Financial Markets This Week

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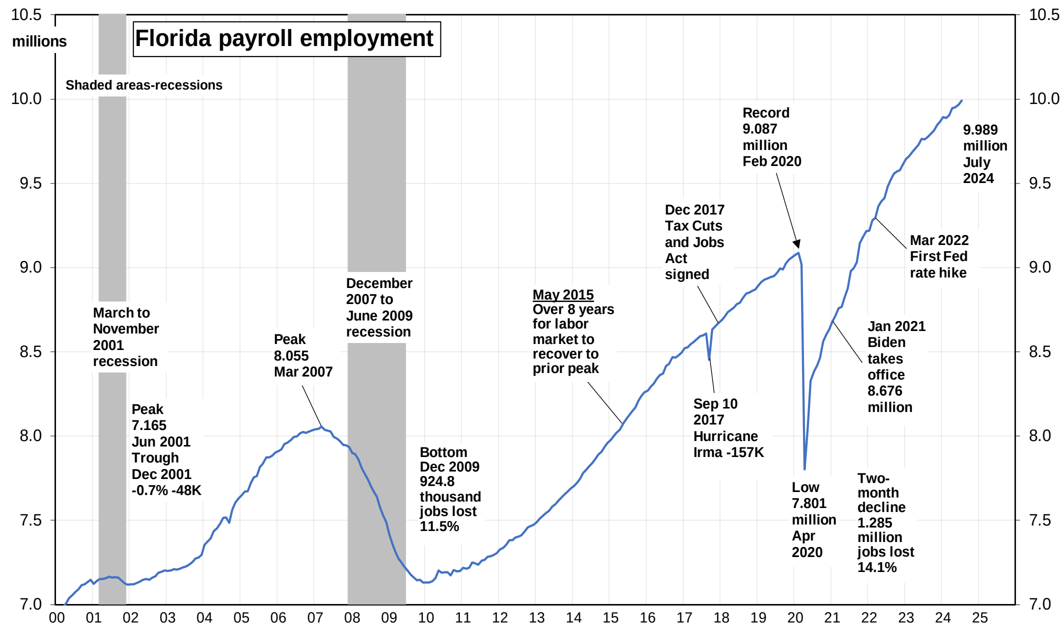
NO RECESSION IN FLORIDA EITHER



We thought we would switch back to the payroll employment measure of jobs given what is happening or not happening at the national level. We believe the BLS Household Survey measure of individuals instead of firms comes to the right answer first on are-we, aren't-we in a recession. However, if there is recessionary joblessness, shown by a significant rise (five-tenths) in the unemployment rate from the cycle low, then it has to be matched by a decline in nonfarm payroll employment, and fairly quickly. In this "recession," payroll employment has slowed but it has not declined yet, even with significant unemployment, so something must be wrong based on the experience of the last three recessions. Never really seen this happen before. There could be a measurement problem. Weekly unemployment claims stalled out. The order of service for every recession watch ceremony or party is first weekly jobless claims jump, then the unemployment rate increases, and finally nonfarm payroll jobs must decline, and sharply. Maybe there will be some labor market "weakness" coming up in the preliminary benchmark revision to payroll jobs announced Wednesday, August 21 at 10am ET. The August employment report is out Friday, September 6, and maybe the normal revisions to the prior months, June and July in this case, will get revised down sharply which has happened before going into a recession before. But probably not.

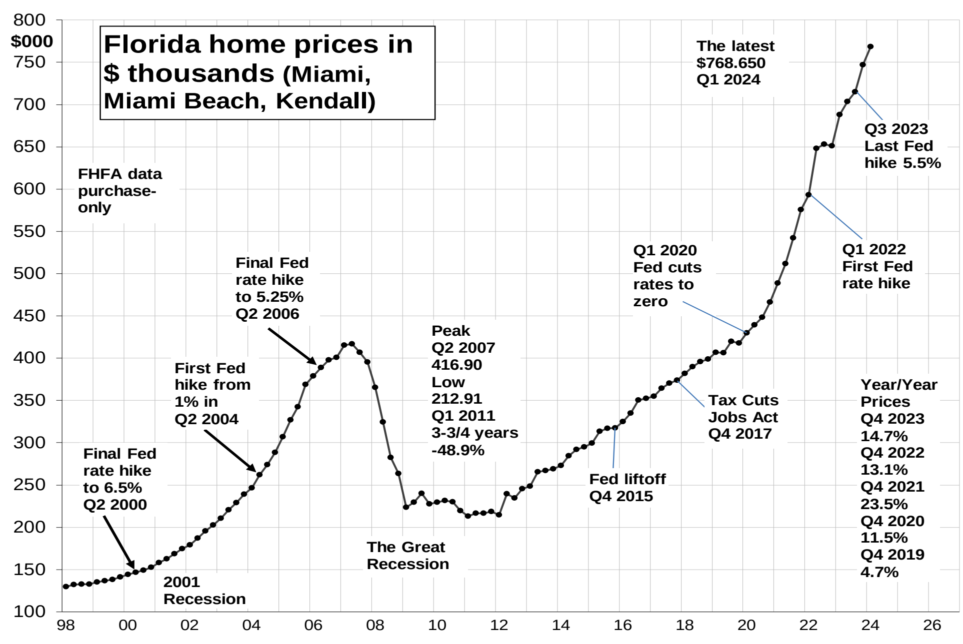
> Boston Fed President Rosengren
> December 11, 2007 FOMC
> I would note that when the unemployment rate rises at least ½ percent, it tends to rise much further than just ½ percent. That is, historically, when we have unemployment rates rise ½ percent, we have subsequently found ourselves in a recession.

Meanwhile, there was some thought the two-tenths "recessionary" jump in the unemployment rate to 4.3% (4.253%) in July could be revised back down to 4.1% because of the Hurricane Beryl effect down in Texas. The BLS said it did not think the data were hurricane affected, and it pointed out the state unemployment rate data were to be released Friday, August 16, 2024. That's today. Texas unemployment lifted a tenth to 4.1% (4.05%) in July from 4.0% (4.03%) if that solves the puzzle. Think it was a tenth. We were supposed to be talking about Florida this week (down there on holiday currently), and there was a time when substantial payroll jobs were lost in the state in September 2017 after Hurricane Irma. Jobs bounced back the next month. The trend in payroll employment generally, in this case for Florida, is so smooth and long-lasting over time that nothing seems to shake the trend; not for who is President, or what legislation is passed by Congress, or hurricanes, or in this cycle, mighty Federal Reserve interest rate hikes. Only recessions seem to change the trend from rising to falling. And for Florida during the March-November 2001 recession, payroll employment did not really decline much until October that year after 9/11 and only for a few months. The Great Recession was a big one from December 2007 to June 2009, but in Florida, payroll employment started declining nine months early as the state was one of the key subprime poster-children states during the housing bust where the job losses came early. It took over eight years for everyone in Florida to get back to work and have payroll employment rise back to the old peak made in March 2007 before the recession.

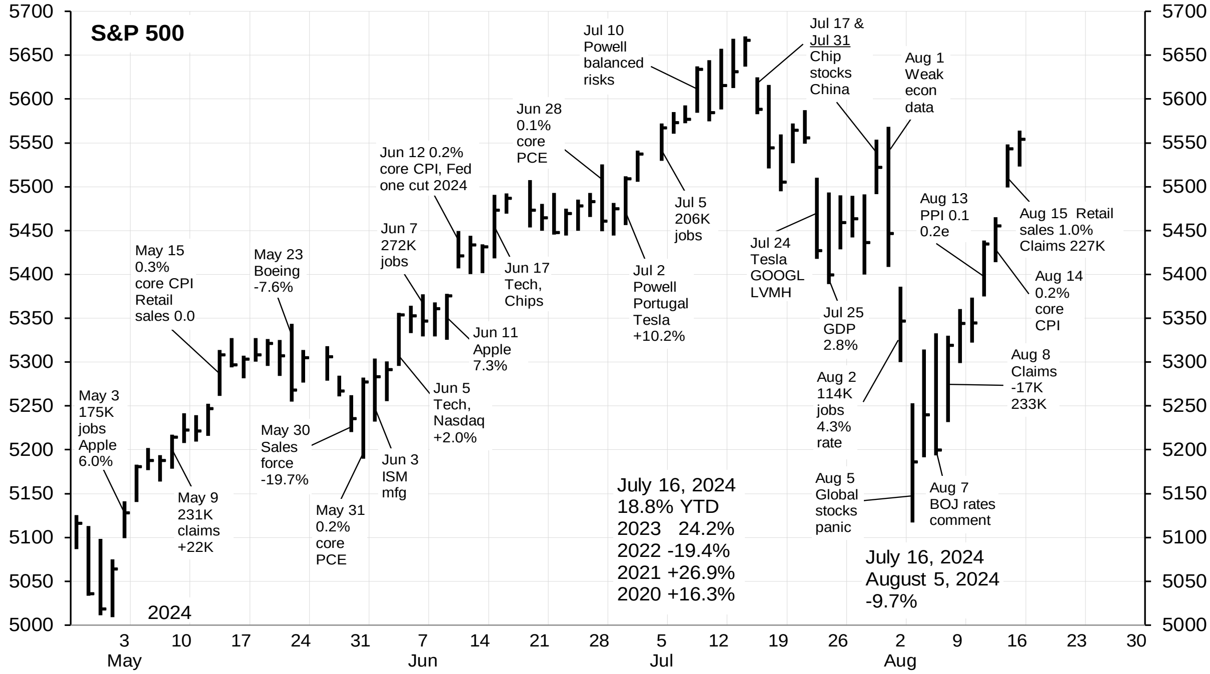
Florida labor market trends

Thousands	Jul 23	Jul 24	Change	% Chg
Population	18,446	18,808	361	2.0
Not in Labor Force	7,426	7,751	326	4.4
Employment	10,702	10,690	-12	-0.1
Unemployed	318	366	48	15.1
Rate	2.9	3.3	0.4	---
Participation rate	59.7	58.8	-0.9	---
Payroll employment	9,760	9,990	230	2.4

Anyway, we really meant to talk about or show off really, the current housing price bubble down there in Miami. Incredible. We guess if you want to get technical a 5.25% Fed rate in Q2 2006 did not halt the last housing bubble for another year. The Fed's final 5.5% rate in Q3 2023 "still has some time to work." Unfortunately, higher interest rates working like in the Great Recession would mean Miami area home prices collapsing again nearly 50%. Hope history doesn't repeat itself. Although many stories of Florida condo prices falling sharply. Q2 2024 FHFA home price data will be released Tuesday, August 27. Wait for it. Stay tuned. No recession yet; need more data to confirm it. Payroll employment still mysteriously increases faster than the Household Survey of employment which it has before like in the 90s, but this has been studied without conclusive results other than a ratio like the unemployment rate should not be affected.



INTEREST RATES



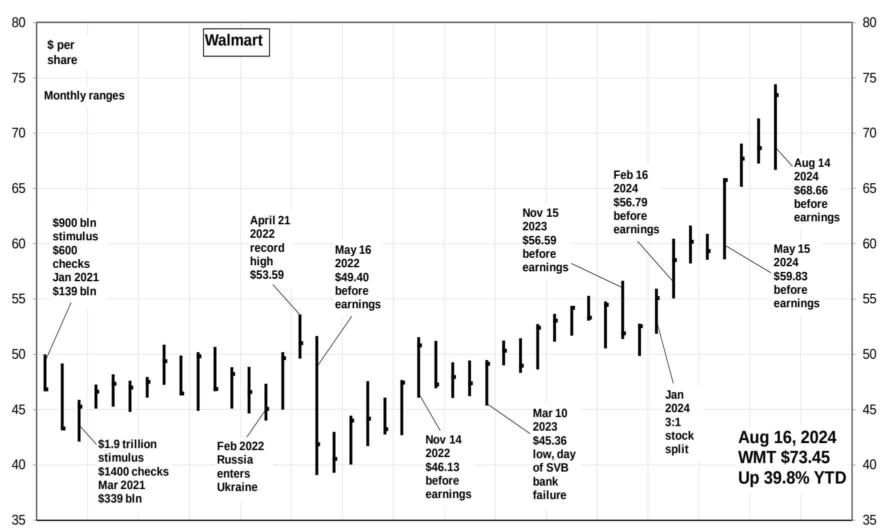
A further recovery in stocks: recession hard-landing fears brought stocks down as much as 9.7% from the record highs in mid-July, and the market's recession-fears were moved to the back burner after resilient growth with retail sales up 1.0% in July and another decline in weekly jobless claims. This left stocks at the close Friday down 2.0% from all-time highs or up 16.4% in 2024 year-to-date. For bonds, the biggest move of the week was the stronger 1.0% retail sales in July and drop in weekly jobless claims to 227K reported on Thursday which took away recession worries, and the need for bigger/more Fed rate cuts. Tuesday and Wednesday saw lower bond yields on the better inflation data, including the bigger move on PPI than on CPI for some reason. 10-yr yields closed Friday 3.89% versus 3.95% the week before. No 10-year yield chart: check it out at the fwdbonds website here.

Walmart Inc. (WMT) record high after earnings

Walmart jumped 6.6% Thursday after reporting earnings before the open. Wall Street liked May's earnings report as well. Operating income of $7.9 billion in the July quarter is up 8.5% from last year. Same-store US sales ex-fuel were 4.3% year-on-year, slightly better than the first quarter. The company beat expectations this quarter, raised its full-year outlook, but its expectations for Q3 earnings were less than expected.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2021	138.3	6.9	6.2%	4/30/2021
Q2 2021	141.0	7.4	5.5%	7/30/2021
Q3 2021	140.5	5.8	9.9%	10/29/2021
Q4 2021	152.9	5.9	6.3%	1/29/2022
Q1 2022	141.6	5.3	4.0%	4/29/2022
Q2 2022	152.9	6.9	7.0%	7/29/2022
Q3 2022	152.8	2.7	8.5%	10/28/2022
Q4 2022	164.0	5.6	8.8%	1/27/2023
Q1 2023	152.3	6.2	7.3%	4/28/2023
Q2 2023	161.6	7.3	6.3%	7/28/2023
Q3 2023	160.8	6.2	4.7%	10/27/2023
Q4 2023	173.4	7.3	3.9%	1/26/2024
Q1 2024	161.5	6.8	3.9%	4/26/2024
Q2 2024	169.3	7.9	4.3%	7/26/2024

* US comparable sales, incl. Sam's Club, ex-fuel

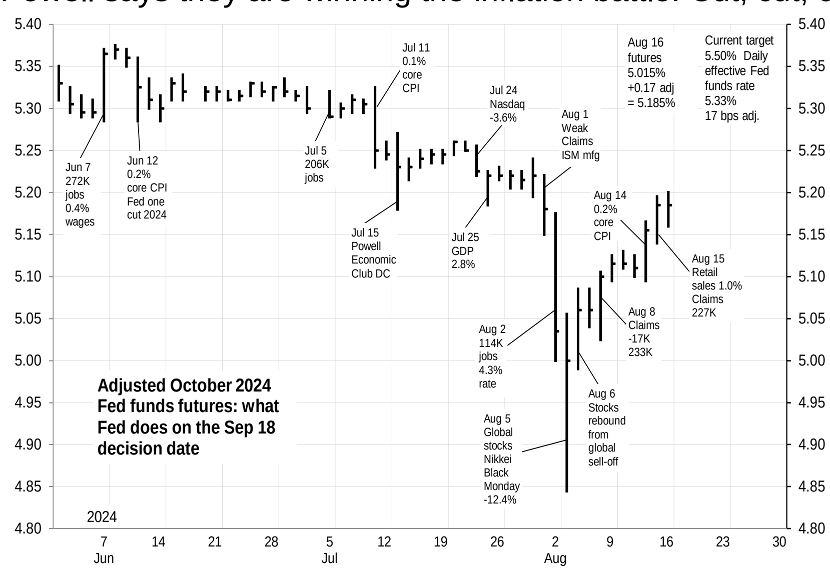


FEDERAL RESERVE POLICY

The Fed meets September 17-18, 2024 to consider its monetary policy. At this meeting, the forecasts made every quarter will be extended through 2027. The forecasts made in June look for 100 bps of cuts in 2025 and 100 bps more in 2026 as long as core PCE inflation hugs close to 2.0%. Actually, they see core PCE inflation at exactly 2.0 in Q4 2026. Worth waiting for, as is Fed Chair Powell at Jackson Hole again (he must be tired of going out there where the buffalo roam) and his remarks are 10am ET Friday, August 23. The topic of the [Economic Policy Symposium] is "Reassessing the Effectiveness and Transmission of Monetary Policy," so it looks like they want answers to why a 5.5% Fed funds rate has not slowed the economy. "The 5.25% Fed funds rate in 2006 under Bernanke caused a recession after all." Powell won't have to answer this; markets want to know if they are cutting in September. It would not be a completely normal setup for a rate cut next month as ideally their communications at the July meeting should have already been tilted at downside economy risks. Instead, they moved to balanced risks instead of earlier inflation risks only and potentially tighter policy and higher rates. Upon reflection perhaps this is not completely true as a meeting before the first Powell rate cut in 2019, the FOMC meeting press statement just cited increased uncertainty about the outlook and muted inflation pressure. Plenty of uncertainty today. Let's see if Powell says they are winning the inflation battle. Cut, cut, cut, outlook uncertain, cut, cut, cut.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	14-Aug	7-Aug	31-Jul	24-Jul	3/11/20*	3/11/20
Factors adding reserves						to Aug 14
U.S. Treasury securities	4413.685	4413.650	4413.615	4423.725	2523.031	1890.654
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2318.124	2318.190	2318.190	2332.216	1371.846	946.278
Repurchase agreements	0.000	0.010	0.005	0.000	242.375	-242.375
Primary credit (Discount Window)	2.410	2.232	6.925	6.751	0.011	2.399
Bank Term Funding Program	100.452	100.858	102.066	102.410		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	2.589	2.615	2.698	2.715		
Main Street Lending Program	10.905	10.891	10.879	10.880		
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	0.151	0.149	0.155	0.159	0.058	0.093
Federal Reserve Total Assets	7228.9	7226.5	7228.9	7256.7	4360.0	2868.855
~~3-month Libor %~~ SOFR %	5.33	5.33	5.38	5.34	1.15	4.180
Factors draining reserves						
Currency in circulation	2348.932	2350.210	2348.663	2347.678	1818.957	529.975
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	788.823	785.233	854.001	767.419	372.337	416.486
Treasury credit facilities contribution	4.958	4.958	4.958	4.958		
Reverse repurchases w/others	328.472	286.660	413.200	399.121	1.325	327.147
Federal Reserve Liabilities	3889.965	3853.572	4050.212	3980.838	2580.036	1309.929
Reserve Balances (Net Liquidity)	3338.916	3372.916	3178.700	3275.885	1779.990	1558.926
Treasuries within 15 days	74.521	79.828	84.041	63.939	21.427	53.094
Treasuries 16 to 90 days	168.923	166.965	135.154	178.740	221.961	-53.038
Treasuries 91 days to 1 year	538.661	535.307	562.900	543.643	378.403	160.258
Treasuries over 1-yr to 5 years	1527.128	1472.812	1472.796	1479.645	915.101	612.027
Treasuries over 5-yrs to 10 years	583.558	637.854	637.850	637.651	327.906	255.652
Treasuries over 10-years	1520.894	1520.884	1520.874	1520.107	658.232	862.662
Note: QT starts June 1, 2022	Change	8/14/2024	6/1/2022			
U.S. Treasury securities	-1357.094	4413.685	5770.779			
Mortgage-backed securities (MBS)	-389.322	2318.124	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2024	2025	2026	Long Term
Fed funds	5.1	4.1	3.1	2.8
PCE inflation	2.6	2.3	2.0	2.0
Core inflation	2.8	2.3	2.0	
Unemployed	4.0	4.2	4.1	4.2
GDP	2.1	2.0	2.0	1.8
June 2024 median Fed forecasts				



October Fed funds futures backed off a 50 bps rate cut on September 18, and you could get another 17.5 bps if you buy it here and they cut 50.

Fed funds futures call Fed policy		
Current target: August 16 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.495	Aug 2024	Intermeeting
5.175	Oct 2024	Sep 18
4.525	Jan 2025	Add Nov 7, Dec 18*
Last trade, not settlement price		
* Not strictly true, Jan 2025 has Jan 29 Fed date, so 2 days could be a new interest rate		

Next up: July PCE inflation report Friday, August 30															
Monthly							2024	2023							2023
% Changes	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
Core CPI inflation	0.2	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4
Core PCE inflation	0.1e	0.2	0.1	0.3	0.3	0.3	0.5	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3
Core PCE YOY	2.6e	2.6	2.6	2.8	2.8	2.8	2.9	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7
Core CPI YOY	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3

OTHER ECONOMIC NEWS

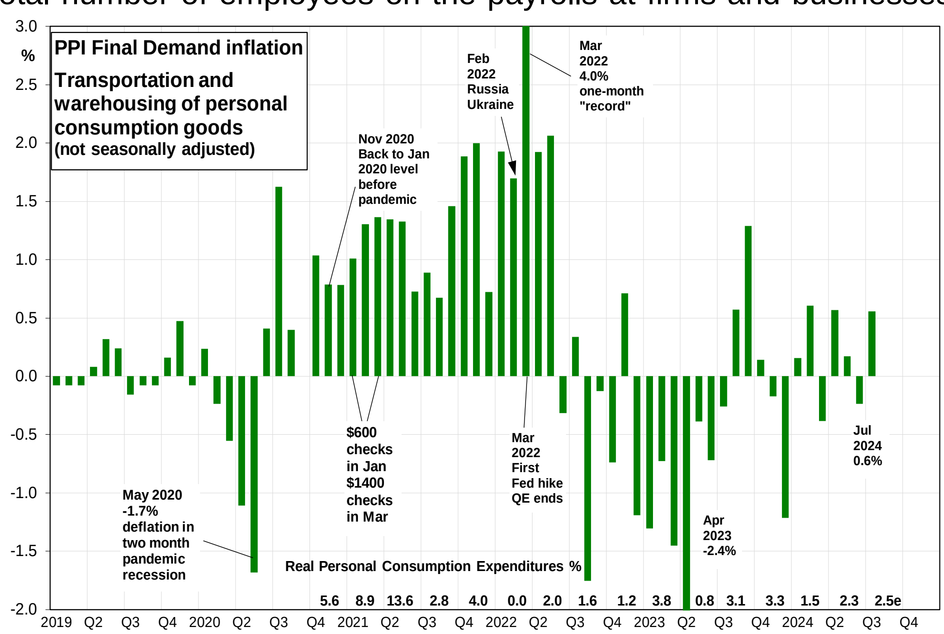
PPI inflation cools (Tuesday)

Breaking economy news. PPI inflation for July. The whole PPI thing, producer price index for final demand, rose 0.1% in July after 0.2% in June, and is almost on the Fed's target at 2.2% over the last year. Except the Fed does not target PPI. To say the market liked the report is an understatement. Supply shock inflation given the strong consumer demand coming out of the pandemic switched to deflation in 2023, but so far this year the picture is mixed. Transportation and warehousing of personal consumption goods inflation is graphed below.

Net, net, producer price inflation that feeds into the cost of goods that consumers buy off the retail shelves is cooling this month and some of the key inputs that go into PCE inflation look better including a price cut for those trips into the doctor's office. Old-fashioned PPI before the BLS bolted on services prices increased 0.2% after an unchanged reading in June; these are final demand goods prices less foods and energy in the table here. Core goods prices normally would weaken if the manufacturing sector was in a recession as the purchasing managers claim. Stay tuned.

	PPI Final demand goods less foods/energy-- Monthly Percent Changes SA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	0.6	0.3	0.2	0.1	0.1	-0.1	0.0	0.1	0.3	0.1	0.1	0.1
2024	0.3	0.3	0.0	0.3	0.2	0.0	0.2					
	PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA											
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
2023	5.6	5.1	4.3	3.3	2.7	2.0	1.9	1.8	2.1	2.1	2.0	1.9
2024	1.6	1.6	1.4	1.6	1.7	1.9	2.1					

Producer price increases cooled this month which is good news for the Fed's inflation fight, but there is no PPI deflation, so Fed officials do not have to rush to judgment and bring rate cuts forward because the economy is headed downhill. No special urgency for the central bank to act though next week's Jackson Hole remarks by Powell may still green light market expectations for a rate cut at September's meeting. There are plenty of recession hints and signs, but for our money, payroll employment is the most telling indicator of an economic downturn, it is used by the National Bureau of Research, and right now the total number of employees on the payrolls at firms and businesses across the country is still rising each month. PPI prices slowed to a trickle this month even with an increase in energy prices, so markets should count themselves lucky as share prices are still trying to recover from a recession scare last week and the stock market needs all the positive news it can get. Investors are buying this morning because PPI rose 0.1% instead of the 0.2% expected which sounds like a flimsy excuse, but we welcome it nevertheless.

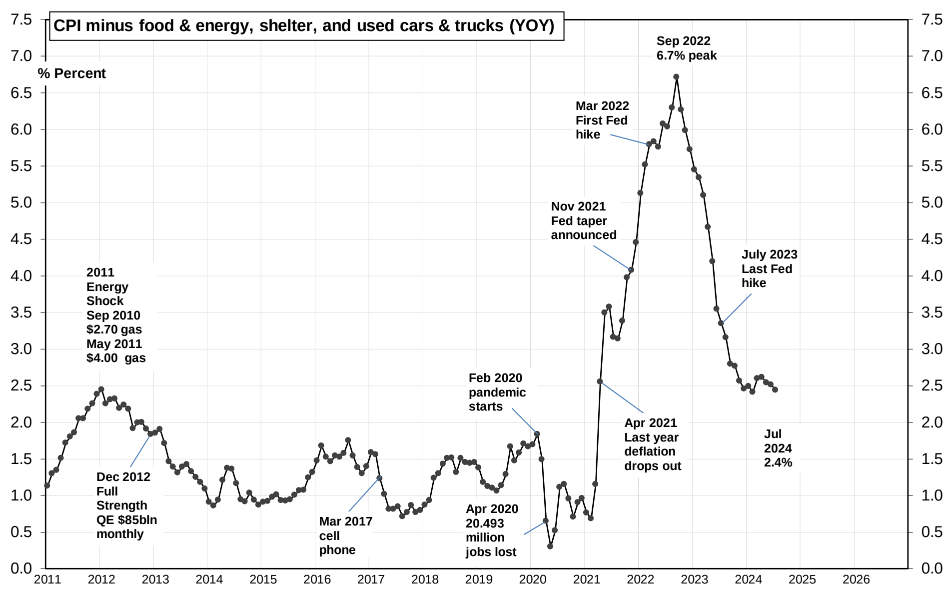


0.165 core CPI inflation (Wednesday)

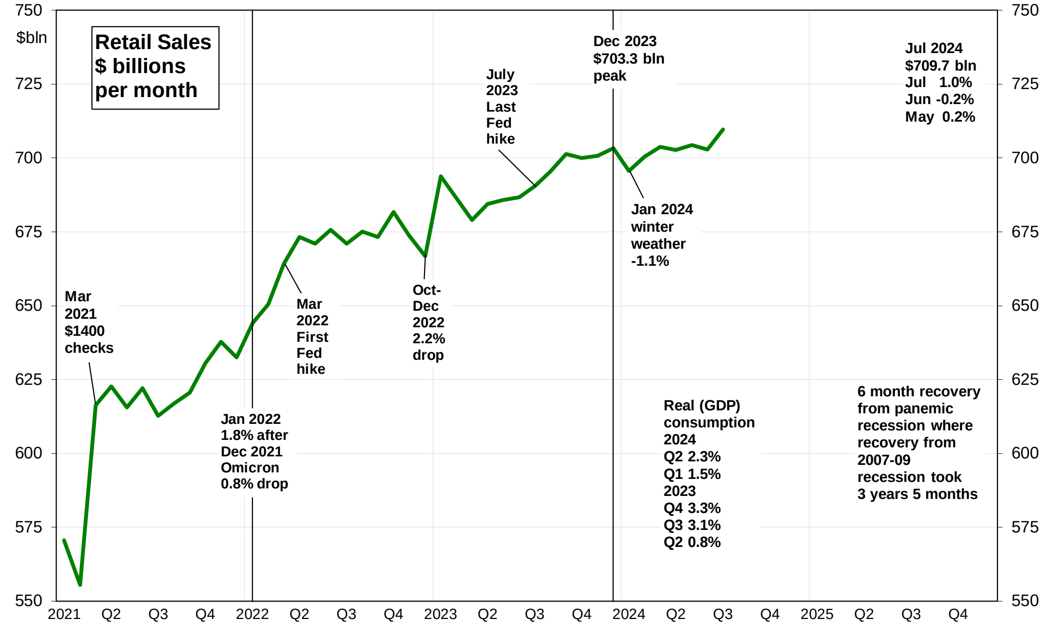
Breaking economy news. CPI inflation for July. Headline inflation rose 0.2% in July and is 2.9% higher than last year. Energy prices were unchanged and shelter prices were up 0.4%. Transportation services were also up 0.4% thanks to the 1.2% (for the month) jump in motor vehicle insurance which is 18.6% higher than a year ago. Check your bill. Core CPI was 0.2% up from 0.1% last month, but the market rallied and sees the Fed willing and able or able and willing to cut interest rates. Soon.

Dec 23		Monthly Percent Changes			YOY %
Weight	CPI inflation	May 2024	Jun 2024	Jul 2024	Jul 2024
100.0	Total	0.0	-0.1	0.2	2.9
13.555	Food	0.1	0.2	0.2	2.2
5.388	Food away from home	0.4	0.4	0.2	4.1
6.655	Energy	-2.0	-2.0	0.0	1.1
79.790	Ex-food & energy	0.2	0.1	0.2	3.2
3.684	New vehicles	-0.5	-0.2	-0.2	-1.0
2.012	Used cars/trucks	0.6	-1.5	-2.3	-10.9
2.512	Clothing	-0.3	0.1	-0.4	0.2
1.489	Medical care goods	1.3	0.2	0.2	2.8
36.191	Shelter	0.4	0.2	0.4	5.1
26.769	Owner equiv. rent	0.4	0.3	0.4	5.3
6.294	Transportation	-0.5	-0.5	0.4	8.8
6.515	Medical care services	0.3	0.2	-0.3	3.3
	Special: Where inflation might come back down to				
60.899	Services ex-energy	0.2	0.1	0.3	4.9
18.891	Commodities (core)	0.0	-0.1	-0.3	-1.9

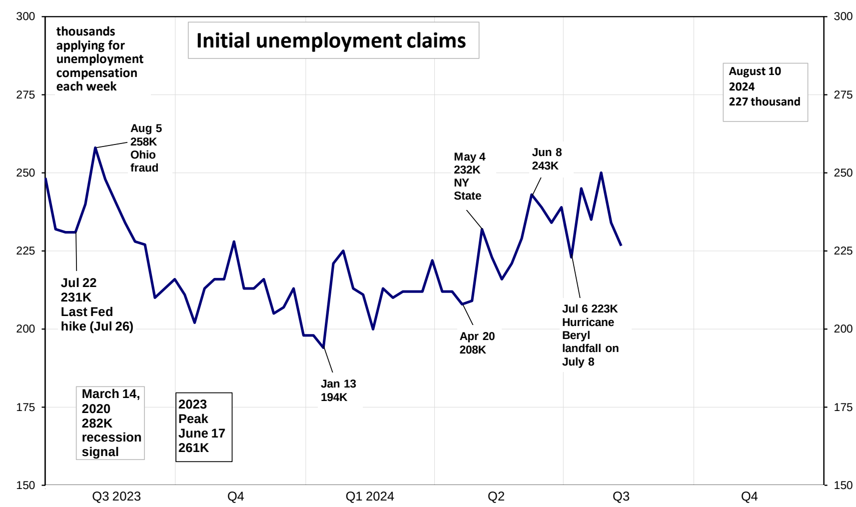
Net, net, the inflation outbreak is over and the overall picture of core consumer price pressures is quite benign, and even reminiscent actually of the spring and summer of 2019 before the pandemic struck. Any Fed official waiting for a little more data to make the decision on whether to cut interest rates got it in spades this morning as while inflation isn't dead, there is deflation in commodity prices which balances out the moderate inflation seen in some services prices which is mainly generated from the higher costs of housing. In fact, many prices in the CPI index have shown no net change over the last three months. The risks for Fed officials at this point are more on the downside for the economy and labor markets rather than on the upside for inflation. We expect Powell to give a thumbs up for a rate cut at next week's Jackson Hole meeting to rally the other Fed members and build a consensus for a first rate cut at the September meeting. Don't forget the FOMC just moved from a tightening bias to a neutral, balanced one at the July meeting. Current Fed policy is not behind the curve, but there is no longer a reason to delay rate cuts as policy remains as tight as it was in the months before the Great Recession and not a good spot to be in with the clouds offshore darkening now that job losses are the most seen in any economic period outside of a recession. Over a million more Americans are out of work since the Fed started tightening its monetary policy and that is not a good thing for the outlook to be sure. The inflation flare-up at the start of the year is over and the era of sky-high Fed rates should be too. Bet on it. 0.165% core CPI inflation in July… is that all? Get on it Fed. Your recession-level interest rates are no longer needed.



Darn, no recession again today (Thursday)



Breaking economy news. No recession is good news for the stock market which has embraced the weekly jobless claims report on layoffs. Some Fed officials are getting worried about the employment data, but it looks like the recession signal from weekly jobless claims was another false alarm. There are still plenty of unemployed Americans in the monthly employment report, but we can say the labor market weakness story is not getting worse. Meanwhile, retail sales jumped 1.0% this month with the turnaround in auto sales following the computer glitch dealers had in June. Motor vehicles and parts rose 3.6% in July after declining 3.4% in May. Restaurants and bars are seeing slower sales with an increase of 0.1% in June and 0.3% in July, but if you have dined out recently you will know why with costs going through the roof. For the record, retail sales were 0.3% in May and now 0.2%, 0.0% in June and now -0.2%, but after July data today, the third quarter is running 3.7% so far which should give us a real PCE spending number of 2.5%, similar to Q2 2024's 2.3%.



Jobless claims fell again this week, by 7K to 227K in the August 10 week. The false alarm bells for recession from elevated job layoffs are ringing louder than ever with another decline in first-time applications for unemployment benefits. The second week in August is usually a quiet time for layoffs each year with the summer holidays in full-swing before schools start up again. Since the Fed first raised interest rates in March 2022 to slow the economy and inflation down, this has been one of the longest waits for a hard-landing recession on record. No recession today on the menu, come back tomorrow is what the latest economic reports are saying.

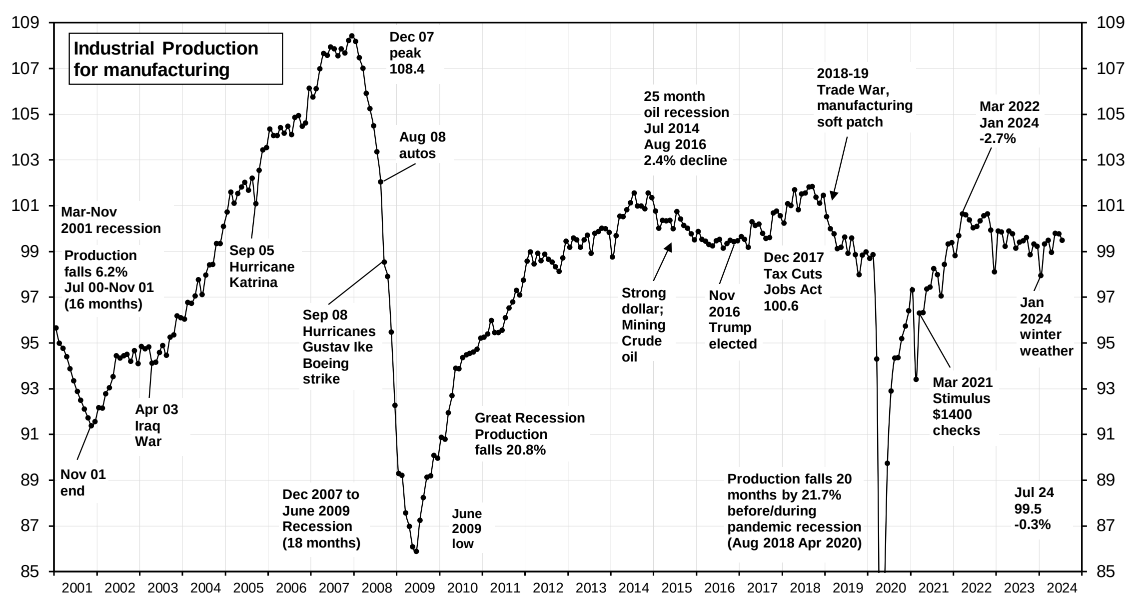
Net, net, Fed officials need not worry themselves to death about the outlook because the downside risks to the economy are fading fast with fewer job layoffs and robust consumer spending at the shops and malls this month. The economy is not going off the rails and consumer spending should support real GDP growth well north of 2.0% in the third quarter. Don't count the economy out yet is the message from today's economic reports. Fed officials can have their cake and eat it too with economic growth and falling inflation in July. If Fed Chair Powell is going to give forward guidance at Jackson Hole his message is likely to be one hinting at just a modest adjustment in rates of 25 bps. There is no storm brewing in the labor markets that could possibly argue for a giant-sized 50 bps rate cut. Stay tuned. We haven't seen the Fed's industrial production report yet due out at 915am ET, but this summer looks like a good one for the economy where the risks are not too hot, and not too cold. Current economic conditions and the inflation outlook are just right.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Jul	Total	Jul	Jun	Year/year
Total Retail Sales	709,668	100.0	1.0	-0.2	2.7
Motor vehicles/parts	133,584	18.8	3.6	-3.4	0.8
Furniture/furnishings	11,110	1.6	0.5	0.2	-2.4
Electronics/appliances	7,973	1.1	1.6	-1.1	5.2
Building materials/garden	41,191	5.8	0.9	1.5	0.4
Food & beverage	83,709	11.8	0.9	0.2	2.9
Health/personal care	37,113	5.2	0.8	0.4	3.4
Gasoline stations	52,573	7.4	0.1	-1.8	0.5
Clothing/accessories	26,235	3.7	-0.1	0.1	2.5
Sporting goods, books	8,165	1.2	-0.7	0.0	-6.8
General merchandise	75,834	10.7	0.5	0.2	2.7
Department stores	10,954	1.5	-0.2	0.4	-0.3
Miscellaneous retailers	14,843	2.1	-2.5	1.7	3.2
Nonstore retailers (internet)	122,671	17.3	0.2	2.2	6.7
Eating & drinking places	94,667	13.3	0.3	0.1	4.4
[Total ex-autos/gas]	521,675	73.5	0.4	0.8	3.4

Industrial production update: A mixed picture for the manufacturing sector that looked like it was on the rebound in last month's report. First off, industrial production fell 0.6% although 0.3 percentage point was due to the July shutdowns in petrochemicals ahead of Hurricane Beryl. Hurricanes are temporary, but then manufacturing fell 0.3% July with motor vehicles and parts tumbling almost 8%. Manufacturing production would have been up 0.3% if not for motor vehicles. They do build cars down there in Texas we guess. That's not all, more weakness in manufacturing production as the 0.4% increase in June is now flat, and the 1.0% jump in May is now 0.8%. Stay tuned. Industrial production falls in recessions, and while the 0.6% drop in July is probably nothing, the sector needs to be watched closely. What else do you have to do anyway.

Percent changes			Industrial Production July 2024		
May	Jun	Jul	YOY		Weight
0.8	0.3	-0.6	-0.2	Total Index	100.0
0.8	0.0	-0.3	0.1	Manufacturing	75.1
-0.7	-0.1	0.0	-1.5	Mining	14.2
2.2	2.6	-3.7	-0.1	Utilities	10.7
			Manufacturing payroll jobs 13.0 million +14K YOY 9.6% of Private Payroll Jobs		



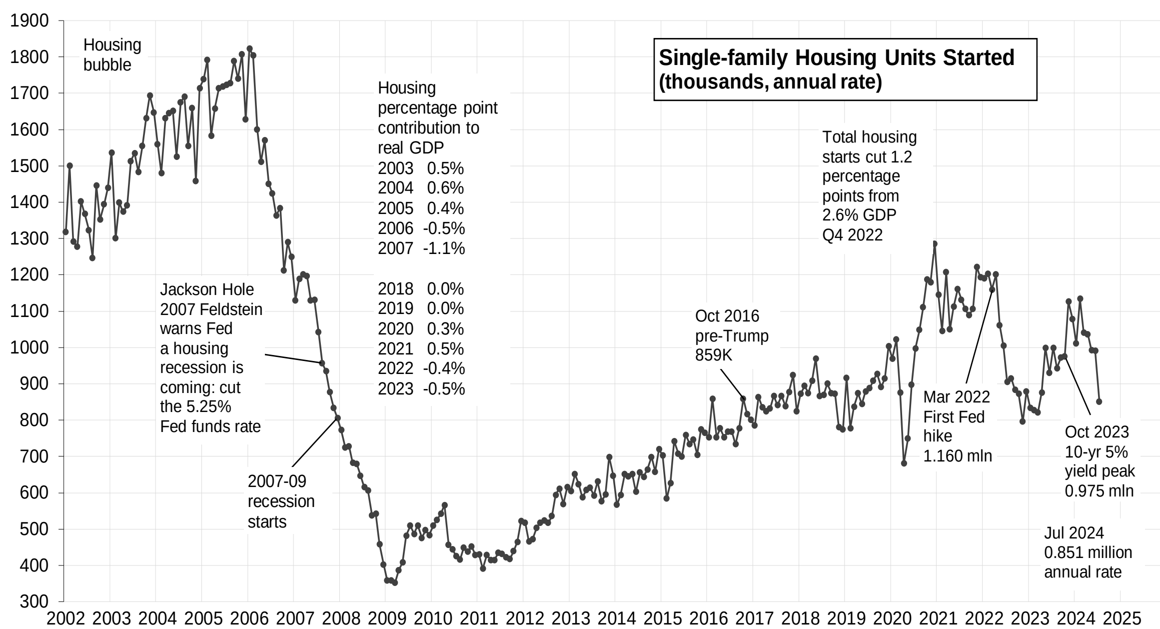
Starts down, not out (Friday)

Breaking economy news. Housing starts were hit by Hurricane Beryl this month falling 6.8% to 1.238 million at an annual rate, the lowest in the last year. Single family starts collapsed 14.1% or 140 thousand to 851K in July and single family starts in the South fell 137 thousand. The sun should come out next month now that the storm has passed with housing starts likely to recover especially with mortgage rates tumbling on the growing view that the Federal Reserve will cut rates in September.

Net, net, housing starts tumbled to the lowest in a year which should come as no surprise as Hurricane Beryl in Texas has taken a toll on many of the economic indicators in July. Single family housing starts were already depressed, after a flurry of activity around the turn of the year, and now they are really depressed. One thing we can count on is that residential housing construction will not be contributing anything to this quarter's real GDP growth which is running about 2.5% following the 2.8% growth in the second quarter. Stay tuned. We still believe construction will rebound with the sharp decline in mortgage rates, and the country desperately needs new supply of housing to limit the home price increases that continue to move higher and higher to ever more unaffordable levels.

Housing Starts Total, Single-Family, Multi-Family

	United States			Northeast		Midwest		South		West	
000s	Total	1 unit	Multi	Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Jul 2024	1238	851	363	164	51	171	132	640	460	263	208
Jun 2024	1329	991	325	115	70	174	113	741	597	299	211
Jul 2023	1473	999	464	113	63	174	122	800	564	386	250
% Chgs											
Jul/Jun	-6.8	-14.1	…	42.6	-27.1	-1.7	16.8	-13.6	-22.9	-12.0	-1.4
Jul/Jul	-16.0	-14.8	…	45.1	-19.0	-1.7	8.2	-20.0	-18.4	-31.9	-16.8



Analyst Certification

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