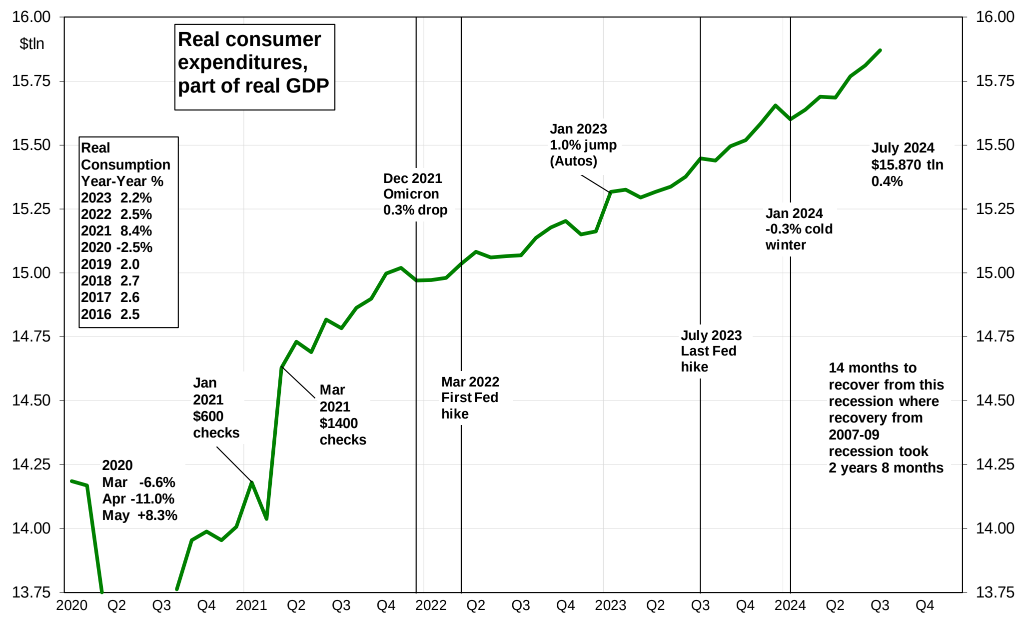
# *Financial Markets This Week*

**30 AUGUST 2024**

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

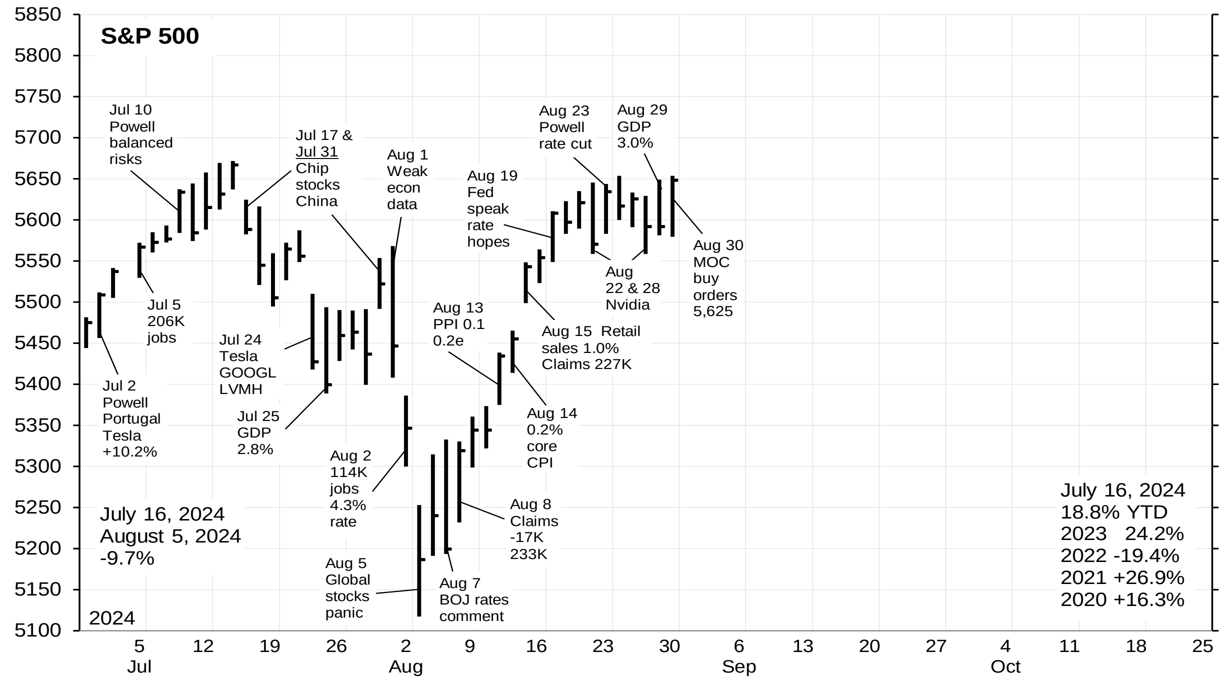
## NO CONSUMER RECESSION




Big week for consumers. No worries. Actual spending is not suffering regardless of all the troubles they say that they have in confidence surveys, or the fact (we think) that 7.163 million Americans are out of work (4.3% rate), nearly 1.5 million more than the economic cycle low of 5.715 million in April 2023. Thursday's Q2 2024 real consumer expenditures in the GDP report were revised sharply higher to 2.9% from 2.3%, and then Friday, consumer spending is running 3.0% in Q3 2024 with only July data so far. After a dip in January 2024 due to cold winter weather, it has been straight up. Two thirds of the Q2 bump from 2.3% to 2.9% was from the odd category of final consumption by nonprofits (providing free services to households). Through July's solid 3.0% Q3 consumption number: 10.0% durables is seeing the biggest contributions from used cars/trucks, furniture, computers and software, pleasure boats, other recreational vehicles. Nondurable goods spending saw a rebound in clothing and footwear after declining in Q2. Services spending is seeing not as many doctor visits, but more transportation services, mostly air travel, some car repair. Recreation services increase was amusement parks, movie theaters, other non-sports live entertainment. Economy looks fine in July.

| Real Consumer Expenditures & GDP<br>SAAR Percent change: Q3 2024e is July over Q2 average | Q3 2024e | Q2 2024 | Q1 2024 | Q4 2023 | Level $bln Q2 2024 |
|---|---|---|---|---|---|
| **Gross domestic product (GDP)** | -- | 3.0 | 1.4 | 3.4 | 22,924.9 |
| **Personal consumption expenditures (PCE)** | 3.0 | 2.9 | 1.5 | 3.3 | 15,755.2 |
| **Goods** | 5.2 | 3.0 | -2.3 | 3.0 | 5,460.2 |
| Durable goods | 10.0 | 4.9 | -4.4 | 3.2 | 2,071.4 |
| Motor vehicles and parts | 14.2 | 5.0 | -14.0 | -1.7 | 580.2 |
| Furnishings and durable household equipment | 9.3 | 7.8 | 0.3 | 1.7 | 429.3 |
| Recreational goods and vehicles | 9.3 | 5.2 | -2.4 | 7.5 | 814.8 |
| Other durable goods | 2.5 | -0.5 | 10.8 | 9.1 | 291.6 |
| Nondurable goods | 2.7 | 2.0 | -1.1 | 2.9 | 3,398.7 |
| Food and beverages for off-premises | 3.7 | 2.3 | -0.2 | 0.8 | 1,162.1 |
| Clothing and footwear | 4.9 | -3.1 | 3.4 | 3.4 | 504.6 |
| Gasoline and other energy goods | 1.5 | 10.4 | -11.5 | 4.3 | 320.5 |
| Other nondurable goods | 1.5 | 1.1 | 0.0 | 4.1 | 1,422.3 |
| **Services** | 1.9 | 2.8 | 3.3 | 3.4 | 10,319.5 |
| Household consumption expenditures (for services) | 1.6 | 2.1 | 2.8 | 3.6 | 9,880.4 |
| Housing and utilities | 1.4 | 1.8 | 1.0 | 0.1 | 2,587.1 |
| Health care | 0.9 | 3.0 | 7.2 | 7.8 | 2,733.9 |
| Transportation services | 5.0 | 5.1 | 0.3 | 4.2 | 480.4 |
| Recreation services | 5.1 | 6.3 | 2.8 | 0.4 | 604.6 |
| Food services and accommodations | 1.1 | 0.2 | -3.3 | 6.5 | 1,067.2 |
| Financial services and insurance | 0.4 | 0.0 | 5.6 | -0.9 | 1,064.1 |
| Other services | 1.9 | 1.5 | 2.3 | 6.1 | 1,359.9 |
| Final consumption nonprofit institutions | 8.0 | 19.6 | 15.5 | -0.5 | 440.1 |

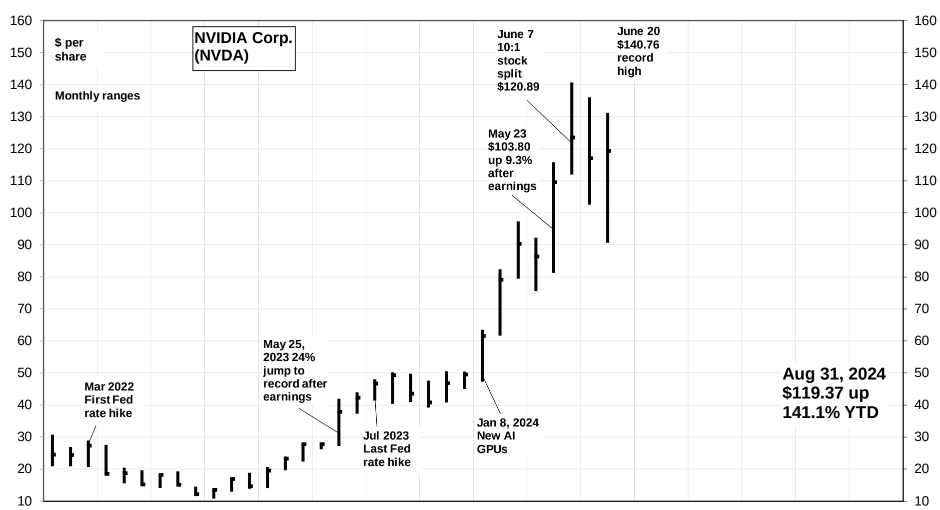
## INTEREST RATES




Sleepy day holiday-weekend Friday stock market trading until the billions of (MOC) market-on-close buy orders executed/became-known at 3:50pm ET. The S&P 500 rose 1.0% on Friday to 5,648.40, the second highest close this year, and now up 18.4% year-to-date. Equity returns this year are taking the sting out of the Fed cutting rates 25 bps to 5.25% on September 18. When Powell changed directions on policy at Jackson Hole last Friday, he presumably knew core PCE inflation close-enough after PPI/CPI to stick his neck out if that is the word. July core PCE was 0.2% or 0.161% after 0.163% in June and 0.102% in May. Monetary policy has shifted to being more concerned about employment, so a rate cut is necessary with the unemployment rate rising 0.9 percentage point from the cycle low to 4.3% in July. 10-yr yields are having trouble falling much more below the 5.5% Fed funds rate: unless there is a recession which would be shown by declining payroll jobs on September 6.

## NVIDIA Corporation (NVDA) up 141.1% YTD

The stock had a volatile reaction to earnings Wednesday afternoon but fell 6.4% the next day to $117.58. The stock retreated 35.6% from the June 20 record to $90.69 on August 5, roughly the same period as the S&P 500 9.7% July-August loss. Market leader. Follow the leader.



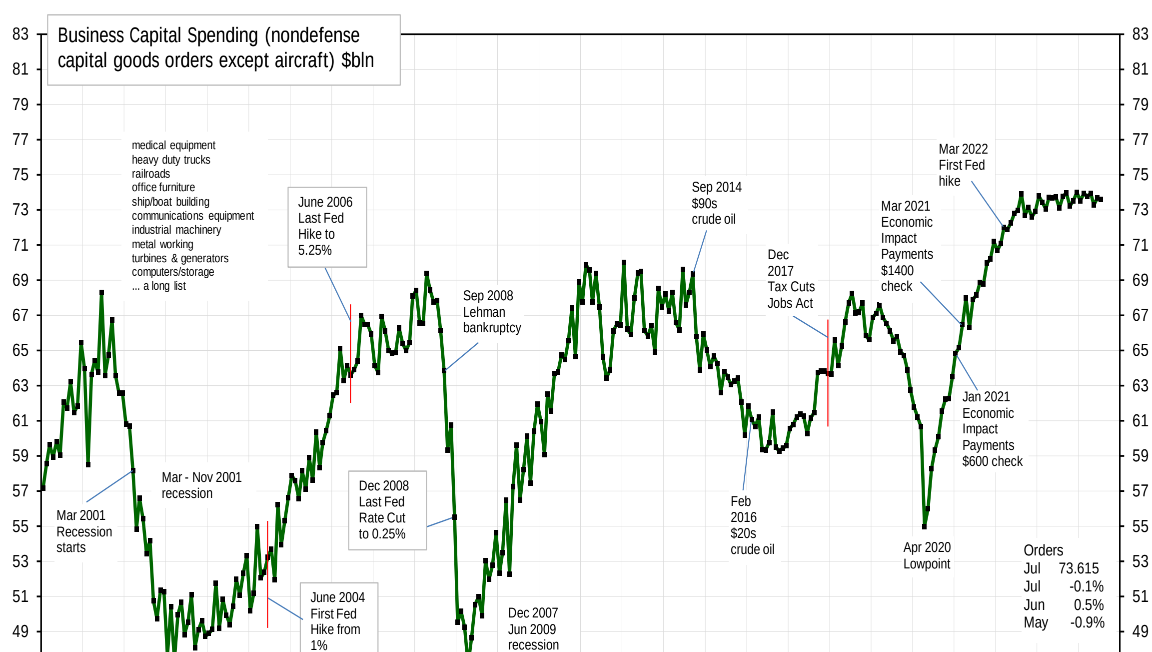
## OTHER ECONOMIC NEWS

### Durable goods still durable (Monday)

Breaking economy news. Durable goods orders increased 9.9% in July after tumbling 6.9% in June. Excluding transportation, down 0.2% in July, up 0.1% in June, the report is much less dramatic. The message is the outlook for the manufacturing sector remains positive regardless of the picture of weakness painted by the report from purchasing managers.

Net, net, new orders means new investment which powers economic growth, but the nearly 10% jump in July durable goods orders looks like a technical one-off, as civilian aircraft orders rebound after plunging in June. 9.9% is a big number, but not a big deal. Nondefense capital goods orders do drop precipitously if the economy slides over the cliff into recession; but the modest 0.1% decrease in these orders in July is not significant in this regard, nor is the downward revision in June from a 0.9% gain to just a 0.5% increase reported today. Stay tuned. The economy hasn't hit the skids yet. Business investment in long-lived core capital goods orders have slowed somewhat at the start of the third quarter, but new orders are miles away from indicating an economic recession for the broader economy.

The manufacturing sector is already in its own recession according to purchasing manager surveys, but durable goods orders show no sign of a downturn for industries involved in the production of durable goods. The Fed sees downside risks to employment and is preparing to cut interest rates but they do not have to worry that the economy has entered the danger zone. The stock market had a growth scare recently set off in part by a drop in the manufacturing purchasing managers index earlier in the month, but the slide in that index is not backed up by the hard data on durable goods orders in July. Durable goods are still durable and show the economy remains A-okay.



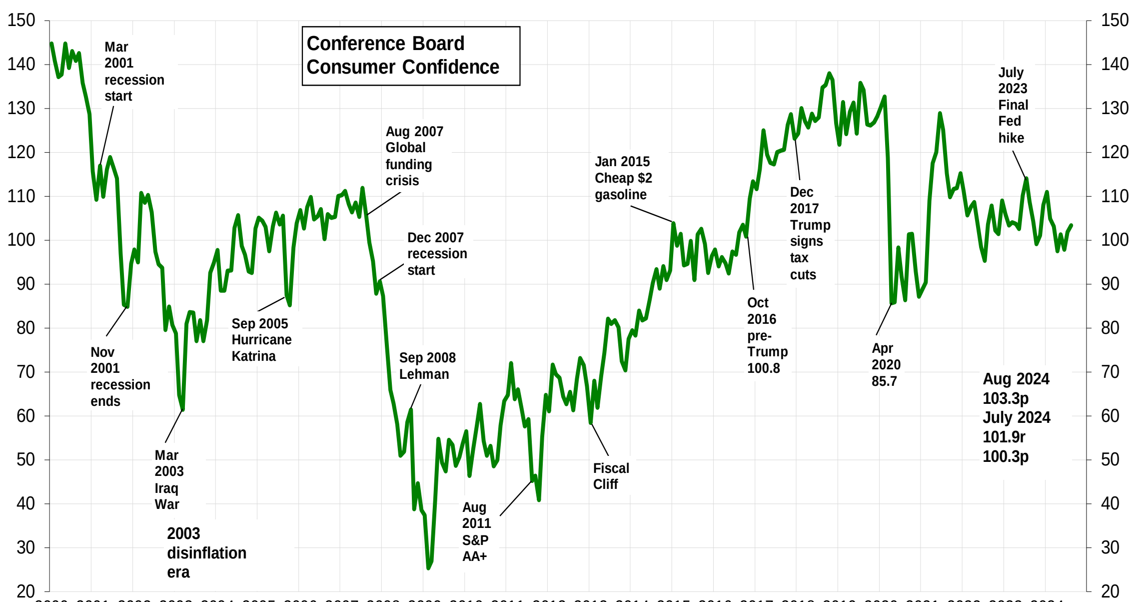
## Consumer confidence keeps spending in economy afloat for now (Tuesday)

Breaking economy news. The consumer confidence index rose to 103.3 in August from 101.9 in July. July was revised up from last month's preliminary level of 100.3. There is an ever so slight turn upward despite stock market volatility and elections ahead and geopolitical risks. Confidence never really recovered and held pre-pandemic levels. Confidence peaked most recently in June 2021 a few months after the final $1400 checks were in the mail.

Net, net, consumers were a little more sanguine about the economy and their confidence could well spell the difference on whether the economy avoids the shoals of recession. They were slightly more worried about the labor market with the cutoff for the survey results being August 21 before Fed Chair Powell made the case for rate cuts at Jackson Hole primarily because of growing downside risks for employment. Not yet as 32.8% say jobs are plentiful versus the 16.4% who say a job is hard to get.

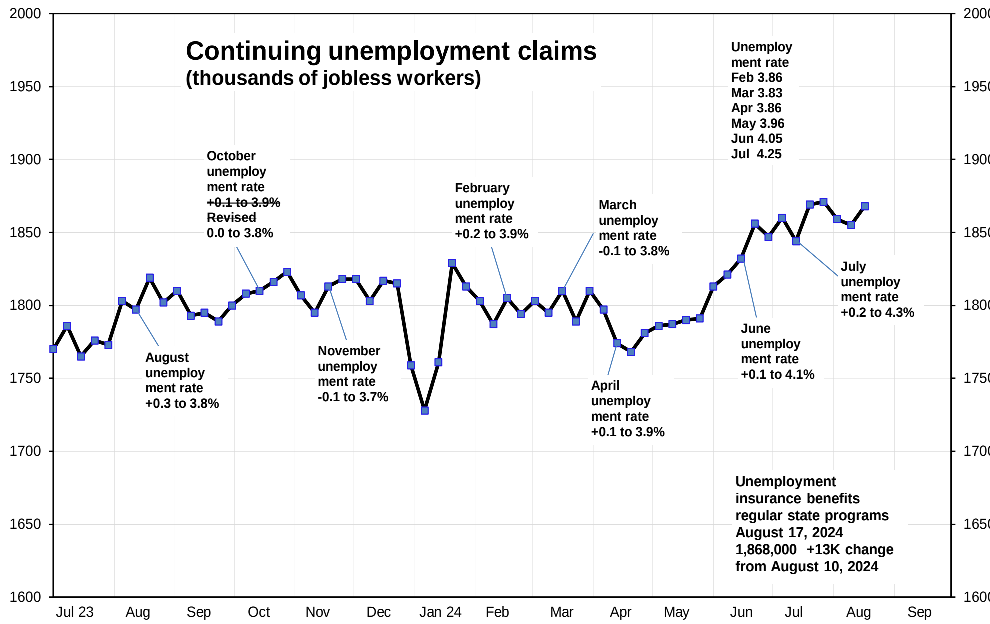
There is a dividing line at age 35 where younger people do not share the increased confidence of people 35 years and up. No surprise that confidence of those earning over $100,000 is greater than those with lesser means. Stay tuned. Consumer spending for July that includes services spending comes out on Friday in the personal income report if you are going to be in at your desk ahead of the last holiday weekend of summer. Assuming you are ever in at your desk. There were few cars in the train station parking lot this morning in our town.

It is hard to see much improvement in consumer attitudes when the survey results are mapped out on the charts. Nevertheless, we expect the improvement in consumer confidence this month keeps spending in the economy afloat for now.



# Economy rolls on (Thursday)

Breaking economy news. Weekly jobless claims fell 2K to 231K in the August 24 week, a level where it has stabilized for a few weeks, while the total number receiving benefits, so-called continuing unemployment claims remain somewhat elevated. Real GDP in the second quarter was revised to 3.0% from 2.8%, but that is getting to be a while ago as this is August 29. Today was the second revision, but all that will change as the third and final revision on September 26 will include the annual benchmark revision or annual update so the pattern of growth over recent quarters could look quite different. Consumer spending was revised significantly higher.

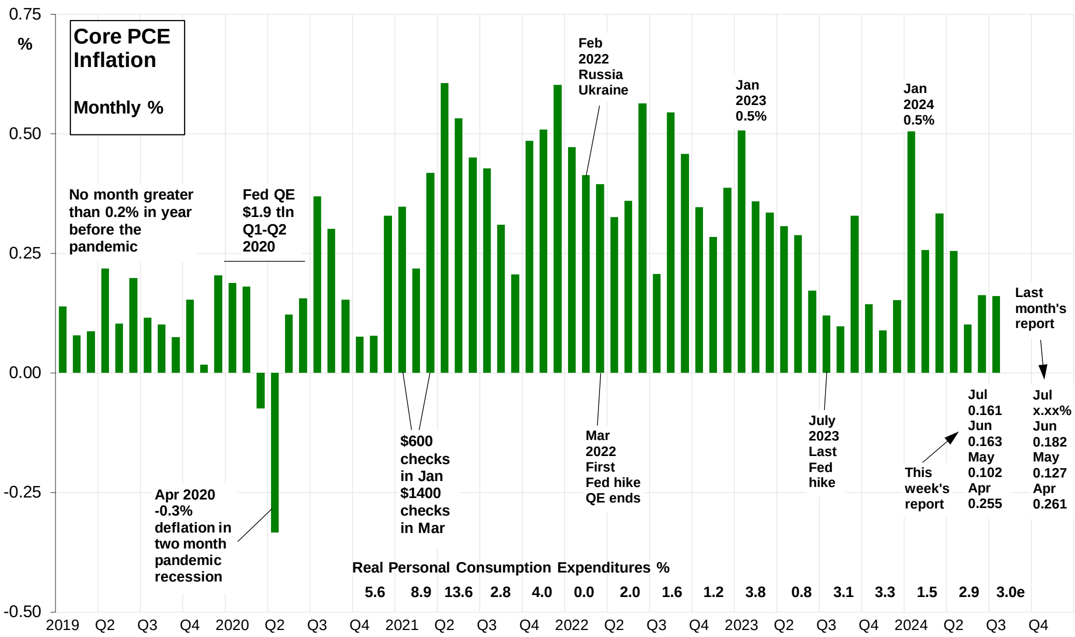



Net, net, the soft landing narrative for the economy remains intact for now with stronger growth in the second quarter and the earlier rising trend in job layoffs from corporations stabilizing for now. Corporate profits bounced back as well in the second quarter which means companies are less likely to do any belt-tightening cost cuts to adjust their headcounts. It is not all smooth sailing ahead as Fed Chair Powell warned at Jackson Hole last week that the risks have shifted from higher inflation to the downside for employment. The total number of Americans on the nation's jobless rolls receiving benefits remains elevated as does the official count of the unemployed with a rate of 4.3%, so the monthly employment situation report for August due out next Friday will be critical in assessing the speed and duration of Federal Reserve rate cuts in the months ahead. We still cannot rule out a recession in the months ahead, but 3.0% real GDP growth is certainly not showing any immediate signs that the economy is sailing into a storm and that the Fed is behind the curve in tightening down the hatches. The economy rolls on for now. Enjoy the beach this weekend because winter is coming.

| | Q1 23 | Q2 23 | Q3 23 | Q4 23 | Q1 24 | Q2 24p | Q2 24r |
|---|---|---|---|---|---|---|---|
| **REAL GDP** | 2.2 | 2.1 | 4.9 | 3.4 | 1.4 | 2.8 | 3.0 |
| **REAL CONSUMPTION** | 3.8 | 0.8 | 3.1 | 3.3 | 1.5 | 2.3 | 2.9 |
| **CONSUMPTION** | 2.5 | 0.6 | 2.1 | 2.2 | 1.0 | 1.6 | 2.0 |
| Durables | 1.1 | 0.0 | 0.5 | 0.3 | -0.4 | 0.4 | 0.4 |
| Nondurables | 0.1 | 0.1 | 0.6 | 0.4 | -0.2 | 0.2 | 0.3 |
| Services | 1.4 | 0.4 | 1.0 | 1.5 | 1.5 | 1.0 | 1.3 |
| **INVESTMENT** | -1.7 | 0.9 | 1.7 | 0.2 | 0.8 | 1.5 | 1.3 |
| Business Plant | 0.8 | 0.5 | 0.3 | 0.3 | 0.1 | -0.1 | -0.1 |
| & Equipment and | -0.2 | 0.4 | -0.2 | -0.1 | 0.1 | 0.6 | 0.5 |
| Intellectual Property | 0.2 | 0.2 | 0.1 | 0.2 | 0.4 | 0.2 | 0.1 |
| Homes | -0.2 | -0.1 | 0.3 | 0.1 | 0.6 | -0.1 | -0.1 |
| Inventories | -2.2 | 0.0 | 1.3 | -0.5 | -0.4 | 0.8 | 0.8 |
| **EXPORTS** | 0.8 | -1.1 | 0.6 | 0.6 | 0.2 | 0.2 | 0.2 |
| **IMPORTS** | -0.2 | 1.1 | -0.6 | -0.3 | -0.8 | -0.9 | -0.9 |
| **GOVERNMENT** | 0.8 | 0.6 | 1.0 | 0.8 | 0.3 | 0.5 | 0.5 |
| Federal defense | 0.1 | 0.1 | 0.3 | 0.0 | 0.0 | 0.2 | 0.2 |
| Fed nondefense | 0.3 | 0.0 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 |
| State and local | 0.5 | 0.5 | 0.5 | 0.6 | 0.3 | 0.3 | 0.3 |
| Below line: Percentage point contributions to Q2 2024 3.0% real GDP | | | | | | | |
| Third estimate for Q2 is Thursday, September 26 | | | | | | | |

## Core PCE inflation July 0.161% (Friday)

Breaking economy news. Consumer spending was much stronger in the July personal income report that we talked about on page one of this report, and we are not particularly bothered that personal saving as a percentage of disposable income fell to 2.9% in July from 3.5% at the end of the first quarter of 2024; it does not mean consumers are running out of gas. Core inflation rose modestly in July, but this is the time of the year when price pressures are less intense as opposed to the first quarter problems the last two years certainly. Powell says the Fed's focus has shifted from inflation to employment. The June 2024 FOMC forecasts look for core PCE inflation to come down slowly from 2.6% in July to exactly 2.0%. Fed officials should have stopped insisting on reaching exactly 2.0 or at least trying to deemphasize the importance of it. Taking a page from Treasury Secretary Rubin who said the US had a strong dollar policy even as it fell month after month, perhaps the Fed could say they continue to make progress on reaching the 2.0 inflation target… even in the months they are not.




Net, net, consumers were out in full force the last few months buying literally every good, and spending their hard-earned money on every service that wasn't nailed down. Those downside risks to employment Powell cited as a reason for cutting interest rates are not showing up elsewhere in the economy where spending and growth are roaring right now. Goods are literally flying off the shelves and with core inflation stalled at 2.6% the last three months, one wonders why the Fed needs to move aggressively at this stage. 5.5 percent interest rates are not wearing down consumers or slowing down the economy. Fed officials need to proceed cautiously with interest rate cuts because it looks like the rise in joblessness and unemployment over the last year is not taking a toll on economic demand or growth.

The stock market does not seem to know what to do with these latest head-spinning economic numbers which show the economy is unstoppable. Time will tell if the strong economy numbers will push off plans for Fed officials to lower the boom on interest rates. Higher rates are not slowing the economy no way, no how, and we cannot even bank on labor market weakness until we see payroll employment actually decline. Next week's monthly employment jobs report will be critical, but it looks like at the moment, the economy is continuing to add more workers with more paychecks and that spending boost is keeping the winds of recession at bay. Astonishing economic growth numbers mean corporate profits will continue. Bet on it. Buy stocks. Forget the AI dreams, the economic growth we are seeing is real.

**Analyst Certification**

The views expressed in this report accurately reflect the personal views of the research staff at FWDBONDS LLC, the primary analysts responsible for this report, about the subject securities or issuers referred to herein, and no part of such analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.