# Financial Markets This Week

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**17 NOVEMBER 2023**

## GOVERNMENT SPENDING

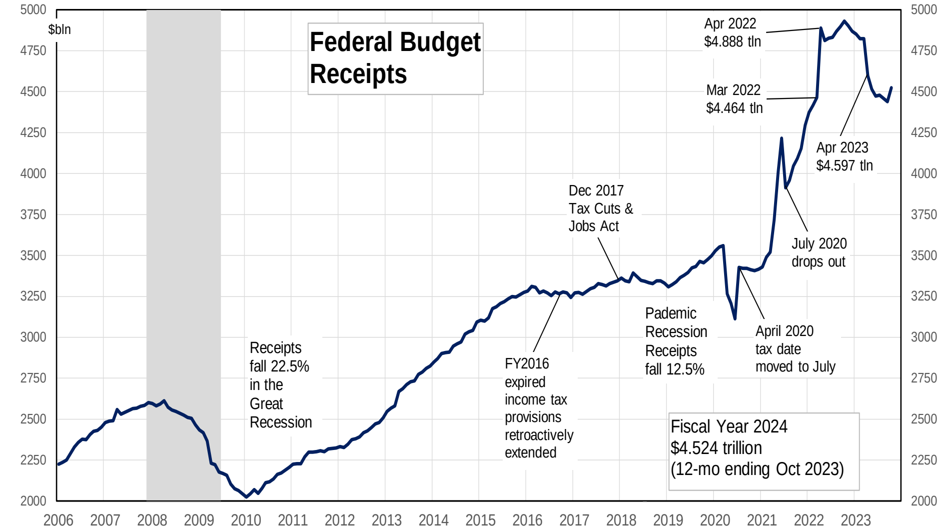
The October, first month of the fiscal year, Federal budget results were released Monday. Congress still managed to keep the doors open with new legislation keeping the government funded until January/February next year. Using the administration's Mid-Session Review of the budget (produced July 28, 2023), the FY 2024 deficit is expected to be $1.877 trillion versus the FY 2023 results ending September of $1.695 trillion. The majority in the House want to cut spending, but the agreement between McCarthy and Biden is there in the Mid-Session Review. Most government spending is mandatory, but Table S-3 shows the agreement this summer is in the forecast. Nondefense discretionary spending of $1.009 trillion in FY2024 will be virtually unchanged for the next several years. Unfortunately, total FY2024 outlays are projected at $6.905 trillion. Net interest isn't the only problem rising from $653 billion in FY2023 to $800 billion in FY2024. Interest won't be a problem because short-term interest rates drop from 5.0% this year to 4.1% in 2024 and 3.2% in 2025. Thanks Fed.

**Federal Government Spending ($bln)**

| | FY2024 | %/total | FY 2023 | FY2022 | FY2021 | FY2020 | FY2019 |
|---|---|---|---|---|---|---|---|
| TOTAL BUDGET OUTLAYS | 6904.768 | 100.0 | 6,134.432 | 6,271.600 | 6,821.554 | 6,551.874 | 4,446.611 |
| Percent chg % | 12.6 | | -2.2 | -8.1 | 4.1 | 47.3 | 8.2 |
| Health Human Services | 1710.722 | 24.8 | 1708.521 | 1642.922 | 1466.673 | 1503.953 | 1213.805 |
| Social Security Admin. | 1518.317 | 22.0 | 1416.328 | 1282.056 | 1192.453 | 1153.914 | 1101.833 |
| Treasury | 1441.329 | 20.9 | 1106.950 | 1162.222 | 1633.746 | 1151.726 | 689.496 |
| Defense | 848.565 | 12.3 | 775.872 | 726.627 | 717.585 | 690.419 | 653.987 |
| Veterans Affairs | 324.204 | 4.7 | 301.026 | 273.867 | 233.781 | 218.394 | 199.573 |
| sub-total "fixed" spending | 5843.137 | 84.6 | 5308.697 | 5087.694 | 5244.238 | 4718.406 | 3858.694 |
| Percent chg % | 10.1 | | 4.3 | -3.0 | 11.1 | 22.3 | 8.1 |
| Legislative Branch | 7.396 | 0.1 | 6.515 | 5.752 | 5.263 | 5.367 | 4.957 |
| Judicial Branch | 10.220 | 0.1 | 8.995 | 8.720 | 8.310 | 8.251 | 7.987 |
| Agriculture | 232.584 | 3.4 | 228.887 | 245.210 | 235.193 | 184.223 | 150.121 |
| Commerce | 20.356 | 0.3 | 12.045 | 11.734 | 13.134 | 15.918 | 11.324 |
| Education | 183.694 | 2.7 | -41.108 | 639.370 | 260.452 | 204.415 | 104.364 |
| Energy | 58.538 | 0.8 | 34.423 | 22.439 | 33.694 | 32.046 | 28.936 |
| Homeland Security | 99.793 | 1.4 | 89.032 | 80.865 | 91.069 | 91.963 | 56.327 |
| Housing Urban Development | 80.307 | 1.2 | 55.194 | 29.307 | 35.082 | 33.190 | 29.188 |
| Interior | 25.765 | 0.4 | 15.865 | 13.916 | 15.788 | 16.416 | 13.908 |
| Justice | 51.359 | 0.7 | 44.327 | 39.603 | 39.261 | 39.607 | 35.107 |
| Labor | 76.630 | 1.1 | 87.530 | 51.737 | 404.771 | 477.530 | 35.810 |
| State | 36.833 | 0.5 | 32.997 | 33.231 | 35.814 | 32.859 | 28.000 |
| Transportation | 125.315 | 1.8 | 109.786 | 113.729 | 104.936 | 100.342 | 80.715 |
| Corps of Engineers | 8.316 | 0.1 | 7.806 | 8.176 | 7.936 | 7.631 | 6.454 |
| Other Defense Civil Programs | 72.668 | 1.1 | 68.928 | 56.870 | 58.085 | 65.264 | 60.931 |
| Environmental Protection | 38.625 | 0.6 | 12.586 | 9.279 | 8.309 | 8.723 | 8.064 |
| Exec. Office of President | 0.658 | 0.0 | 0.543 | 0.458 | 0.427 | 0.402 | 0.422 |
| General Services Admin. | 0.252 | 0.0 | -0.700 | -1.202 | -1.269 | -0.265 | -1.101 |
| International Assistance | 33.070 | 0.5 | 36.050 | 35.834 | 20.047 | 21.678 | 23.569 |
| NASA | 25.898 | 0.4 | 25.319 | 23.079 | 22.249 | 21.524 | 20.179 |
| National Science Foundation | 10.652 | 0.2 | 8.951 | 8.133 | 7.376 | 7.278 | 7.255 |
| Personnel Management | 129.377 | 1.9 | 122.508 | 113.572 | 108.552 | 105.625 | 103.138 |
| Small Business Admin. | 1.906 | 0.0 | 26.072 | 23.199 | 322.721 | 577.412 | 0.456 |
| Other Independent Agencies | 30.307 | 0.4 | 134.262 | 29.829 | 13.554 | 17.650 | 19.609 |
| sub-total additional spending | 1360.519 | 19.7 | 1126.813 | 1602.840 | 1850.754 | 2075.049 | 835.720 |
| Percent chg % | 20.7 | | -29.7 | -13.4 | -10.8 | 148.3 | 6.2 |

*FY2024 Mid-Session Review forecast; won't add to total because -298.888 Undistributed receipts/allowances

It is always a struggle to watch/track the Federal budget spending on a month-to-month basis given the discretionary/mandatory breakdown of spending which is buried in the details and hard to get to. We did our own table with widely available spending by the departments and agencies even though many if not most have discretionary and mandatory spending each month in the totals. We put Health Human Services, Social Security, Treasury, Defense, and Veterans in the fixed, "untouchable" category where these programs are 84.6% of total estimated outlays of $6.904 trillion in FY2024, outlays which of course have not been voted on yet. Wait till next year. We included all other government departments, branches, agencies in additional spending, and this is 19.7% of the total.

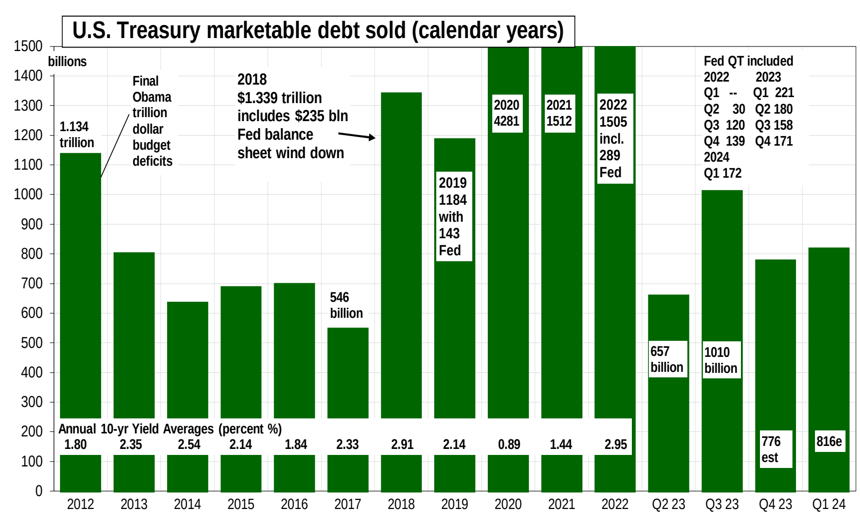



There are receipts of course and these won't be going anywhere with the current makeup of Congress. Receipts did fall earlier this year, and we probably made too much of this at the time, the time when economists watch any and all data for a recession sign given how quickly the Fed moved interest rates to the current peak of 5.5% in July 2023.

Social Security In/Out

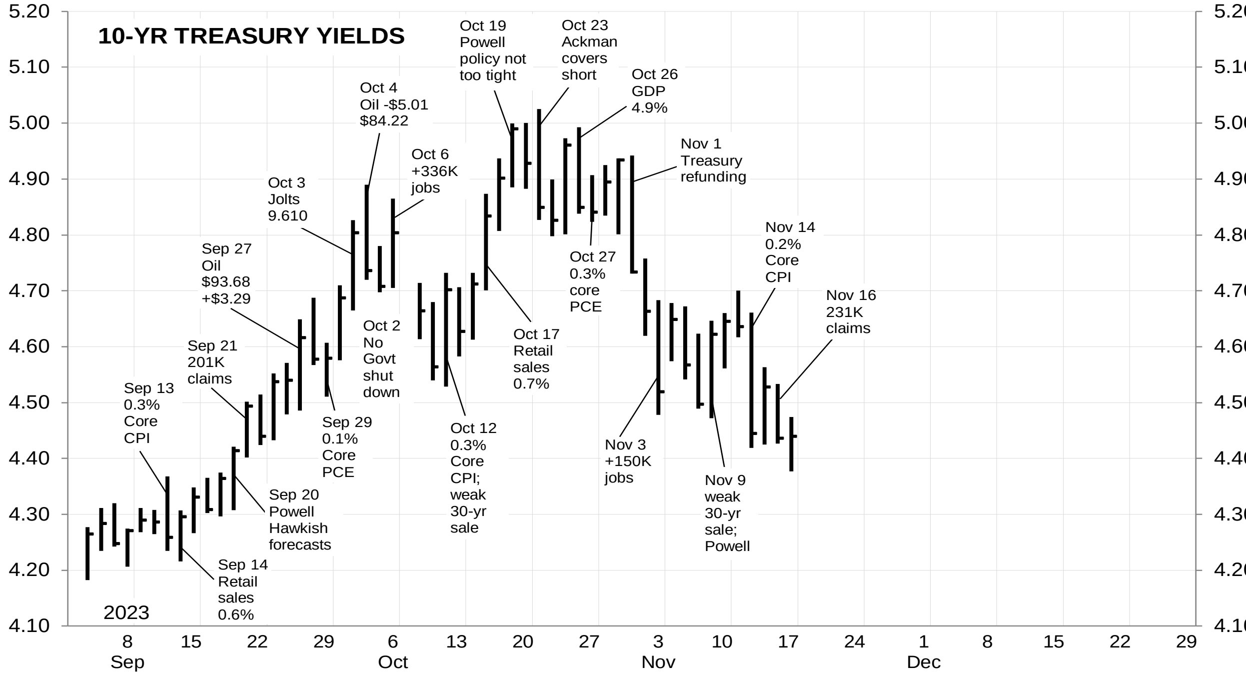
| $ bln | Receipts | Payments | Red/Black |
|---|---|---|---|
| FY2019 | 770.282 | 888.080 | -117.798 |
| FY2020 | 825.307 | 940.221 | -114.914 |
| FY2021 | 814.034 | 982.673 | -168.639 |
| FY2022 | 911.191 | 1,063.897 | -152.706 |
| FY2023 | 1,020.442 | 1,192.149 | -171.707 |
| Aug 23 | 76.795 | 102.682 | -25.887 |
| Sep 23 | 82.859 | 102.771 | -19.912 |
| Oct 23 | 69.743 | 103.962 | -34.219 |

Swinging back to outlays, one of our current favorites is Social Security payments for the elderly and those with disabilities. Social Security Trustees can talk all they want about the program, the trust fund, being solvent until sometime after the year 2030, but the sad reality is the difference between social security taxes and payments to beneficiaries is being funded out of the general funds of the U.S. Treasury, which means the money is obtained through auctions of Treasury securities to the markets/investors. Relax. Social Security is already insolvent and unable to fully pay its claims by beneficiaries each month. No need to rush to fix something that's already broke. Don't bother trying to fix it, cut the payments 14% to match the taxes coming in because the baby boom generation will be 60 to 78 years old next year and won't be around forever.




The Administration estimates the FY2024 Federal budget deficit will be $1.877 trillion. Treasury's latest quarterly new cash update on October 30 didn't move the market, but calendar year 2023 is estimated at $3.1 trillion. It was less than $600 billion in 2017 before the Tax Cuts and Jobs Act. Fed QT is making each year $720 billion worse than it needs to be. Guess Fed officials are okay with that. One even made the point this week that the extra debt was putting needed upward pressure on interest rates to help in the inflation fight. Stay tuned.

## INTEREST RATES



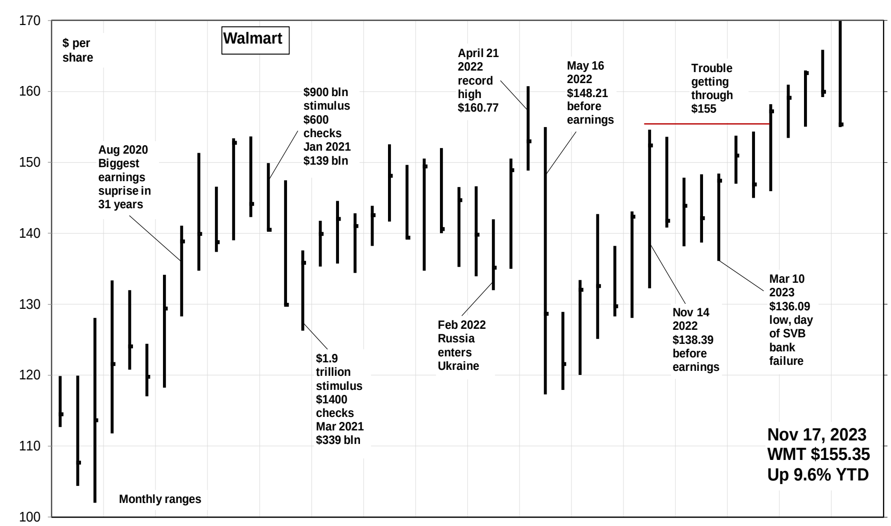

It was all inflation or the lack thereof for markets this week. On Tuesday, core CPI rose 0.2%, less than 0.3% the prior two months, and you would think the Fed had won the inflation fight the way markets reacted. 10-year yields were 4.64% on Monday's close and 20 bps lower at 4.44% at Tuesday's close. Not that we don't like it with the S&P 500 rising 1.9% on Tuesday so we decided to take a look at our financial statements online. At least the House voted through spending to keep the Federal government open until January/February next year. One risk is off the table. Recession risk still out there, has been since the Fed tightened its monetary policy the first time in March 2022. Recession risk as in the Fed stops or goes into reverse with its rates policy. Maybe markets rallied briefly on weekly jobless claims rising 13K to 231K on Thursday. Maybe. Not sure we buy that.

## Walmart WMT skids 8.1% after earnings Thursday

The retailer made a record high Wednesday at $169.94 before earnings the next morning. Sales for the quarter beat expectations, but the full year earnings outlook was not raised as much as hoped apparently. There was some softening in sales in October as well, although better sales were seen in November. As a result, the company is less sure they know where the consumer goes next.

| Bln $ | Revenue | Operating Income | Same-store Sales YOY * | 13-weeks ending * |
|---|---|---|---|---|
| Q1 2020 | 134.6 | 5.2 | 10.3% | 5/1/2020 |
| Q2 2020 | 137.7 | 6.1 | 9.9% | 7/31/2020 |
| Q3 2020 | 134.7 | 5.8 | 7.1% | 10/30/2020 |
| Q4 2020 | 152.1 | 5.5 | 8.9% | 1/29/2021 |
| 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 |

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



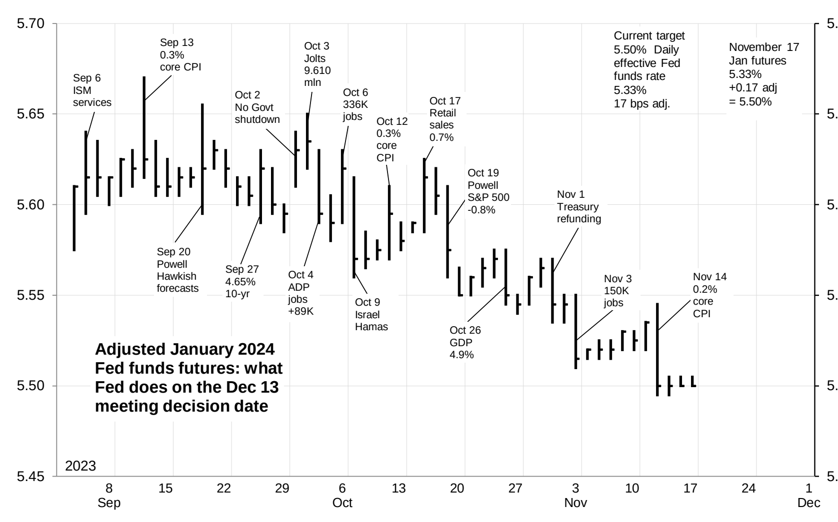
# FEDERAL RESERVE POLICY

| Selected Fed assets and liabilities | | | | | | Change |
|---|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | | from |
| billions, Wednesday data | 15-Nov | 8-Nov | 1-Nov | 25-Oct | 3/11/20* | 3/11/20 |
| **Factors adding reserves** | | | | | | to Nov 15 |
| U.S. Treasury securities | 4842.619 | 4872.914 | 4872.601 | 4912.200 | 2523.031 | 2319.588 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 2462.931 | 2462.907 | 2462.907 | 2462.907 | 1371.846 | 1091.085 |
| Repurchase agreements | 0.076 | 0.000 | 0.001 | 0.001 | 242.375 | -242.299 |
| Primary credit (Discount Window) | 2.241 | 2.229 | 2.951 | 3.170 | 0.011 | 2.230 |
| Bank Term Funding Program | 112.942 | 112.935 | 109.070 | 109.068 | | |
| FDIC Loans to banks via Fed | 35.229 | 35.229 | 46.790 | 48.256 | | |
| Paycheck Protection Facility | 4.146 | 4.244 | 4.343 | 4.495 | | |
| Main Street Lending Program | 18.807 | 19.167 | 19.144 | 19.038 | | |
| Municipal Liquidity Facility | 5.649 | 5.646 | 5.643 | 5.641 | | |
| Term Asset-Backed Facility (TALF II) | 1.021 | 1.020 | 1.019 | 1.223 | | |
| Central bank liquidity swaps | 0.287 | 0.236 | 0.246 | 0.252 | 0.058 | 0.229 |
| **Federal Reserve Total Assets** | 7865.8 | 7911.5 | 7917.2 | 7958.6 | 4360.0 | 3505.787 |
| ~~3-month Libor %~~ SOFR % | 5.32 | 5.32 | 5.32 | 5.30 | 1.15 | 4.170 |
| **Factors draining reserves** | | | | | | |
| Currency in circulation | 2327.100 | 2326.282 | 2325.298 | 2323.027 | 1818.957 | 508.143 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| U.S. Treasury Account at Fed | 669.976 | 763.459 | 753.008 | 847.717 | 372.337 | 297.639 |
| Treasury credit facilities contribution | 13.358 | 13.358 | 13.358 | 13.358 | | |
| Reverse repurchases w/others | 944.241 | 1024.451 | 1079.462 | 1100.617 | 1.325 | 942.916 |
| **Federal Reserve Liabilities** | 4382.488 | 4551.040 | 4602.528 | 4694.586 | 2580.036 | 1802.452 |
| **Reserve Balances (Net Liquidity)** | 3483.325 | 3360.426 | 3314.630 | 3263.971 | 1779.990 | 1703.335 |
| Treasuries within 15 days | 74.094 | 61.587 | 82.056 | 84.484 | 21.427 | 52.667 |
| Treasuries 16 to 90 days | 201.695 | 246.781 | 203.839 | 237.526 | 221.961 | -20.266 |
| Treasuries 91 days to 1 year | 580.574 | 580.625 | 603.077 | 584.783 | 378.403 | 202.171 |
| Treasuries over 1-yr to 5 years | 1696.601 | 1671.662 | 1671.544 | 1682.776 | 915.101 | 781.500 |
| Treasuries over 5-yrs to 10 years | 784.028 | 807.928 | 807.863 | 818.580 | 327.906 | 456.122 |
| Treasuries over 10-years | 1505.626 | 1504.332 | 1504.222 | 1504.050 | 658.232 | 847.394 |
| Note: QT starts June 1, 2022 | Change | 11/15/2023 | 6/1/2022 | | | |
| U.S. Treasury securities | -928.160 | 4842.619 | 5770.779 | | | |
| Mortgage-backed securities (MBS) | -244.515 | 2462.931 | 2707.446 | | | |
| **March 11, 2020 start of coronavirus lockdown of country | | | | | | |

The Fed meets December 12-13, 2023 to consider its monetary policy. Many Fed speakers this week. None of them talked up rate cuts like the market did after the CPI surprise on Tuesday. Fed officials are keeping with the script from the last "votes" on rates at the September meeting where 7 see a 5.5% Fed funds rate at the December meeting and 12 saw 5.75%. The labor market outlook is going according to plan they must feel. We think the alarm bells are going off because unemployment is 3.9% in October versus the cycle low of 3.4% in April which is not for nothing an 849 thousand increase in jobless Americans or 6.506 million in total. The results in California are even worse with unemployment leaping from 3.8% in October to 4.8% in October, but it is the only state besides New Jersey to experience this joblessness rise the last year. Plenty of states declined. Continuing claims or the total number receiving unemployment benefits keeps moving up and suggests another increase in nationwide unemployment in the payroll jobs report on Friday, December 8, although admittedly, the relationship between continuing claims and the unemployment rate have not been as close as they often are at economic cycle turning points before the economy drops off a cliff. Anyway, unemployment is going according to plan based on the FOMC forecasts of a 4.1% rate in Q4 2024. 4.1% would be a recession in our book, but the current Federal Reserve committee participants look like they could fit in well with a board at a U.S. corporation even if many were technically trained if that is the word as economists. Only after decades of experience forecasting can you venture boldly out and make a terrible call. After CPI, the market is back to thinking two rate cuts at the May 1, June 12, July 31 decision dates next year.

| Fed funds futures call Fed hikes | | |
|---|---|---|
| Current target: November 17 -- 5.50% | | |
| Rate+0.17 | Contract | Fed decision dates |
| 5.505 | Jan 2024 | Dec 13 |
| 5.425 | Apr 2024 | Jan 31, Mar 20 |
| 5.030 | Aug 2024 | May 1, Jun 12, Jul 31 |
| Last trade, not settlement price | | |

| Fed Policy-key variables | | | | | Long |
|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | Term |
| Fed funds | 5.6 | 5.1 | 3.9 | 2.9 | 2.5 |
| PCE inflation | 3.3 | 2.5 | 2.2 | 2.0 | 2.0 |
| Core inflation | 3.7 | 2.6 | 2.3 | 2.0 | |
| Unemployed | 3.8 | 4.1 | 4.1 | 4.0 | 4.0 |
| GDP | 2.1 | 1.5 | 1.8 | 1.8 | 1.8 |
| September 2023 median Fed forecasts | | | | | |




| Next up: October PCE inflation report Thursday, November 30 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Monthly | 2023 | | | | | | | | 2023 | 2022 | | | | 2022 |
| % Changes | Oct | Sep | Aug | Jul | Jun | May | Apr | Mar | Feb | Jan | Dec | Nov | Oct | Sep | Aug |
| Core CPI inflation | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.6 | 0.6 |
| Core PCE inflation | | 0.3 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 | 0.5 | 0.5 |
| Core PCE YOY | | 3.7 | 3.8 | 4.3 | 4.3 | 4.7 | 4.8 | 4.8 | 4.8 | 4.9 | 4.9 | 5.1 | 5.3 | 5.5 | 5.2 |
| Core CPI YOY | 4.0 | 4.1 | 4.3 | 4.7 | 4.8 | 5.3 | 5.5 | 5.6 | 5.5 | 5.6 | 5.7 | 6.0 | 6.3 | 6.6 | 6.3 |

## OTHER ECONOMIC NEWS

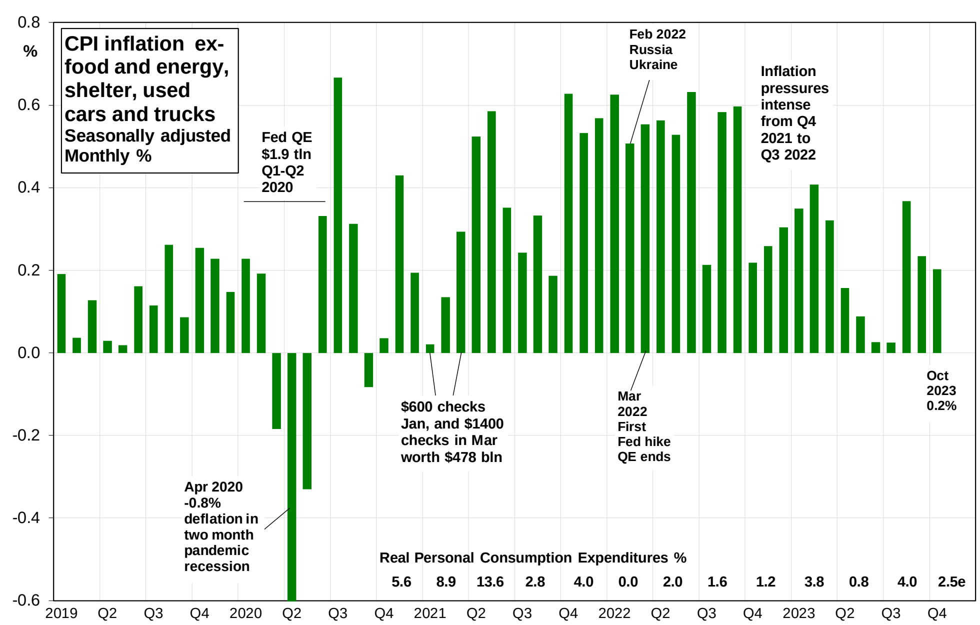
### No inflation this month (Tuesday)

Breaking economy news. CPI inflation was unchanged in October and increased 3.2% the last year as energy prices fell 2.5%. Core inflation rose just 0.2% in October after somewhat stronger 0.3% readings in August and September. Core CPI inflation rose 4.0% the last twelve months after being as high as 6.6% in September 2022 so what a difference a year makes.

Core commodity prices have been declining each month since June, and services prices that are dominated by shelter were tamer with an increase of 0.3% in October down from 0.6% in September. Aside from shelter costs, core CPI was pressured by car insurance, and medical and personal care prices. The overall increase of 0.2% was held down by notable declines in airline fares, hotels, used cars and communication prices.

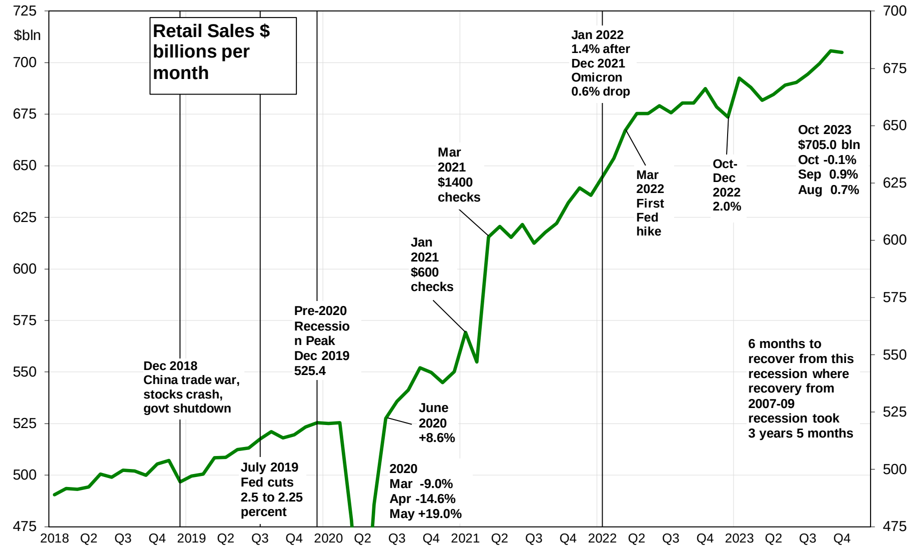
| Dec 22 Weight | CPI inflation | Monthly Percent Changes Aug 2023 | Sep 2023 | Oct 2023 | YOY % Oct 2023 |
|---|---|---|---|---|---|
| 100.0 | Total | 0.6 | 0.4 | 0.0 | 3.2 |
| 13.531 | Food | 0.2 | 0.2 | 0.3 | 3.3 |
| 4.803 | Food away from home | 0.3 | 0.4 | 0.4 | 5.4 |
| 6.921 | Energy | 5.6 | 1.5 | -2.5 | -4.5 |
| 79.548 | Ex-food & energy | 0.3 | 0.3 | 0.2 | 4.0 |
| 4.313 | New vehicles | 0.3 | 0.3 | -0.1 | 1.9 |
| 2.668 | Used cars/trucks | -1.2 | -2.5 | -0.8 | -7.1 |
| 2.479 | Clothing | 0.2 | -0.8 | 0.1 | 2.6 |
| 1.455 | Medical care goods | 0.6 | -0.3 | 0.4 | 4.7 |
| 34.413 | Shelter | 0.3 | 0.6 | 0.3 | 5.5 |
| 25.424 | Owner equiv. rent | 0.4 | 0.6 | 0.4 | 6.8 |
| 5.750 | Transportation | 2.0 | 0.7 | 0.8 | 9.2 |
| 6.653 | Medical care services | 0.1 | 0.3 | 0.3 | -2.0 |
| | Special: Where inflation might come back down to | | | | |
| 58.187 | Services ex-energy | 0.4 | 0.6 | 0.3 | 5.5 |
| 21.261 | Commodities (core) | -0.1 | -0.4 | -0.1 | 0.1 |

Net, net, there's no inflation this month which will ring loud and clear in the markets around the world that Fed officials are done with interest rate hikes this year. The Fed always wants to see more progress but it is looking like the inflation battle has rounded the corner and is heading for home in the race to return inflation back to the 2% target. Energy prices have declined further into November so next month's headline CPI inflation may be more good news for investors and Fed officials. Stay tuned. Story developing. With any luck, the economy will miss a recession and get lower inflation too. Bet on it. There's no inflation this month so maybe those downbeat consumer sentiment surveys will pick back up.



## PPI and retail sales down not out (Wednesday)

Breaking economy news. Producer prices and retail sales. Retail sales fell 0.1% in October, but the prior three months were strong and as a result, momentum is going to keep retail sales growth at about 3% in the fourth quarter. Student loan repayments are back on, but much of the decline is from the 1.0% drop in motor vehicle sales. Not that students former and current don't buy cars. Unit sales of cars and light trucks did not look that bad, reported earlier in the month at 15.5 million in October versus 15.7 million in September.




Producer prices dropped 0.5% in October, the most this year as energy prices fell 6.5%. Core goods prices or final demand goods less foods and energy rose just 0.1% this month so the pass-through to the consumer level will be just modest. One caveat is transportation and warehousing services prices jumped 1.5%. One driver of inflation after the pandemic was supply disruptions where transportation and warehousing costs increased sharply.

**Retail spending, actual dollars, each month**

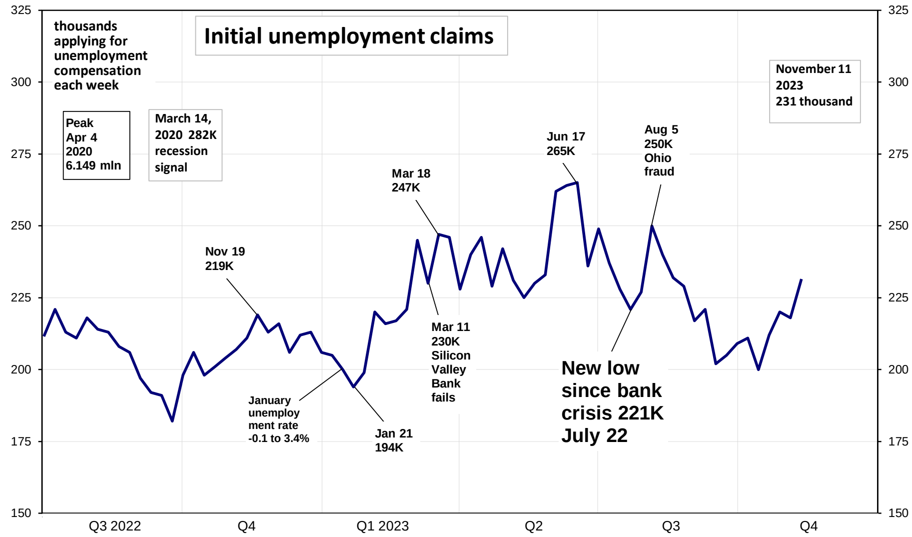
| | $million Oct | % to Total | Percent Changes % Oct | Sep | Year/year |
|---|---|---|---|---|---|
| Total Retail Sales | 704,954 | 100.0 | -0.1 | 0.9 | 2.5 |
| Motor vehicles/parts | 134,031 | 19.0 | -1.0 | 1.1 | 3.3 |
| Furniture/furnishings | 10,619 | 1.5 | -2.0 | -0.6 | -11.8 |
| Electronics/appliances | 7,876 | 1.1 | 0.6 | 0.4 | 0.9 |
| Building materials/garden | 41,412 | 5.9 | -0.3 | -0.3 | -5.6 |
| Food & beverage | 82,988 | 11.8 | 0.6 | 0.2 | 1.0 |
| Health/personal care | 37,143 | 5.3 | 1.1 | 0.5 | 9.6 |
| Gasoline stations | 56,589 | 8.0 | -0.3 | 1.0 | -7.5 |
| Clothing/accessories | 26,109 | 3.7 | 0.0 | -0.8 | 0.8 |
| Sporting goods, books | 8,436 | 1.2 | -0.8 | 0.1 | -3.8 |
| General merchandise | 73,534 | 10.4 | -0.2 | 0.4 | 1.9 |
| Department stores | 10,901 | 1.5 | -1.2 | -0.1 | -4.1 |
| Miscellaneous retailers | 15,284 | 2.2 | -1.7 | 4.8 | 1.2 |
| Nonstore retailers (internet) | 118,038 | 16.7 | 0.2 | 1.4 | 7.6 |
| Eating & drinking places | 92,895 | 13.2 | 0.3 | 1.6 | 8.6 |

Net, net, the consumer's still got it and overall spending at the shops and malls is holding up despite the loss of confidence picked up in recent surveys. Producer prices are lower based on falling energy prices which should keep price gains to a minimum next month as well. Fed officials are getting to keep their cake and eat it too so far with economic growth and inflation cooling. There is no sign the economy is about to go over the recession cliff however, so substantive interest rate cuts are going to have to wait for now. Retail sales and producer prices are both down at the start of the fourth quarter and this means Fed officials can stand pat at the final meeting in December this year. The economy is not too cold and not too hot. It is just right for now. PPI and retail sales are down not out.

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PPI Final demand goods less foods/energy-- Monthly Percent Changes SA | | | | | | | | | | | | |
| 2022 | 0.8 | 0.8 | 1.0 | 1.2 | 0.7 | 0.5 | 0.2 | 0.2 | 0.0 | 0.0 | 0.3 | 0.1 |
| 2023 | 0.6 | 0.3 | 0.2 | 0.1 | 0.1 | -0.2 | 0.0 | 0.1 | 0.2 | 0.1 | | |
| PPI Final demand goods less foods/energy-- Year/Year Percent Changes NSA | | | | | | | | | | | | |
| 2022 | 9.4 | 9.7 | 10.0 | 10.2 | 9.8 | 9.2 | 8.5 | 8.1 | 7.5 | 6.7 | 6.1 | 5.8 |
| 2023 | 5.6 | 5.1 | 4.3 | 3.3 | 2.6 | 2.0 | 1.9 | 1.8 | 2.0 | 2.0 | | |

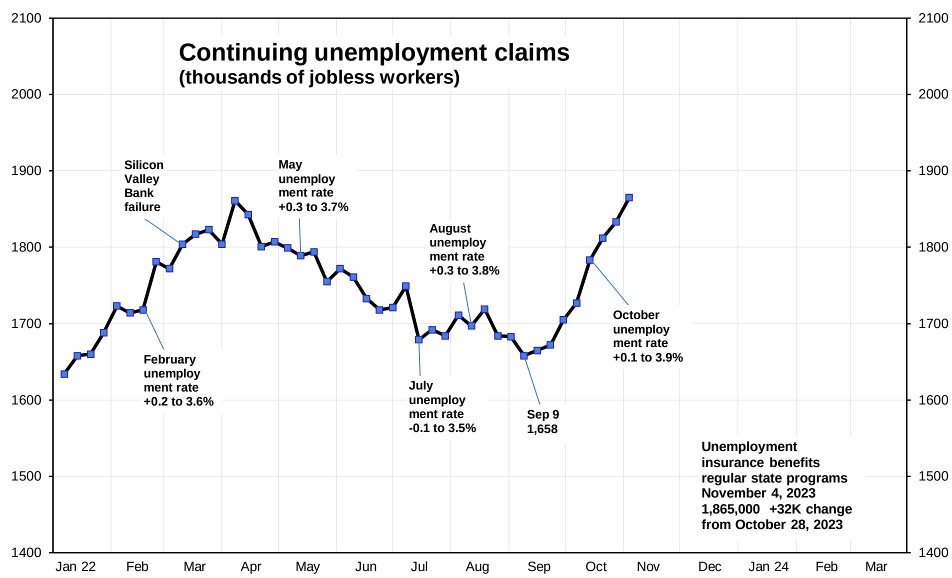
## Americans will be having recession this Thanksgiving (Thursday)

Breaking economy news. First time jobless claims from new layoffs increased 13K to 231K in the November 11 week. The economy may not have dodged a bullet after all. You can't have a recession without joblessness, and it looks increasingly like that is what we have. There could still be some seasonal adjustment problems coming out of the pandemic, but the unemployment claims data look awfully close to signaling a recession is close, too close by for comfort. If true, a recession could not come at a worse time with the Federal budget deficit already too high and some in Washington calling it a spending crisis with a National Debt that is well over $30 trillion. The Fed could cut interest rates, but this takes too long to turn the economy around on a dime unless rate cuts support the equity markets.




Good news on the inflation front with nonfuel imports falling again, in October by 0.2%, so the US is no longer importing inflation. Nonfuel imports have been flat to down ever since March this year, so the trend is well established.

Net, net, cracks are starting to emerge in the story that the labor market is simply rebalancing because new claims for jobless benefits are now jumping higher to match the upward trajectory in the total number of Americans on the unemployment rolls, and the rising unemployment rate as well. The unemployment rate is already forecasting a recession and based on today's data, the jobless rate could be moving even higher. There are dark thunder clouds offshore moving in closer and the US economy may have just run out of luck with the Fed's massive rate hikes starting to tighten their grip. The jobless claims data are worrisome enough for the outlook to keep Fed officials from hiking rates again this year at the final meeting in December. Americans will be having recession this Thanksgiving. Bet on it. The country's luck may have just run out. Inflation does not come down without a recession and it looks like we might just have one. The odds are rising that Fed officials won the inflation fight, but lost the battle to keep the economy from going over the cliff into recession.

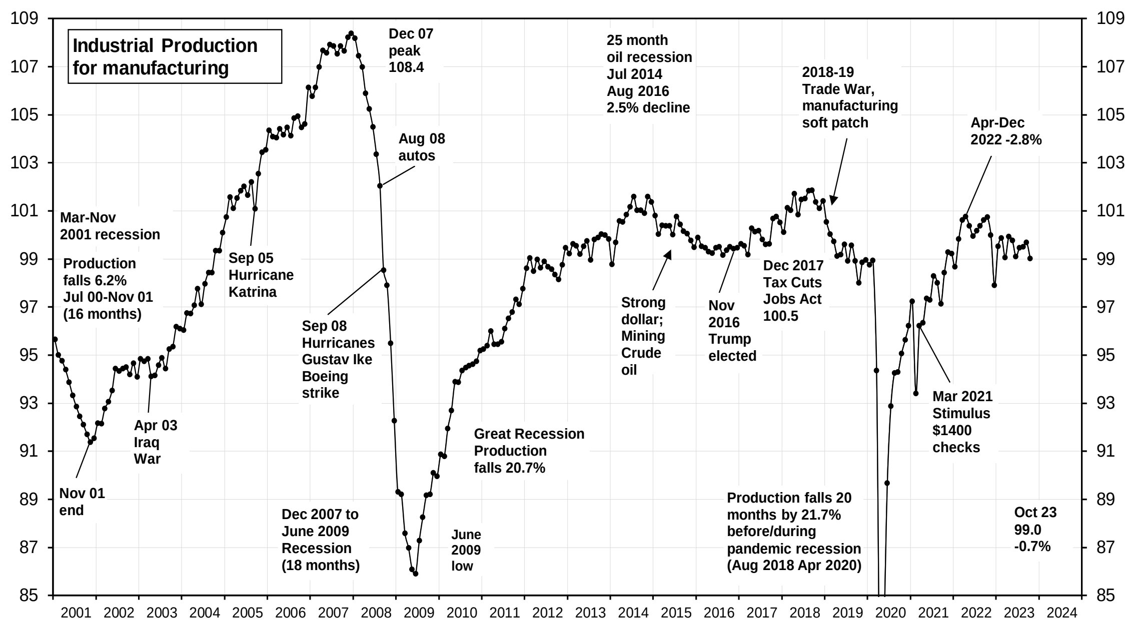


## Industrial production falls (Thursday)

Breaking economy news. The Federal Reserve's industrial production data for October.The total index declined 0.6%. Manufacturing production fell 0.7%, but this was due to the 10 percent drop in motor vehicles and parts as a result of the strikes at the automakers. Manufacturing minus auto output rose 0.1%. Manufacturing production peaked in April 2022 a month after the Fed's first rate hike and has gone nowhere since, in part due to the strong dollar story that takes a toll on foreign demand for American export goods. Industrial production is one of the key indicators the National Bureau of Economic Research (NBER) uses to judge whether the broader economy is in recession. If still a useful indicator, it has been warning about a slowdown in economic growth for some time now.

Net, net, strike-related weakness brought down factory output in October, but this does not take away from the fact that manufacturing production peaked over a year and a half ago. Consumer spending has supported the economy while manufacturing has sputtered, but for how long can consumers keep overall growth in the plus column. That is the question that needs to be answered as job losses continue to climb.

| Percent changes | | | Industrial Production Oct 2023 | | |
|---|---|---|---|---|---|
| Aug | Sep | Oct | YOY | | Weight |
| 0.0 | 0.1 | -0.6 | -0.7 | Total Index | 100.0 |
| 0.0 | 0.2 | -0.7 | -1.7 | Manufacturing | 74.3 |
| -0.6 | 0.0 | 0.4 | 2.2 | Mining | 15.2 |
| 0.7 | -0.6 | -1.6 | 2.9 | Utilities | 10.5 |
| | | | Manufacturing payroll jobs<br>13.0 million +6K YOY<br>9.7% of Private Payroll Jobs | | |



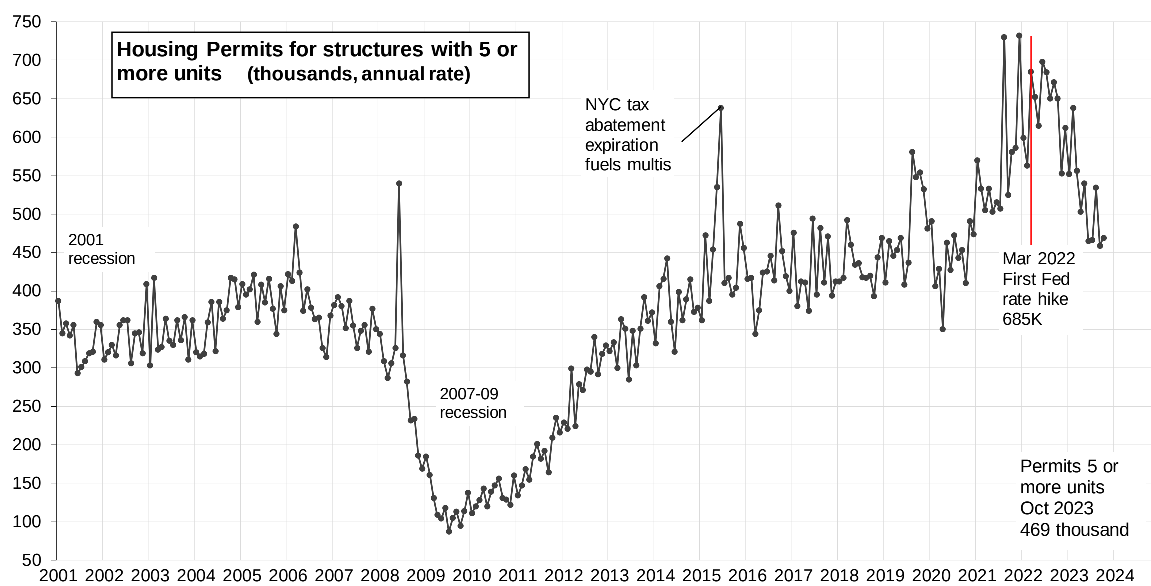
## Residential housing construction is stable (Friday)

Breaking economy news. Housing starts rose 1.9% in October to 1.372 million at an annual rate, but single family construction rose 13.1% the last year, while 5 units or more tumbled 31.8%. The Federal Reserve's rate hikes have brought the boom in multi-family units to a halt. If interest rate hikes are supposed to slow the economy through the housing sector, the effect of tightening is starting to fade. The biggest hits to real GDP growth from residential housing construction of over a percentage point in the second half of 2022 are long gone. Housing starts actually managed to add a slight 0.2 percentage points to third quarter 2023 4.9% real GDP.

**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 |
| Oct 2023 | 1372 | 970 | 382 | 71 | 56 | 244 | 115 | 723 | 561 | 334 | 238 |
| Sep 2023 | 1346 | 968 | 364 | 83 | 50 | 190 | 116 | 776 | 590 | 297 | 212 |
| | | | | | | | | | | | |
| Oct 2022 | 1432 | 858 | 560 | 94 | 51 | 232 | 130 | 787 | 514 | 319 | 163 |
| % Chgs | | | | | | | | | | | |
| Oct/Sep | 1.9 | 0.2 | … | -14.5 | 12.0 | 28.4 | -0.9 | -6.8 | -4.9 | 12.5 | 12.3 |
| Oct/Oct | -4.2 | 13.1 | … | -24.5 | 9.8 | 5.2 | -11.5 | -8.1 | 9.1 | 4.7 | 46.0 |

Net, net, the Fed's rate hikes chased major builders of affordable rental units out the market with financing costs too heavy of a burden to bear. Single-family residential construction is off the lows however, so 7% mortgages have not curbed the enthusiasm of some builders to bring new homes to the market. There is a shortage of single-family homes in America so builders figure if they build it, the buyers will come. At turning points in the economy the data are always mixed, but housing construction is no longer pointing the way down to recession, and housing permits are a leading economic indicator of course. If the economy is in danger of going over the proverbial cliff, home builders sure don't know it. Stay tuned. Watch all the leading recession indicators here. The big one's coming, we're telling you. Just wait.



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