

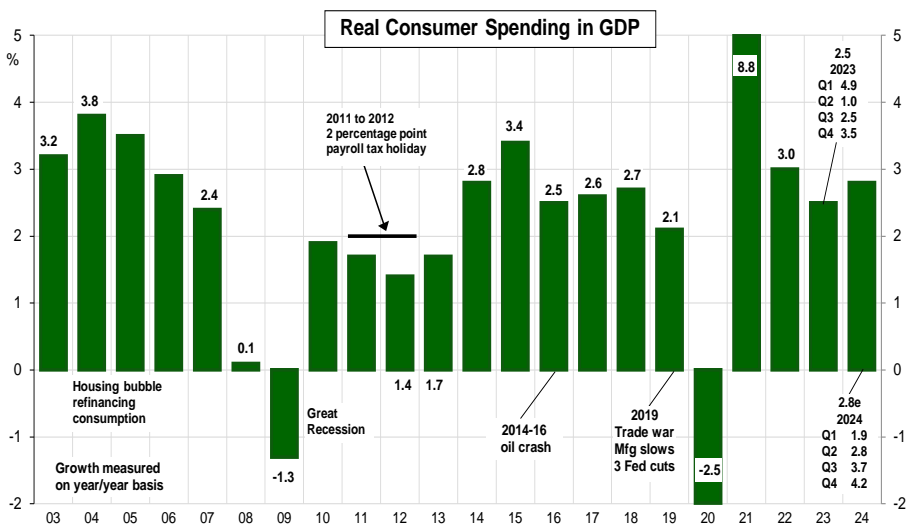
Financial Markets This Week

31 JANUARY 2025

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HUGE QUARTER FOR CONSUMER

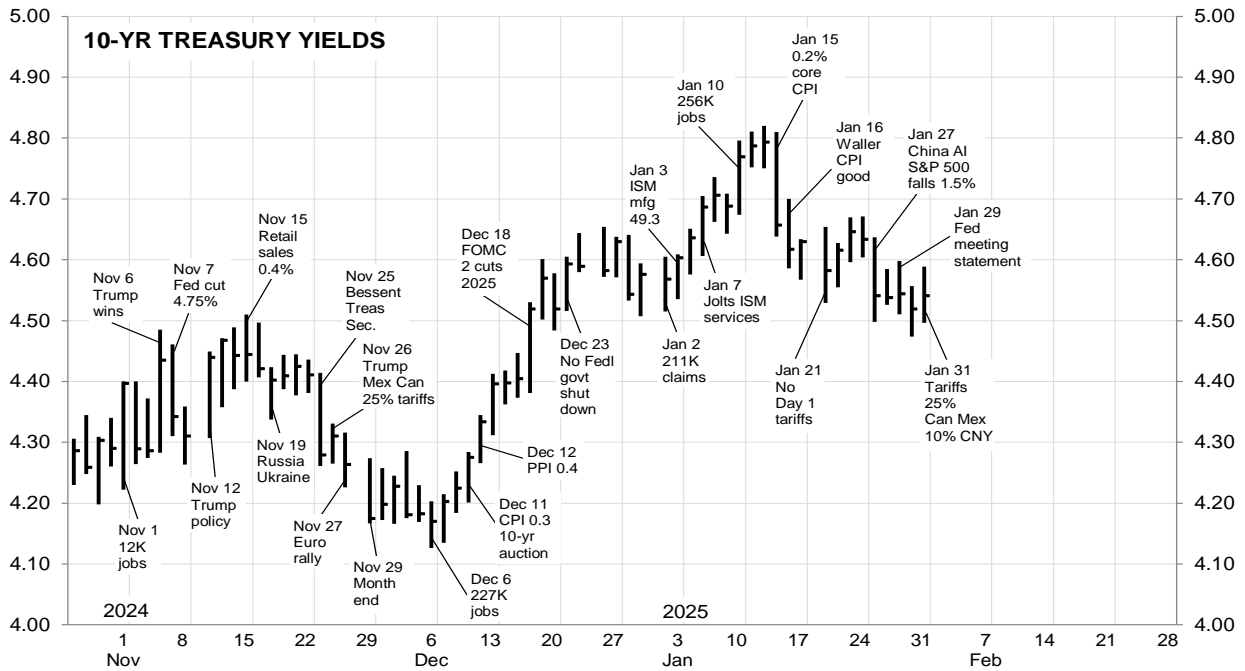
Big numbers put up in 2024 for the consumer, don't be fooled by the 2.8% year-on-year rate. Powell said Wednesday that they would be starting a review of their monetary policy framework last done in 2020. Maybe review why a recession-magnitude Fed rate of 5.5%, the lift starting in March 2022 and ending in July 2023, why oh why did real consumption expenditures only slow to 2.5% in the full year 2023? Maybe consumers did not stop because they were not made redundant and still had jobs. It is no secret historically that soaring unemployment brings total consumer spending to a halt in recessions. No recession yet although Powell was worried enough about 4.3% unemployment (revised to 4.2) reported Friday, August 2 last year to go for a big 50 bps first rate cut at the September 2024 meeting. The Fed economic staff at the September meeting marked down their second half 2024 growth forecast as well on recession fears or at least noted the labor market weakness.



Back to current events. Consumer purchases accelerated in the second half, 3.7% in Q3 2024 and 4.2% in Q4 2024. Much of the spending was driven by durable goods to get out in front of the tariffs announced Friday afternoon, 25% for Canada and Mexico, and 10% more for China. Spending was so hot the final two months that spillover momentum is pushing real consumption up 1.7% in Q1 2025 before we get a single month of data. Light trucks within motor vehicles surged in November and stuck there. Furniture and major household appliances were solid, not held back by existing home sales which are down and out. Personal computers way up: surely no tariffs on Dell. Or Apple phones either with cell phones jumping. Stay tuned. Tariffs could be one of the most unpopular policies since Prohibition.

Real Consumer Expenditures & GDP		Q1	Q4	Q3	Q2	Level \$bn
SAAR Percent change: Q1 2025e is December over Q4 avg		2025e	2024	2024	2024	Q4 2024
Gross domestic product (GDP)		--	2.3	3.1	3.0	23,530.9
Personal consumption expenditures (PCE)		1.7	4.2	3.7	2.8	16,280.1
Goods		3.3	6.6	5.6	3.0	5,564.6
Durable goods		6.4	12.0	7.6	5.4	2,119.2
Motor vehicles and parts		8.2	13.9	9.0	6.6	603.3
Furnishings and durable household equipment		5.1	6.4	9.6	8.1	449.8
Recreational goods and vehicles		7.3	16.2	7.1	5.0	802.7
Other durable goods		2.5	7.9	2.3	-0.4	303.8
Nondurable goods		1.7	3.8	4.6	1.7	3,458.7
Food and beverages for off-premises		1.1	2.5	2.8	2.2	1,178.3
Clothing and footwear		2.1	7.5	1.9	-3.1	509.7
Gasoline and other energy goods		1.1	-1.7	3.6	7.5	317.7
Other nondurable goods		2.1	5.2	7.5	1.2	1,466.3
Services		1.0	3.1	2.8	2.7	10,739.6
Household consumption expenditures (for services)		1.3	3.1	2.6	2.1	10,294.8
Housing and utilities		1.3	1.4	0.8	1.9	2,648.6
Health care		0.7	4.1	7.1	3.2	2,866.1
Transportation services		7.2	3.4	-4.4	14.6	502.3
Recreation services		1.6	2.0	0.2	2.0	621.3
Food services and accommodations		-0.9	2.5	1.5	-0.3	1,073.7
Financial services and insurance		1.0	3.4	4.0	-0.8	1,175.3
Other services		2.5	5.6	1.1	0.8	1,428.7
Final consumption nonprofit institutions		-5.6	3.5	8.1	16.7	445.1

INTEREST RATES



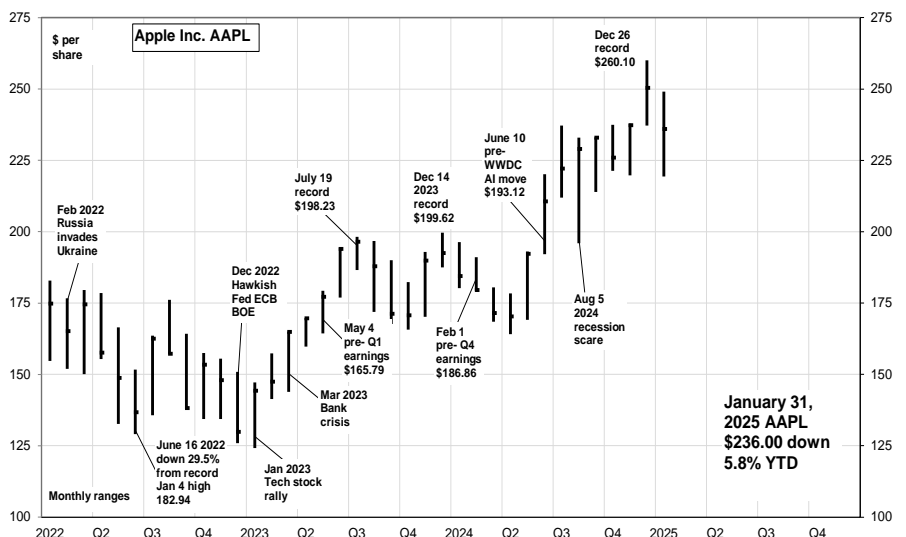
Stock futures fell as much as 3% early Monday morning on the AI China news, and this brought bond yields down sharply to 4.54% after closing last week at 4.63%. 10-year yields rose back to almost 4.60% on the Fed meeting press statement at 2pm ET on Wednesday. They dropped a sentence about making progress on the 2% inflation goal. Markets went back and forth on speculation about the Canada and Mexico 25% tariffs. Investors thought they were in the clear with the S&P 500 up 0.8% on Friday, before no, the President was still going with tariffs on February 1, and stocks fell at 120pm ET on the headlines. Trump later said in a press conference there was nothing countries could do to stop the tariffs. Going way back. Google it. We were at our richest from 1870 to 1913 when we were a tariff country. S&P 500 fell 0.5% on Friday, up 2.7% YTD. Bonds closed at 4.54%.

Apple, Inc. (AAPL) down 5.8% YTD

The stock closed \$237.59 on Thursday, January 30 before earnings and moved up 4.0% on Friday before closing down with 0.7% with the overall market after Trump's tariffs news. Earlier on January 21 the stock fell 3.2% to \$219.38 on downgrades over fears of weaker iPhone sales. iPhone sales were \$69.138 billion down 0.8% from last year but China sales were \$18.513 billion versus \$20.819 billion a year ago.

Calendar

Year	Operating Mln \$	Net Income	iPhone Sales	Greater China
Q4 2024	42,832	124,300	69,138	18,513
Q3 2024	29,591	94,930	46,222	15,033
Q2 2024	25,352	85,777	39,296	14,728
Q1 2024	27,900	90,753	45,963	16,372
Q4 2023	40,373	119,575	69,702	20,819
Q3 2023	26,969	89,498	43,805	15,084
Q2 2023	22,998	81,797	39,669	15,758
Q1 2023	28,318	94,836	51,334	17,812
Q4 2022	36,016	117,154	65,775	23,905



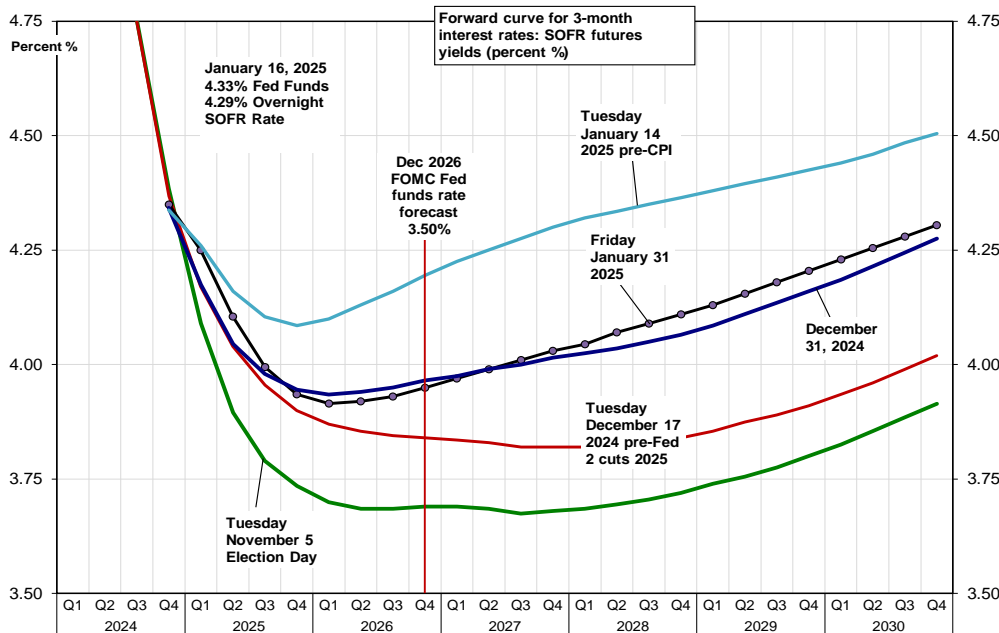
FEDERAL RESERVE POLICY

The Fed met January 28-29, 2025 to consider its monetary policy. The press statement released at 2pm ET Wednesday provided the excitement. They dropped a sentence about making progress on the 2% inflation goal. Powell later explained the omission away as simply cleaning up the language a little. Other notes of interest. The policy framework review won't include discussion or changing of the 2.0% inflation target. Fine. They don't want the labor market to cool off anymore. The recent peak is 4.2% unemployment. (He said the job losses were higher due to immigration back in September.) Trade policy uncertainty was a factor slowing down the economy back during the 2018-19 Trump tariff wars, but they are not seeing that now. Inflation is still coming down. He made reference to the market-based, directly observable core PCE inflation that is just 2.4% now in December versus the normal core PCE inflation of 2.8% that the Committee forecasts. This brings up the problems with PCE inflation in general, including the puzzling period during the stock market bubble in 2000 where there was no core PCE inflation problem, yet the Fed pushed interest rates to 6.5% (due to CPI inflation).

Selected Fed assets and liabilities						Change from 3/11/20 to Jan 29
Fed H.4.1 statistical release	29-Jan	22-Jan	15-Jan	8-Jan	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4274.511	4274.563	4274.615	4291.067	2523.031	1751.480
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2217.559	2229.838	2233.205	2233.262	1371.846	845.713
Repurchase agreements	0.003	0.001	0.000	0.000	242.375	-242.372
Primary credit (Discount Window)	3.200	3.092	2.665	2.405	0.011	3.189
Factors draining reserves						
Bank Term Funding Program	0.213	0.247	1.333	3.351		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.925	1.940	1.949	1.955		
Main Street Lending Program	7.648	7.641	7.649	8.270		
Municipal Liquidity Facility	0.000	0.000	0.000	0.000		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.078	0.105	0.098	1.120	0.058	0.020
Federal Reserve Total Assets	6868.7	6882.9	6885.3	6904.7	4360.0	2508.675
3-month Libor %	4.35	4.30	4.28	4.29	1.15	3.200
Factors draining reserves						
Currency in circulation	2349.125	2352.459	2356.047	2366.173	1818.957	530.168
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	811.549	665.485	651.187	620.531	372.337	439.212
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	121.842	123.981	119.977	185.144	1.325	120.517
Federal Reserve Liabilities	3668.047	3551.694	3526.263	3572.214	2580.036	1088.011
Reserve Balances (Net Liquidity)	3200.654	3331.196	3359.041	3332.435	1779.990	1420.664
Treasuries within 15 days	64.908	62.262	36.997	72.540	21.427	43.481
Treasuries 16 to 90 days	214.028	219.145	241.106	225.590	221.961	-7.933
Treasuries 91 days to 1 year	452.293	449.828	453.140	442.049	378.403	73.890
Treasuries over 1-yr to 5 years	1456.789	1456.811	1456.834	1465.828	915.101	541.688
Treasuries over 5-yrs to 10 years	545.659	545.665	545.670	549.009	327.906	217.753
Treasuries over 10-years	1540.835	1540.851	1540.868	1536.050	658.232	882.603
Note: QT starts June 1, 2022	Change	1/29/2025	6/1/2022			
U.S. Treasury securities	-1496.268	4274.511	5770.779			
Mortgage-backed securities (MBS)	-489.887	2217.559	2707.446			

Fed Policy-key variables	2024				2025	2026	2027	Long Term
	Jan	Apr	Jul	Oct	Jan	Jan	Jan	Term
Fed funds	4.4	3.9	3.4	3.1	3.0			3.0
PCE inflation	2.4	2.5	2.1	2.0	2.0			2.0
Core inflation	2.8	2.5	2.2	2.0				
Unemployed	4.2	4.3	4.3	4.3	4.2			4.2
GDP	2.5	2.1	2.0	1.9	1.8			

December 2024 median Fed forecasts



All but 1 bps of a 25 bps rate cut is forecast in June 2025.

Fed funds futures call Fed policy	
Current target: January 31 -- 4.50%	
Rate+0.17 Contract	Fed decision dates
4.450 Apr 2025	Mar 19
4.260 Jul 2025	Adds May 7, Jun 18*
Last trade, not settlement price	
* Not strictly true, Jul 2025 has Jul 30 Fed date, so 1 day could be a new interest rate	

Next up: January CPI inflation report Wednesday, February 12

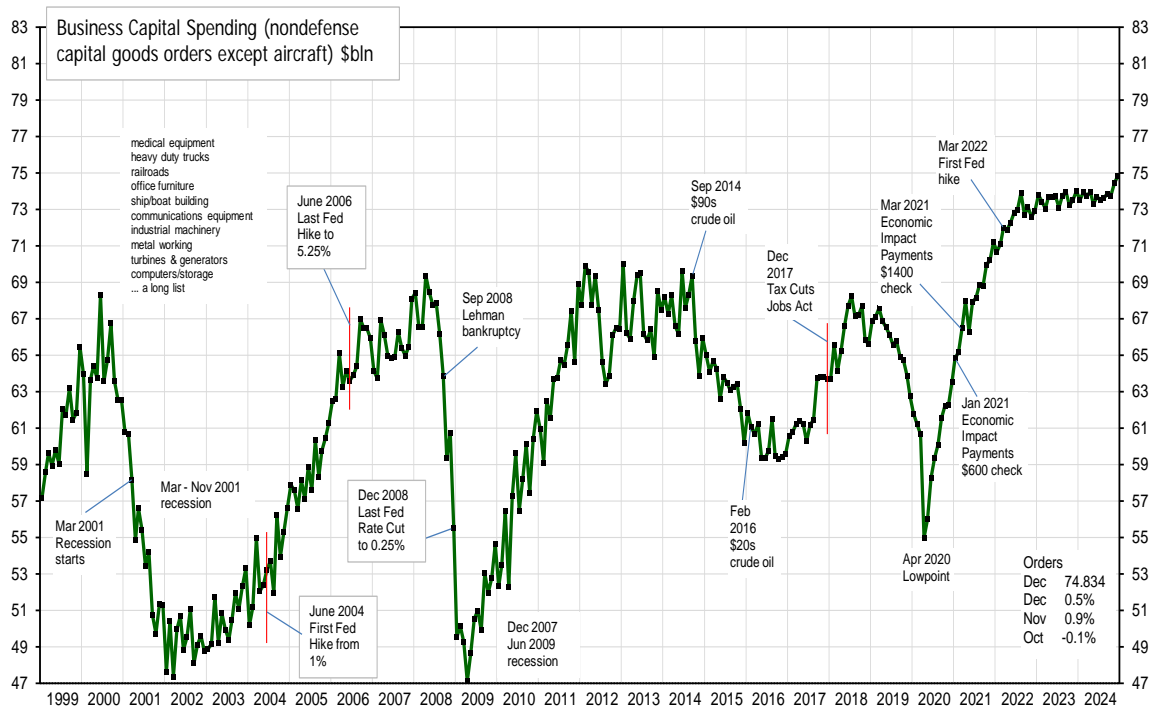
Monthly % Changes	2024											2023		2023	
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
Core CPI inflation	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2
Core PCE inflation	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2	0.1	0.1
Core PCE YOY	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0	3.2	3.4
Core CPI YOY	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0

OTHER ECONOMIC NEWS

Capital goods record orders (Tuesday)

Breaking economy news. Nondefense capital goods orders ex-aircraft were strong in December, rising 0.5% to a record high, and November's 0.4% gain was revised to +0.9%. ***Although if we can look ahead to Thursday, real business equipment spending in the Q4 2024 GDP report actually tumbled 7.8%. Many times the GDP equipment category can bounce around based on sales of pickup trucks which are not counted as capital goods.

Net, net, it looks like the animal spirits of corporations are reawakening late last year after the change in administrations with orders for long-lived capital goods equipment unexpectedly surging perhaps with an eye to the Trump 2.0 pro-business agenda which aims to stoke the fires of economic growth. It looks like real GDP growth had another solid 3% increase in real activity in the fourth quarter and there will be many more to come as long as Washington does not change its policies too dramatically in unanticipated ways. Uncertainty kills economic activity but businesses at the moment have high hopes for 2025 and are bringing in the equipment to make stronger economic growth a reality.



GDP stumbles (Thursday)

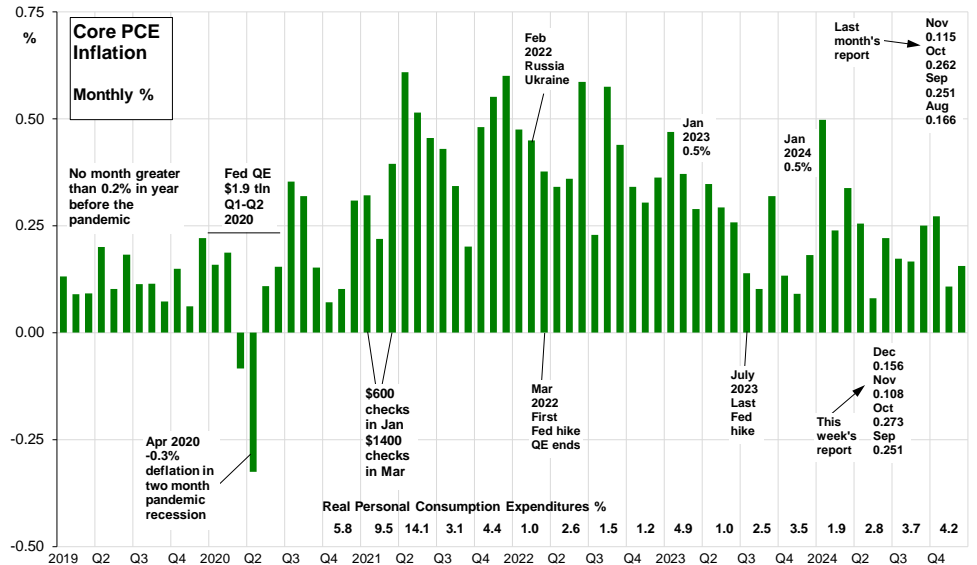
Breaking economy news. Real GDP slowed to 2.3% in Q4 2024, after running at what was a stronger 3% pace. There were some odd moves in the report with real consumer spending very strong, and inventories whacked almost a percentage point from growth. We thought companies were ordering more than they needed ahead of Trump 2.0 tariffs which would end up as inventory until it was used. Equipment spending also fell, and both imports and exports were reduced to almost no change. Imports are usually always increasing, imports rose in Q3 2024 and subtracted 1.4 percentage points from growth; imports are always a drag because it is gross “domestic” product GDP. But nothing this quarter.

	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24p
REAL GDP	4.4	3.2	1.6	3.0	3.1	2.3
REAL CONSUMPTION	2.5	3.5	1.9	2.8	3.7	4.2
CONSUMPTION	1.7	2.3	1.3	1.9	2.5	2.8
Durables	0.3	0.2	-0.1	0.4	0.5	0.9
Nondurables	0.4	0.5	-0.1	0.2	0.6	0.5
Services	1.0	1.6	1.6	1.3	1.3	1.5
INVESTMENT	1.8	0.2	0.6	1.5	0.2	-1.0
Business Plant & Equipment and Intellectual Property	0.1	0.2	0.2	0.0	-0.2	0.0
Homes	-0.1	0.0	0.0	0.5	0.5	-0.4
Inventories	0.2	0.3	0.4	0.0	0.2	0.2
Homes	0.3	0.1	0.5	-0.1	-0.2	0.2
Inventories	1.3	-0.5	-0.5	1.1	-0.2	-0.9
EXPORTS	0.5	0.7	0.2	0.1	1.0	-0.1
IMPORTS	-0.6	-0.6	-0.8	-1.0	-1.4	0.1
GOVERNMENT	0.9	0.6	0.3	0.5	0.9	0.4
Federal defense	0.2	-0.1	-0.1	0.2	0.5	0.1
Fed nondefense	0.1	0.0	0.1	0.0	0.1	0.1
State and local	0.6	0.6	0.3	0.3	0.3	0.2
Below line: Percentage point contributions to Q4 2024 2.3% real GDP						
Second estimate for Q4 is Thursday, February 27						

Net, net, consumer spending was off the charts in the fourth quarter GDP report, and not just because of goods purchased to get out ahead of any potential import tariff hikes because services expenditures like those for health care were robust. Economic growth slowed from its strong pace earlier in the year, but only because business investment in equipment and inventories showed surprising weakness. Time will tell if businesses are simply exhibiting temporary caution on equipment purchases after the November election results until they see what Trump 2.0 means for them, or whether the slowdown in GDP growth is something to be worried about. Real goods exports fell perhaps because of a slowdown in the economies of America’s trading partners. There does not appear to be any labor market weakness certainly, no recession out there somewhere beyond the horizon, as weekly jobless claims both first-time applications for benefits as well as the total number of jobless receiving benefits fell back sharply this week. GDP looks like it stumbled on the headline number of 2.3%, but final demand was very strong as consumers cleared the store shelves last quarter. Stay tuned.

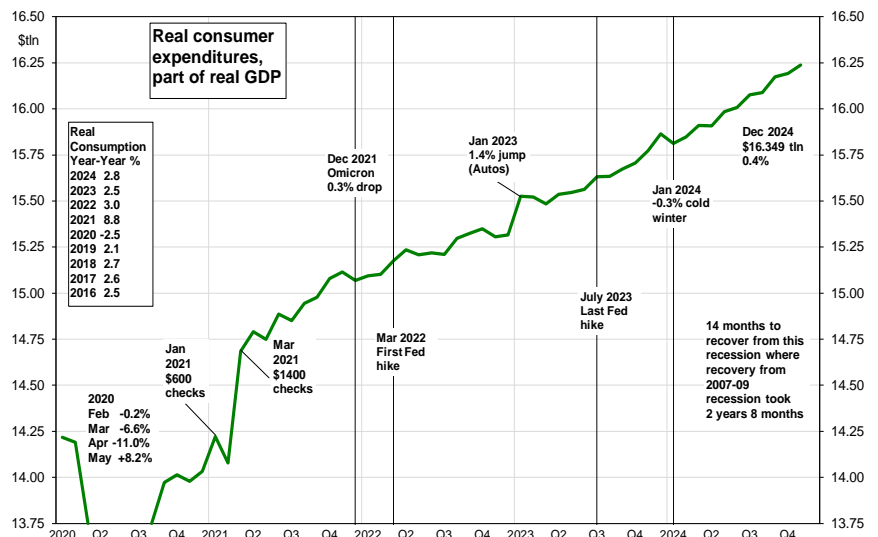
Consumer strong for now (Friday)

Breaking economy news. The personal income report for December. The economy is circular, this month's income is next month's consumer spending, so we normally just focus on what consumers are spending as it does make up the famous two-thirds of all GDP spending in the economy. Core PCE inflation the Fed targets was 0.2% in December with the three-digit change even better at 0.156%. Fed officials are likely wondering about the January data due out on Friday, February 28 as the last two Januarys, 2023 and 2024, were 0.5% big inflation numbers that rattled markets. Back to real consumption that was strong at 0.4% in December and 0.5% in November. Durable goods which includes autos rose 2.6% in November and 1.1% in December. Keep in mind durables are \$2.152 trillion out of \$16.349 trillion of consumer expenditures in December or 13.2%.



Net, net, the economy had a whirlwind finish to the year with consumers going all out, but the way ahead looks like it will be less well paved with good intentions and the road could be uneven and filled with potholes. Consumers shop with an eye on bargains, and 25% tariffs of the imports of America's two largest trading partners could force prices of store bought goods well beyond the reach of many if not all consumers. There may not be another full-blown cost of living crisis, but the future with tariffs certainly looks less affordable for all Americans. We are not sure the country is willing to pay the price for the new administration's social goals of stopping migrants and illicit drugs at the border.

The news on inflation was good for Fed officials and rate cuts are expected later this summer, although that will be cold comfort for policymakers if consumers balk at higher priced goods sitting on the store shelves. Core PCE inflation has stalled at 2.8% the last three months, but market-based core consumer inflation is actually better at just 2.4%, and these are prices that are directly observed and measured as opposed to some prices that are based on imputed transactions that involves a lot of guesswork. Stay tuned. The consumer is strong for now, but for how long is the million dollar question for the economic outlook.



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