WEEKLY ECONOMIC UPDATE

Summary

The stock market suffered big losses in the first week of the month with the Dow Jones Industrial Average dropping 2.9%, the S&P 500 retreating 4.2%, and the NASDAQ plunging 5.8%. Uncertainty among investors is heighted ahead of the pivotal FOMC meeting in two weeks.

Several reports last week confirmed that the labor market is continuing to soften. The number of job openings declined to 7.7 million from 7.9 million in June. The August nonfarm payrolls headlines were a bit deflating, coming in below expectations and accompanied by downward revisions in July and June. Initial jobless claims for the week ending August 31 decreased by 5,000 to 227,000, but remain higher than at the beginning of the year. Continuing jobless claims for the week ending August 24 checked in at 1.838 million. This is the 13th consecutive week that continuing claims have been above 1.8 million. Still, some positive news came on Friday, with the August unemployment rate ticking back down to 4.2% from 4.3% in July. Average hourly earnings were up a higher-than-expected 0.4%, compared to 0.2% in July. The ISM Manufacturing Index improved in August, but not as much as expected, while the ISM Services beat expectations. Total construction spending declined 0.3% in July, with new single-family construction down 1.9%. Mortgage applications increased 1.6% over the week ending August 31, pushed by a recent decline in mortgage rates. The July Trade Balance report showed a widening in the deficit to $78.8 billion. The widening was the result of imports being $7.1 billion more than June imports and exports being only $1.3 billion more than June exports. Factory orders bounced back 5.0% month-over-month in July following a 3.3% decline in June. Q2 headline productivity was revised to 2.5% from the advanced estimate of 2.3%. Labor costs were revised down to 0.4% from 0.9%.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
ISM Manufacturing Index (Aug – Tue 10:00)	47.2%	47.5%	June: 46.8%
Construction Spending (Jul – Tue 10:00)	-0.3%	+0.2%	
MBA Mortgage Applications Index (08/31 – Wed 07:00)	1.6%	NA	
Trade Balance (Jul – Wed 08:30)	-$78.8B	-$78.5B	
Factory Orders (Jul – Wed 10:00)	+5.0%	+4.5%	
JOLTS - Job Openings (Jul – Wed 10:00)	7.673M	NA	June: 7.9M
Initial Claims (08/31 – Thu 08:30)	227K	236K	
Continuing Claims (08/24 – Thu 08:30)	1,838K	NA	
Productivity-Rev. (Q2 – Thu 08:30)	+2.5%	+2.3%	
Unit Labor Costs-Rev. (Q2 – Thu 08:30)	+0.4%	+0.9%	
ISM Non-Manufacturing Index (Aug – Thu 10:00)	51.5%	51.0%	
Nonfarm Payrolls (Aug – Fri 08:30)	142K	165K	
Avg. Hourly Earnings (Aug – Fri 08:30)	+0.4%	+0.3%	
Unemployment Rate (Aug – Fri 08:30)	4.2%	4.2%	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Consumer Credit (Jul – Mon 15:00)	$11.5B	$8.9B	
MBA Mortgage Applications Index (09/07 – Wed 07:00)	NA	93.7	
CPI (Aug – Wed 08:30)	+0.2%	+0.2%	
Core CPI (Aug – Wed 08:30)	+0.2%	+0.2%	
Initial Claims (09/07 – Thu 08:30)	229K	227K	
Continuing Claims (08/31 – Thu 08:30)	NA	1,838K	
PPI (Aug – Thu 08:30)	0.2%	0.1%	
Core PPI (Aug – Thu 08:30)	0.2%	0.0%	
Treasury Budget (Aug – Thu 14:00)	NA	-$243.7B	
Export Prices (Aug – Fr 08:30)	NA	0.7%	Export Prices ex-ag.: +1.0%
Import Prices (Aug – Fr 08:30)	NA	0.1%	Import Prices ex-oil: +0.1%
U. of Michigan Consumer Sentiment - Prelim (Sep – Fr 10:00)	NA	67.9	

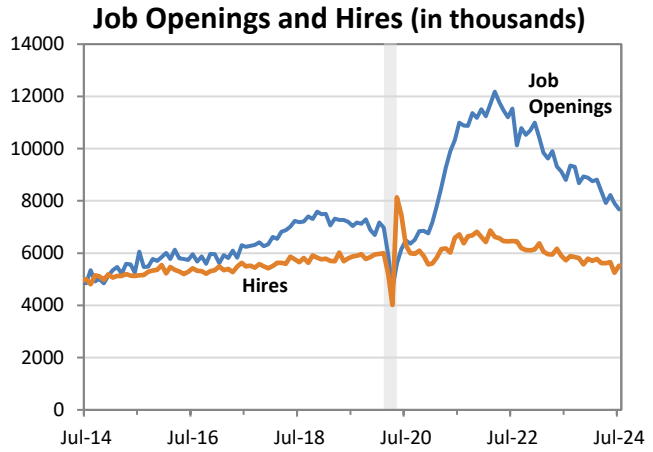
Sources: www.briefing.com and www.federalreserve.gov

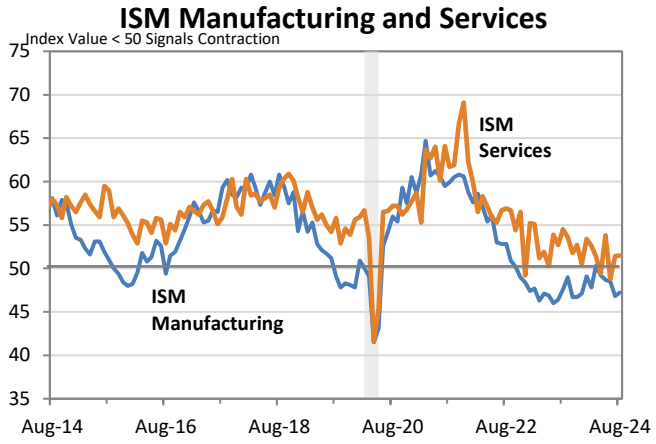
Economic Review

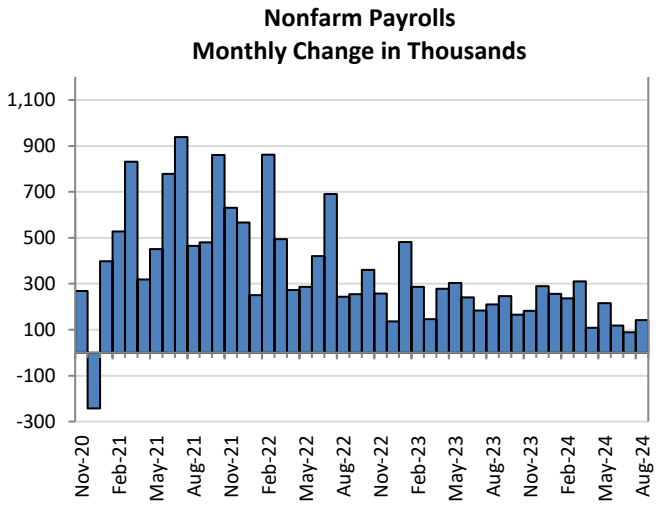
JOB OPENINGS continued to decline in July. On the last day of the month, there were 7.7M active open positions in the U.S. according to the BLS, down from 7.9M in the previous month. Just a year ago, employers posted 8.8M open positions. The number of job openings decreased in health care and social assistance (-187,000); state and local government, excluding education (-101,000); transportation, warehousing, and utilities (-88,000); and construction (-51,000). Job openings increased in professional and business services (+ 178,000) and the federal government (+28,000). Hiring increased in July (+273,000) but not as much as separations (+336,000). An acceleration in layoffs and retirements drove the latter. The number of quits was essentially unchanged at 3.3 million.

The August ISM MANUFACTURING INDEX improved compared to July but remained below 50%, the dividing line between contraction and expansion of economic activities in the sector. This is the 21st time in the last 22 months that the index has checked in below 50%. While most industries are contracting, five industries reported growth in August: primary metals, petroleum and coal products, furniture and related products, food, beverage, and tobacco products, and computer and electronic products.

August NONFARM PAYROLLS increased by 142,000. Revisions for the month of June and July headlines brought down the 3-month average for total nonfarm payrolls to 116,000 from 141,000. July nonfarm payrolls, alone, were revised to 89,000 from 114,000. August's increase was driven by a big push in Government jobs. Excluding government hiring, private-nonfarm payroll increased by 118,000. Employment declined in only two industries: manufacturing (-24,000) and retail trade (-11,000).







Fed Speeches

Governor Christopher J. Waller was invited to speak at the University of Notre Dame on September 6. His speech solidified expectations of an interest rate cut at the FOMC's September meeting.

> *"Considering the achieved and continuing progress on inflation and moderation in the labor market, I believe the time has come to lower the target range for the federal funds rate at our upcoming meeting."*

While investors and policy makers should expect the first cut later this month, it is still not clear if it will be small or a more aggressive:

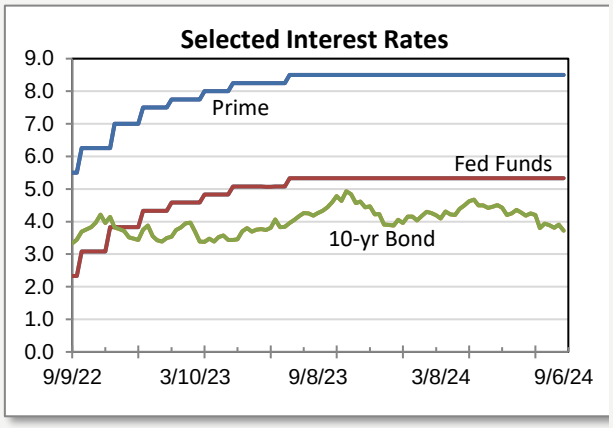
> *"Determining the appropriate pace at which to reduce policy restrictiveness will be challenging. Choosing a slower pace of rate cuts gives time to gradually assess whether the neutral rate has in fact risen, but at the risk of moving too slowly and putting the labor market at risk. Cutting the policy rate at a faster pace means a greater likelihood of achieving a soft landing but at the risk of overshooting on rate cuts if the neutral rate has in fact risen above its pre-pandemic level. This would cause an undesired loosening of monetary policy."*

Overall, the Governor feels positive that, notwithstanding the recent softening in the labor market, the Fed's restrictive policy has not led the economy into a recession. GDP grew at a solid 2.2% annual rate in the first half of the year, and he expects growth to continue at a similar rate in the current quarter. At the moment, Governor Waller is not concerned that several indicators have flagged the risk on an upcoming recession:

> *"It should be clear to everyone that many pre-pandemic economic relationships have not proven to be good policy guides post-pandemic. Reliance on old lessons from inverted yield curves to predict a recession, a Phillips curve to predict inflation, or a flat Beveridge curve to predict the movement in the unemployment rate have all led to mistaken economic forecasts."*

Financial Markets

Last week checked in as the worst week of the year for the stock market with all major indices losing ground. The Dow Jones Industrial Average dropped 2.9%, the S&P 500 fell 4.2% and the NASDAQ sank 5.8%. Yields on treasury securities and municipal bonds dropped across the board. For the first time since June 2022, the yield on two-year bonds ended the week lower than the yield on the 10-year bonds, a sign that the yield curve is starting to normalize. The average 30-year conventional mortgage rate was flat for the week. The price of gold dropped 0.3%. The price of crude oil plunged 7.5% despite the OPEC decision to pause output hikes. On the forex market, the U.S. dollar slipped against most major currencies. The greenback lost 2.6% against the Japanese Yen and 0.3% against the Euro.



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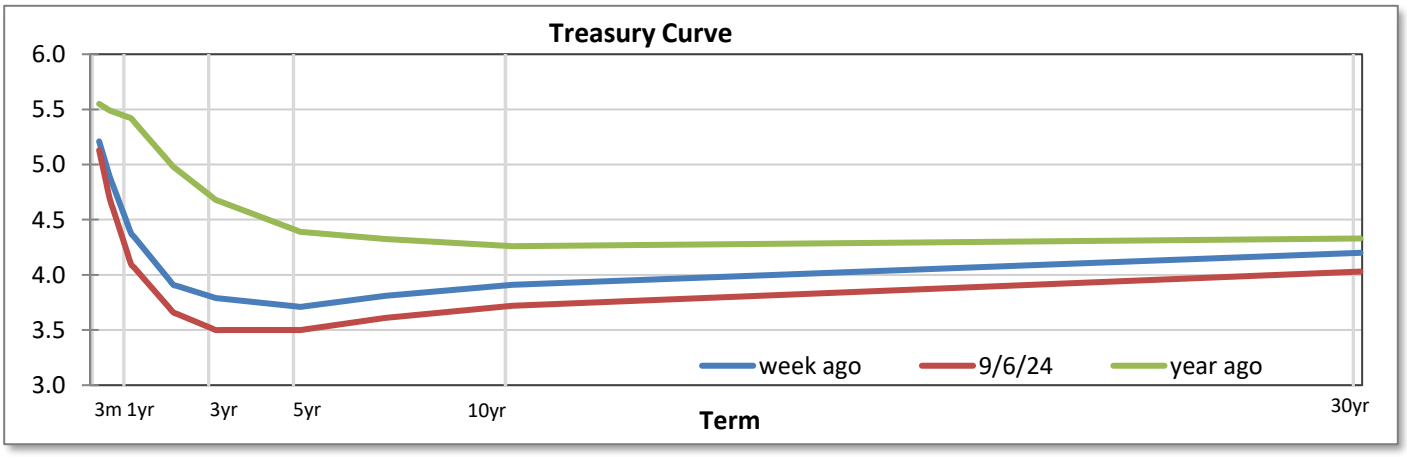

Interest Rate Forecast*

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 9/6/2024	As of 8/30/2024	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)	5.35	5.33	2	1	2
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.13	5.21	(8)	(20)	(39)
6 Months	4.69	4.89	(20)	(33)	(71)
1 Year	4.10	4.38	(28)	(40)	(107)
2 Years	3.66	3.91	(25)	(39)	(121)
5 Years	3.50	3.71	(21)	(30)	(96)
10 Years	3.72	3.91	(19)	(22)	(71)
30 Years	4.03	4.20	(17)	(20)	(52)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.42	2.48	(6)	(25)	(81)
5-Year Muni	2.41	2.47	(6)	(21)	(60)
10-Year Muni	2.63	2.70	(7)	1	(31)
30-Year Muni	3.56	3.65	(9)	(8)	(30)
30-Year Conventional Mortgage	6.35	6.35	0	(12)	(64)
MARKET INDICATORS (Changes in %)					
DJIA	40,345.41	41,563.08	(2.9)	2.1	4.0
S&P 500	5,408.42	5,648.40	(4.2)	1.2	1.1
NASDAQ	16,690.83	17,713.63	(5.8)	(0.3)	(2.6)
CRB Futures	316.27	328.00	(3.6)	(2.9)	(6.7)
Oil (WTI Crude)	68.13	73.63	(7.5)	(8.1)	(11.8)
Gold	2,496.20	2,502.48	(0.3)	2.7	8.9
Yen / Dollar	142.30	146.17	(2.6)	(2.9)	(9.5)
Dollar / Euro	1.11	1.11	0.3	1.5	2.6