Summary

Last week was not a good week for the U.S. stock market with all major equity indices losing ground. The Dow Jones Industrial Average dropped 2.2%, the S&P 500 retreated 2.1%, and the NASDAQ shed 2.6%.

Last week on Monday we learned that retail sales in July were up 0.7% from a month ago. This reading was above expectations of 0.4%. Excluding autos, sales were up even higher (+1.0%). Overall, the report from the U.S. Census Bureau indicates that discretionary spending on goods remained healthy in July. Business inventory was flat from June to July, but industrial production was up 1%, beating analysts' expectations of a more modest increase (+0.3%). The capacity utilization rate was also up in July. Factories were running at 79.3% capacity, a jump from 78.6% in June.

Last week we also received several important reports about the housing sector. Housing starts increased 3.9% month-over-month in July to a seasonally adjusted annual rate of 1.452 million units, but building permits increased only to a seasonally adjusted annual rate of 1.442 million, a level lower than the 1.460 million expected. The NAHB index dropped in August to 50 from 56 in July, a deterioration stemming from a housing shortfall and affordability crisis. Mortgage applications for the week ending on August 12 slipped another 0.8% after dropping 3.1% the week before.

Initial jobless claims for the week ending August 12 decreased 11,000 to 239,000 (close to analysts' expectations). Continuing jobless claims for the week ending July 29 increased 32,000 to 1.716 million.

After dropping for two consecutive months, the price index for U.S. imports increased 0.4% month-over-month in July. Export prices advanced 0.7% in July. Over the past year, import prices declined 4.4% and export prices fell 7.9%. The Conference Board Leading Economic Indicators fell another 0.4% after dropping 0.7% in June. The index has been in decline for sixteen months now.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Retail Sales (Jul – Tu 8:30)	+0.7%	+0.4%	Except auto: +1.0%
Export Prices (Jul – Tu 8:30)	+0.4%	NA	
Import Prices (Jul – Tu 8:30)	+0.7%	NA	
Business Inventories (Jul – Tu 10:)	0.0%	+0.1%	
NAHB Housing Market Index (Aug – Tu 10:00)	50	56	Prior: 50
MBA Mortgage Applications Index (8/12 – We 7:00)	-0.8%	NA	Prior: -3.1%
Housing Starts (Jul – We 8:30)	1452 TUAR	1446 TUAR	Prior: 1398 TUAR
Building Permits (Jul – We 8:30)	1442 TUAR	1460 TUAR	
Industrial Production (Jul – We 9:15)	+1.0%	+0.3%	
Capacity Utilization (Jul – We 9:15)	79.3%	79.0%	Prior: 78.6%
Initial Claims (8/12 – Th 8:30)	239K	240K	
Continuing Claims (8/05 – Th 8:30)	1716K	NA	
Leading Indicators (Jul – Th 8:30)	-0.4%	-0.4%	
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Existing Home Sales (Aug – Tu 10:00)	4.15 MUAR	4.16 MUAR	
New Home Sales (Aug – We 10:00)	701 TUAR	697 TUAR	
MBA Mortgage Applications Index (8/19– We 7:00)	NA	-0.8%	
Initial Claims (8/19 – Th 8:30)	236K	239K	
Continuing Claims (8/12 – Th 8:30)	NA	1716K	
Durable Orders (Aug – Tu 8:30)	+0.2%	+0.6%	
Univ. of Michigan Consumer Sentiment - Final	71.2	71.2	

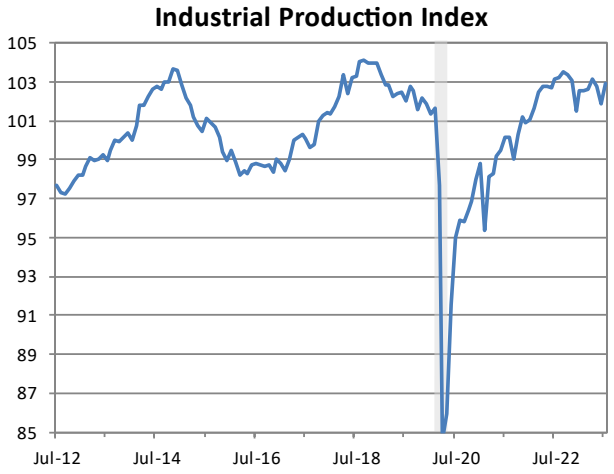
**Sources: www.briefing.com and www.federalreserve.gov*

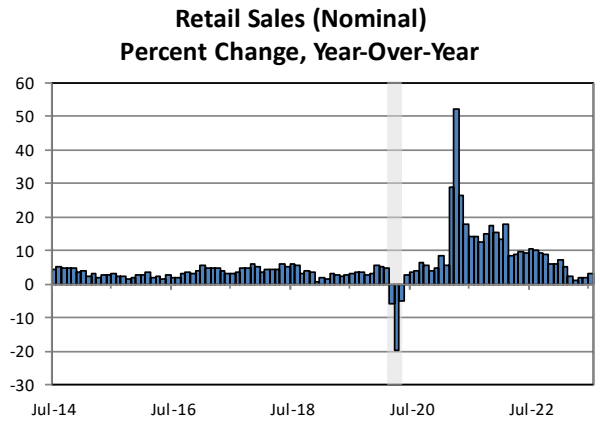
Economic Review

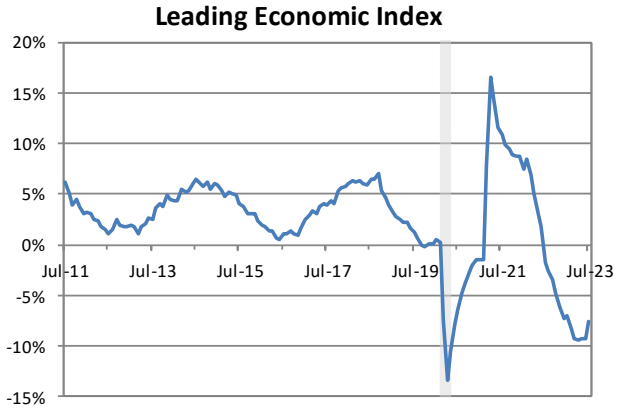
The INDUSTRIAL PRODUCTION index increased 1.0% month-over-month in July following a downwardly revised 0.8% decline in June. The index is down 0.2% from July 2022. All major categories were up for the month. Manufacturing output increased 0.5% following a 0.5% decline in June. Motor vehicle assemblies led the July increase, spiking 8.8% to a seasonally adjusted annual rate of 11.87 million units from 10.91 million in June. The output of utilities surged 5.4% following a 3.0% decline in June, as very high temperatures in July increased demand for cooling. Mining production increased 0.5% following a 0.9% decline in June.

RETAIL SALES increased 0.7% month-over-month and totaled $696.4 billion in July. The results were powered by a big month of gains in nonstore retailer sales (+1.9%) and food services and drinking places (+1.4%). Sales are now 3.1% up from a year ago. This rise, however, is entirely due to inflation. After adjusting for inflation, sales are down 1.3%. Durable goods were mostly down last month, except for building materials (+0.7%). Motor vehicles and parts dealer sales were down 0.3%), furniture and home furnishings store sales were down 1.8%, and electronic and appliances store sales fell 1.3%. Among durable goods, sales in general merchandising and food stores were both up 0.8%. Gasoline station sales were up 0.4% and clothing and clothing accessories store sales increased 1.0%.

The Conference Board LEADING ECONOMIC INDEX declined 0.4% in June and is now 7.5% below its reading a year ago. The Leading Indicator Index provides an early indication of a significant downturn in the economy. The index has been declining for 16 months, the longest streak of consecutive decreases since the Great Recession and now the Conference Board predicts a recession from Q4 2023 to Q1 2024. In July, weak new orders, high interest rates, a dip in consumer perceptions of the outlook for business conditions, and decreasing hours worked in manufacturing fueled the leading indicator's 0.4% decline.







Fed Speeches

On Wednesday of last week, the FOMC released the minutes of the July meeting, when the Committee last raised the federal funds target rate to 5.25% to 5.5%. The FOMC feels quite confident that the U.S. economy will avoid a recession:

> *Since the emergence of stress in the banking sector in mid-March, indicators of spending and real activity had come in stronger than anticipated; as a result, the staff no longer judged that the economy would enter a mild recession toward the end of the year. However, the staff continued to expect that real GDP growth in 2024 and 2025 would run below their estimate of potential output growth, leading to a small increase in the unemployment rate relative to its current level.*

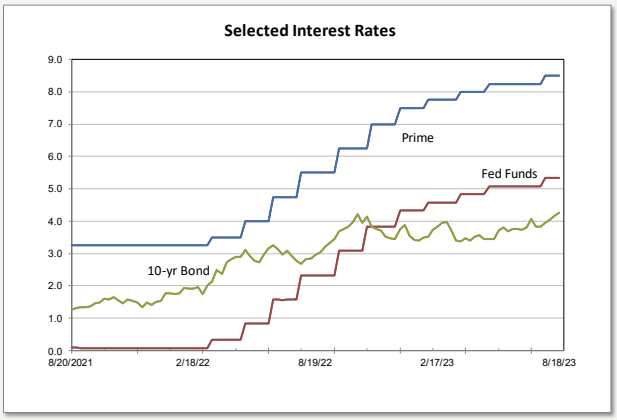
While the possibility of further rate hikes is still on the table, a minority of committee members think that the Fed's job is done (or close to):

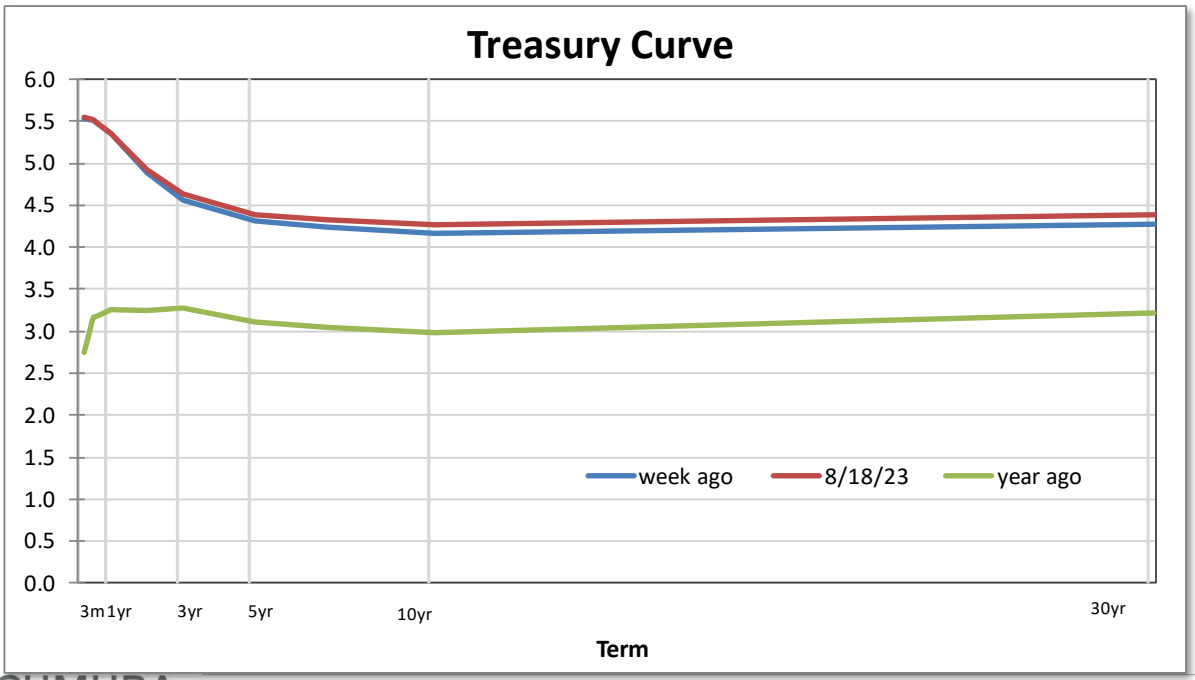
> *A number of participants judged that, with the stance of monetary policy in restrictive territory, risks to the achievement of the Committee's goals had become more two sided, and it was important that the Committee's decisions balance the risk of an inadvertent overtightening of policy against the cost of an insufficient tightening.*

In the July meeting, two voting members already indicated that they would have favored leaving the rate unchanged, although they voted in favor.

Financial Markets

Financial markets ended lower for the week. On Wall Street, the Dow Jones Industrial Average lost 2.2%, the S&P 500 dropped 2.1%, and the NASDAQ fell 2.6%. Yields on Treasury securities and municipal bonds inched up, with larger gains for long-term investments. The U.S. dollar continued strengthening on the international market, gaining 2.2% against the Japanese yen and 0.7% against the euro. Oil prices dropped 2.1% and ended the week at $81.30 per barrel. The price of gold decreased 1.3%.





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 8/18/2023	As of 8/11/2023	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	5.55	5.54	1	5	26
6 Months	5.52	5.52	0	(1)	16
1 Year	5.35	5.36	(1)	0	33
2 Years	4.92	4.89	3	10	64
5 Years	4.38	4.31	7	29	62
10 Years	4.26	4.16	10	42	56
30 Years	4.38	4.27	11	47	43
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.16	3.09	7	31	18
5-Year Muni	2.86	2.77	9	33	23
10-Year Muni	2.83	2.71	12	30	29
30-Year Muni	3.87	3.75	12	36	25
30-Year Conventional Mortgage	7.09	6.96	13	31	70
MARKET INDICATORS (Changes in %)					
DJIA	34,500.66	35,281.40	(2.2)	(2.1)	3.2
S&P 500	4,369.71	4,464.05	(2.1)	(3.7)	4.2
NASDAQ	13,290.78	13,644.85	(2.6)	(5.3)	5.0
CRB Futures	308.57	313.01	(1.4)	0.1	6.5
Oil (WTI Crude)	81.30	83.06	(2.1)	7.8	15.9
Gold	1,888.66	1,913.28	(1.3)	(3.7)	(4.5)
Yen / Dollar	144.93	141.76	2.2	4.4	6.8
Dollar / Euro	1.09	1.09	(0.7)	(2.3)	0.6