



# ECONOMIC OUTLOOK

SEPTEMBER 12, 2024

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## Q2-24 REAL GDP GROWTH WAS +3.0%. GDPNOW Q3-24 GDP? AT +2.5%.

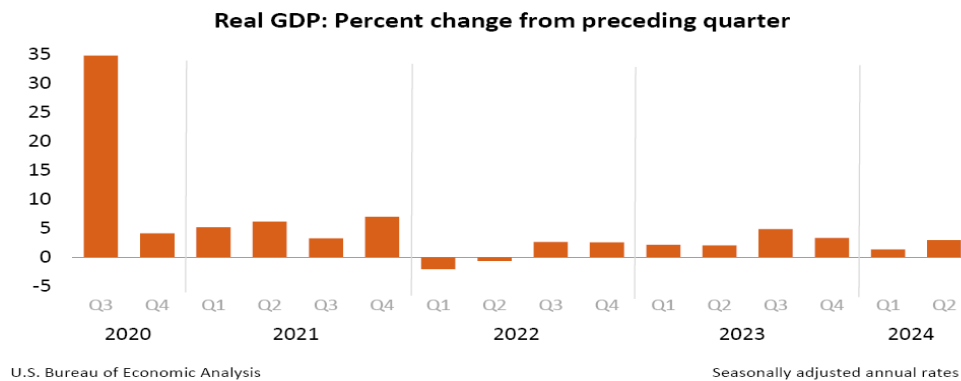
Note: This report has four sections – Key Points, This Month’s Topics, Conclusion(s) and Our Economic Projections

### SECTION 1: KEY POINTS

**A. U.S. real gross domestic product (GDP) increased at an annual rate of +3.0% in Q2-24**, according to the ‘second’ estimate, released by the Bureau of Economic Analysis.

**The update primarily reflected an upward +0.2% revision to consumer spending.** In Q1-24, real GDP increased +1.4%.

The “advance” estimate for Q3-24, will be released on Oct. 30<sup>th</sup>, 2024 at 8:30 am ET.



- The increase in **real GDP** primarily reflected increases in:
  - Consumer spending
  - Private inventory investment, and
  - Nonresidential fixed investment
  - Imports, which are a subtraction in the calculation of GDP, increased
- The increase in consumer spending reflected increases in both services and goods:
  - Within Services, the leading contributors were health care, housing and utilities, and recreation services
  - Within Goods, the leading contributors were motor vehicles and parts, recreational goods and vehicles, furnishings and durable household equipment, and gasoline and other energy goods
  - The increase in Private Inventory Investment primarily reflected increases in wholesale trade and retail trade industries that were partly offset by a decrease in mining, utilities, and construction industries

- Within Nonresidential Fixed Investment, increases in equipment and intellectual property products were partly offset by a decrease in structures
- The increase in Imports was led by capital goods, excluding automotive
- **Compared to Q1, the acceleration in real GDP in Q2 primarily reflected an upturn in Private Inventory Investment and an acceleration in Consumer Spending.**
- These movements were partly offset by a downturn in Residential Fixed Investment.
- **Current-dollar GDP** increased +5.5% at an annual rate, or \$383.2 billion, in the second quarter to a level of \$28.65 trillion. In Q1, GDP increased +4.5%, or \$312.2 billion.
- The **Price Index for Gross Domestic Purchases** increased +2.4% in Q2, compared with an increase of +3.1% in Q1. **The personal consumption expenditures (PCE) price index** increased +2.5%, compared with an increase of +3.4%.
- Excluding food and energy prices, the PCE price index increased +2.8%, compared with an increase of 3.7%.
- Forward look: Sept. 9<sup>th</sup>, 2024 Atlanta Fed GDPNow has Q3 real GDP growth at **+2.5%**.

### Want a credible Wall Street view?

Out on Sept 9<sup>th</sup>, 2024: **“Goldman Sachs Strategists Say the U.S. Stock Market is Unlikely to Fall into a Bear Market”**—

**“Goldman Sachs Group** strategists pointed out that the U.S. stock market is unlikely to fall by 20% or more, and the risk of a recession remains low, given the expectation of the Federal Reserve’s interest rate cuts.”

“The team, led by Christian Mueller-Glissmann, said that although the U.S. stock market may fall by the end of the year, under the drag of high valuations, amid mixed growth prospects and policy uncertainty, the probability of falling directly into a bear market is low, because the economy is also partially supported by a ‘healthy private sector.’”

“In addition, historical analysis by strategists shows that the frequency of the S&P500 index falling by more than 20% has decreased since the 1990s, due to the lengthening of the business cycle, reduced macroeconomic volatility, and the ‘buffer’ role of the Central Bank.”

“They said on a report on September 9<sup>th</sup> that they remain tactically Neutral in Asset Allocation, but have a ‘mildly pro-risk’ attitude in the 12-month span.”

### B. Update on the U.S. Consumer Price Inflation (CPI) Index

- The AUG Consumer Price Index got released at 8:30 am ET on Wed., August 14th.
- On Aug. 19<sup>th</sup>, 2024, the U.S. Bureau of Labor Statistics reported the Consumer Price Index for All Urban Con-

sumers (CPI-U) increased by **+0.2% in AUG** on a seasonally adjusted basis, the same m/m increase seen in JULY.

- Consensus was looking for that +0.2% m/m AUG CPI number.
- The broad All-Items index has increased **+2.5%** over the last 12 months, the smallest 12-month increase since February 2021.
- The core All-Items less Food and Energy index has risen **+3.2%** the last 12 months.
- The energy index has decreased **+4.0%** y/y, over the last 12 months
  - In that series, the energy index was down -0.8% m/m in AUG
  - The food index has risen +2.1% y/y, over the last 12 months
  - In that series the food index was up +0.1% m/m in AUG
- The index for shelter rose +0.5% m/m in AUG.
- The subindex for shelter remains the dominant contributor to monthly All-Items increase.
  
- ***In y/y terms, Shelter cost was up +5.2%.***
  - Shelter's rise was +0.4% m/m in February, March, April, May and in July.
  - Further back in time? A +0.6% m/m rise showed in January, and +0.4% m/m was shown in December and November.
  
- Four sub-categories rose in AUG, in terms of seasonally-adjusted percent change:
  - Transportation Services (+0.9%)
  - Shelter (+0.5%)
  - Food Away from Home (+0.3%)
  - Apparel (+0.3%), and
  - Medical Care Services (-0.1%)
  
- Two sub-category price indices looked static in AUG:
  - Food at Home (+0.0%), and
  - New Vehicles (0.0%)
  
- Seven sub-categories declined in AUG:
  - Medical Care Services (-0.1%)
  - Medical Care Commodities (-0.2%)
  - Gasoline (-0.6%)
  - Electricity (-0.7%)
  - Used Cars and Trucks (-1.0%)
  - Fuel Oil (-1.9%), and
  - Utility Piped Gas (-1.9%)



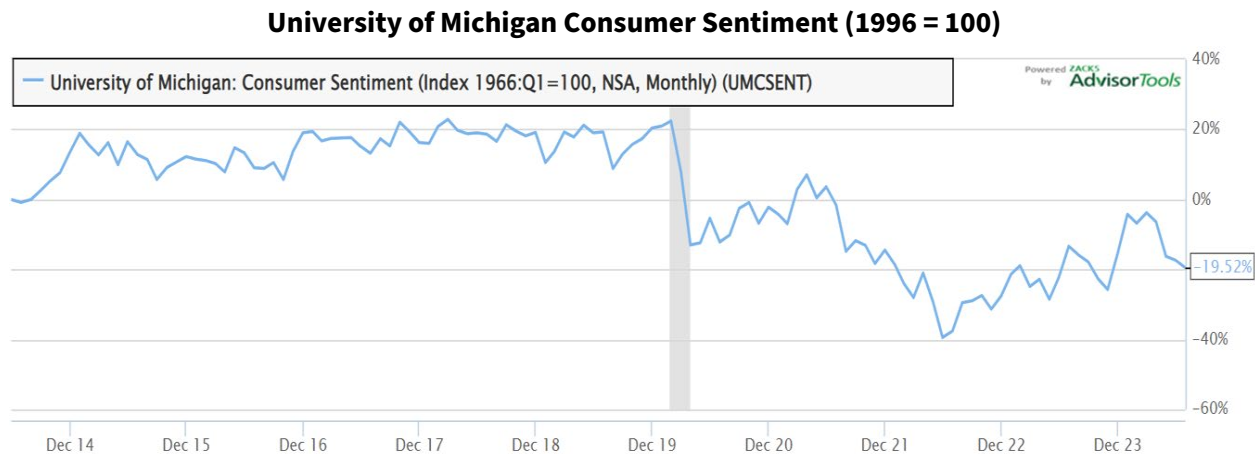
### C. The University of Michigan Consumer Sentiment Index

- U. of Mich. Consumer Sentiment rose +2.3% to 67.9 in AUG, from 66.4 in JULY.
- Year-on-year change in U.S. consumer sentiment remains down -2.2%.

#### Read AUGUST 2024 comments from U. of Michigan Survey Director Joanne Hsu:

- “Consumer sentiment confirmed its early-month reading; after drifting down for four months, sentiment inched up 1.5 index points above July and is currently 36% above the all-time historic low from June 2022.
- “Consumers’ short- and long-run economic outlook improved, with both figures reaching their most favorable levels since April 2024 and a particularly sizable 10% improvement for long-run expectations that was seen across age and income groups.
- “Sentiment this month reflects a slight rise in sentiment among Independents, as Democrats and Republicans offset each other almost perfectly. **Democrats exhibited a large +10% increase in sentiment while Republicans posted an equally sized decline.**
- “These patterns resulted from a sea change in election expectations this month with Harris emerging as the Democratic candidate for president.
- “In July, 51% of consumers expected Trump to win the election versus 37% for Biden. In August, election expectations flipped; 36% expected Trump to win compared with 54% for Harris.
- “Economic and election expectations are both subject to change as election day approaches.
- “These expectations remain somewhat elevated relative to the 2.2-2.6% range seen in the two years pre-pandemic.”

The U of Michigan consumer sentiment time series chart is shown below.



#### D. Labor Markets

- On Sept. 6<sup>th</sup>, 2024, the Federal nonfarm AUG 2024 jobs report came in at (+142K). Consensus was looking for +161K. **A miss!**
- The change in total nonfarm payroll employment for June was revised down by -61K, from +179K to +118K, and the change for July was revised down by -25K, from +114K to +89K.
- With these revisions, employment in June and July combined was -86K lower than previously reported.
- The AUG 2024 Federal BLS report started with: “Total nonfarm payroll employment increased by +142K in August, and the unemployment rate changed little at 4.2%, the U.S. Bureau of Labor Statistics reported today.
- “Job gains occurred in Construction and Health Care.”

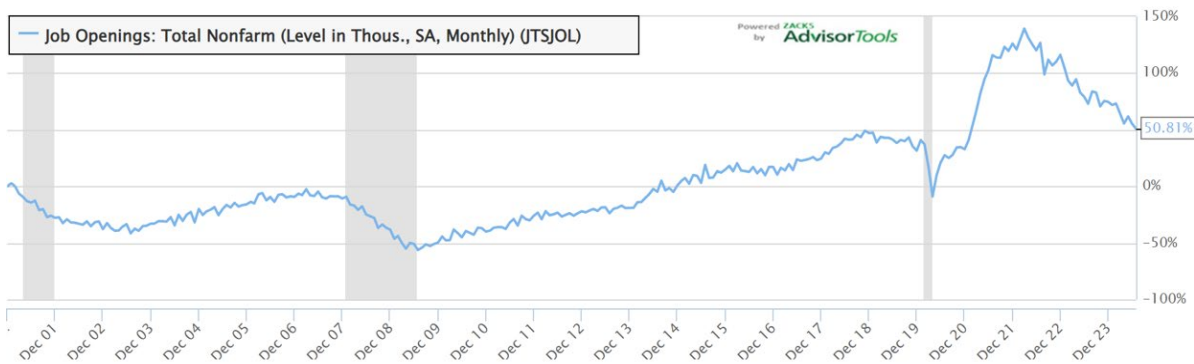
#### For bulls:

- Over the past 12 months, average U.S. hourly earnings rose +3.8%. This is above a core CPI rising +3.2% thru JULY, displaying real wage improvement.
- Health care added +31K jobs in AUG, higher than the avg. monthly gain of +60K over the prior 12 months. In AUG, job growth rose in ambulatory (outpatient) health care services (+24K), and hospitals (+10K).
- Construction employment rose by +34K in AUG, higher than the monthly gain of +19K over the prior 12 months. Over the month, heavy and civil engineering construction added (+14K) jobs, and employment in specialty trade contractors continued to trend up (adding another +14K jobs).
- Remaining AUG 2024 jobs data supplied a static message.
  - First, the long-term unemployed (jobless for 27 weeks or more) was virtually unchanged at 1.5 million. The long-term unemployed accounted for 21.3% of all unemployed persons.
  - Second, another static fact: the number of persons not in the labor force who currently want a job changed little at 5.6 million in AUG.
  - Third, the labor force participation rate changed little at 62.7% in AUG.
  - Fourth, the number of persons employed part-time for economic reasons, changed little at 4.8 million in AUG. This measure is up from 4.2 million a year earlier.
  - Fifth, among those not in the labor force who wanted a job, the number of persons marginally attached to the labor force, at 1.4 million, changed little in AUG.

**For bears:**

- AUG payroll employment increased by +142K over the month. Employment growth was in line with average job growth in recent months, but was below the average monthly gain of +202K over the prior 12 months.
- The U.S. showed 7.67M job openings in JULY 2024 versus 7.91M in JUNE 2024. This data remains in a downtrend from a MARCH 2022 peak at 12.027M job openings. Pre-COVID job openings came in at ~7M. So, the U.S has +700K extra job openings now!
- The MARCH 2022 Job Openings top remains easy to identify (see chart below).

**Total Nonfarm Job Openings (2000 to JULY 2024)**



- JULY 2024 quits were at 3.28M, a touch above JUNE at 3.21M. A NOV '21 peak was 4.50M. **Workers are holding onto their current jobs, now!**
- Importantly, the U.S. quits data has now gone a touch below its pre-COVID level.

**Total Nonfarm Quits (2000 to JULY 2024)**



- Layoffs and discharges were higher at 1.76M in JULY, versus 1.56M in JUNE.

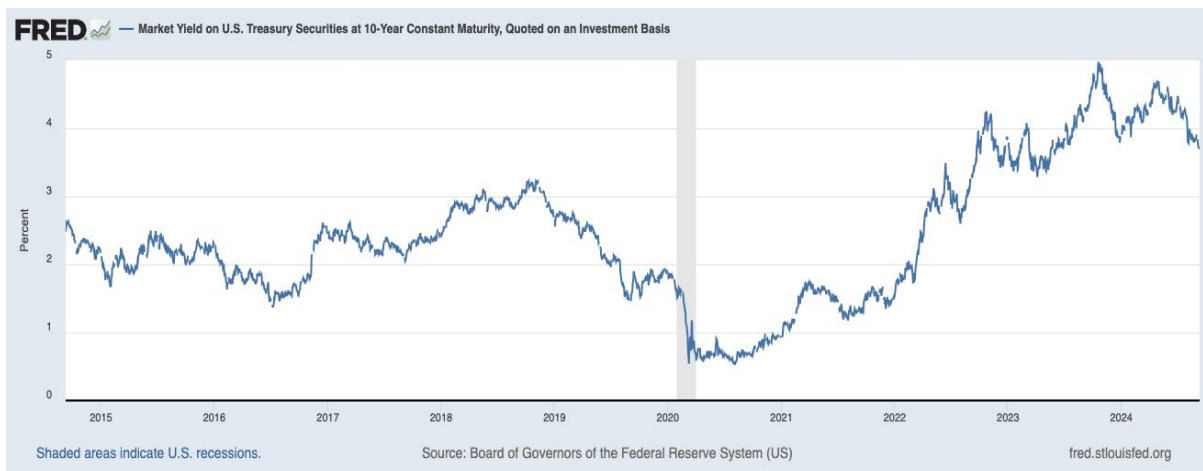
**E. Fixed Income**

- Fixed income returns surged higher with a fall in interest rates to Sept. 6th. The Aggregate Bond ETF is now up +4.5% over the past year, outperforming the Treasury bill ETF at +3.4% (this according to Charlie BiLello on Sept. 6th, 2024).
- The biggest gainers in 2024: EM bonds (in USD) were up +6.7% YTD in 2024 (+10.6% in '23). High Yield bonds were up +6.5% YTD in 2024 (+11.5% in '23), Investment Grade bonds were up +4.5% YTD (+9.4 in '23) and TIPS were up +3.9% YTD in 2024 (+3.8 in '23).



- Long-duration U.S. Treasuries? Up +3.4% YTD in 2024, versus +2.8 in '23.
- Convertible bonds? Up +2.2% YTD in 2024, versus +14.5% in '23.
- U.S. households now have 42% of their financial assets in stocks. That's the highest percentage on record, with data going back to 1952.
- The chart below shows the market yield on the 10-year U.S. Treasury fell to 3.70%.

**Market Yield on U.S. Treasury Securities at 10-year Constant Maturity,  
Quoted on an Investment Basis (Sept. 9<sup>th</sup>, 2014 to Sept. 9<sup>th</sup>, 2024)**



- The key monetary restraint factor that remains visible in SEPT? The next chart shows the 'real' inflation-adjusted U.S. Treasury 10-year yield trend.
- This 'real' LT Treasury yield has now fallen back 71 basis points, from an October 2023 high of 2.63%, to a Sept. 10th print at 1.92%.
- This U.S. Treasury 'real' chart shows an inflation-indexed U.S. 10-year Treasury range between +0.5% and +1.5%, running from 2014 to 2019.
- Realize: recent history (pre-COVID) shows the FOMC likes +1.0% 'real' yields. 2.07% minus 1.00% = 1.07% (Will there be four 25 basis point cuts?)
- A pre-COVID 'real' inflation indexed yield peak was seen on Nov. 2nd, 2018 at 1.34%.



**Treasury Long-Term Average (Over 10 Years),  
Inflation-Indexed (from Sept. 10<sup>th</sup>, 2014 to Sept. 10<sup>th</sup>, 2024)**

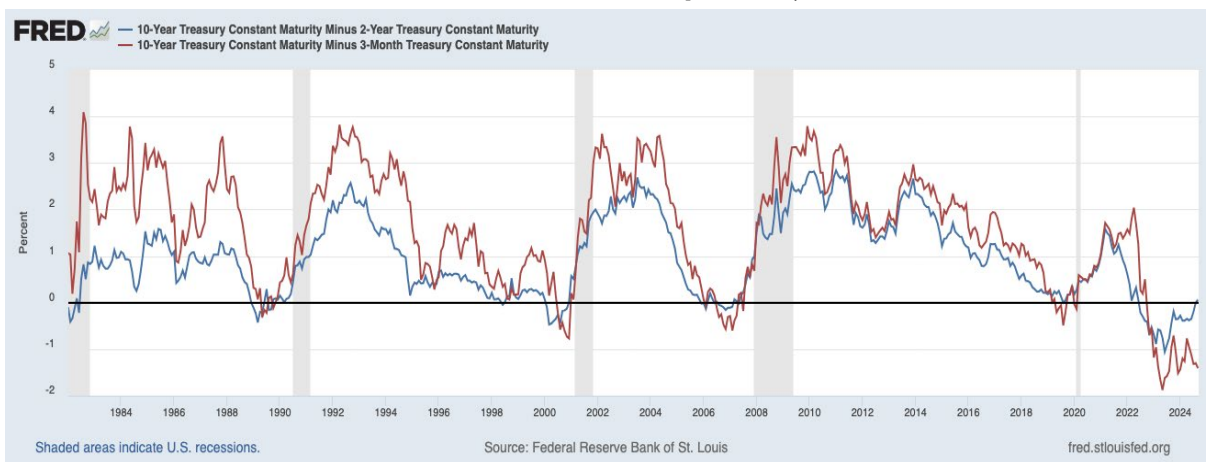


- Bond markets have not seen these ‘tight’ +2.0% or more ‘real’ LT Treasury bond levels since 2009, fifteen years ago!
- Can we get a U.S. recession from +1.92% ‘real’ long-term U.S. Treasury yields? Yes.
- This benchmark real yield can grind back to its ~2.6% recent high on Oct. 20th, 2023.
  - U.S. equities sell-off, when algorithmic asset allocators run their real-time ‘risk-parity’ operations.
  - Recession ‘worry’ tips up, with that selling.
- Short-term policy rate hikes can push long-term ‘real’ bond yields up. While increasingly unlikely, the FOMC could raise their policy rate +25 bps in 2H-24.
- The FOMC and Powell are likely (a 66% chance by CME Fed Funds traders) to cut the 5.33% by 25 basis points in SEP ‘24 and then again in DEC ‘24 (maybe NOV?).

**1. A signal portending U.S. recession: The U.S. Treasury Yield Curve Inversion.**

- A third chart (below) shows the 10-year Treasury minus the 2-year U.S. Treasury rate spread, along with the 10-year to 3-month U.S. Treasury rate spread.

**10-yr Treasury Constant Maturity minus 2-yr Constant Maturity (blue)  
and 10-yr Treasury Constant Maturity minus 3-Month Constant Maturity (red)  
Data runs from 1982 to September, 2024**





- We no longer have a 2-10 U.S. Treasury yield curve inversion! ***The 10-to-3M U.S. Treasury yield curve inversion remains in place, however.***
- The part of the Treasury yield curve that plots two-year and 10-year yields was continuously inverted — meaning that short-term bonds yield more than longer ones — since early July 2022.
- This typically foretold a domestic U.S. recession in 18 to 24 months!
- The 1<sup>st</sup> Fed Funds hike happened March 17<sup>th</sup>, 2022 — 29 months ago, or 880 days.
- That far exceeds a record 624-day inversion in 1978, Deutsche Bank said.

## **2. Also worrisome —**

- As of Sept. 11th, 2024, the average credit card interest rate in the United States is 24.92%, tied for the highest since LendingTree began tracking rates monthly in 2019.
- On Sept. 11th, the average interest rate on 48-month new car loans in the U.S. was 8.65%. It was 7.24% for great credit scores of 750 or higher. For used cars, with a 750 or higher credit rating? 7.49%.
- A ‘fair’ credit score of 600-699? 6.99% new and 7.24% used. (From U.S. News and World Report)

## **3. The J.P. Morgan global manufacturing PMI fell to 49.5 in August.**

- IHS Markit posted global manufacturing PMI matters (inc. USA) on Sept. 3rd, 2024:
- “Signs of weakness continued to build in the global manufacturing sector during August. Production, new orders and employment posted mild contractions, and global trade flows deteriorated for the third month in a row.
- “The J.P. Morgan Global Manufacturing PMI™ fell to an eight-month low of 49.5 in August, to remain below the neutral 50.0 mark for the second successive month.
- “Out of the 31 surveys for which August data were available, 18 registered a PMI reading consistent with a deterioration in manufacturing operating conditions.
  - “This included downturns in the U.S., the Euro Area as a whole and Japan.
  - “Although, the China PMI moved slightly back above the no change mark, at 50.4 it remained at a subdued level.
  - “Solid growth was seen in India – which was also the best performer by far – the UK and South Korea (among others).
- “August saw global manufacturing production decrease, albeit only slightly, for the first time in 2024 so far.
- “Output contracted in both the intermediate and investment goods industries.
- “Although the upturn at consumer goods producers continued, the rate of growth was only mild and the weakest during the current 13-month sequence of expansion.
- “July and August have seen back-to-back contractions in the level of new work received by global manufacturers. The rate of growth was also identical to the prior survey month.

- “All three of the sub-industries covered by the survey (consumer, intermediate and investment goods) saw new order intakes decrease.
- “The trend in global trade flows was especially subdued, as the volume of new export business fell for the third straight month and at the quickest pace since last December.”
- China, the U.S., Japan, Germany and the U.K. were among the larger exporting nations to register reduced new export order intakes.
- “The outlook for the global manufacturing sector remained potentially lackluster in August. Business optimism remained below its long-run survey average and among the weakest over the past one-and-a-half years.
- “The forward-looking new orders-to-finished goods inventory ratio was also unchanged from July’s nine-month low. Manufacturers’ cautious outlook was also reflected in further reductions to purchasing activity and inventory holdings.
- “Average purchase prices rose for the thirteenth consecutive month in August, albeit to the weakest extent since May. Part of the increase in costs was passed on to clients, as highlighted by a further rise in average selling prices.
- **“The pricing PMIs firmed in August, likely reflecting the ongoing inflationary impact of higher shipping costs.”** – Bennett Parish, Global Economist at J.P. Morgan

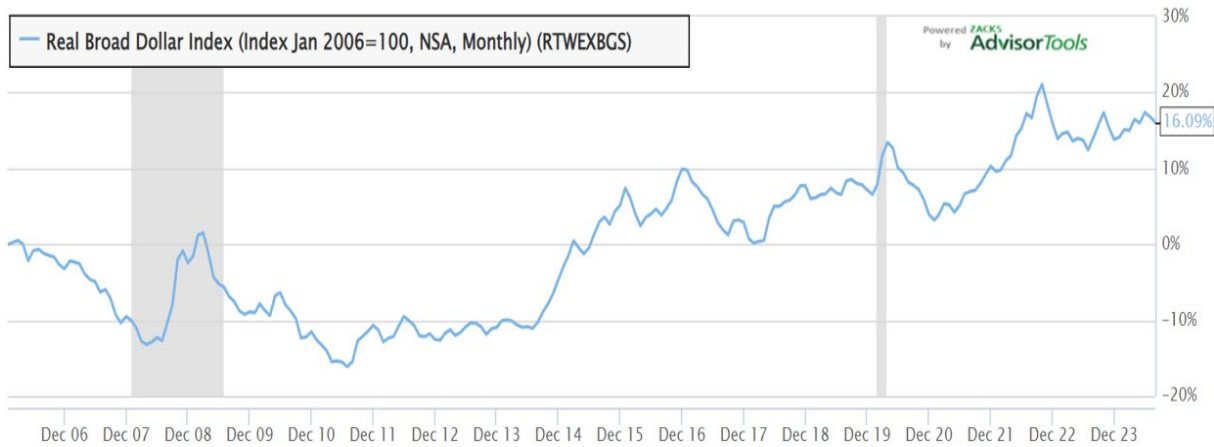
#### 4. Update on 3 major developed country government bond yield benchmarks.

- Zacks stays on top of sovereign bonds and macro data in Germany, Italy, and Japan.
  - Germany: Its long-term bond yield remains below its recent OCT 2023 peak of 2.89%: On Sept. 11<sup>th</sup>, 2024, it was 2.12%, down 32 basis points over the last month.
  - Italy: On Oct. 1<sup>st</sup>, 2023, the Italian 10-yr peaked at 4.93%. On Sept. 11<sup>th</sup>, 2024, it was 3.48%, down 32 basis points over the last month.
  - Japan: On Oct 29<sup>th</sup>, 2023 the 10-yr JGB peaked at 0.92%. On Sept. 11<sup>th</sup>, 2024, it was 0.85%. Down 7 basis points over the past month.
- Divergence between the Japanese 10-yr gov’t bond yields relative to U.S. 10-yr Treasury yields plays the major role, in setting the FX rate for the Japan Yen to USD.
- The Japanese yen went from trading at 115 per USD in March 2022 to July 16<sup>th</sup>, 2024 at 158.4 per USD. **It peaked at 161.7 on July 10<sup>th</sup>. On Sept. 11<sup>th</sup>? 141.4.**
- *According to FX Empire on Sept. 11<sup>th</sup>: “USD/JPY tests new lows as traders react to the Reuter’s Tankan Index report. The Japanese Tankan economic conditions Index declined from 10 in August to 4 in September, compared to analyst consensus of 11.”*
- *“Currently, USD/JPY is trying to settle below the support at 141.80 – 142.50. In case this attempt is successful, USD/JPY will move towards the next support level, which is located in the 138.50 – 139.00 range. The RSI is close to the oversold territory, but there is enough room to gain additional downside momentum in the near term.”*

**5. Broad FX consequences of U.S. rates disparity – to foreign sovereign bond rates.**

- After COVID, as the U.S. Fed raised its Fed Funds rate rapidly, vis-à-vis its major trading currency partners. This has driven up the value of the U.S. dollar.
- FX markets put in a multi-decade high on the U.S. dollar’s (USD) value in late 2022.
  - This broad U.S. dollar index hit its 121.65 peak in October 2022
  - The 52-week low for this broad USD index was 103.19, seen on Jan. 2021
- The JULY 2024 real broad USD data? This has a (+16% overvalued) 116 mark.

**Real Broad U.S. Dollar Index (Jan. 2006 = 100, data thru AUG 2024)**

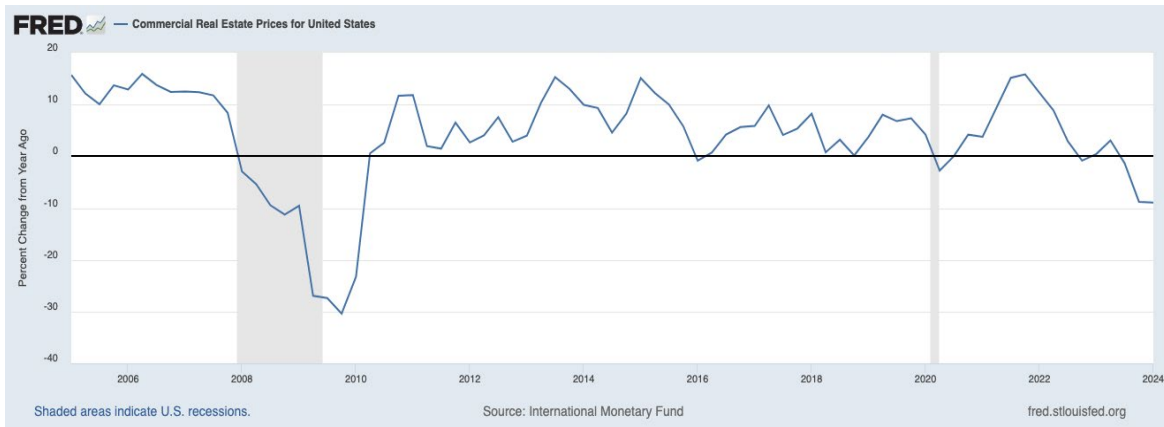


**F. Zacks Expectations for Fed Policy**

**1. Core consumer price inflation expectations to +2.0%: Chair Powell’s focus.**

- After the July meeting announcement, the FOMC and Chair Powell do not solely focus on getting long-term consumer price inflation expectations under control.
- They referenced a ‘dual-track’ in statements, incorporating language on a weakening labor market.
- Commercial Real Estate lending (with those prices currently down -7.53% y/y) is another concern, particularly on Office lending.

**U.S. Commercial Real Estate values for the United States (01/05 to 01/24)**





- The next chart shows how the much broader consumer price inflation battle looks.
- Zacks provides the **U.S. 10-Year Breakeven Inflation Rate** across the last 20 years.

### USA 10-Year Breakeven Inflation Rate (Sept. 10<sup>th</sup>, 2004 to Sept. 10<sup>th</sup>, 2024)



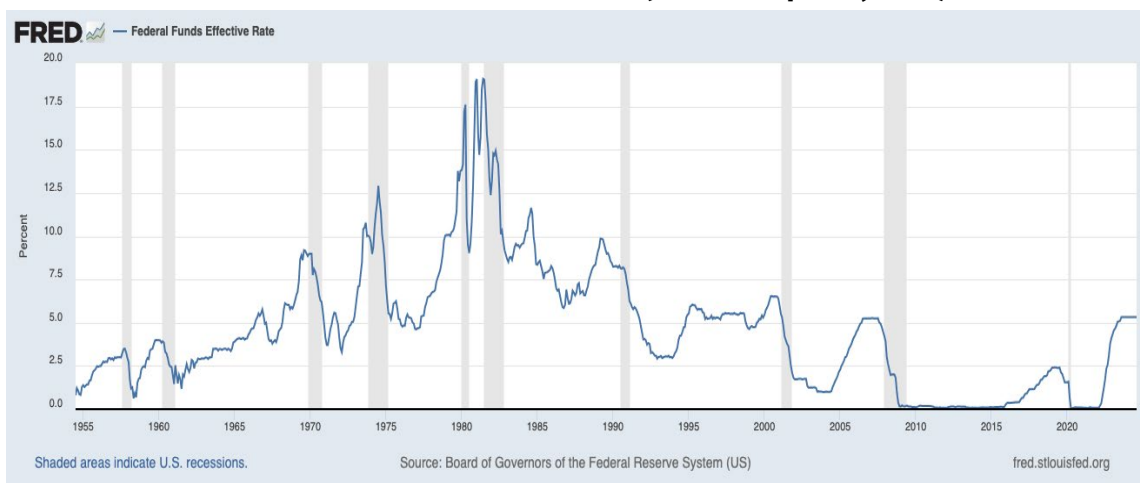
- On Sept. 10<sup>th</sup>, 2024 this **Breakeven Consumer Inflation** was 2.02%.
- An April 22<sup>nd</sup>, 2022 breakeven U.S. 10-year rates at **2.98%** stand as the recent high. From April 2022, this breakeven U.S. consumer price inflation rate trended lower.
- With Sept. 10<sup>th</sup>, 2024 breakeven inflation rates at 2.02%; this is an insignificant 2 basis points above the Fed's +2.0% statutory mandate for expected core CPI (best thought of as core PCE), and roughly in line with pre-COVID 2019 levels.
- Perhaps the consumer price inflation battle has been won? **+2.0% is here on this data.**

### 2. Compare this Fed Funds rate to other central banks.

- The FOMC — to Sept. 11th, 2024 — maintained the Fed Funds effective rate well above its pre-COVID early 2020 level, to 5.33% (a midpoint in a range from 5.25% to 5.50%).
- Is this the 'terminal' rate? The most recent JULY, 2024 core PCE rate was +2.6%.
- The FOMC (more or less) likes a +1.0% 'real' rate.
- This amounts a much higher current 2.73% 'real' rate.

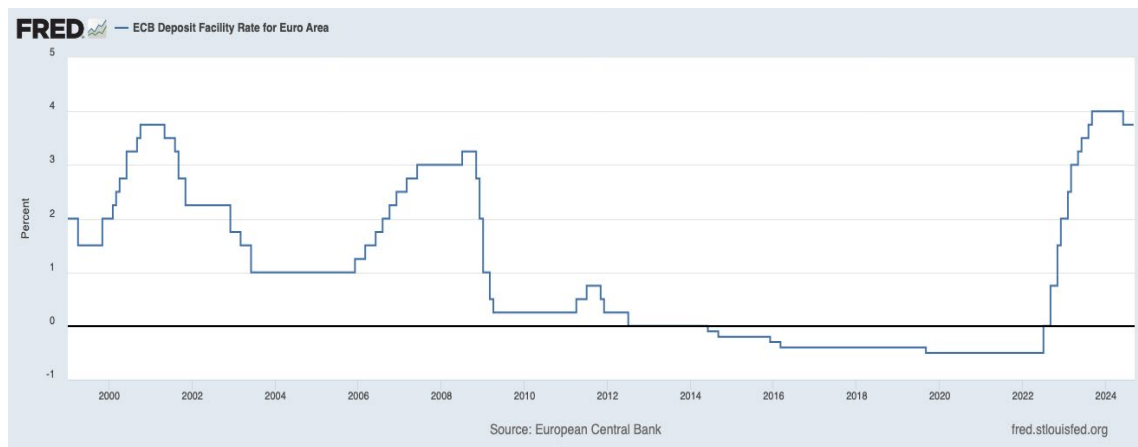


### U.S. Federal Funds Effective Rate (1955 to Sept. 3<sup>rd</sup>, 2024)



- With a Fed Funds at 5.33%, here are regional monetary policy rates (tracked by Charlie BiLello). These global policy rates got published on Sept. 4th, 2024. Lots of cuts!
  - The U.S. Fed Funds rate stands at 5.33%, before the Sept 16th-17th meeting.
  - In Europe, the Eurozone’s ECB, after a JUNE 25 bps cut, is at a 3.75% deposit rate (USD-Euro FX is ~1.10 in SEP).
  - The U.K.’s BoE cut 25 bps in AUG to a 5.00% policy rate, too.
  - The European list has the Czech Republic (4.50%, AUG cut), Poland (5.75%, cut), Norway (4.50%, hike), Sweden (3.50%, AUG cut) and Russia at (18.00%, JULY hike).
  - In Latin America, Argentina (40%), Brazil (10.50%), Chile (5.50%, SEP cut), Columbia (10.75%, JULY 50 bps cut), Mexico (10.75%, AUG cut) and Peru (5.50%, AUG cut).
  - In Asia, Australia (4.35%) and South Korea (3.50%), and Indonesia (6.25%),
  - Mainland China shows a Loan Prime Rate at 3.35%. The PBoC cut their real central bank rate 10 basis points in JULY 2024.
- ECB rates had been negative — below 0% — for eight years, until it hiked in July 2022.

### ECB Deposit Facility Rate for the Euro Area (Sept. 1999 to Sept. 2024)



### 3. On July 31<sup>st</sup>, 2024, the Fed issued their latest 2024 FOMC Statement.

- The remaining 2024 FOMC meetings: Sept. 17th-18th, Nov. 6-7, and Dec. 17-18.
- The Kansas City Fed's Jackson Hole global economics gathering happens in August

***“Recent indicators suggest that economic activity has continued to expand at a solid pace.”***

“Job gains have moderated, and the unemployment rate has moved up but remains low. Inflation has eased over the past year but remains somewhat elevated. In recent months, there has been some further progress toward the Committee’s 2 percent inflation objective.”

“The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals continue to move into better balance.”

***“The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.”***

“In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”

“The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to returning inflation to its 2 percent objective.”

“In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary



policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals.”

“The Committee’s assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.”

#### **4. Fed Chair Philip Jerome Powell**

On August 23<sup>rd</sup>, 2024, Chair Powell spoke at the Kansas City Fed’s Symposium, which is held annually in Jackson Hole, WY.

The formal title of his symposium speech this year:

*“Reassessing the Effectiveness and Transmission of Monetary Policy”*

“Four and a half years after COVID-19’s arrival, the worst of the pandemic-related economic distortions are fading. Inflation has declined significantly. The labor market is no longer overheated, and conditions are now less tight than those that prevailed before the pandemic. Supply constraints have normalized. And the balance of the risks to our two mandates has changed. Our objective has been to restore price stability while maintaining a strong labor market, avoiding the sharp increases in unemployment that characterized earlier disinflationary episodes when inflation expectations were less well anchored. While the task is not complete, we have made a good deal of progress toward that outcome.”

“Today, I will begin by addressing the current economic situation and the path ahead for monetary policy. I will then turn to a discussion of economic events since the pandemic arrived, exploring why inflation rose to levels not seen in a generation, and why it has fallen so much while unemployment has remained low.”

#### **Near-Term Outlook for Policy**

“Let’s begin with the current situation and the near-term outlook for policy.”

“For much of the past three years, inflation ran well above our 2 percent goal, and labor market conditions were ex-



tremely tight. The Federal Open Market Committee’s (FOMC) primary focus has been on bringing down inflation, and appropriately so. Prior to this episode, most Americans alive today had not experienced the pain of high inflation for a sustained period. Inflation brought substantial hardship, especially for those least able to meet the higher costs of essentials like food, housing, and transportation. High inflation triggered stress and a sense of unfairness that linger today.<sup>1</sup>”

“Our restrictive monetary policy helped restore balance between aggregate supply and demand, easing inflationary pressures and ensuring that inflation expectations remained well anchored. Inflation is now much closer to our objective, with prices having risen 2.5 percent over the past 12 months (figure 1).<sup>2</sup>”

***“After a pause earlier this year, progress toward our 2 percent objective has resumed. My confidence has grown that inflation is on a sustainable path back to 2 percent.”***

“Turning to employment, in the years just prior to the pandemic, we saw the significant benefits to society that can come from a long period of strong labor market conditions: low unemployment, high participation, historically low racial employment gaps, and, with inflation low and stable, healthy real wage gains that were increasingly concentrated among those with lower incomes.”

“Today, the labor market has cooled considerably from its formerly overheated state. The unemployment rate began to rise over a year ago and is now at 4.3 percent—still low by historical standards, but almost a full percentage point above its level in early 2023 (figure 2). Most of that increase has come over the past six months.”

***“So far, rising unemployment has not been the result of elevated layoffs, as is typically the case in an economic downturn. Rather, the increase mainly reflects a substantial increase in the supply of workers and a slowdown from the previously frantic pace of hiring. Even so, the cooling in labor market conditions is unmistakable. Job gains remain solid but have slowed this year.”***

“Job vacancies have fallen, and the ratio of vacancies to unemployment has returned to its pre-pandemic range. The hiring and quits rates are now below the levels that prevailed in 2018 and 2019. Nominal wage gains have moderated. All told, labor market conditions are now less tight than just before the pandemic in 2019—a year when inflation ran below 2 percent. It seems unlikely that the labor market will be a source of elevated inflationary pressures anytime soon.”

***“We do not seek or welcome further cooling in labor market conditions.”***

“Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate.”

**“The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks.”**

### 5. Zacks Fed policy rate outlook follows futures trader’s Fed Funds rate bets.

- The Fed Funds policy rate remained at 5.25% to 5.50%, after the July 31<sup>st</sup> meeting.
- They will surely cut in SEP, next week.
- Stay consistent with your U.S. 2024 policy rate outlook:
  - CME Fed Funds futures and the FOMC JUN ‘dot plot’ incorporate a median 5.1% Fed Funds rate at YE 2024, with a number of dots adding another cut too
  - *Incorporating looming Fed Funds rate cuts, the CME FedWatch tool at **DEC 2024** showed the following odds for the Fed Funds rate, on Sept. 11<sup>th</sup>, 2024*
  - A 11.8% chance of 375 to 400 bps Fed Funds rate
  - A 42.4% chance of 400 to 425 bps Fed Funds rate (5 25 bps cuts)
  - A 36.7% chance of 425-450 bps Fed Funds rate. (4 25 bps cuts)
  - A 9.1% chance of 450-475 bps Fed Funds rate (3 25 bps cuts)
- **In Sept-25**, the CME FedWatch tool (on Sept. 11<sup>th</sup>) had futures pricing:
  - A 10.7% change of 2.25% to 2.5% Fed Funds rate (12 25 bps cuts)
  - A 22.7% change of 2.50% to 2.75% (11 25 bps cuts)
  - A 28.7% chance of 2.75% to 3.00% Fed Funds rate. (10 25 bps cuts)
  - A 22.0% chance of 3.0% to 3.25% Fed Funds rate (9 25 bps cuts)
  - An 10.1% chance of 3.25% to 3.50% Fed Fund rate (8 25 bps cuts)
- Implications for stock and bond markets: CME futures show a FOMC cutting their policy rates hard and fast (median of 10 25 bps cuts) over the next 12 months.

### 6. Conclusions

- What of the now-dated June 12th, 2024 ‘dot plots’?
- These FOMC Summary of Economic Projections (aka the ‘dot plots’) showed the median rate-setter anticipates making at least one quarter-point Fed Funds policy rate cut in 2024, getting to 5.10%.
- Updated Sept. 11th, 2024 CME Fed Funds futures were:
  - **Dec. ’24 futures with a 53% chance for five or six 25 basis point policy rate cuts, by YE 2024 and a 47% chance for 4 or less 25 bps cuts by YE.**
  - **Sept. ’25 futures with 8 to 12 total 25 bps cuts, made over the next 12M.**

## SECTION 2: THIS MONTH'S KEY TOPIC

Brookings Institution published a commentary on Sept. 14<sup>th</sup>, 2023 done by Research Analyst Sam Boocker and Director David Wessel. They work for their Hutchins Center on Fiscal & Monetary Policy. Former FOMC Chair Ben Bernanke is a fellow.

The title:

### **“What Is a Soft Landing?”**

Under a sub-section titled “What is an Example of a Soft Landing?” they wrote—

“The classic example of a soft landing is the monetary tightening conducted under Alan Greenspan in the mid-1990s.”

“In early 1994, the U.S. economy was approaching its third year of recovery following the 1990-91 recession. By February 1994, the unemployment rate was falling rapidly, down from 7.8% to 6.6%. CPI inflation sat at 2.8%, and the federal funds rate sat at around 3.0%.”

“With the economy growing and unemployment shrinking rapidly, the Fed was concerned about a potential pick-up of inflation and decided to raise rates preemptively.”

“During 1994, the Fed raised rates seven times, doubling the Federal Funds rate from 3% to 6%. It then cut its key interest rate, the Federal Funds rate, three times in 1995 when it saw the economy softening more than required to keep inflation from rising.”

“The results were nothing short of spectacular. Alan Blinder, former vice chairman of the Federal Reserve, noted that this was the ‘perfect soft landing that helped make Alan Greenspan a central banking legend.’”

“Economic performance for the remainder of the decade was strong: Inflation was low and steady, unemployment continued to trend downwards, and real GDP growth averaged above 3 percent per year.”

“Greenspan wrote in his memoirs that ‘the soft landing of 1995 was one of the Fed’s proudest accomplishments during my tenure.’”

### **WHAT ABOUT THIS TIME AROUND?**

For a reference. The U.S. household unemployment made it up to 6.6% in 1994. Then, even with that much household unemployment slack in hand, that FOMC landed a ‘soft landing.’

This time around in September 2024, with an FOMC set for a policy rate cut after their Sept. 17<sup>th</sup> to 18<sup>th</sup> meeting, can this FOMC land another ‘soft landing’?

A 5.0% U.S. household unemployment rate looks like a key level to watch out for. The U.S. economy is a comfortable distance from that.

In simple words, this time offers more job strength. That should be provide more income support to the rest of the macro system.

What to do about people shouting about a U.S. recession?

- With a 4.2% U.S. household unemployment rate in hand; and
- Relatively low levels of housing inventory for sale; and
- A GDPNow model estimate at +2.5% for a Q3, that is three weeks from over?

Call them untrained propagandists.

Remember when your resident permabear brought up the Mainland China aggregate supply struggle? You don't. The struggle with real GDP growth is found there, though.

A global pandemic supply shock led to a period of on-shoring, with logistics and shipping re-sets favoring domestic suppliers.

Global & domestic suppliers, other than Mainland China benefited.

This time around, watching U.S. and global aggregate supply expand, out of full health policy repression, bears no resemblance to any aggregate demand cyclical adjustment.

That Mainland China struggle with aggregate supply expansion is the current notable struggle, in this context.

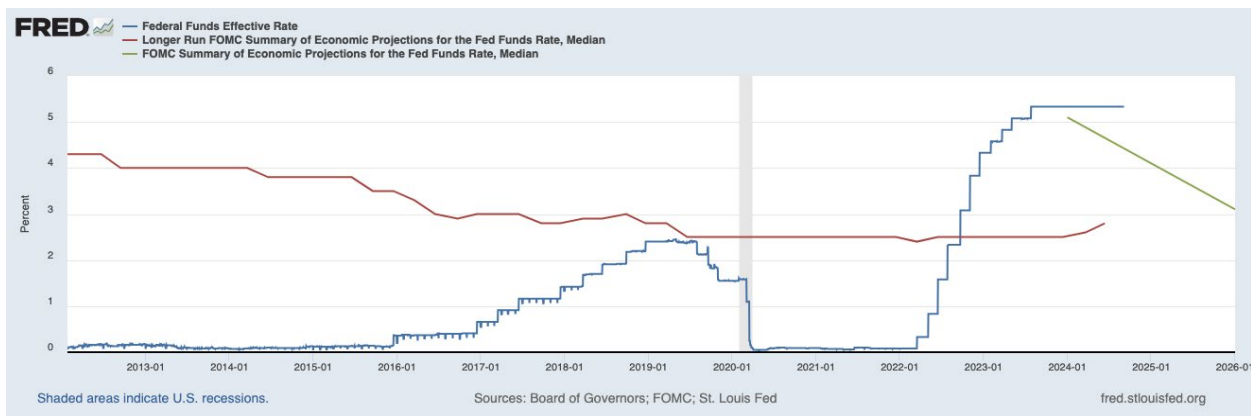
Want to know the basic problem, with U.S. macro news in 2024?

This should be termed – the full maturation of an aggregate supply expansion, dating back to 2H-2020.

The U.S. economy has enjoyed roughly four years of U.S. aggregate supply expansion. We have now a period of full-employment that is currently planing out.

**So, what should we expect from this FOMC, going forward, after its SEP meeting?**

The following FRED policy rate chart I put together comes in handy.



This shows the current **Fed Funds Effective Rate** of 5.33% falling to an FOMC **Summary of Economic Projections Median Rate** of 3.1% by the end of 2026.

- That shows us **nine** 25 basis point rate cuts are likely coming.
- The lowest Fed Funds policy rate call is 2.4%, which implies **twelve** 25 bps rate cuts.
- The **Longer Run FOMC Median Summary of Economic Projections for the Fed Funds Rate** is at 2.8%.
- That implies **ten** 25 basis point rate cuts is their end game.

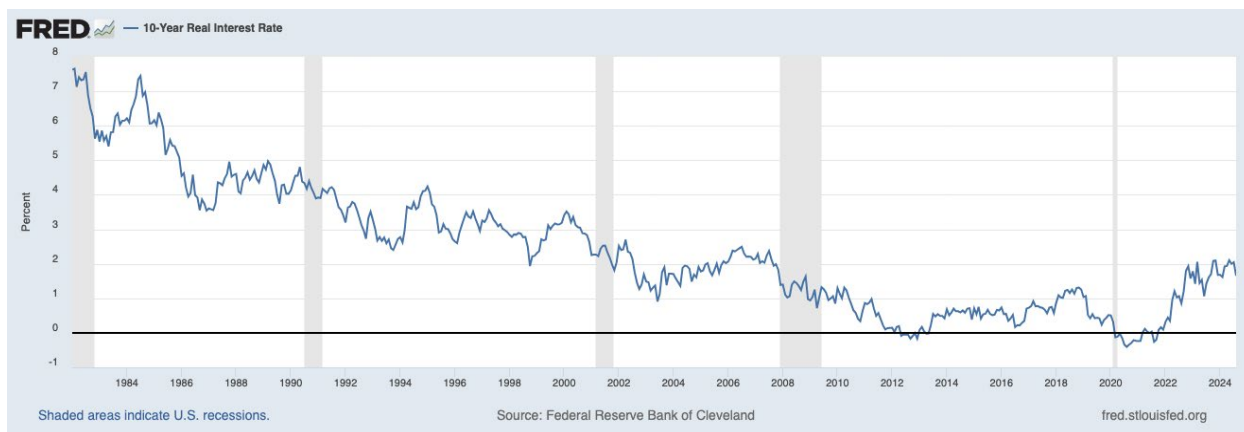
CME Fed Funds traders are much more aggressive than this posted FOMC schedule: On Sept. 10<sup>th</sup>, 2024 the traders organized around these rate cut probabilities.



- A 23.6% chance of 2.5% (12 rate cuts),
- A 25% chance of 2.75% (11 rate cuts), and
- A 17.6% chance of 3.0% (10 rate cuts).

Who is going to be right? We shall see!

The next FRED chart I want to show you is the **10-year Real Interest Rate**.



This real rate has currently fallen to 1.65% in August 2024, rising from a -0.4% number in August 2020. That shows you the FOMC did ~2.0% in real rate tightening over their latest tightening cycle.

That amounts to 825 basis point increments in effective tightening.

Greenspan's FOMC achieved a 10-year Real Rate of double that in 1994.

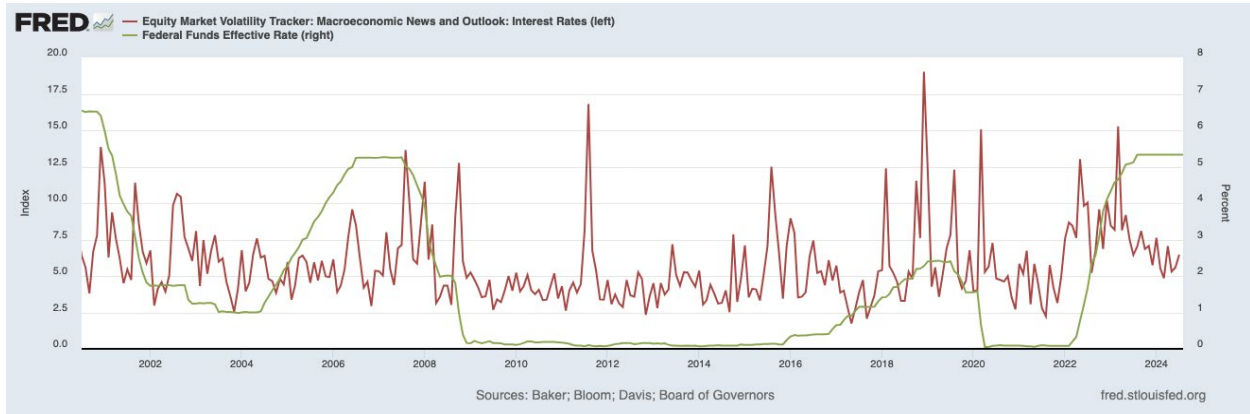
In 1994? The FOMC started down this **10-year Real Interest Rate** chart at 4.25% in January 1995 and made it to 2.6% in FEB 1996, before getting a counter bounce-back.

The implication? This Sept. 2024 moment is actually a less onerous situation for the FOMC to attempt a 'soft landing'. The other implication is that a 'soft landing' is not one without its counter-currents. Don't think 'soft' implies a smooth and gradual landing.

However, this time is different. Firstly, in the sense that the CPI has been planing out for a number of months now.

In fact, a FOMC Fed Funds reset, seen four years after a global aggregate supply shock event, is likely to be much, much different.

The next chart offers an **Equity Market Volatility** comparison.



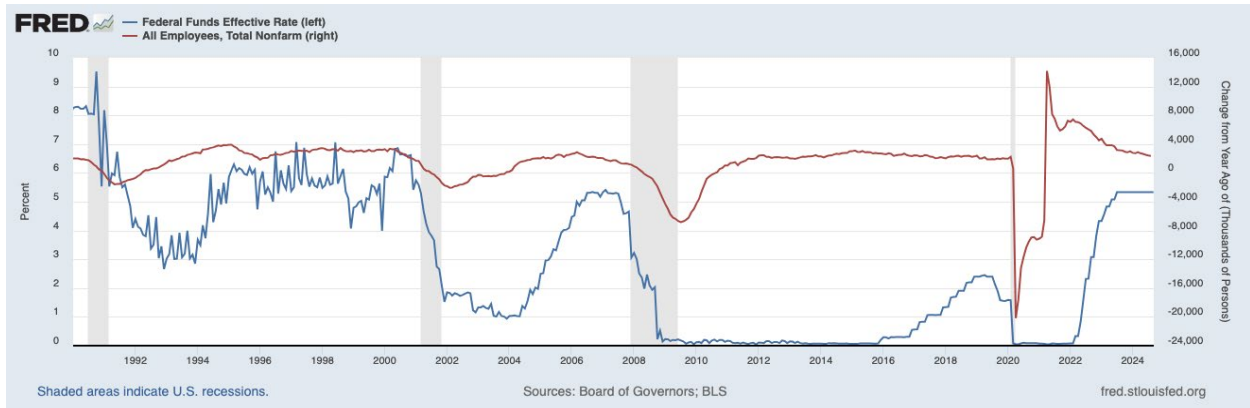
The **Fed’s Equity Market Volatility** tracker (above) moves with the VIX and with the realized volatility of returns on the S&P500.

FOMC tightening, this time around, has much reduced S&P500 volatility.

***We shall see what FOMC loosening produces for stocks! Most pundits, however, argue a ‘slow’ rate cutting cycle is more beneficial to U.S. stock values than a ‘rapid’ rate cutting cycle. Wish for a slow and steady FOMC, this time around.***

I want to show you the next chart, to drive home for you: An aggregate supply shock bears no resemblance to any aggregate demand cyclical adjustment, including the 1994 moment in time.

This chart shows the **Fed Fund Effective Rate** versus the **Total Nonfarm All Employee** job counts (using a change from a year ago, in 000s of persons metric):



The planing out I wrote about earlier is evident.

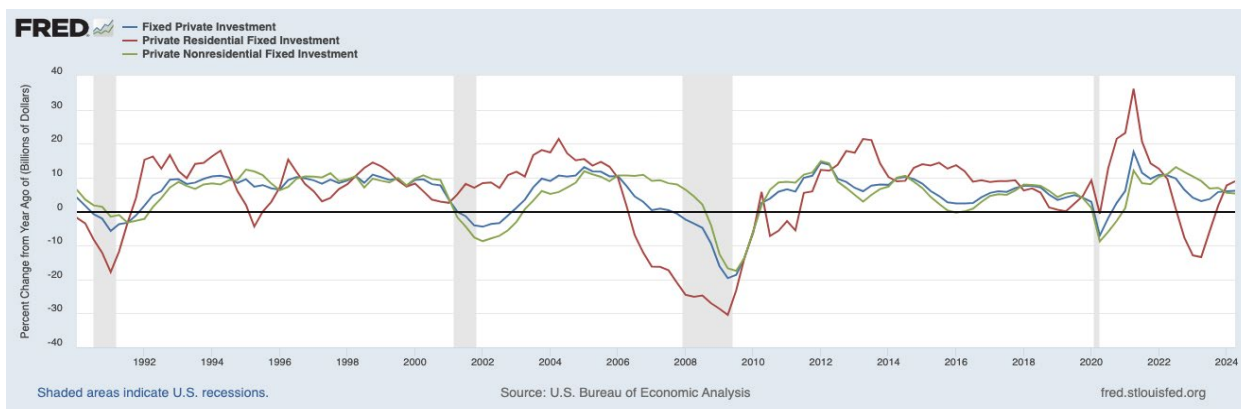
In the chart above, the percent change from a year ago (in 000s of jobs) has reached 1.51M in August 2024. In February 2020, the month just before the COVID pandemic? It was 1.49M.

Remarkable!

In this context, the FOMC is not late. It is right on time. In addition to that, the Jan. 1996 data shows a similar low of 1.55M.

**Are you worried about a 2008 era housing crisis, this time around?**

Then, consult the next charts. It shows **Fixed Private Investment**, **Private Residential Fixed Investment**, and **Private Nonresidential Fixed Investment**:



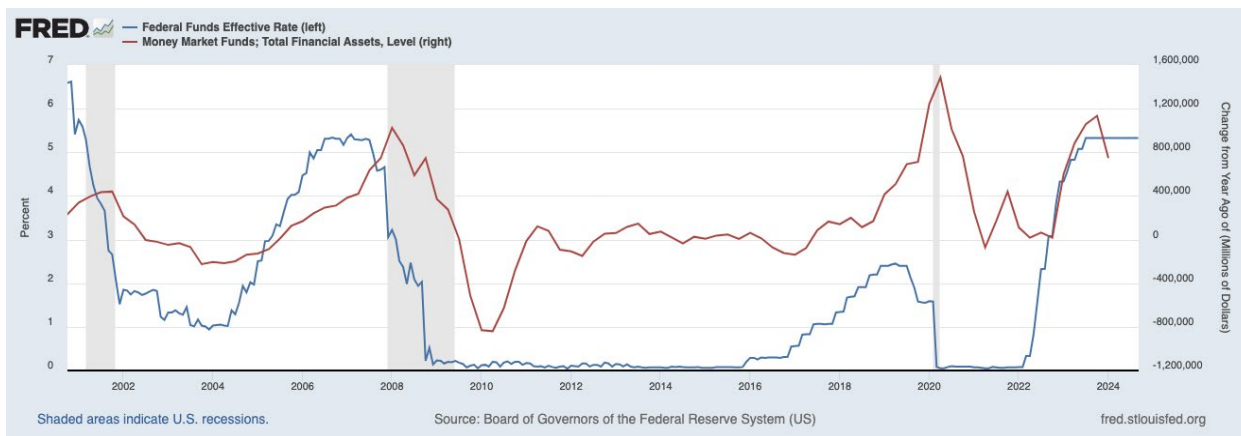
Confirm this yourself, in the chart above. There was a two-year decline of **Private Residential Investment** in hand, prior to the 2008 Financial Market shock.

In other words, there was plenty of macro fundamental warnings signs in hand, well prior to the Bear Stearns melt-down. It was NOT a ‘black swan’ event, in that context.

This time around? For Q2- 2024, **Private Residential Investment** shows a +8.9% percent change from a year (in Billions of Dollars).

**The next chart shows another likely shift coming, in this FOMC rate-cutting cycle.**

The chart shows the **Fed Funds Effective Rate** against the **Money Market Funds, Total Financial Assets** level:



I would expect **Money Market Fund** assets to fall, once the effective rate of interest earned becomes much lower.

Will this amount of freed up **Money Market Funds** get re-invested in Bonds or Stocks?

We shall see.

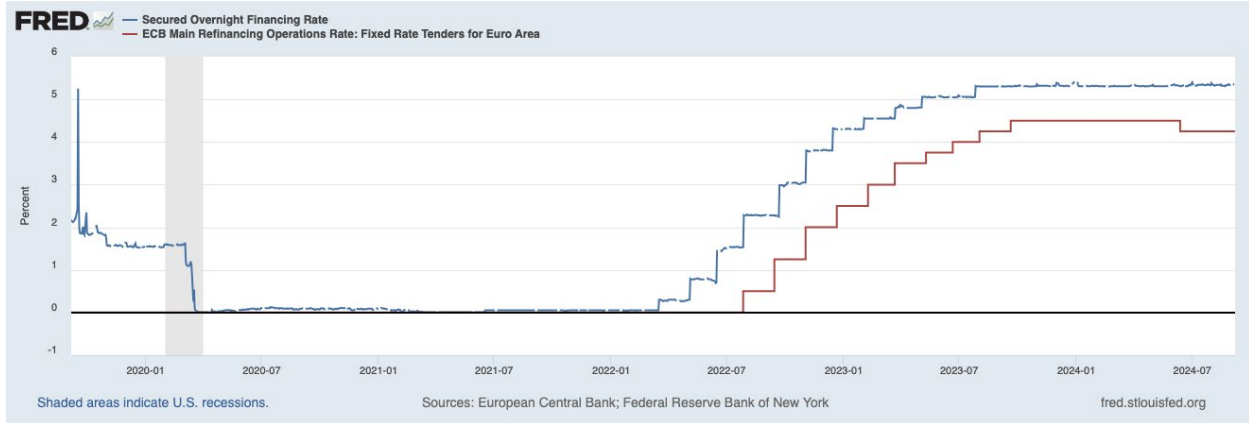
**The final set of charts I wanted to share, this time around, concerns the global monetary landscape, that the FOMC rate cutting is surely going to address.**

LIBOR as an inter-bank benchmark is no longer a valid tool.

The **Secured Overnight Financing Rate (SOFR)** is a benchmark interest rate for dollar-denominated derivatives and loans that replaced the London Interbank Offered Rate (LIBOR).

SOFR took the place of LIBOR in June 2023, offering fewer opportunities for market manipulation and current rates, rather than forward-looking rates and terms.

What I show you below is the **Secured Overnight Financing Rate** put up against the **European Central Bank (ECB) Main Refinancing Operations Rate** for the Euro Area.



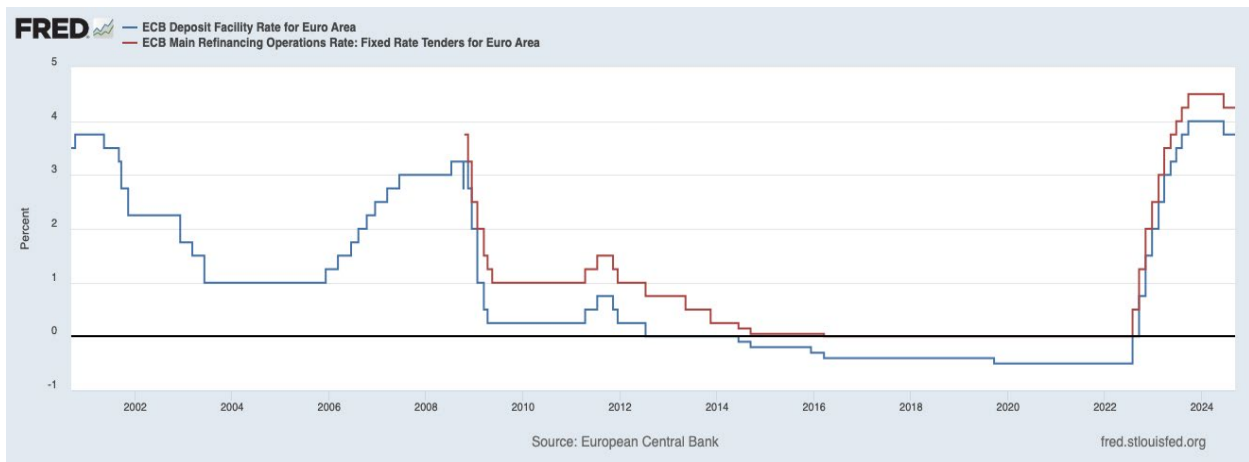
What I want you to note?

The SOFR has not gone down with the ECB main refi rate cut, a few months ago.

The world’s central bankers wish to see the FOMC lower its Fed Funds rate.

A higher current 5.33% Fed Funds rate is competing for interbank funds.

This limited the effectiveness of their central bank peer policy rate cuts, that are already in hand.





## SECTION 3: CONCLUSIONS

### (A) What to do about people shouting about a U.S. recession?

- With a 4.2% U.S. household unemployment rate in hand; and
- Relatively low levels of housing inventory for sale; and
- A GDPNow model estimate at +2.5% for a Q3, that is three weeks from over?

Finally, consider the following FRED chart, revealing a boom in **Total Construction Spending on Manufacturing in the United States**.



***Call them untrained propagandists! Expect this rhetoric to get worse, on the way to a Nov. 5<sup>th</sup> Presidential election.***

Want to know the basic problem, with U.S. macro news in 2024?

This should be termed — the full maturation of an aggregate supply expansion, dating back to 2H-2020.

The U.S. economy has enjoyed roughly four years of U.S. aggregate supply expansion.

We have now a period of full-employment in the U.S., One that is currently planing out.

**(B) Remember when your resident permabear brought up the Mainland China aggregate supply struggle? You don't!**

A struggle with real GDP growth is found there, though.

A global pandemic supply shock led to a period of on-shoring, with logistics and shipping re-sets favoring domestic suppliers.

Global & domestic suppliers, other than Mainland China benefited.

***This time around, watching U.S. and global aggregate supply expand, out of full health policy repression, bears no resemblance to any aggregate demand cyclical adjustment.***

That Mainland China struggle with aggregate supply expansion is the current notable struggle, in this context.

What is being priced into long-term U.S. Treasury bond markets (at 3.62%) is consistent with what is being priced into WTI oil prices per barrel (at ~\$67).

I would suspect that is a tied, dual global effect seen from Mainland China deflation and growth reduction in 2024.



Then, continuing to get worse across 2025.

### **(C) What about the policy rate-cutting prospects, for the FOMC, going out across 2025?**

There are three sources for pegging a U.S FOMC policy rate-cutting consensus down

(1) The latest London Bank/Economist consensus looks for **seven** 25 bps cuts by Dec. '25.

The August 2024 London Consensus Economics Fed Funds mode had 5.105% in Sept. '24, 4.686% in Dec. '24, and 3.602% in Dec. '25.

(2) The FOMC shows us **nine** 25 basis point rate cuts are likely coming:

The current **Fed Funds Effective Rate** of 5.33% falls to an FOMC **Summary of Economic Projections Median Rate** of 3.1% by the end of 2026.

(3) CME Fed Funds traders are much more aggressive:

On Sept. 10<sup>th</sup>, 2024 CME traders organized around the following rate cut probabilities.

- A 23.6% chance of 2.5% (12 rate cuts)
- A 25% chance of 2.75% (11 rate cuts), and
- A 17.6% chance of 3.0% (10 rate cuts)

The Sept 16<sup>th</sup>-17<sup>th</sup> FOMC meeting surely updates all of this.

Considerably.

### **(D) The major takeaways from the AUG CPI report?**

The Core Services CPI was up +0.4% m/m, led by a +0.1% m/m tick up in the monthly Shelter Cost component to +0.5% m/m. This will be deemed unwelcome by the SEP FOMC, and lead the debate towards a 25 cut, out of that meeting.

The Core Goods CPI was down -0.2% m/m. This was led by a -1.0% fall in Used Car prices. The Mainland China PPI deflation is not likely to be broad and apparent here. The import prices that do fall, however, will be a minor assist, in keeping the core CPI down.

+2.5% y/y in the broad CPI was the lowest annual headline CPI rate seen since Feb. 2021.

That moderate descent assures a path forward of FOMC rate cuts, folks.

SECTION 4: ECONOMIC PROJECTIONS

**Zacks SEPTEMBER 2024 Forecasts**

+3.0% Q2-24 growth and the +2.5% Q3-24 Atlanta Fed Nowcast, get built into this forecast.

The Conference Board does not forecast a 2024 or a 2025 recession. They show +1.4% in Q1-24, +3.0% real GDP growth in Q2-24, +0.7% in Q3-24, and a +1.0% rise in Q4-24.

The Q3-24 Philly Fed survey “risk of a negative quarter” is 16% in Q3-24 and 21% in Q4-24.

A Aug. 2024 London economist consensus showed a +4.1% core consumer inflation rate in 2023. This fell to +3.0% in 2024. Next year? The core CPI rate declines to +2.2% in 2025.

The Sept. 2024 London Consensus Economics Fed Funds mode had 5.113% in Sept. '24, 4.620% in Dec. '24, and 3.478% in Dec. '25. This implies seven to eight 25-bps cuts by Dec. '25.

- **For real GDP growth updates?** Zacks mixes four outside outlooks.
- The Sept. 9<sup>th</sup> Atlanta Fed GDPNow shows **+2.5% growth for Q3-24**. NY Fed has **+2.61%**.
- Aug. '24 Conf. Board has **+3.0% Q2-24, +0.7% Q3-24**, then a **+1.0% Q4-24** growth rate.
- Sept. '24 Consensus Econ. real GDP growth has **+2.5% across 2024**, and **+1.7% in 2025**.
- Q3-24 Philly Fed consensus shows Q3-24 at **+1.9%**, Q4-24 at **+1.7%**, & Q1-24 at **+1.7%**.

	Real GDP	Unemployment Rate	Payroll (000s/ month)	Core PCE
2023:Q1	+2.2%	3.5%	305	4.8
2023:Q2	+2.1%	3.6%	274	4.6
2023:Q3	+4.9%	3.7%	213	3.8
2023:Q4	+3.4%	3.7%	225	3.2
2024:Q1	+1.4%	3.8%	236	2.9
2024:Q2	+3.0%	4.0%	200	2.7
2024:Q3	+2.5%	4.2%	144	2.6
2024:Q4	+1.8%	4.3%	125	2.5
2023	+2.5%	3.6%	230	4.1
2024	+2.4%	4.1%	210	2.6
2025	+1.6%	4.1%	130	2.0