Summary

The stock market struggled again last week, with the Dow Jones Industrial Average dropping 1.3% and the S&P 500 losing 0.7%. The NASDAQ managed to end the week in positive territory (+0.1%) on Friday after posting a four-day losing run.

Last week the Bureau of Economic Analysis released the third estimate of the 2023Q2 GDP. While the overall annualized rate did not change from the second estimate, there were major revisions to its components. Personal consumption spending growth was cut to 0.8% from 1.7% while gross private domestic investment was revised up to 5.2% from 3.3%. The GDP deflator was revised down from its second estimate to +1.7%. The PCE Price Index in August grew faster (+0.4%) than analysts had expected (+0.2%). But the bump was driven by energy prices. Core PCE, which excludes volatile food and energy prices, was up only 0.1% from July. Year-over-year, the core PCE Price Index decelerated to 3.9% from 4.3% in July, confirming that prices are moving in the direction the Fed would like to see. Regardless of signs that inflation is coming down, consumers are feeling less confident in the economy. The Conference Board's Consumer Confidence index dropped to 103 in September from 108.7 in August. Likewise, the University of Michigan Consumer Sentiment Index fell in September to 68.1 from 69.5 in August. One reason for the lower consumer confidence is the rapid increase in home prices which have now erased the losses from July 2022 to January of this year. Home prices went up 0.9% month-over-month in July and they are now up 0.1% from their peak a year ago. Higher prices (and higher mortgage rates) are depressing sales. In August, there were 20,000 fewer annualized sales of new homes than expected. Mortgage applications for the week ending September 23 declined 1.3%. Month-over-month personal income growth rate (+0.4%) was weaker than expected in August. After adjusting for inflation, real disposable income was down 0.2%. Personal spending in August (+0.4%) also fell short of expectations (+0.5%). New durable orders were up 0.2% in August beating the expectation of a 0.2% decline. Fewer than expected unemployment claims were filed in the week ending September 23. The four-week moving average for initial claims continued to decline to just 211,000. Continuing jobless claims for the week ending September 16 increased 12,000 to 1.670 million.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
S&P Case-Shiller Home Price Index (Jul – Tu 9:00)	+0.1%	+0.5%	
Consumer Confidence (Sep – Tu 10:00)	103.0	105.0	
New Home Sales (Aug – Tu 10:00)	675 TUAR	695 TUAR	
MBA Mortgage Applications Index (9/23 – We 7:00)	-1.3%	NA	
Durable Orders (Aug – We 8:30)	+0.2%	-0.2%	Durable Good ex. Transportation: +0.4%
GDP - Third Estimate (Aug – Th 8:30)	+2.1%	+2.1%	
GDP Deflator - Third Estimate (Aug – Th 8:30)	+1.7%	+2.0%	
Initial Claims (9/23 – Th 8:30)	204K	215K	
Continuing Claims (9/16 – Th 8:30)	1,670K	NA	
Personal Income (Aug – Fr 8:30)	+0.4%	+0.5%	
Personal Spending (Aug – Fr 8:30)	+0.4%	+0.5%	
PCE Prices (Aug – Fr 8:30)	+0.4%	+0.2%	PCE Prices – Core: 0.1%
Michigan Sentiment – Final (Aug – Fr 10:00)	68.1	67.7	
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
ISM Manufacturing Index (Sep – Mo 10:00)	47.8%	47.6%	
Construction Spending (Sep – Mo 10:00)	+0.5%	+0.7%	
JOLTS - Job Openings (Sep – Tu 10:00)	NA	8.827M	Not available
ISM Non-Manufacturing Index (Sep – We 10:00)	53.7%	54.5%	
Initial Claims (9/30 – Th 8:30)	225K	204K	
Continuing Claims (9/23 – Th 8:30)	NA	1,670K	Not available
Trade Balance (Aug – Th 8:30)	-$65.1B	-$65.0B	
Nonfarm Payrolls (Sep – Th 8:30)	+158K	+187K	
Avg. Hourly Earnings (Sep – Th 8:30)	+0.3%	+0.2%	
Unemployment Rate (Sep – Th 8:30)	3.7%	3.8%	
Consumer Credit (Aug – Fr 15:00)	+$12.0B	+$10.4B	

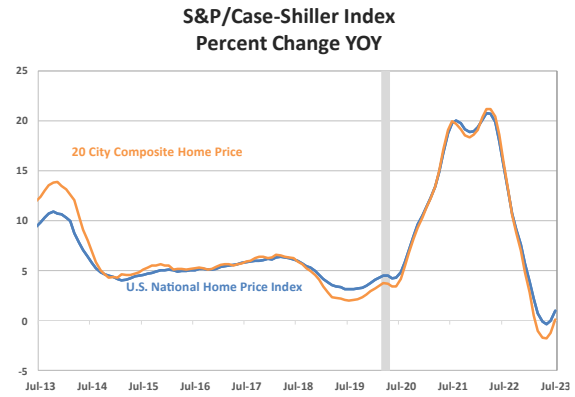
**Sources: www.briefing.com and www.federalreserve.gov*

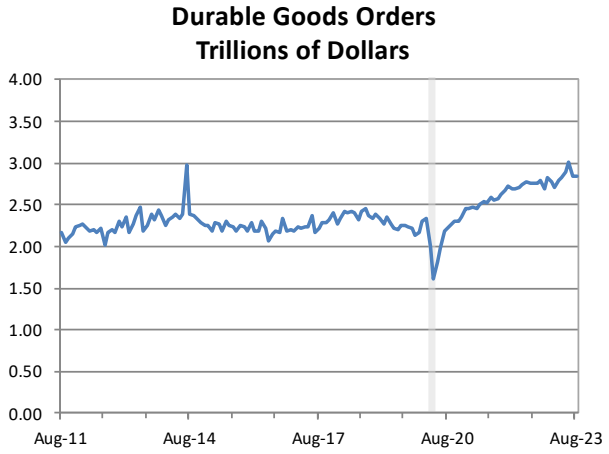
Economic Review

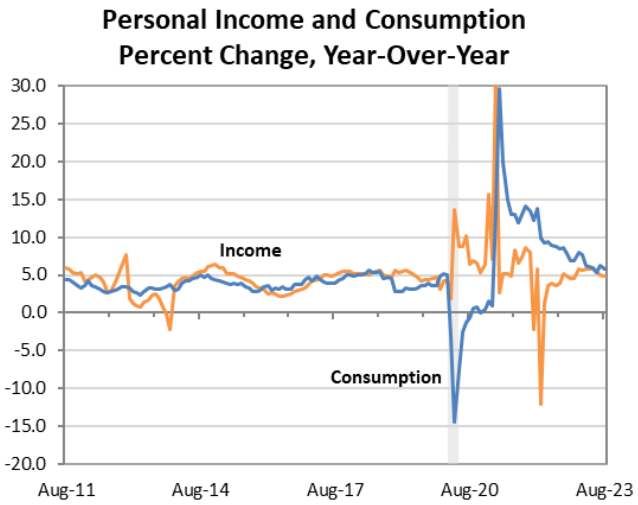
Housing prices have completely rebounded from their decline from July 2022 to January of this year. According to the July S&P/CASE SHILLER HOME PRICE INDEX for the largest 20 metropolitan areas, the housing market is now +0.1% from its peak a year ago. The index for the entire country has rebounded even faster and it is now up 1% from a year ago, pointing to larger home price gains in non-urban and smaller metropolitan areas. Among large cities, home prices were up the most in Chicago (4.4% year-over-year), Cleveland (4.0%), and New York City (3.8%). Home prices are still declining in the West. Prices are down 7.2% in Las Vegas and 6.6% in Phoenix.

NEW ORDERS for manufactured durable goods in August increased $0.5 billion, or 0.2%, to $284.7 billion. This followed a 5.6% July decrease. Machinery led the August increase with $0.2 billion in new orders. Core capital goods orders (new orders for nondefense capital goods excluding aircraft) were up 0.9% from the previous month. Excluding defense, new orders decreased 0.7%. Defense capital goods were up 2.9% while new orders for nondefense aircraft and parts dropped 15.9% New orders were up for most industries (fabricated metals products: +0.5%; machinery: 0.5%; computer and electronic products: 0.3%; electrical equipment, appliances, and components: +1.1%; all other durable goods: 0.5%). New orders were down for primary metals (-0.6%), and transportation equipment (-0.2%).

Nominal PERSONAL INCOME was up 4.8% in August from a year ago. Some of this increase was due to inflation. In fact, real disposable income increased only 3.7% year-over-year, down from 4.2% in July. On an annual basis, PERSONAL SPENDING in August was 5.8% higher than 12 months ago. After adjusting for inflation, real personal spending was up only 2.3%, versus 2.7% in July. Spending is slowing down, but not as fast as real income, which is affecting the saving rates. In August, consumers saved only 3.9% of their disposable income, compared with 4.1% in July.







Fed Speeches

On September 26, Governor Michelle W. Bowman addressed participants at the Development Research Seminar on housing affordability. The event was hosted by the Board of Governors and the Federal Reserve Banks of Philadelphia, Atlanta, and Minneapolis. In her opening remarks, Governor Bowman highlighted the struggles that many families are facing because of rent inflation.

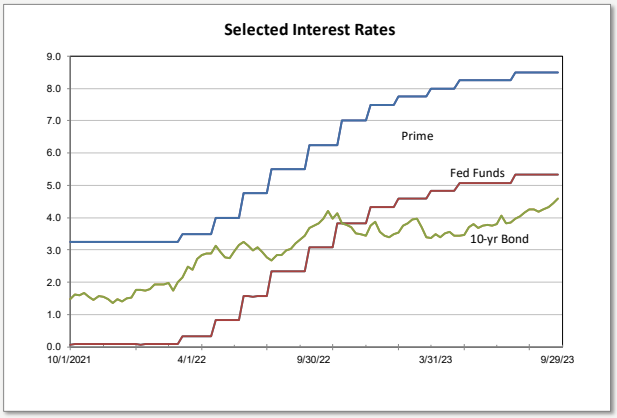
> *"The rate of rent increases has come down from the extremes of 2021 as units built during the pandemic-era construction boom have begun to hit the market. However, the most recent data show that new lease prices remain more than 20 percent higher than they were before the pandemic."*

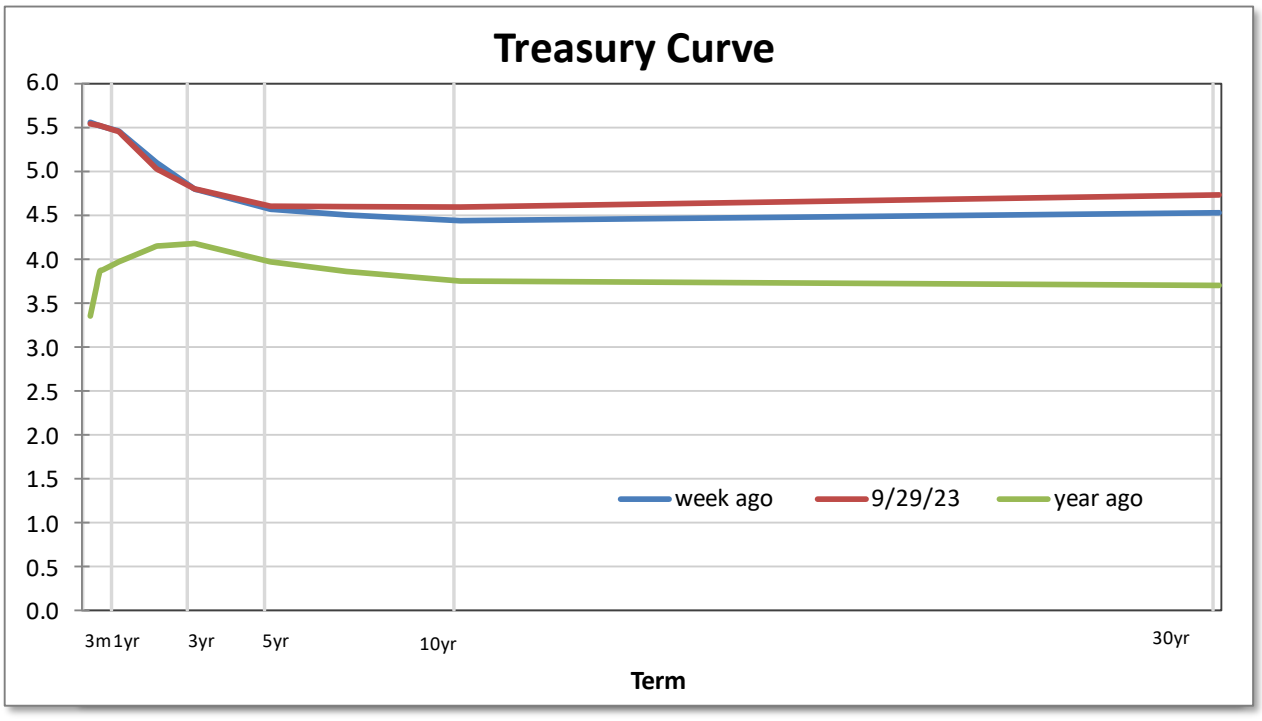
Governor Bowman expressed her concerns that this spike in rental prices without an equivalent increase in wages is putting a serious burden on household finances:

> *"According to the Board's 2022 Survey of Household Economics and Decision making, 17 percent of renters were behind on their rent in the prior year, up from 10 percent in 2019."*

Financial Markets

The Dow Jones Industrial Average and the S&P 500 dropped 1.3% and 0.7%, respectively, last week. The NASDAQ barely moved in positive territory and ended the week 0.1% higher. Yields on 10-year Treasuries continue trending up, suggesting that investors expect the Fed to keep interest rate higher for longer. Analysts expects the yield on 10-year bonds to hit 5% next year. Gold prices dropped 4% while the greenback gained against the Japanese Yen (0.4%) and the euro (0.7%). Oil prices inched up 0.6% and ended the week at $90.86 per barrel.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50% during the Fed's September policy meeting. In the statement released following the September meeting, the FOMC said, "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, 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
4th Qtr '23	8.6	5.5	5.44	5.7	5.1	4.5	4.6	7.2
1st Qtr '24	8.8	5.6	5.60	5.8	5.4	4.8	4.9	7.3
2nd Qtr	8.7	5.5	5.52	5.7	5.7	5.1	5.2	7.2
3rd Qtr	8.3	5.2	5.19	5.5	5.5	5.3	5.5	6.9
4th Qtr	7.9	4.8	4.77	5.1	5.2	5.3	5.4	6.6

**Forecast as of September 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 9/29/2023	As of 9/22/2023	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	0	25
Fed Funds (Wed close)	5.33	5.33	0	0	26
TREASURIES (BE) (Changes in BPs)					
3 Months	5.55	5.56	(1)	2	12
6 Months	5.53	5.52	1	6	6
1 Year	5.46	5.46	0	10	6
2 Years	5.03	5.10	(7)	16	16
5 Years	4.60	4.57	3	31	47
10 Years	4.59	4.44	15	41	78
30 Years	4.73	4.53	20	44	88
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	3.65	3.36	29	49	73
5-Year Muni	3.38	3.09	29	50	77
10-Year Muni	3.44	3.16	28	56	89
30-Year Muni	4.42	4.17	25	51	85
30-Year Conventional Mortgage	7.31	7.19	12	13	60
MARKET INDICATORS (Changes in %)					
DJIA	33,507.50	33,963.84	(1.3)	(3.8)	(2.6)
S&P 500	4,288.05	4,320.06	(0.7)	(5.0)	(3.6)
NASDAQ	13,219.32	13,211.81	0.1	(5.8)	(4.1)
CRB Futures	320.71	322.02	(0.4)	0.5	10.1
Oil (WTI Crude)	90.86	90.34	0.6	13.7	31.2
Gold	1,848.80	1,925.20	(4.0)	(4.7)	(3.6)
Yen / Dollar	148.38	147.85	0.4	1.3	3.2
Dollar / Euro	1.06	1.06	(0.7)	(1.9)	(3.1)