Summary

The major U.S. equity indices ended mixed for the week. The Dow Jones Industrial Average gained 0.6%, while the S&P 500 and the NASDAQ lost 0.3% and 1.9%, respectively.

Last week, the government released two important measures of inflation in the United States. On Wednesday we learned that the Consumer Price Index increased year-over-year by 3.2% compared to 3.0% in June. The increase was not due to an acceleration in the price level (the monthly change of 0.2% between June and July was smaller than the average monthly change in the index for 2023) but to the fact that last year, the index did not change between June and July. The Producer Price Index (PPI), which is a measure of wholesale prices, increased 0.3% from the previous month, slightly more than expected (+0.2%). PPI is considered a leading indicator of future price levels. Americans are feeling more optimistic about inflation. According to the preliminary August reading from the University of Michigan Consumer Sentiment Index, respondents expect prices will climb at a 3.3% rate over the next year, down from the 3.4% expected in July.

Consumer credit increased by $17.9 billion in June following an upwardly revised $9.4 billion gain in May. The credit expansion in June was driven entirely by nonrevolving credit. June marked the first drop in revolving credit since April 2021. The trade deficit narrowed to $65.5 billion in June from an upwardly revised $68.3 billion (from -$69.0 billion) in May. Exports were $0.3 billion less than May exports and imports were $3.1 billion less than May imports.

The July Treasury Budget showed a deficit of $220.8 billion compared to a deficit of $211.1 billion in the same period a year ago. The deficit in July resulted from outlays ($496.9 billion) exceeding receipts ($276.2 billion).

Initial jobless claims for the week ending August 5 increased 248,000, 18,000 more than expected, raising the four-week moving average by 2,750 to 231,000. Continuing jobless claims for the week ending July 29 decreased 8,000 to 1.684 million.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Consumer Credit (Jun – Mo 15:00)	+$17.9B	+$13.0B	
Trade Balance (Jun – Tu 8:30)	-$65.5B	-$65.1B	
MBA Mortgage Applications Index (8/05 – We 7:00)	-3.1%	NA	
CPI (Jul – We 8:30)	+0.2%	+0.2%	Core CPI: +0.2%
Initial Claims (8/05 – Th 8:30)	248K	230K	
Continuing Claims (7/29 – Th 8:30)	1684K	NA	Prior: 1692K
Treasury Budget (Jul – Th 8:30)	-$221.0B	NA	Prior: -$227.8B
PPI (Jul – Fr 8:30)	+0.3%	+0.2%	Core CPI: +0.3%
U. Michigan Consumer Sentiment - Prelim (Jul – Fr 10:30)	71.2	70.9	Year-ahead inflation expectations: 3.3%
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Retail Sales	+0.4%	+0.2%	
Export Prices	NA	-0.2%	
Import Prices	NA	-0.9%	
Business Inventories	+0.1%	+0.2%	
NAHB Housing Market Index	56	56	
MBA Mortgage Applications Index	NA	-3.1%	
Housing Starts	1446 TUAR	1434 TUAR	
Building Permits	1460 TUAR	1440 TUAR	
Industrial Production	+0.3%	-0.5%	
Capacity Utilization	79.0%	78.9%	
Initial Claims	240K	248K	
Continuing Claims	NA	1684K	
Leading Indicators	-0.4%	-0.7%	

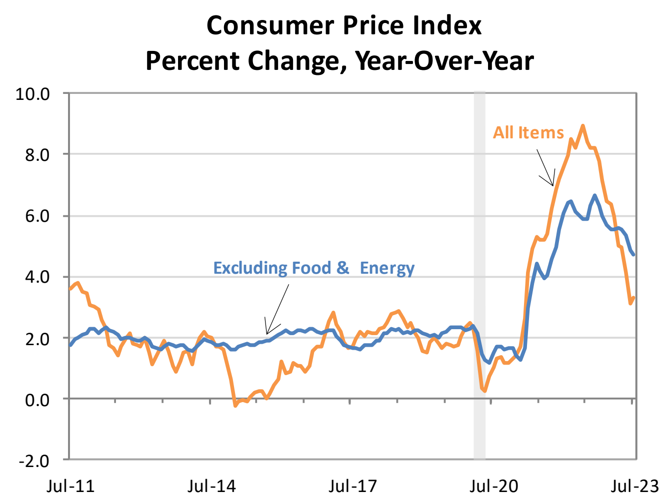
**Sources: www.briefing.com and www.federalreserve.gov*

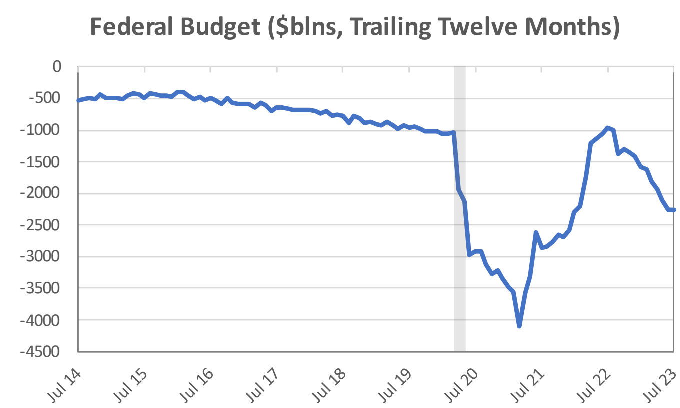
Economic Review

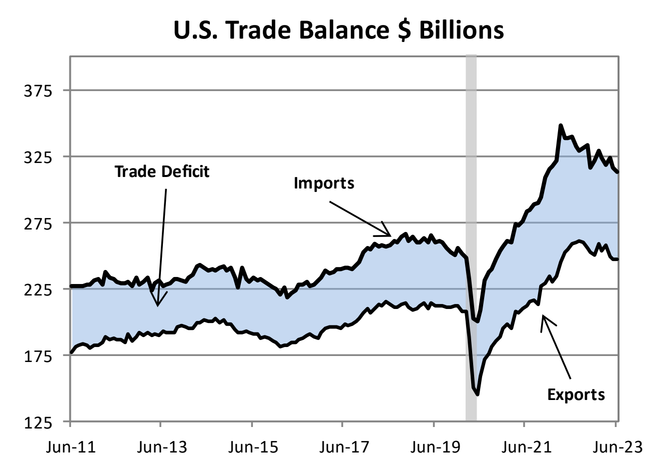
On a yearly basis, the CONSUMER PRICE INDEX (CPI) was up 3.2% in July, compared to 3.0% in June. Excluding volatile food and energy prices, CORE CPI for July (+4.7%) was down from June (+4.8%). The shelter index continues to be the main driver of inflation. In fact, it accounted for more than 90% of the increase in the all-items index and the all-items index less shelter was up just 1.0% year-over-year. The shelter index was up 0.4% from June and 7.7% yearly. The energy index is down 12.5% year-over-year, but recent increases in oil and gas prices may lead to a reversal of the trend in the future. The used cars and trucks index was down 1.3% month-over-month, and 5.6% lower year-over-year.

The July TREASURY BUDGET showed a deficit of $220.8 billion and a total deficit over the last 12 months of $2,262 billion. In July, the U.S. government spent $496.9 billion. The largest outlays were Social Security ($116 billion) followed by Education ($86 billion), Health ($67 billion), Net Interest ($67 billion), and National Defense ($56 billion). During the same month, the U.S. government collected $276.2 billion. Receipts from individual income tax were $132 billion. Social insurance and retirement receipts totaled $119 billion. Corporate income tax receipts were $14 billion. Fiscal-year-to-date Net Interest is now up 37% from the period during the last fiscal year, as a result of the higher interest rates.

The TRADE DEFICIT narrowed to $65.5 billion in June. Both imports and exports were down in June compared to May, but imports (-$3.1 billion) were down more than exports (-$0.3 billion). The June decrease in the goods and services deficit reflected a decrease in the goods deficit of $2.8 billion to $88.2 billion and a decrease in the services surplus of less than $0.1 billion to $22.7 billion. The deficit with China declined $2.1 billion to $22.8 billion in June. Exports to China decreased $0.2 billion to $10.7 billion and imports from dropped $2.3 billion to $33.5 billion. The lack of growth in exports and imports is indicative of weaker demand overall at home and abroad.







Fed Speeches

In her opening remarks at "Fed Listens: Community Listening Session" hosted by the Federal Reserve Bank of Atlanta, Governor Michelle W. Bowman emphasized the unequal impact of inflation on lower and middle-income families:

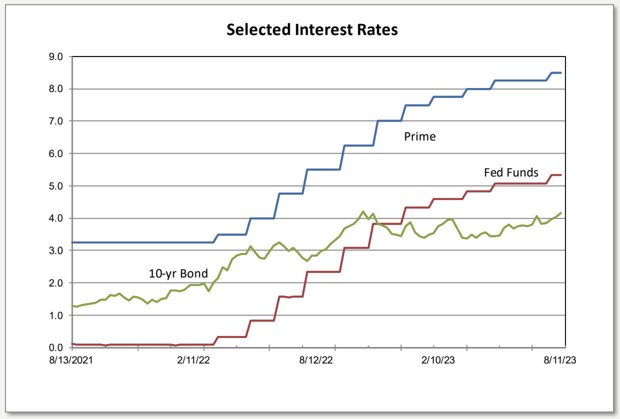
> *Over the past few years, for many, wage and salary increases have not kept up with inflation, and while that general pattern has improved recently, most workers still have not seen wage increases equal to price increases. For workers at the lower end of the wage spectrum, wage gains have been the strongest seen in decades. However, because necessities like groceries and gasoline make up a large share of their household expenses, lower-wage workers have been experiencing the effects of higher prices more acutely than others.*

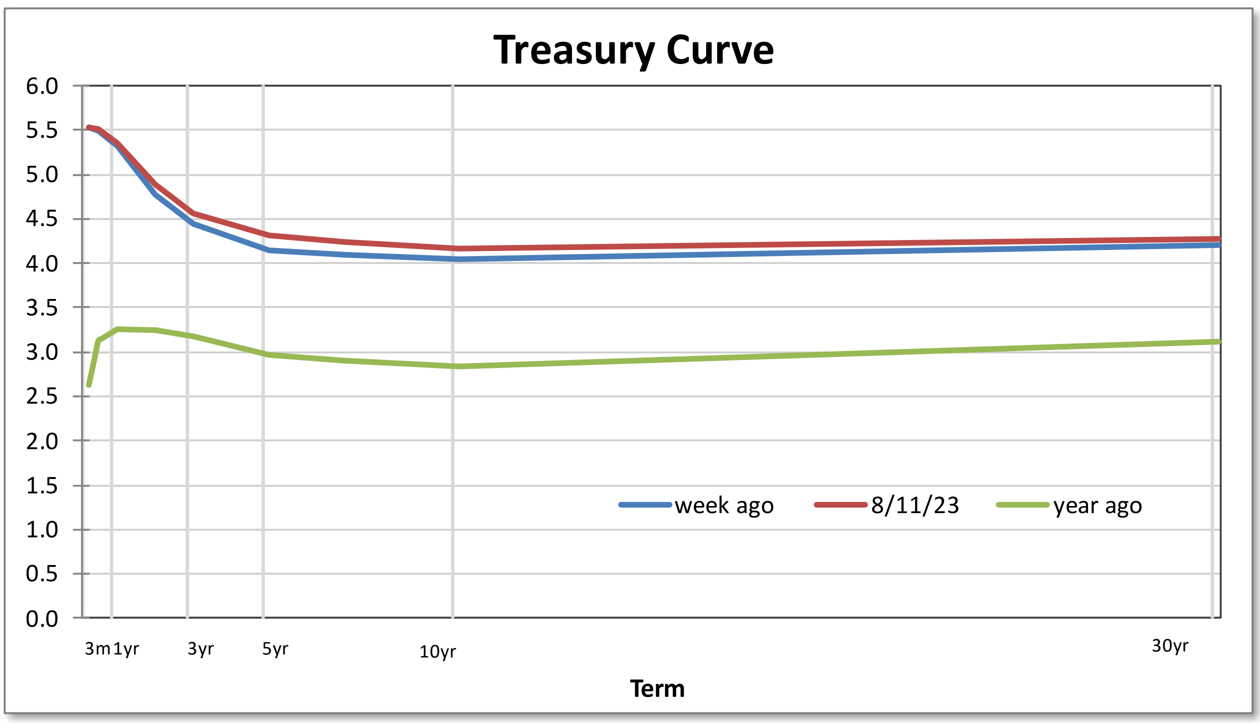
While reiterating the commitment she shares with the central bank to bringing down inflation, Governor Bowman expressed concerns about the risk from a potential economic downturn:

> *Small businesses are also more vulnerable to an economic slowdown than larger businesses, and I am watching carefully to see how they are dealing with both inflation and higher interest rates.*

Financial Markets

Financial markets ended mixed for the week. On Wall Street, the Dow Jones Industrial Average gained 0.6%, but the S&P 500 lost 0.3% and the NASDAQ dropped 1.9%. Yields on Treasury securities inched up while yields on municipal bonds fell. The U.S. dollar fared well on the international market, trading 0.4% higher against the Japanese Yen and up 0.5% against the euro. Oil prices rose 0.3% and ended the week at $83.06 per barrel, the highest level since last November.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 5.25% to 5.50% at the Fed's July policy meeting. In the statement released following the July meeting, the FOMC said, "Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr '23	8.4	5.3	5.3	5.6	4.9	4.0	4.1	6.9
4th Qtr	8.7	5.6	5.6	5.8	5.1	4.5	4.4	7.0
1st Qtr '24	8.7	5.6	5.6	5.8	5.3	4.9	5.0	6.9
2nd Qtr	8.6	5.5	5.4	5.7	5.5	5.5	5.6	6.7
3rd Qtr	8.2	5.0	5.0	5.3	5.5	5.6	5.6	6.7

**Forecast as of July 26, 2023*

FINANCIAL MARKET SUMMARY

	As of 8/11/2023	As of 8/4/2023	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	25	25
Secured Overnight Financing Rate (SOFR)	5.30	5.30	0	24	25
Fed Funds (Wed close)	5.33	5.33	0	25	25
TREASURIES (BE) (Changes in BPs)					
3 Months	5.54	5.54	0	5	29
6 Months	5.52	5.50	2	0	36
1 Year	5.36	5.33	3	2	61
2 Years	4.89	4.78	11	15	91
5 Years	4.31	4.15	16	27	86
10 Years	4.16	4.05	11	33	70
30 Years	4.27	4.21	6	34	49
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.09	3.14	(5)	19	40
5-Year Muni	2.77	2.81	(4)	17	43
10-Year Muni	2.71	2.75	(4)	11	39
30-Year Muni	3.75	3.79	(4)	18	30
30-Year Conventional Mortgage	6.96	6.90	6	0	61
MARKET INDICATORS (Changes in %)					
DJIA	35,281.40	35,065.62	0.6	2.2	5.9
S&P 500	4,464.05	4,478.03	(0.3)	(0.9)	8.2
NASDAQ	13,644.85	13,909.24	(1.9)	(3.3)	11.1
CRB Futures	313.01	312.38	0.2	3.7	9.9
Oil (WTI Crude)	83.06	82.82	0.3	12.5	16.4
Gold	1,913.28	1,942.91	(1.5)	(2.6)	(4.9)
Yen / Dollar	141.76	141.17	0.4	(0.3)	5.1
Dollar / Euro	1.09	1.10	(0.5)	(2.5)	0.9