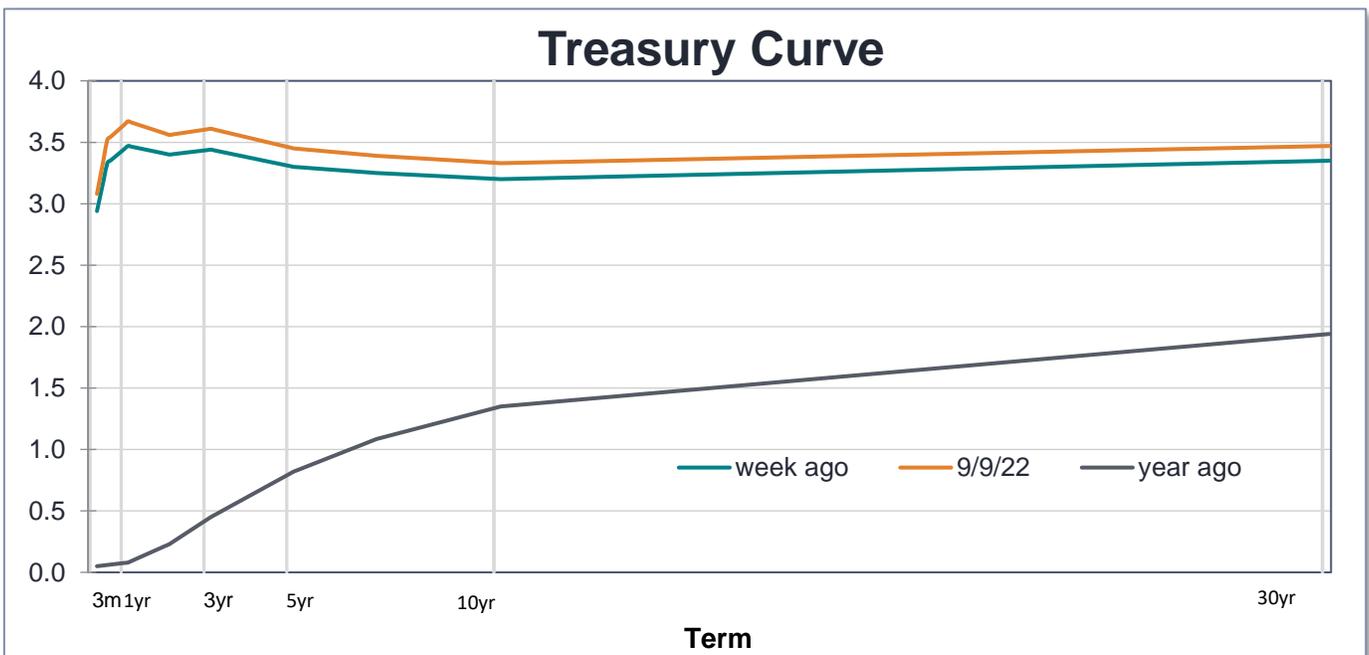
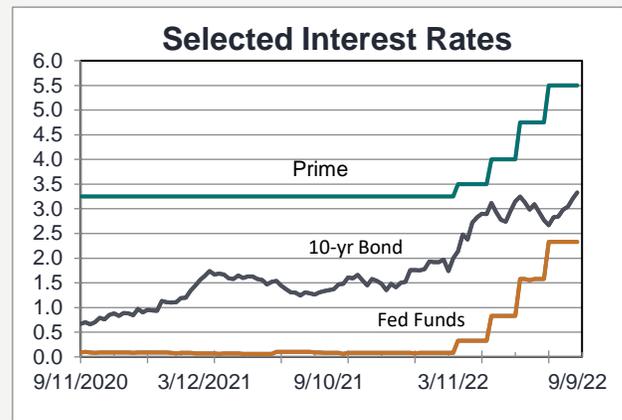
Federal Reserve Bank of Cleveland President and CEO Loretta Mester

Given the current rate of inflation, I believe that the Fed has more work to do in order to get inflation under control. This will entail further rate increases to tighten financial conditions, resulting in an economic transition to below-trend growth in nominal output, slower employment growth, and a higher unemployment rate.

robust growth the U.S. experienced in 2021. While there is considerable uncertainty, I currently expect that the U.S. economy will return to positive growth in the second half of the year, but for this year as a whole and for next year, I expect growth to run will below 2 percent which is my estimate of trend growth.

Financial Markets

U.S. stocks ended last week higher with the Dow Jones Industrial Average rising 2.7%, the S&P 500 increasing 3.6%, and the NASDAQ advancing 4.1%. Treasury yields were higher across the curve; the 10-year yield rose 13 basis points (bps) to 3.33% and the 30-year yield increased 12 bps to 3.47%. Oil prices were down 0.9% and ended the week at \$86.23 per barrel. The U.S. dollar advanced 2.2% against the Japanese yen while the euro rose 0.9% against the greenback last week.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 2.25% to 2.50% at the Fed's July policy meeting. In the statement released following the July meeting, the FOMC said, "Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months and the

unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances

related to the pandemic, higher food and energy prices, and broader price pressures." The statement

went on to say that the Committee "anticipates that ongoing increases in the target range will be appropriate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3 rd Qtr '22	5.28	2.13	2.08	3.02	3.12	2.84	3.09	5.20
4 th Qtr	6.50	3.38	3.38	3.90	3.88	3.69	3.75	5.53
1 st Qtr '23	7.50	4.38	4.41	4.56	4.65	4.58	4.65	6.11
2 nd Qtr	7.50	4.38	4.41	4.41	4.51	4.55	4.58	6.01
3 rd Qtr	7.50	4.38	4.41	4.32	4.38	4.42	4.45	5.94

*Forecast as of August 29, 2022

FINANCIAL MARKET SUMMARY

	As of 9/9/2022	As of 9/2/2022	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	5.50	5.50	0	0	150
LIBOR Index Base Rate (1Month)	2.68	2.56	12	30	149
Fed Funds (Wed close)	2.33	2.33	0	0	150
TREASURIES (BE) (Changes in BPs)					
3 Months	3.08	2.94	14	45	169
6 Months	3.52	3.33	19	39	154
1 Year	3.67	3.47	20	41	109
2 Years	3.56	3.40	16	31	50
5 Years	3.45	3.30	15	48	20
10 Years	3.33	3.20	13	49	18
30 Years	3.47	3.35	12	35	27
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.37	2.35	2	60	59
5-Year Muni	2.42	2.38	4	55	31
10-Year Muni	2.73	2.68	5	86	13
30-Year Muni	3.54	3.46	8	53	44
30-Year Conventional Mortgage	5.89	5.66	23	67	66
MARKET INDICATORS (Changes in %)					
DJIA	32,151.71	31,318.44	2.7	(4.8)	2.4
S&P 500	4,067.36	3,924.26	3.6	(5.0)	4.3
NASDAQ	12,112.31	11,630.86	4.1	(7.2)	6.8
CRB Futures	304.55	304.76	(0.1)	(3.0)	(12.3)
Oil (WTI Crude)	86.23	87.00	(0.9)	(6.1)	(28.4)
Gold	1,726.90	1,720.90	0.3	(4.9)	(7.9)
Yen / Dollar	142.65	139.56	2.2	6.9	6.1
Dollar / Euro	1.00	1.00	0.9	(2.1)	(4.5)



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