Summary

Last week was a good week for Wall Street. All major equity indices ended on a positive note. The Dow Jones Industrial Average gained 1.4%, the S&P 500 rose 2.5%, and the NASDAQ advanced 3.2%.

The second estimate for 2nd quarter GDP (+2.1% annualized) came in lower than the advance estimate (+2.4%) but still reflects moderate economic growth. The GPD deflator for the same period also was revised lower to +2.5% from +2.6%.

Unemployment jumped to 3.8% from 3.5% in July, driven by a increase in the labor force more than massive layoffs. In the week ending August 26, there were only 228,000 new jobless claims, 10,000 fewer than anticipated. Continuing claims for the week ending August 19 increased 28,000 to 1.725 million. Employers are not hiring as aggressivily as last year. According to the Job Openings and Labor Turnover Survey (JOLTS) report, there were 8.8 million job openings on the last business day of July, down from 11.4 million a year ago. Employers added 187,000 new workers to their payrolls in August. While this number was higher than expected, the estimates for the months of June and July were significatly revised down by 80,000 and 30,000, respectively.

Wage growth is also moderating, which is most likely reassuring the Fed that wage inflation is not going to fuel prices in the future. However, the July PCE index (the Fed's preferred rate of inflation) inched up on a year-over-year basis to 3.3% from 3.0% in June. Excluding volatile energy and food prices, the Core PCE Index increased from 4.1% in June to 4.2% in July.

Personal Income increased 0.2% month-over-month in July, but disposable income remained flat. After adjusting for inflation, real disposable personal income in July was down 0.2% from the previous month. Consumer spending in July continued to show resilience. It was up 0.8% in nominal terms (and 0.6% in real terms) from the month before.

Home prices continue to grow. The S&P Case-Shiller Home Price Index increased 0.7% in June on a month-over-month basis. Construction spending also advanced 0.7% in July. The availability of more housing in the future should resolve some housing shortages issues and cool off prices.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
S&P Case-Shiller Home Price Index (Jun – Tu 9:00)	+0.7%	NA	
Consumer Confidence (Aug – Tu 10:00)	106.1	116.5	
JOLTS - Job Openings (Jul – Tu 10:00)	8.827M	NA	
GDP - Second Estimate (Q2 – We 8:30)	+2.1%	+2.4%	GDP deflator: +2.0%
Initial Claims (8/26 – Th 8:30)	+228K	238K	
Continuing Claims (8/19 – Th 8:30)	1,725K	NA	
Personal Income (Jul – Th 8:30)	+0.2%	+0.3%	Real Personal Income: -0.2%
Personal Spending (Jul – Th 8:30)	+0.8%	+0.6%	
PCE Prices (Jul – Th 8:30)	+0.2%	+0.2%	Core PCE Prices: +0.2%
Nonfarm Payrolls (Aug – Fr 8:30)	+187K	+175K	Nonfarm Private: 179K
Avg. Hourly Earnings (Aug – Fr 8:30)	+0.2%	+0.3%	
Unemployment Rate (Aug – Fr 8:30)	3.8%	3.6%	6.4 million unemployed
Construction Spending (Jul – Fr 10:00)	+0.7%	+0.6%	
ISM Manufacturing Index (Aug – Fr 10:00)	47.6%	46.7%	
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Factory Orders (Jul – Tu 10:00)	-2.4%	2.3%	
Trade Balance (Jul – We 8:30)	-$68.0B	-$65.5B	
ISM Non-Manufacturing Index (Jul – We 10:00)	52.4%	52.7%	
Initial Claims (9/2 – Th 8:30)	233K	228K	
Continuing Claims (8/26 – Th 8:30)	NA	1,725K	Not available
Productivity-Rev. (Q2 – Th 8:30)	+3.7%	+3.7%	
Unit Labor Costs-Rev. (Q2 – Th 8:30)	+1.6%	+1.6%	
Consumer Credit (Jul – Fr 15:00)	+$15.8B	+$15.8B	

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

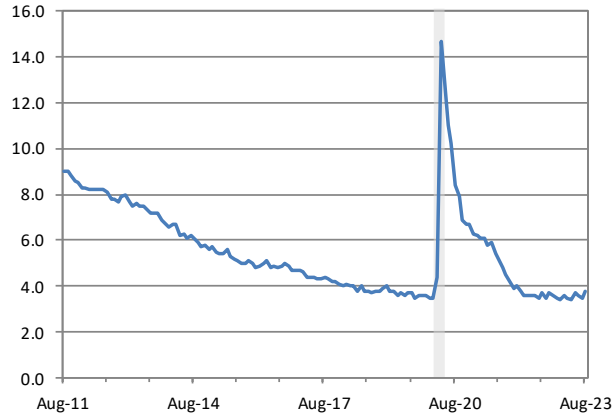
Economic Review

The UNEMPLOYMENT RATE rose 0.3 percentage points in August to a seasonally adjusted 3.8%, the highest since February 2022. The increase was driven mostly by an increase in labor force participation rather than a surge in layoffs. The labor force participation rate rose 0.2 percentage points. The unemployment rate jumped higher for men (+0.4 percentage points to 4.0%) than for women (+0.1 percentage point to 3.5%). Among major racial/ethnic groups, the jobless rate was higher for White (+0.3 percentage points to 3.4%), Hispanic (+0.5 percentage points to 4.3%), and Asians (+0.8 percentage points to 3.1). The unemployment rate declined for Blacks (-0.5 percentage points to 5.3%). The number of long-term unemployed (those jobless for 27 weeks or more) edged up in August to 1.3 million. The long-term unemployed accounted for 20.3% of all unemployed persons.

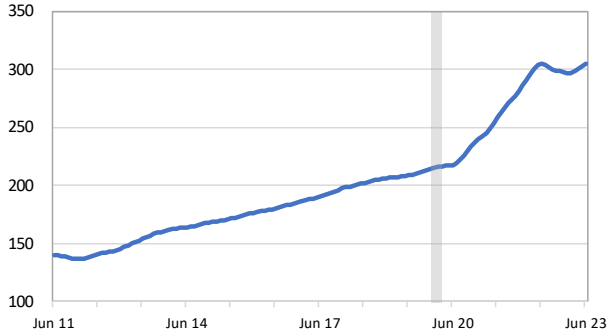
Home prices have been increasing again since the spring. The seasonally adjusted S&P/CASE SHILLER HOME PRICE INDEX grew another 0.7% month over month in June and now home prices are only 0.1% from their peak a year ago. The negative year-over-year price change is driven by the West, where prices are still below their levels a year ago (prices are down 9.8% in San Francisco, 8.8% in Seattle, 7.6% in Phoenix, 8.2% in Las Vegas; 4.4% in Denver; and 1.9% in Los Angeles). Prices have surpassed their levels a year ago in the rest of the country (prices are up 4.1% in Chicago and prices in Cleveland were up 4.1%, 2.1% in Atlanta, 2.4% in Miami, 3.4% in New York City, 0.8% in Boston, and 0.6% in Washington, D.C.).

JOB OPENINGS are on a downward trend. On the last business day of July, there were 8.8 million unfilled positions in the United States, 4% down from June and 22% from a year ago. Over the month, job openings decreased in professional and business services (-198,000); health care and social assistance (-130,000); state and local government (-129,000); and federal government (-27,000). By contrast, job openings increased in information (+101,000); and transportation, warehousing, and utilities (+75,000). The number of new HIRES is also moderating. In July, firms hired 5.8 million workers, down from 5.9 million in June. Hiring is now at pre-pandemic levels.

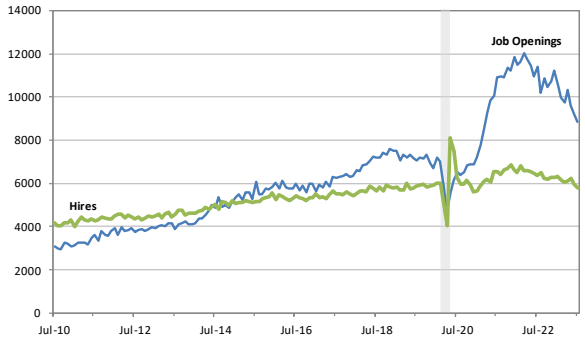
Unemployment Rate



S&P/Case-Shiller U.S. National Home Price Index



Job Openings and Hires (in thousands)



Fed Speeches

Loretta Mester, President and CEO of the Federal Reserve Bank of Cleveland, spoke at the "Inflation: Drivers and Dynamics 2023 Conference" hosted by the Central European Bank. In her speech, President Mester acknowledged that the Fed was late in recognizing that inflation was going to persistent.

> *"When the economy reopened after the pandemic-induced shutdown, U.S. monetary policymakers attributed much of the increase in inflation to supply shocks that were expected to be transitory, with inflation expected to return to its low pre-pandemic trend."*

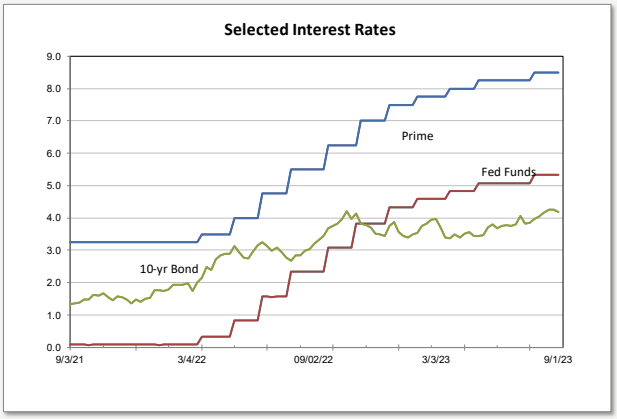
One of the questions she addressed in her remarks relates to how monetary policy makers should respond to supply shocks. She noted that there is no consensus on the matter, because price behavior depends on expectations which are not directly observable:

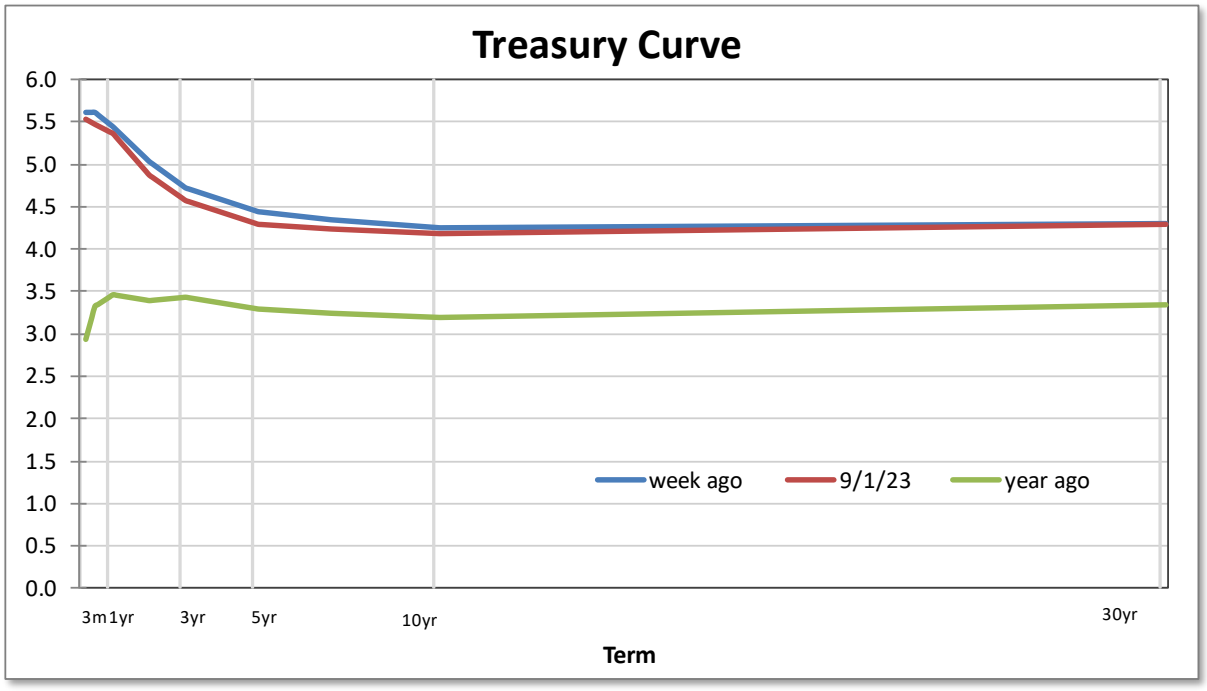
> *"Where prices are more flexible than wages and agents have bounded rationality rather than fully rational expectations with respect to inflation, policy may want to respond more aggressively to supply shocks when inflation is already high."*

However, she pointed to other models based on different types of expectations, which suggest that policymakers are better off responding earlier to signs that inflation is rising rather than delaying and only then responding aggressively.

Financial Markets

Last week, the stock market posted major gains but yields on fixed-income securities were lower across the board. The Dow Jones Industrial Average advanced 1.4%, the S&P 500 gained 2.5%, and the NASDAQ rose 3.2%. The 30-year conventional mortgage rate shaved 5 basis points from its highest level in more than 20 years last week. The U.S. dollar gained 0.8% against the Japanese Yen and 0.2% against the euro. Oil prices rose 7.4% as OPEC countries agreed to cut production and ended the week at $85.87 per barrel. The price of gold rose 1.4%.





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	5.25	5.6	4.9	4.1	4.2	6.9
4th Qtr	8.7	5.6	5.60	5.8	5.2	4.6	4.7	7.1
1st Qtr '24	8.7	5.6	5.60	5.8	5.3	5.0	5.1	7.2
2nd Qtr	8.6	5.5	5.44	5.7	5.5	5.3	5.4	7.1
3rd Qtr	8.2	5.0	5.02	5.3	5.4	5.6	5.7	6.8

**Forecast as of August 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 9/1/2023	As of 8/25/2023	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	25
Secured Overnight Financing Rate (SOFR)	5.31	5.30	1	1	24
Fed Funds (Wed close)	5.33	5.33	0	0	25
TREASURIES (BE) (Changes in BPs)					
3 Months	5.53	5.61	(8)	(1)	3
6 Months	5.47	5.61	(14)	(3)	(3)
1 Year	5.36	5.44	(8)	3	14
2 Years	4.87	5.03	(16)	9	37
5 Years	4.29	4.44	(15)	14	45
10 Years	4.18	4.25	(7)	13	49
30 Years	4.29	4.30	(1)	8	41
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.16	3.20	(4)	2	20
5-Year Muni	2.88	2.92	(4)	7	23
10-Year Muni	2.87	2.91	(4)	6	30
30-Year Muni	3.91	3.93	(2)	12	32
30-Year Conventional Mortgage	7.18	7.23	(5)	28	39
MARKET INDICATORS (Changes in %)					
DJIA	34,837.71	34,346.90	1.4	(0.6)	3.2
S&P 500	4,515.77	4,405.71	2.5	0.8	5.5
NASDAQ	14,031.81	13,590.65	3.2	0.9	6.0
CRB Futures	319.18	311.94	2.3	2.2	11.0
Oil (WTI Crude)	85.87	79.94	7.4	6.5	18.0
Gold	1,940.55	1,913.65	1.4	(0.1)	(0.4)
Yen / Dollar	146.45	145.35	0.8	3.7	4.2
Dollar / Euro	1.08	1.08	(0.2)	(2.1)	0.7

