Summary

The stock market spiked on the last trading day of August, with both the Dow Jones Industrial Average and the S&P 500 ending the week (and the month) in positive territory. Friday's rush, however, was insufficient to compensate for earlier losses for the tech-heavy NASDAQ, which dropped 0.9% for the week but gained 5.9% over the month.

The second estimate for Q2 GDP was revised up to 3.0% from the preliminary estimate of 2.8% due to an upward revision to consumer spending. The GDP Deflator was also revised up to 2.5% from 2.3%. The personal consumption expenditure (PCE) index, the Fed's preferred measure of inflation, increased 0.2% in July, as expected. Excluding food and energy prices, the index advanced slightly more than expected but not enough to cast shadows on a possible interest rate cut in September. New orders for durable goods surged 9.9% month-over-month in July, driven by orders for transportation equipment. Excluding transportation equipment, new orders fell 0.2% month over month--consistent with recession conditions. Housing prices hit a new record high in June but are starting to moderate. The Case Shiller Home Price Index rose 6.5%, down from 6.9% in May. The FHFA housing price Index, which excludes transactions for higher-end homes, was down 0.1% for the month.

Personal income increased more than expected in July, continuing to boost consumer spending, which was up 0.5%. New unemployment claims remain below the level typically associated with recession. For the week ending August 24, initial claims fell by 2,000 to 231,000. As of August 17, continuing claims increased by 13,000 to 1.863 million.

Consumers are feeling good about the economy. Both the Consumer Confidence and the Consumer Sentiment indices increased in August.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Durable Orders (Jul – Mon 8:30)	+9.9%	+4.0%	ex. transportation : -0.2%
FHFA Housing Price Index (Jun – Tue 9:00)	-0.1%	NA	
S&P Case-Shiller Home Price Index (Jun – Tue 9:00)	+6.5%	+6.0%	Prior: +6.9%
Consumer Confidence (Aug – Tue 10:00)	103.5	100.0	Prior: 101.9
GDP - Second Estimate (Q2 – Thu 8:30)	+3.0%	NA	
GDP Deflator - Second Estimate (Q2 – Thu 8:30)	+2.5%	NA	
Initial Claims (08/24 – Thu 8:30)	231K	NA	
Continuing Claims (08/17 – Thu 8:30)	1,868K	NA	Prior: 1,855K (revised from 1,863k)
PCE Prices (Jul – Fri 8:30)	0.3%	+0.2%	
PCE Prices – Core (Jul – Fri 8:30)	0.5%	+0.1%	
Personal Income (Jul – Fri 8:30)	0.2%	+0.2%	
Personal Spending (Jul – Fri 8:30)	0.2%	+0.5%	
U. Michigan Consumer Sentiment - Final (Aug – Fri 10:00)	67.9	67.8	Prior: 66.4
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
ISM Manufacturing Index (Aug – Tue 10:00)	47.5%	46.8%	
Construction Spending (Jul – Tue 10:00)	+0.2%	-0.3%	
MBA Mortgage Applications Index (08/31 – Wed 07:00)	NA	+0.5%	
Trade Balance (Jul – Wed 08:30)	-$78.5B	-$73.1B	
Factory Orders (Jul – Wed 10:00)	4.5%	-3.3%	
JOLTS - Job Openings (Jul – Wed 10:00)	NA	8.184M	
Initial Claims (08/31 – Thu 08:30)	236K	231K	
Continuing Claims (08/24 – Thu 08:30)	NA	1868K	
Productivity-Rev. (Q2 – Thu 08:30)	+2.3%	+2.3%	
Unit Labor Costs-Rev. (Q2 – Thu 08:30)	+0.9%	+0.9%	
ISM Non-Manufacturing Index (Aug – Thu 10:00)	51.0%	51.4%	
Nonfarm Payrolls (Aug – Fri 08:30)	165K	114K	
Avg. Hourly Earnings (Aug – Fri 08:30)	+0.3%	+0.2%	
Unemployment Rate (Aug – Fri 08:30)	4.2%	4.3%	

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

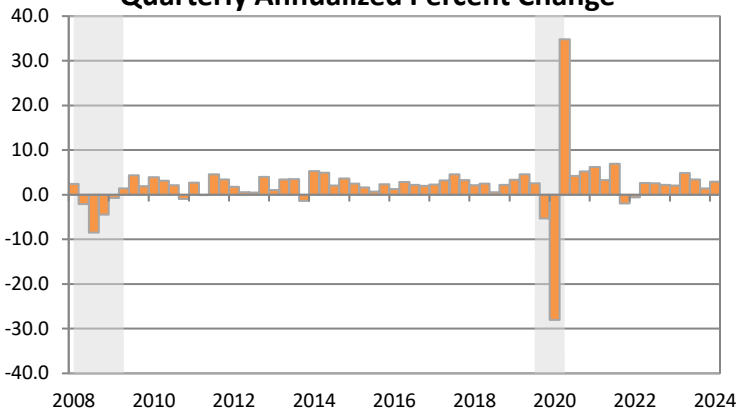
Economic Review

The SECOND ESTIMATE for Q2 real GDP was revised up to 3.0%, driven by stronger consumer spending. The GDP Deflator was also revised higher to 2.5%. Consumer spending grew by 2.9%, contributing 1.95 percentage points to GDP growth, while gross private domestic investment increased by 7.5%, adding 1.31 percentage points. Net exports subtracted 0.77 percentage points from growth, with exports up 1.6% but imports rising by 7.0%. Government spending rose by 2.7%, contributing 0.46 percentage points. Real final sales, excluding inventory changes, increased by 2.2%. Overall, consumer spending was a key driver of growth, surpassing the average of the past eight quarters.

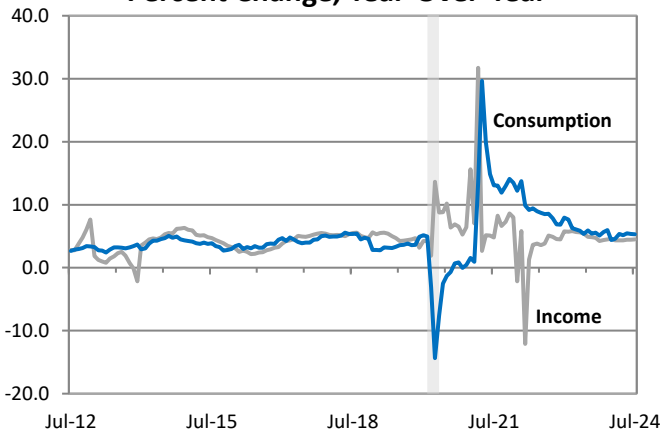
PERSONAL INCOME increased 0.3% ($75.1 billion) in July month-over-month, according to estimates released by the Bureau of Economic Analysis. Real disposable personal income (personal income less personal current taxes adjusted for inflation) saw a modest increase of 0.1% for the month and was up 2.7% year-over-year. Wages and salaries increased 0.3% month-over-month. Rental income increased 1.0% while personal interest income fell 0.3%. PERSONAL SPENDING accelerated in July. Personal consumption expenditures increased 0.5% ($103.8 billion) month-over-month, following a 0.3% increase in June. Real personal spending was up 0.4% month-over-month and was up 2.7% year-over-year. The personal savings rate as a percentage of disposable income dropped to 2.9% from 3.1% in June.

In August, the Conference Board's CONSUMER CONFIDENCE Index improved to 103.5, surpassing expectations of 100.0 and up from a revised 101.9 reading in July. The Present Situation Index increased slightly to 134.4 from 133.1, while the Expectations Index rose to 82.5 from 81.1. Notably, average 12-month inflation expectations dropped to 4.9%, the lowest level since March 2020. However, consumers are beginning to show more concern about labor market conditions (the index for plentiful employment dropped to 16.4 from 17.1 in July), which could potentially lead to a decrease in consumer spending if these concerns result in delayed discretionary purchases.

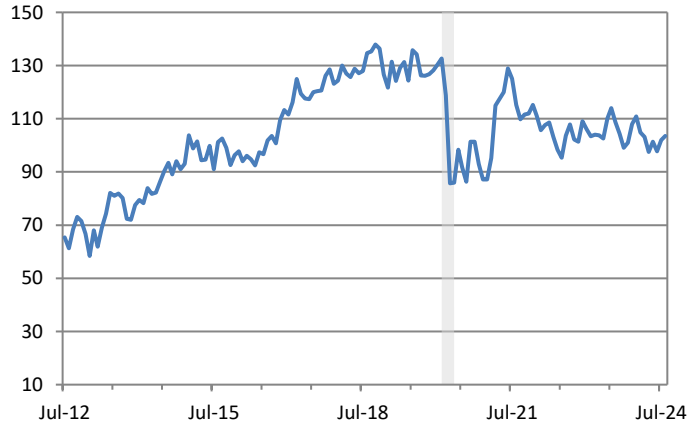
Real Gross Domestic Product
Quarterly Annualized Percent Change



Personal Income and Spending
Percent Change, Year-Over-Year



Consumer Confidence
Index 1985 = 100



Fed Speeches

Richmond Fed President Tom Barkin talked to Bloomberg on August 27 about the current economic conditions. President Barkin's view has shifted over the last four months:

> *"I think the economy, since we were together three or four months ago, the economy's moved in a very different way. First of all, on the inflation side, […] We've got very low readings for four months in a row. And it's now across the basket, whereas six months ago [or] eight months ago, it was really just in goods. And so the concern about inflation, reaccelerating, has definitely come down significantly. At the same time, the labor market stats have also softened."*

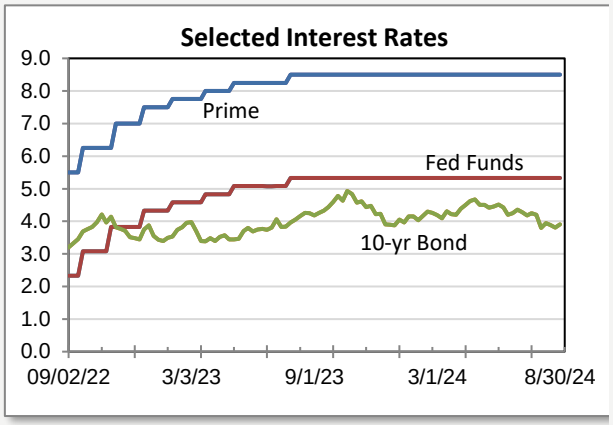
For now, President Barkin is not particularly alarmed by the recent increase in unemployment since it was entirely driven by an increase in labor force participation. Firms are not hiring as much as before but are not laying off workers either. But this situation is only sustainable for a short time, and he feels that we are at the tipping point for whether firms will start hiring again or discussing layoffs:

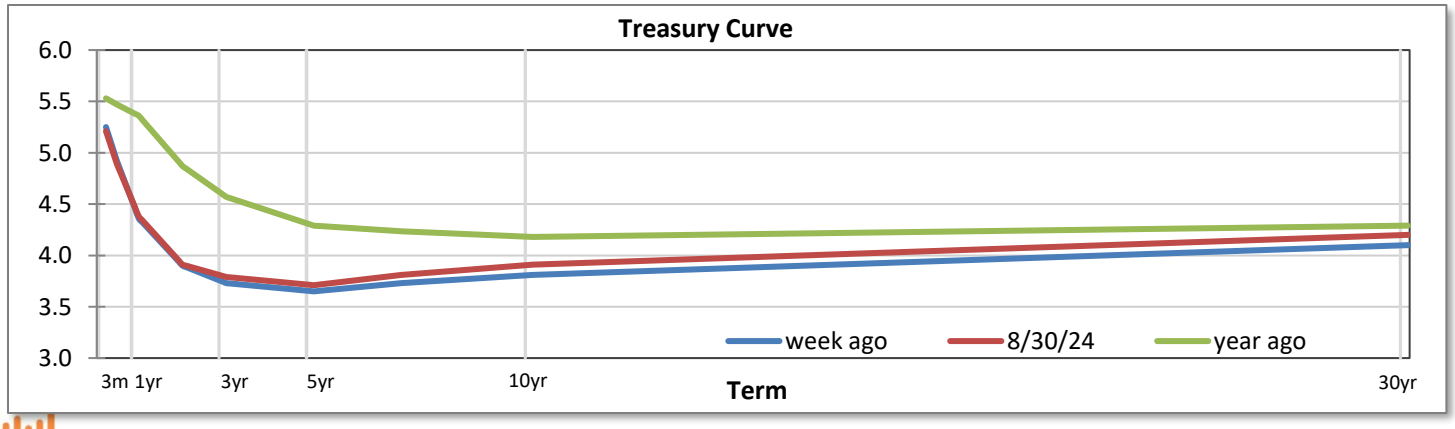
> *"When I'm talking to the bigger companies, what they're telling me is, 'You know, I'm just slowing down the hiring. I'm going to let attrition work my workforce down. I don't want to fire people because I don't want to end up short again, but I'm just going to slow it down.' And then I've been pressing them and I've been saying, 'But do you have plans for layoffs? Because, if you're going to do a layoff, it takes you three months to get it done.' And no one is doing that. I mean, one person here or there. And so that's why I say we're in a low hiring, low firing mode. That doesn't feel like something that's going to persist and so it's going to move left or it's going to move right. We'll just have to see."*

For Barkin, how aggressively the Fed will cut interest rates at the next FOMC meetings depends on the direction of layoffs in the coming months.

Financial Markets

Stock markets ended mixed last week, with the Dow Jones Industrial Average and the S&P 500 advancing 0.9% and 0.2%, respectively, while the NASDAQ receded 0.9%. Recent concerns about the true potential of AI are weighing down the tech-heavy index. Yields of T-bills dropped, while yields on treasury notes and bonds gained a few basis points (bps). The average 30-year conventional mortgage rate shed 11 bps, ending the week at 6.35%, its lowest level since May 2023. The price of gold dropped 0.4%. The price of crude oil fell 1.6% following a 2.4% drop the preceding week. On the forex market, the greenback regained some ground lost in recent weeks. The U.S. dollar appreciated 1.2% against the Japanese Yen and 1.3% against the Euro.





Interest Rate Forecast*

During the Fed's July policy meeting, the Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50% while continuing to reduce its holding of Treasury securities. In the statement released following the meeting, the FOMC said, "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr. '24	8.49	5.33	5.32	5.30	4.64	4.31	4.51	6.86
4th Qtr	8.25	5.13	5.11	5.20	4.71	4.36	4.57	6.82
1st Qtr '25	7.92	4.79	4.77	4.91	4.68	4.38	4.53	6.68
2nd Qtr	7.58	4.46	4.44	4.62	4.61	4.39	4.48	6.51
3rd Qtr	7.17	4.04	4.02	4.19	4.40	4.32	4.40	6.36
August 2024								

FINANCIAL MARKET SUMMARY

	As of 8/30/2024	As of 8/23/2024	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	0
Secured Overnight Financing Rate (SOFR)	5.33	5.31	2	(2)	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.21	5.25	(4)	(8)	(25)
6 Months	4.89	4.92	(3)	1	(53)
1 Year	4.38	4.36	2	5	(80)
2 Years	3.91	3.90	1	3	(98)
5 Years	3.71	3.65	6	9	(81)
10 Years	3.91	3.81	10	11	(60)
30 Years	4.20	4.10	10	9	(45)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.48	2.50	(2)	(20)	(88)
5-Year Muni	2.47	2.49	(2)	(12)	(67)
10-Year Muni	2.70	2.69	1	11	(41)
30-Year Muni	3.65	3.65	0	12	(35)
30-Year Conventional Mortgage	6.35	6.46	(11)	(38)	(68)
MARKET INDICATORS (Changes in %)					
DJIA	41,563.08	41,175.08	0.9	4.6	7.4
S&P 500	5,648.40	5,634.61	0.2	5.6	7.0
NASDAQ	17,713.63	17,877.79	(0.9)	5.6	5.8
CRB Futures	328.00	329.68	(0.5)	3.0	(3.3)
Oil (WTI Crude)	73.63	74.83	(1.6)	(4.1)	(5.3)
Gold	2,502.48	2,512.59	(0.4)	2.5	7.5
Yen / Dollar	146.17	144.37	1.2	(4.9)	(6.9)
Dollar / Euro	1.11	1.12	(1.3)	1.3	1.9