U.S. Economic Comment

- Powell on the docket at Jackson Hole
- The housing market: difficulties likely to persist
- Is firm consumer spending about to slow?

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Powell at Jackson Hole

The marquee event on next week's economic calendar is Fed Chair Jerome Powell's Friday appearance at the Kansas City Fed's Jackson Hole Economic Symposium (August 24-26). Bringing together a broad cross-section of central bankers, Fed personal, academic economists, and others, the annual conference will focus on "Structural Shifts in the Global Economy," a salient theme in a time of dramatic shifts in central bank policies, conflict in Europe, shifts in trade relationships, and perhaps a broader reorganization of the global economic order.

The Fed Chair's speech on August 25th will be of particular interest, as the forum has been used in the past for major announcements on U.S. monetary policy. Mr. Powell's appearance this year will occur as officials approach an important juncture in the current interest rate cycle following aggressive action in 2022. In his presentation last year, the Chair spoke in an environment of rapid inflation wherein policymakers had just raised the target range for the federal funds rate by 75 basis points at the second consecutive meeting to a range of 2.25 to 2.50 percent, a cumulative increase of 225 basis points since March of last year which would be followed by two additional hikes of 75 basis points each before a downshift to 50 basis points in December 2022. The address, which evoked Paul Volker, was delivered on the same day that data from the Bureau of Economic analysis indicated that the headline price index for personal consumption expenditures rose 6.4 percent year-over-year, a bit slower than what would be the cyclical peak of 7.0 percent in June, and the core index increased 4.7 percent.

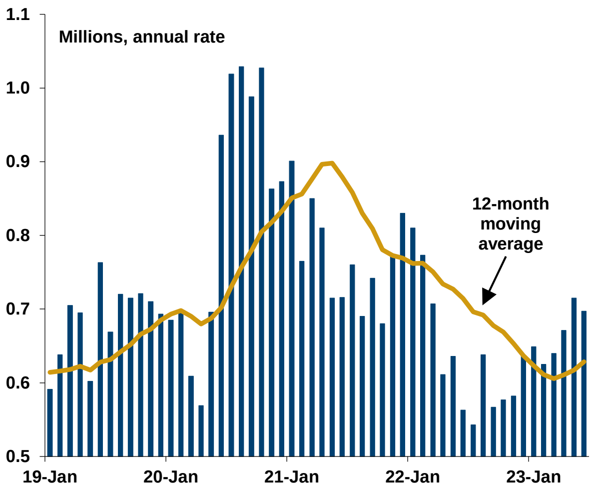
This year, the environment is decidedly different. Restrictive policy (a target range for the federal funds rate of 5.25 to 5.50 percent as of mid-August) has helped to bring supply and demand into better balance and inflation has decelerated. Perhaps of greater importance to market participants this year is not so much whether the FOMC will hike rates once more by the end of 2023, but rather how long the federal funds rate will remain in restrictive territory and when a pivot could occur. Clues from the Fed Chair would be helpful in parsing data that indicate still-brisk core inflation, tight labor market conditions, and resilient growth.

Intensifying Challenges for the Housing Market

We are under no illusions about the lack of vigor in the housing market. As one of the most interest sensitive sectors of the U.S. economy, activity in the housing market has fallen sharply in response to tightening monetary policy. Compounding the effects of elevated financing costs, many current homeowners have remained in place, preserving their low-rate mortgage loans versus moving and refinancing at higher costs. The dynamic has constrained inventories across markets and supported elevated prices. After a brief respite in recent months, conditions could again be on the cusp of further deterioration.

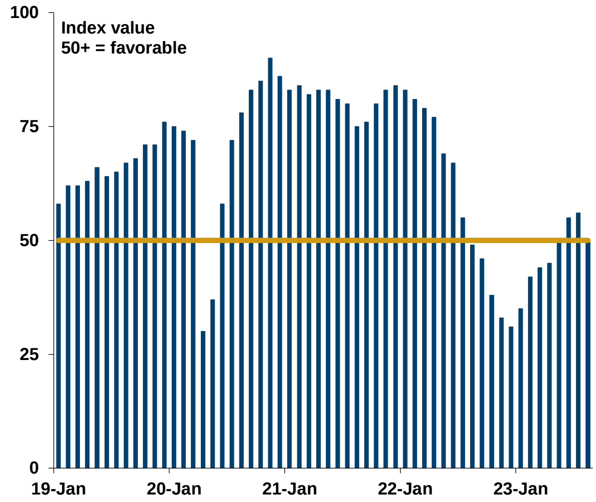
We did see some reason for optimism recently, as sales of new homes increased off lows and matched readings prior to the onset of the pandemic (chart, next page, left). In addition, we expect that activity ticked higher again in July (see comment in the Week Ahead section, below). The pickup in new home sales, which was likely spurred by previous renters accepting the new normal on mortgage rates and taking the plunge into homeownership, boosted builder confidence and led to a pickup in single-family construction (chart on homebuilder sentiment, next page, right).

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Housing Market Index



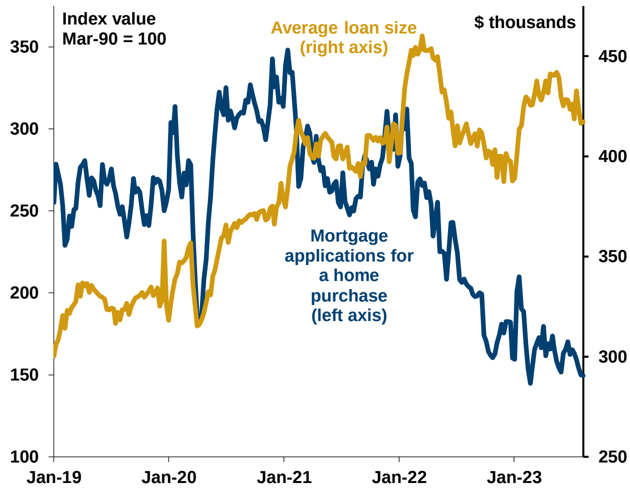
Source: National Association of Home Builders via Haver Analytics

Nevertheless, conditions in the broad housing market probably deteriorated again in August amid increased affordability constraints. The aforementioned sentiment index from the National Association of Home Builders fell in August after seven consecutive increases pushed it above the critical value of 50 that separates favorable versus unfavorable views on market conditions. The drop was likely spurred by concerns about a move higher in mortgage rates, which have returned to the top of the recent range, and resulting decline in mortgage applications for home purchases (charts, below). With borrowers financing substantial balances to pay for more expensive housing, even marginal shifts in mortgage rates could equate to meaningful increases in monthly payments (chart, right; the gold line shows average loan size). Overall, signs point to further turbulence ahead in the housing market.

30-Year Fixed-Rate Mortgage

Source: Federal Home Loan Mortgage Corporation via Haver Analytics

Mortgage Applications vs. Average Loan Size



Source: Mortgage Bankers Association via Haver Analytics

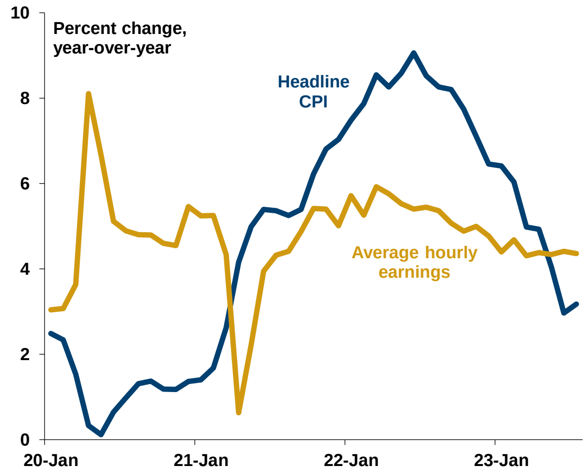
Risks to Consumer Spending

The retail sales report for July published on Tuesday spoke to the resilience of consumers despite challenges from rapid inflation and restrictive monetary policy boosting borrowing costs and curtailing access to credit. Headline sales rose 0.7 percent and the retail control, which excludes sales at auto dealers, gasoline stations, and building materials stores and correlates with the consumer spending component of GDP, recorded a strong advance (up 1.1 percent). Nonstore sales that incorporate online activity and transactions at fuel oil dealers surged 1.9 percent, factoring importantly into the notable increase in the retail control. This category was likely boosted by the Amazon Prime Day sales, but it also had experienced firm growth in other recent months and thus should not necessarily be viewed as a one-off strong reading. All told, a firm performance that raises the possibility of growth in real consumer spending of two and one-half to three percent in Q3, which would support GDP growth in the mid-two-percent area. The picture on consumer spending could evolve in the next two months, but the quarter is off to a strong start.

We are somewhat less optimistic about conditions beyond Q3. While tight labor market conditions are generating brisk wage growth that is finally tracking above inflation (chart, right), providing a potential tailwind for spending, we suspect that this will be insufficient to prevent an eventual retreat by consumers.

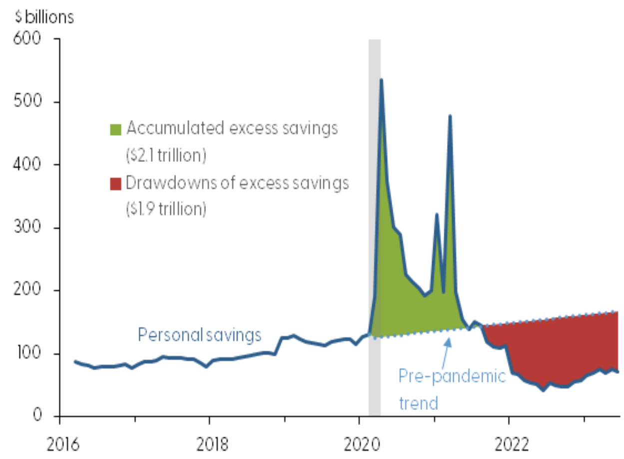
A blog post on the website of the San Francisco Fed this week garnered attention, as the authors suggested pandemic-related excess savings that have buoyed firm outlays for much of the current expansion could soon be exhausted (chart; Hamza Abdelrahman and Luiz E. Oliveira (2023). "Excess No More? Dwindling Pandemic Savings" SF Fed Blog. Federal Reserve Bank of San Francisco, August 16, 2023, https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/). In addition, recent data from the Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit suggest a pickup in consumer credit card, auto, and mortgage loans transitioning into delinquency (chart, right). Overall stress remains contained, but cracks are emerging. Moreover, the end of the Department of Education's COVID-19 student loan forbearance program and resumption of student loan payments in October raise the possibility of additional stress on household balance sheets

Wages & Inflation



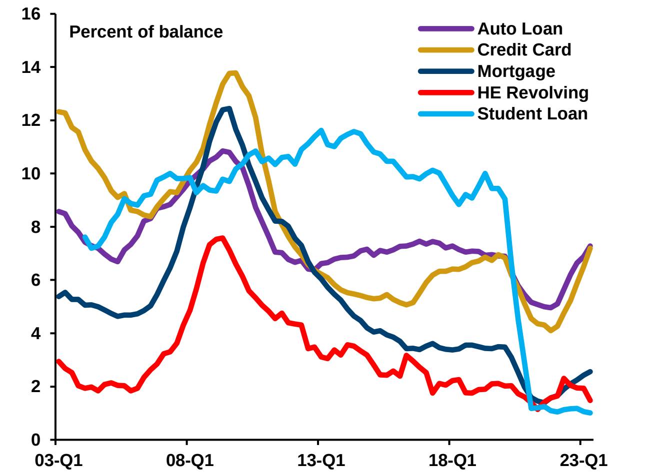
Source: Bureau of Labor Statistics via Haver Analytics

Aggregate Personal Savings



Source: Abdelrahman, Hamza et al., "Excess No More? Dwindling Pandemic Savings," Federal Reserve Bank of San Francisco, Aug. 2023.
https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/

Transition into Delinquency (30+ Days) by Loan Type*



** Four-quarter moving sum. There is no data prior to 2004 for student loans due to uneven reporting.*
Source: Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York

Note to readers:

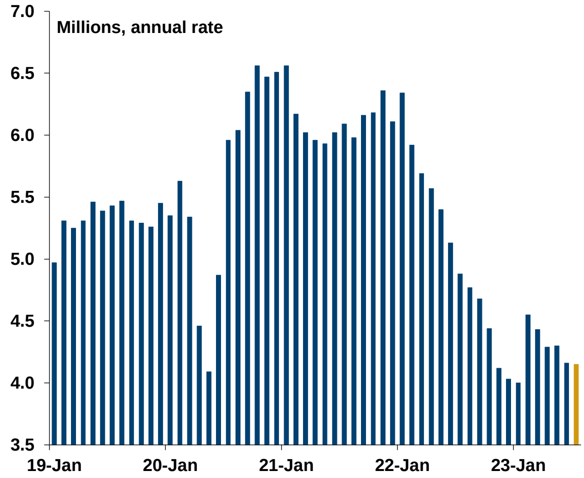
There will be no U.S. Economic Comment next week. Publication will resume on September 1, 2023.

The Week Ahead

Existing Home Sales (July) (Tuesday)
Forecast: 4.150 Million (-0.2%)

Although the housing market has shown early signs of a recovery in recent months, the pickup has been concentrated in the new home market. Sales of existing homes, in contrast, have been slowed by an exceedingly tight inventory situation which has supported an unfavorable pricing environment and generated stiff competition for units that do come on the market. With many current homeowners locked into low-rate mortgages from earlier in the pandemic period likely to remain in their current homes rather than trade up to more expensive properties financed at higher interest rates, the market is unlikely to improve meaningfully in the near-term (chart).

Existing Home Sales*



** The gold bar is a forecast for July 2023.*
Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

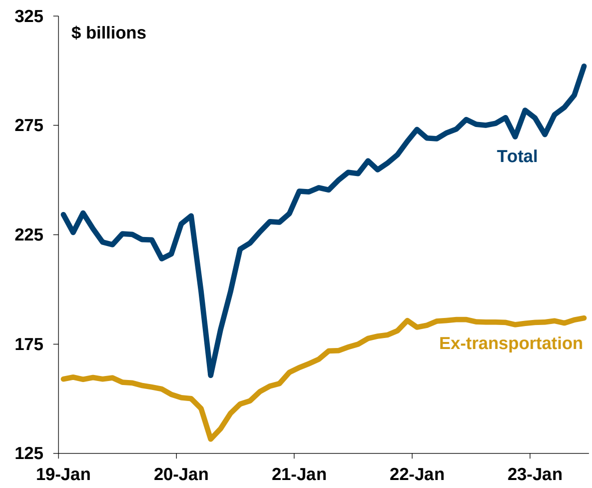
New Home Sales (July) (Wednesday)
Forecast: 0.705 Million (+1.1%)

Sales of new homes eased slightly in June after registering the firmest reading since early 2022 in the prior month. The recent stirring, despite elevated mortgage rates and tightening credit standards, probably reflected a bump from individuals who desired to transition from renting to homeownership finding better opportunities amid modestly more favorable pricing and larger inventories available for sales in the new home market than in that for existing homes. In July, a pickup in buyer traffic raises the possibility of sales retaking the 0.700 million level. However, a dip in mortgage applications for a home purchase and constraints on affordability suggest that the change is unlikely to be large.

Durable Goods Orders (July) (Thursday)
Forecast: -4.5% Total, 0.0% Ex. Transportation

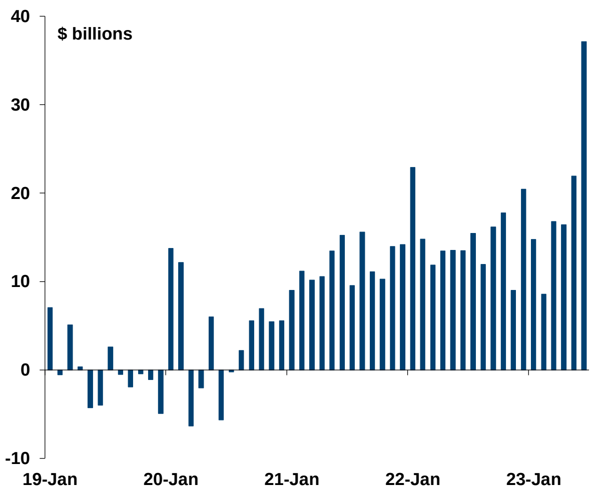
A drop in new orders reported by Boeing after a surge in June suggest a sharp decline in headline durable goods orders in July (charts). With restrictive monetary policy still constraining activity in the factory sector, bookings excluding transportation could show little change after tilting higher in the prior two months (chart, left; gold line).

Durable Goods Orders



Source: U.S. Census Bureau via Haver Analytics

Durable Goods Orders: Civilian Aircraft



Source: U.S. Census Bureau via Haver Analytics

Economic Indicators

August/September 2023

Monday	Tuesday	Wednesday	Thursday	Friday
14	15	16	17	18
	RETAIL SALES Total / Ex.Autos May 0.7% 0.4% June 0.3% 0.2% July 0.7% 1.0% **IMPORT/EXPORT PRICES** Non-Petrol Imports / Nonagri. Exports May -0.1% -2.0% June -0.3% -0.6% July 0.0% 0.6% **EMPIRE MFG.** June 6.6 July 1.1 Aug -19.0 **BUSINESS INVENTORIES** Inventories / Sales Apr 0.1% -0.1% May 0.0% 0.1% June 0.0% -0.1% **NAHB HOUSING INDEX** June 55 July 56 Aug 50 **TIC FLOWS** Long-Term / Total Apr $131.2B $48.7B May $23.6B -$161.6B June $195.9B $147.8B	**HOUSING STARTS** May 1.583 million June 1.398 million July 1.452 million **IP & CAP-U** IP / Cap.Util. May -0.4% 79.4% June -0.8% 78.6% July 1.0% 79.3% **FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) July 22 0.221 1.692 July 29 0.227 1.684 Aug 5 0.250 1.716 Aug 12 0.239 N/A **PHILADELPHIA FED MFG BUSINESS OUTLOOK** June -13.7 July -13.5 Aug 12.0 **LEADING INDICATORS** May -0.7% June -0.7% July -0.4%	
21	22	23	24	25
	EXISTING HOME SALES (10:00) May 4.300 million June 4.160 million **July 4.150 million**	**NEW HOME SALES (10:00)** May 0.715 million June 0.697 million **July 0.705 million**	**UNEMP. CLAIMS (8:30)** **DURABLE GOODS ORDERS (8:30)** May 2.0% June 4.6% **July -4.5%** **CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)** Monthly / 3-Mo. Avg. May -0.28 -0.21 June -0.32 -0.16 July -- --	**REVISED CONSUMER SENTIMENT (10:00)** June 64.4 July 71.6 Aug (p) 71.2 **CHAIR POWELL AT JACKSON HOLE SYMPOSIUM (10:05)**
28	29	30	31	1
	FHFA HOME PRICE INDEX **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **JOLTS DATA** **CONSUMER CONFIDENCE**	**ADP EMPLOYMENT** **REVISED Q2 GDP** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **PENDING HOME SALES**	**UNEMP. CLAIMS** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER**	**EMPLOYMENT REPORT** **ISM MFG. INDEX** **CONSTRUCTION** **VEHICLE SALES**
4	5	6	7	8
LABOR DAY	**FACTORY ORDERS**	**TRADE BALANCE** **ISM SERVICES INDEX** **BEIGE BOOK**	**UNEMP. CLAIMS** **REVISED PRODUCTIVITY & COSTS**	**WHOLESALE TRADE** **CONSUMER CREDIT**

Forecasts in bold. (p) = preliminary

Treasury Financing

August/September 2023

Monday	Tuesday	Wednesday	Thursday	Friday
14	15	16	17	18
AUCTION RESULTS: Rate / Cover 13-week bills 5.295% 3.12 26-week bills 5.290% 2.78	**AUCTION RESULTS:** Rate / Cover 42-day CMBs 5.285% 3.01 **ANNOUNCE:** $80 billion 4-week bills for auction on Aug 17 $70 billion 8-week bills for auction on Aug 17 $50 billion 17-week bills for auction on Aug 16 **SETTLE:** $75 billion 4-week bills $65 billion 8-week bills $48 billion 17-week bills $42 billion 3-year notes $38 billion 10-year notes $23 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 17-week bills 5.305% 3.02	**AUCTION RESULTS:** Rate / Cover 4-week bills 5.280% 2.67 8-week bills 5.280% 2.89 **ANNOUNCE:** $131 billion 13-,26-week bills for auction on Aug 21 $24 billion 2-year FRNs for auction on Aug 23 $16 billion 20-year bonds for auction on Aug 23 $8 billion 30-year TIPS for auction on Aug 24 $60 billion 42-day CMBs for auction on Aug 22 **SETTLE:** $131 billion 13-,26-week bills $60 billion 42-day CMBs	
21	22	23	24	25
AUCTION: $131 billion 13-,26-week bills	**AUCTION:** $60 billion 42-day CMBs **ANNOUNCE:** $80 billion* 4-week bills for auction on Aug 24 $70 billion* 8-week bills for auction on Aug 24 $50 billion* 17-week bills for auction on Aug 23 **SETTLE:** $80 billion 4-week bills $70 billion 8-week bills $50 billion 17-week bills	**AUCTION:** $50 billion* 17-week bills $24 billion 2-year FRNs $16 billion 20-year bonds	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills $8 billion 30-year TIPS **ANNOUNCE:** $131 billion* 13-,26-week bills for auction on Aug 28 $45 billion* 2-year notes for auction on Aug 28 $46 billion* 5-year notes for auction on Aug 28 $36 billion* 7-year notes for auction on Aug 29 **SETTLE:** $131 billion 13-,26-week bills $60 billion 42-day CMBs	**SETTLE:** $24 billion 2-year FRNs
28	29	30	31	1
AUCTION: $131 billion* 13-,26-week bills $45 billion* 2-year notes $46 billion* 5-year notes	**AUCTION:** $36 billion* 7-year notes **ANNOUNCE:** $80 billion* 4-week bills for auction on Aug 31 $70 billion* 8-week bills for auction on Aug 31 $50 billion* 17-week bills for auction on Aug 30 **SETTLE:** $80 billion* 4-week bills $70 billion* 8-week bills $50 billion* 17-week bills	**AUCTION:** $50 billion* 17-week bills	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills **ANNOUNCE:** $131 billion* 13-,26-week bills for auction on Sep 5 $42 billion* 52-week bills for auction on Sep 5 **SETTLE:** $131 billion* 13-,26-week bills $16 billion 20-year bonds $8 billion 30-year TIPS $45 billion* 2-year notes $46 billion* 5-year notes $36 billion* 7-year notes	
4	5	6	7	8
LABOR DAY	**AUCTION:** $131 billion* 13-,26-week bills $42 billion* 52-week bills **ANNOUNCE:** $80 billion* 4-week bills for auction on Sep 7 $70 billion* 8-week bills for auction on Sep 7 $50 billion* 17-week bills for auction on Sep 6 **SETTLE:** $80 billion* 4-week bills $70 billion* 8-week bills $50 billion* 17-week bills	**AUCTION:** $50 billion* 17-week bills	**AUCTION:** $80 billion* 4-week bills $70 billion* 8-week bills **ANNOUNCE:** $131 billion* 13-,26-week bills for auction on Sep 11 $44 billion* 3-year notes for auction on Sep 11 $35 billion* 10-year notes for auction on Sep 12 $20 billion* 30-year bonds for auction on Sep 13 **SETTLE:** $131 billion* 13-,26-week bills $42 billion* 52-week bills	

**Estimate*