U.S. Economic Comment

- Powell at Jackson Hole: next week's speech to (possibly) provide clarity on the path of interest rates
- Recent housing data: suggesting constrained residential construction for some time

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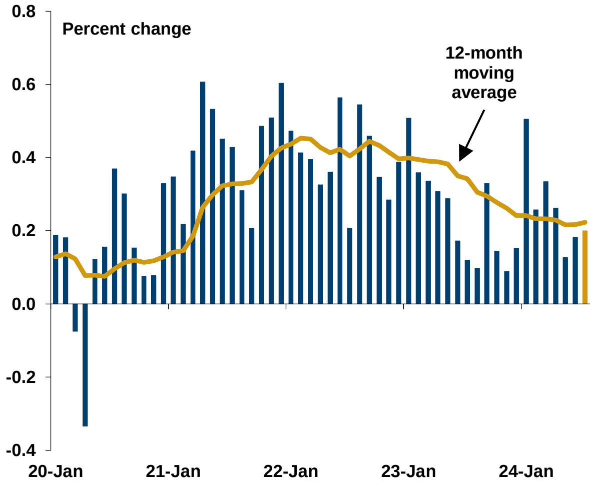
All Eyes on Powell

With the flow of economic data being light next week, sights will be set squarely of Fed Chair Powell's speech at the Kansas City Fed's annual Jackson Hole Economic Symposium. Over time, this gathering has transformed into an important forum for addressing near-term developments in monetary policy. Previously, for instance, former Fed Chair Ben Bernanke used addresses in 2010 and 2012 to prepare markets for additional rounds of quantitative easing. More recently, Chair Powell used his 2022 address to affirm the central bank's commitment to stamping out rapid underlying inflation, particularly noting the possibility of "some pain" for households and businesses. He offered a similar message last year, although the language was somewhat less forceful and broadened to include a discussion of risk management in the context of calibrating monetary policy.

This year's speech could carry a fairly optimistic tone. Inflation is moderating, with the disinflation trend broadening beyond goods prices into those for services, and excessively tight labor market conditions are normalizing. On that point, Chair Powell in a recent post-FOMC press conference compared the current labor market to the favorable one that existed in 2019 just prior to the onset of COVID. Regarding inflation specifically, data on consumer and producer prices for July released earlier this week point to another moderate advance in the Price Index for Personal Consumption Expenditures, the FOMC's preferred inflation gauge (to be published on August 30). As we crunch the numbers, combined data from the CPI and PPI suggest monthly advances of 0.2 percent for both the headline and core PCE price indexes. The anticipated reading would preserve the ongoing deceleration in inflation and provide further evidence that two percent is coming into view (charts).

Assessing conditions in the labor market are a bit trickier. On one hand, excessive tightness has given way to better balance. Job growth averaged 218,000 in the first half of the year before slowing to 114,000 in July (possibly affected by Hurricane Beryl), and the layoffs and discharges rate from the JOLTS data has remained low at 0.9

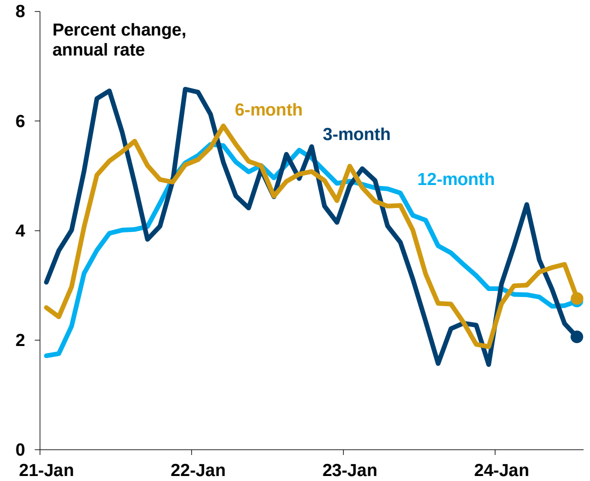
Core PCE Price Index*



** The gold bar is a forecast for July 2024.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Core PCE Price Index*



** The dots are forecasts for July 2024 based on the assumption of month-to-month index growth of 0.2 percent (data to be released on August 30th). July's forecasted readings would equate to 2.055, 2.757, and 2.712 percent, respectively, for the 3-month, 6-month, and 12-month growth rates (compared to 2.305, 3.385, and 2.630 percent in June).*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America percent – a reading well within historical norms. At the same time, the unemployment rate has risen from 3.7 percent in January to 4.3 percent in July and several policymakers have called for increased vigilance for undesirable weakening.

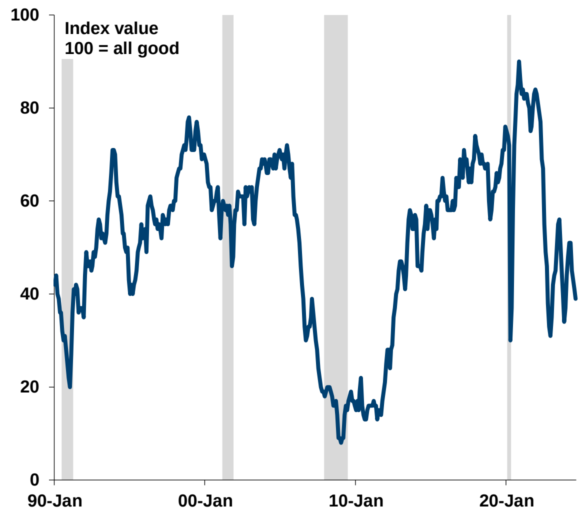
Against this backdrop, we suspect that Chair Powell will lean into the view that it is time to transition away from the current target range for the federal funds rate of 5 ¼ to 5 ½ percent – likely signaling that the September 17-18 FOMC meeting is appropriate – although he will abstain from providing clarity on the size of the anticipated cut (25 or 50 basis points). Fed officials are attentive to both upside risks to inflation and downside risks to the labor market, as indicated in the July FOMC statement and in recent comments by Fed officials, but they will need to see additional data to form firmer views on the trajectory of rates. On the point, the August CPI and employment data (along with the July PCE results) will be available for the September gathering but not ahead of the Fed Chair's presentation next week. Thus, for now, another signal in favor of rate cuts, but not definitive guidance.

Residential Construction Restrained by Sluggish Housing Market

Housing-related data this week, including the National Association of Home Builders/Wells Fargo Housing Market Index and the U.S. Census Bureau's release on housing starts offered a glimpse into an interest-rate sensitive sector of the economy still struggling as monetary policy remains in restrictive territory. Both measures eased from previously soft levels, providing further evidence of struggles in this interest-rate-sensitive sector.

The Housing Market Index, a composite measure incorporating current sales, anticipated activity in the next six months, and traffic on prospective buyers, fell for the fourth consecutive month in August to 39 (released August 15) – a reading indicating unfavorable conditions in the housing market and consistent with observations during previous periods of recession (chart). The composite had previously improved in early 2024, stirring discussion that prospective homebuyers were adjusting to an environment of higher mortgage rates, but it has fallen sharply since then. Additionally, a softening labor market in recent months, and an uptick in consumer delinquency rates that suggests financial strain in at least a subset of households, present emerging challenges to the already struggling sector.

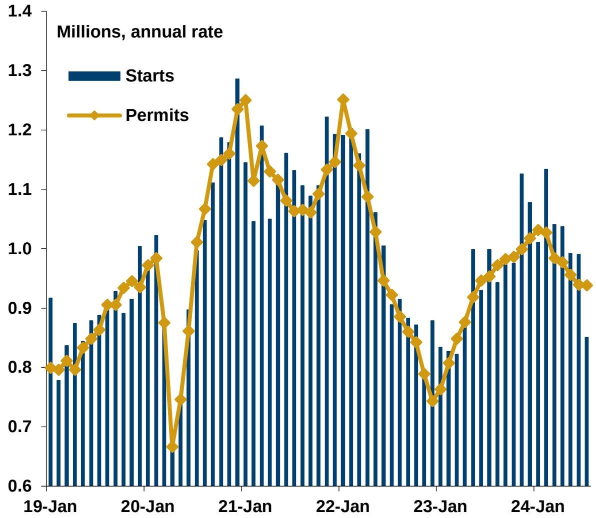
Home Builders: Housing Market Index*



** The shaded areas indicate periods of recession in the United States*
Sources: National Association of Home Builders; National Bureau of Economic Research via Haver Analytics

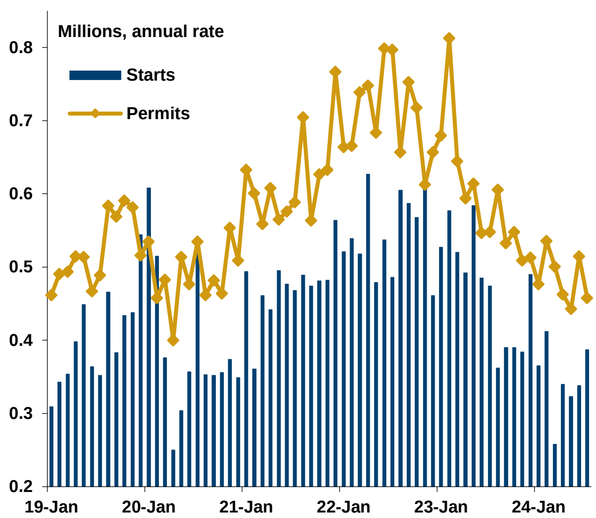
The sluggish performance in home sales, along with slowing demand for new rental stock, has spilled into residential construction. Housing starts augmented their disappointing performance in 2024 thus far with a drop of 6.8 percent to 1.238 million units (annual rate), the lowest reading since 2020-H1 – when the U.S. was suffering the acute phase of the COVID pandemic (see charts on starts and permits, next page). Single-family activity dropped for the fifth consecutive month, with the decline of 14.1 percent in July pushing starts to the low end of the range of the current expansion. Multi-family starts, in contrast, rose 14.5 percent to 0.387 million units. The latest reading was in the low end of the range of the current expansion, although it was a mid-range observation for the years preceding the pandemic. However, perhaps mitigating the soft performance to a degree – although not explaining it away – Hurricane Beryl appeared to depress activity in the South, with the drop of 13.6 percent in that area (single and multi-family starts, combined) the largest amongst the three regions that registered declines. With that said, prospects for a pickup in the following month or so are limited (regardless of direct hurricane effects), as single-family permit issuance was little changed in July after sharper declines in the prior five months (-0.1 percent to 0.938 million in July; -9.0 percent in the six months combined). Multi-family authorizations also were disappointing, with the drop of 11.1 percent to 0.458 million leaving them near the bottom of the range of the current expansion.

Single-Family Housing Starts/Permits



Source: U.S. Census Bureau via Haver Analytics

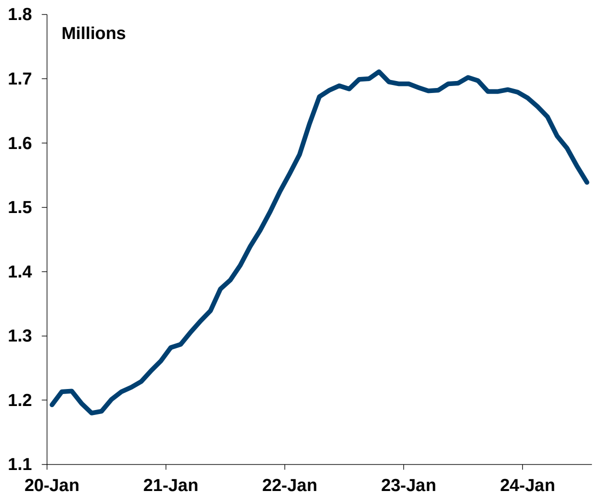
Multi-Family Housing Starts/Permits



Source: U.S. Census Bureau via Haver Analytics

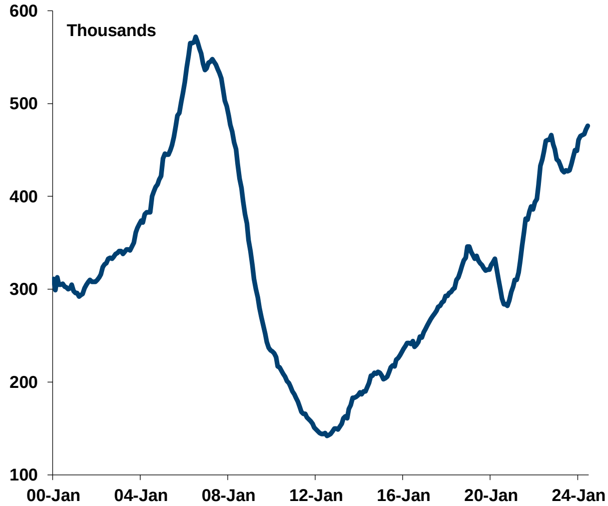
Fundamentals beyond near-term gyrations in the data are likely to weigh on residential construction for some time. Housing units currently under construction remain elevated from a long-term perspective (chart, below left; single and multi-family, combined), which will contribute to offsetting a portion of future demand. Additionally, inventories of unsold new homes at 0.476 million, annual rate, are elevated – comparable to those in the period leading up to the previous housing bust (chart, below right). The situation is not overly worrisome, as possible pent-up demand for housing and chronic undersupply in the existing home market will help alleviate excesses as interest rates come down, but current conditions support our view that residential construction will be a drag on economic activity at least through the second half of 2024.

Housing Units Under Construction



Source: U.S. Census Bureau via Haver Analytics

Inventory of Unsold New Homes



Source: U.S. Census Bureau via Haver Analytics

Note to readers:

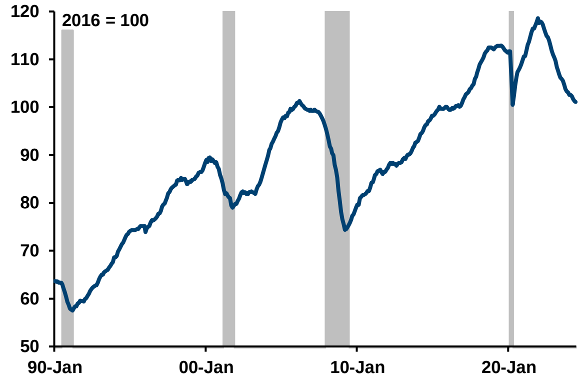
The next Weekly Economic Comment will be published on August 30, 2024.

The Week Ahead

Leading Indicators (July) (Monday)
Forecast: -0.6%

Negative contributions from the ISM new orders index, the factory workweek, consumer expectations, and building permits suggest that the Conference Board Leading Economic Index is likely to contract for the 28th time in the past 29 months. If the forecast is realized, the July result would be 15.3 percent below the cycle peak of 118.6 in December 2021. In previous business cycles, downtrends in the LEI similar to that currently in place are consistent with the U.S. economy entering (or in) recession (chart).

Index of Leading Economic Indicators*



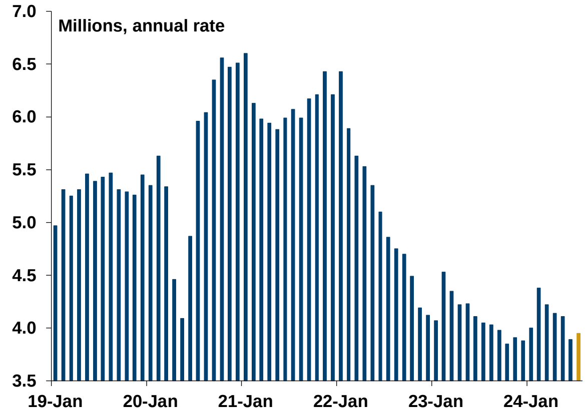
** The shaded areas indicate periods of recession in the United States.*

Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics

Existing Home Sales (July) (Thursday)
Forecast: 3.95 Million (+1.5%)

A recent pickup in the index of pending home sales from a record low suggests a modest increase in existing home sales in July, although the projected advance would still leave activity in the low end of the range of the past two expansions (chart, below left). While the inventory situation has improved recently, as evidenced by the pickup in the months' supply of homes available for sale (chart, below right), affordability constraints caused by high prices and elevated mortgage interest rates are still preventing a meaningful recovery in activity. (Note that existing home sales are based on closings; pending home sales, in most cases, close in one to three months.)

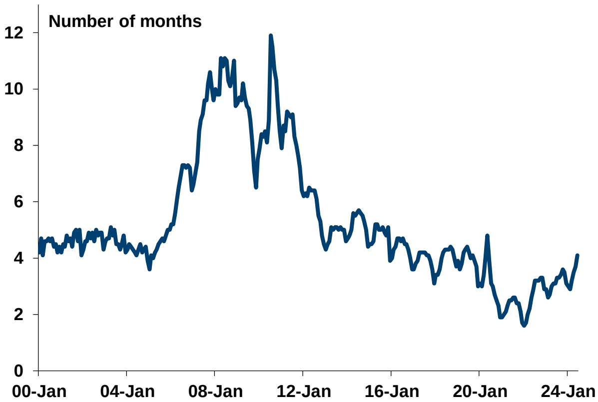
Existing Home Sales*



** The gold bar is a forecast for July 2024.*

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

Months' Supply of Unsold Existing Homes

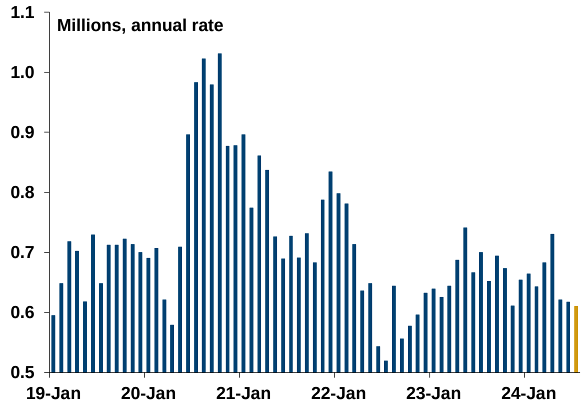


Source: National Association of Realtors via Haver Analytics

New Home Sales (July) (Friday)
Forecast: 0.610 Million (-1.1%)

Dips in mortgage applications for a home purchase and prospective buyer traffic in July raise the prospect of a third consecutive decline in new home sales. Easing from the 2024 high of 0.730 million in April has left activity in the low end of the range of the current expansion (chart). Soft conditions mirror those in the broader housing market, which is hampered by elevated mortgage rates and tight lending standards.

New Home Sales*



** The gold bar is a forecast for July 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

August/September 2024

Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
FEDERAL BUDGET 2024 / 2023 May -$347.1B / -$240.3B June -$71.0B / -$227.8B July -$243.7B / -$220.8B	**NFIB SMALL BUSINESS OPTIMISM INDEX** May 90.5 June 91.5 July 93.7 **PPI** Final Demand / Ex. Food & Energy May 0.0% / 0.3% June 0.2% / 0.3% July 0.1% / 0.0%	**CPI** Total / Core May 0.0% / 0.2% June -0.1% / 0.1% July 0.2% / 0.2% **IP & CAP-U** IP / Cap.Util. May 0.8% / 78.3% June 0.3% / 78.4% July -0.6% / 77.8% **NAHB HOUSING INDEX** June 43 July 41 Aug 39 **BUSINESS INVENTORIES** Inventories / Sales Apr 0.3% / 0.2% May 0.5% / 0.0% June 0.3% / -0.1% **TIC FLOWS** Long-Term / Total Apr $120.6B / $61.4B May -$54.1B / $16.1B June $96.1B / $107.5B	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) July 20 0.235 / 1.869 July 27 0.250 / 1.871 Aug 3 0.234 / 1.864 Aug 10 0.227 / N/A **RETAIL SALES** Total / Ex.Autos May 0.2% / 0.0% June -0.2% / 0.5% July 1.0% / 0.4% **EMPIRE MFG** June -6.0 July -6.6 Aug -4.7 **PHILADELPHIA FED MFG BUSINESS OUTLOOK** June 1.3 July 13.9 Aug -7.0 **IMPORT/EXPORT PRICES** Non-Petrol Imports / Nonagri. Exports May -0.2% / -0.8% June 0.2% / -0.4% July 0.2% / 1.0%	**HOUSING STARTS** May 1.315 million June 1.329 million July 1.238 million **CONSUMER SENTIMENT** June 68.2 July 66.4 Aug 67.8
19	20	21	22	23
LEADING INDICATORS (10:00) May -0.4% June -0.2% **July -0.6%**		**FOMC MINUTES (2:00)**	**UNEMP. CLAIMS (8:30)** **CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)** Monthly / 3-Mo. Avg. May 0.23 / -0.08 June 0.05 / -0.01 July -- / -- **EXISTING HOME SALES (10:00)** May 4.110 million June 3.890 million **July 3.950 million**	**NEW HOME SALES (10:00)** May 0.621 million June 0.617 million **July 0.610 million** **FED CHAIR JEROME POWELL AT THE 2024 JACKSON HOLE ECONOMIC POLICY SYMPOSIUM (10:00)**
26	27	28	29	30
DURABLE GOODS ORDERS	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE**		**UNEMP. CLAIMS** **REVISED Q2 GDP** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER** **REVISED CONSUMER SENTIMENT**
2	3	4	5	6
LABOR DAY	**ISM MFG. INDEX** **CONSTRUCTION**	**TRADE BALANCE** **FACTORY ORDERS** **JOLTS DATA** **BEIGE BOOK** **VEHICLE SALES**	**ADP EMPLOYMENT** **UNEMP. CLAIMS** **REVISED PRODUCTIVITY & COSTS** **ISM SERVICES INDEX**	**EMPLOYMENT REPORT**

Forecasts in bold.

Daiwa Capital Markets

Treasury Financing

August/September 2024

Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
AUCTION RESULTS: Rate / Cover 13-week bills 5.070% 2.95 26-week bills 4.795% 2.73	**AUCTION RESULTS:** Rate / Cover 42-day CMBs 5.230% 2.81 **ANNOUNCE:** $60 billion 17-week bills for auction on Aug 14 $95 billion 4-week bills for auction on Aug 15 $90 billion 8-week bills for auction on Aug 15 **SETTLE:** $60 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.980% 3.34	**AUCTION RESULTS:** Rate / Cover 4-week bills 5.260% 2.90 8-week bills 5.175% 2.77 **ANNOUNCE:** $146 billion 13-,26-week bills for auction on Aug 19 $16 billion 20-year bonds for auction on Aug 21 $8 billion 30-year TIPS for auction on Aug 22 $75 billion 42-day CMBs for auction on Aug 20 **SETTLE:** $146 billion 13-,26-week bills $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds $75 billion 42-day CMBs	
19	20	21	22	23
AUCTION: $146 billion 13-,26-week bills	**AUCTION:** $75 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Aug 21 $95 billion* 4-week bills for auction on Aug 22 $90 billion* 8-week bills for auction on Aug 22 **SETTLE:** $60 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $16 billion 20-year bonds	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $8 billion 30-year TIPS **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Aug 26 $69 billion* 2-year notes for auction on Aug 27 $70 billion* 5-year notes for auction on Aug 28 $44 billion* 7-year notes for auction on Aug 29 $28 billion* 2-year FRNs for auction on Aug 28 **SETTLE:** $146 billion 13-,26-week bills $75 billion 42-day CMBs	
26	27	28	29	30
AUCTION: $146 billion* 13-,26-week bills	**AUCTION:** $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Aug 28 $95 billion* 4-week bills for auction on Aug 29 $90 billion* 8-week bills for auction on Aug 29 **SETTLE:** $60 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Sep 3 $46 billion* 52-week bills for auction on Sep 3 **SETTLE:** $146 billion* 13-,26-week bills $46 billion* 52-week bills	**SETTLE:** $8 billion 30-year TIPS $28 billion* 2-year FRNs
2	3	4	5	6
LABOR DAY	**AUCTION:** $146 billion* 13-,26-week bills $46 billion* 52-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Sep 4 $95 billion* 4-week bills for auction on Sep 5 $90 billion* 8-week bills for auction on Sep 5 **SETTLE:** $60 billion* 17-week bills $95 billion* 4-week bills $90 billion* 8-week bills $16 billion 20-year bonds $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $95 billion* 4-week bills $90 billion* 8-week bills **ANNOUNCE:** $146 billion* 13-,26-week bills for auction on Sep 9 $58 billion* 3-year notes for auction on Sep 10 $39 billion* 10-year notes for auction on Sep 11 $22 billion* 30-year bonds for auction on Sep 12 **SETTLE:** $146 billion* 13-,26-week bills $46 billion* 52-week bills	

**Estimate*