



ARGUS ECONOMIC COMMENTARY

July 1, 2024

Uneasy Calm at Mid-Year

As the final trading week of the 2024 first half gets underway, the stock market is in solid shape but investor sentiment seems frayed. Both business leaders and consumers are uneasy about the months ahead, given clear signs of slowing consumer spending, still-soft purchasing managers' sentiment, and the pending elections. Technically, the stock market appears overdue for a shakeout.

It's not all doom and gloom. The upcoming earnings season is likely to be the best in at least two years. Accelerating earnings growth is preventing the market from stretching into deep overvaluation territory even as stocks repeatedly hit new highs. Although economic activity may have slowed from 2022-2023 levels, stabilization in global supply chains means the U.S. economy may be sending signals that are more accurate and operating at a more sustainable level of activity. And notably, recent inflation data (CPI and PPI) finally showed improvement from recently stalled levels.

Mixed Signals from the Economy

The biggest driver of economic activity in the U.S. remains the consumer, responsible for over two-thirds of final sales. After carrying the economy through the pandemic, the supply chain crisis, and the Fed's rate-hiking cycle, the consumer is finally showing signs of exhaustion.

Retail sales in May were tepid for the second straight month. Retail sales for April, originally reported as unchanged from March levels, were revised to down 0.2% month-over-month. Economists expected a 0.3% recovery in May from weak April levels; instead, retail sales edged up just 0.1%. On a year-over-year basis, retail sales were up 2.3%; that is down from consistent mid- to high-single-digit annual growth across 2023.

According to the Commerce Department, the weakness partly reflected a 2.2% decline in sales at gasoline stations

due to lower gas prices. Sales of vehicle and car parts were up 8%. Sales also improved at clothing stores and for sporting goods, hobbies, books and musical instruments. Non-store retail (eCommerce) continues to outshine physical retail, rising 0.8% for May and 6.8% year over year.

By contrast, industrial production showed recovery strength in May. Industrial Production rose 0.9% month over month, much better than the 0.3% consensus forecast and up from 0.0% in April. Manufacturing output rebounded to 0.9% growth after declining 0.3% in April. And May Capacity Utilization was 78.7%, still below the long-run average but up half a point from April. Offsetting weakness in Mining output, Utility output should keep overall industrial production strong through the hot summer months.

Besides the GDP, the leading indicators index (LEI) is one of just a few indicators that straddle the business and consumer economy. According to the Conference Board, the May LEI index fell 0.5%, driven primarily by a decline in new orders, weak consumer sentiment, and lower building permits. The six-month trend in the LEI is down 2.0% - actually an improvement from down 3.4% over the preceding six-month period. According to the Conference Board, the six-month trend in LEI does not currently signal a recession despite its "firmly negative" tone.

As noted, an ongoing drag on LEI is the housing economy. Based on SAAR (seasonally adjusted annual rate), existing and new home sales are currently running at about 60%-65% of peak levels achieved from late 2020 through 2021-2022. Existing home sales, which reached a peak SAAR of 6.6 million in January 2021 and were still as high as 6.43 million a year later in January 2022. The most recent reading from May 2023 showed the existing homes SAAR at 4.11 million - 62% the peak level.

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ECONOMIC & MARKET COMMENTARY (CONT.)

New home sales reached a peak SAAR of 1.03 million in October 2020, as the migration of young millennial families from cities to suburbs reached its zenith. As of April 2024, new home SAAR of 634,000 was also running at 62% of peak levels. The new home SAAR actually bottomed at 519,000 in July 2022, which coincided with peak inflation readings from June 2022.

With the exception of home prices, most other indicators from the housing economy are well below past peaks. Housing starts and permits peaked in the 2020-21 time-frame, with permits for all of 2021 reaching 1.74 million. The most recent permits SAAR, from May 2024, was 1.39 million. Housing starts, which peaked in the 1.60 million range in 2021, were reported at a 1.28 million SAAR for May 2024.

The Housing Market Index compiled by the National Association of Homebuilders (NAHB) and Wells Fargo popped to the high-70% range in fall 2020, peaked at 90 in November 2020, and remained in the mid-80s through high-70s through early 2022. As of June 2024, the NAHB's Housing Market Index was at 43. While that is as low for 2024, this series actually hit bottom in the low 30s late in 2022. Volatility in the Housing Market Index, in our view, represents builders' premature expectations and disappointment on the timing of the Fed's first rate cut.

Waiting on the Fed

Like builders, consumers, investors and pretty much everyone are hanging on the timing of the Fed's first rate cut in the cycle. Argus Fixed Income Strategist Kevin Heal, assessing the Fed's notes from its June FOMC meeting, still expects two rate cuts in 2024, each a quarter point and

coming at the September and December meetings. Kevin has held firm in his two-cuts forecast despite the headline change in the dot-plot from likely two cuts to likely one cut by year-end 2024.

Although the Fed is supposedly above politics, politicians are not; and they are increasingly conveying the message that low-income and even moderate-income consumers are severely under pressure from high prices and high interest rates. Kevin believes that any further progress on inflation, including a favorable core PCE price index for May, would provide the Fed with sufficient confidence to start its rate-cutting cycle in September 2024.

Conclusion

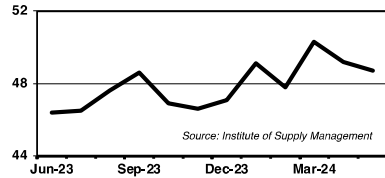
Heading into mid-year 2024, year-to-date total return for the S&P 500 is just above 15%; the Nasdaq is up about 18%; and the DJIA is a deep laggard with a 5% gain. Our principal concern currently is further narrowing in the market advance. Exiting April 2024, as many as eight sectors were approximately tracking the S&P 500's year to date gain. As mid-year approaches, two sectors – Information Technology and Communication Services – are pulling away with 25%-29% YTD gains. While Utilities and Financial are delivering low-double-digit total return for 2024 to date, both lag the S&P 500 by over three percentage points. And every other sector is even further behind the broad market.

We would like to see a broader market advance across sectors. Right now, it's Nvidia's world, and everyone else is just living in it. Until the AI spell is broken, market participation is likely to remain narrow – contributing to the unease that continues to characterize this otherwise healthy stock market advance.

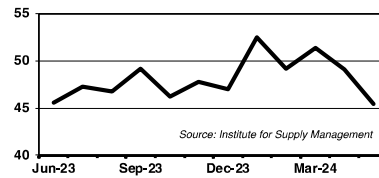
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

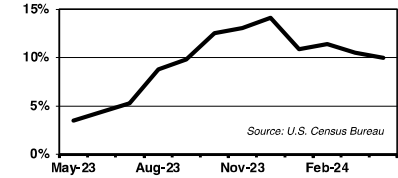
Release: **ISM Manufacturing**
 Date: 7/1/2024
 Month: June
 Previous Report: 48.7
 Argus Estimate: 49.0
 Street Estimate: 49.0



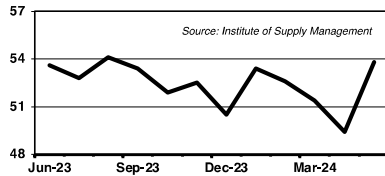
Release: **ISM New Orders**
 Date: 7/1/2024
 Month: June
 Previous Report: 45.4
 Argus Estimate: 47.0
 Street Estimate: NA



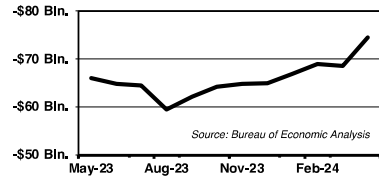
Release: **Construction Spending**
 Date: 7/1/2024
 Month: May
 Previous Report: 10.0%
 Argus Estimate: 7.8%
 Street Estimate: NA



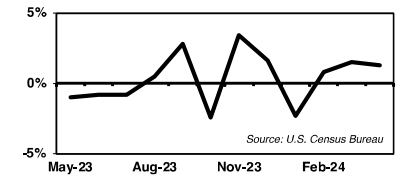
Release: **ISM Services Index**
 Date: 7/3/2024
 Month: June
 Previous Report: 53.8
 Argus Estimate: 52.5
 Street Estimate: 52.0



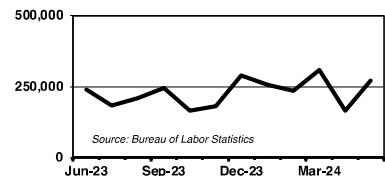
Release: **Trade Balance**
 Date: 7/3/2024
 Month: May
 Previous Report: -\$74.6 Bln.
 Argus Estimate: -\$74.0 Bln.
 Street Estimate: -\$71.2 Bln.



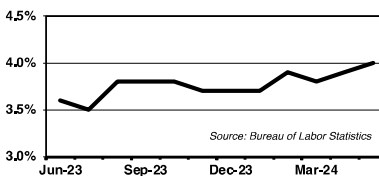
Release: **Factory Orders**
 Date: 7/3/2024
 Month: May
 Previous Report: 1.3%
 Argus Estimate: 1.8%
 Street Estimate: NA



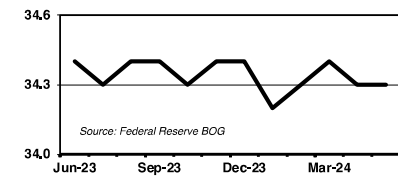
Release: **Nonfarm Payrolls**
 Date: 7/5/2024
 Month: June
 Previous Report: 272000
 Argus Estimate: 175000
 Street Estimate: 185000



Release: **Unemployment Rate**
 Date: 7/5/2024
 Month: June
 Previous Report: 4.0%
 Argus Estimate: 4.1%
 Street Estimate: 4.0%

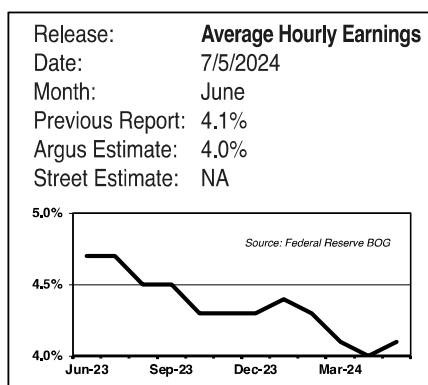


Release: **Average Weekly Hours**
 Date: 7/5/2024
 Month: June
 Previous Report: 34.3
 Argus Estimate: 34.3
 Street Estimate: 34.3



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
25-Jun	Consumer Confidence	June	102.0	98.0	100.0	NA
26-Jun	New Home Sales	May	634 K	640 K	640 K	NA
27-Jun	GDP Annualized QoQ	1Q "3rd est."	1.3%	1.3%	1.5%	NA
	GDP Price Index	1Q "3rd est."	3.0%	3.0%	3.0%	NA
	Durable Goods Orders	May	1.2%	-2.0%	NA	NA
28-Jun	PCE Deflator	May	2.7%	2.6%	2.6%	NA
	PCE Core Deflator	May	2.8%	2.6%	2.6%	NA
	Personal Income	May	4.5%	4.4%	NA	NA
	Personal Spending	May	5.3%	4.9%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
9-Jul	Total Vehicle Sales	June	15.90 mln.	NA	NA	NA
10-Jul	Wholesale Inventories	May	-1.7	NA	NA	NA
12-Jul	U. of Michigan Sentiment	July	65.6	NA	NA	NA

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