

## US Economic Weekly

## It's Goldilocks, but without the bears

## Key takeaways

- The Fed kept policy rates at 5.25-5.5%. The SEP dot plot was hawkish but the economic forecasts were remarkably optimistic.
- Despite higher policy rates in 2024, growth was revised up, unemployment was marked down and inflation was unchanged.
- We still expect one more hike in November, but it is a close call given several near-term economic headwinds.

## The Fed embraces “no landing”

As expected, the Fed stayed on hold at its September meeting. The FOMC statement had only minor changes, and the forward guidance language stayed the same. The focus of the Fed meeting was the SEP. The “dot plot” was hawkish: the Fed is projecting one more hike in 2023, and just 50bp of cuts in 2024, vs. 100bp in the June SEP. Even so, the FOMC’s economic outlook is remarkably benign. It upgraded growth for not only 2023 (a mark-to-market adjustment) but also 2024, and lowered its unemployment rate projections across the board. This suggests that there is no price to be paid in terms of growth or jobs for monetary tightening and slower-than-expected rate cuts.

**Exhibit 1: Summary of Economic Projections: September, September BofA forecast and June**

The 2024 median dot moved up 50bp to 5.125%, indicating just two cuts next year

	2023	2024	2025	2026	Longer Run
<b>Change in real GDP (% 4Q/4Q)</b>					
September SEP	2.1	1.5	1.8	1.8	1.8
September SEP (BofA forecast)	2.0	1.0	1.8	1.8	1.8
June SEP	1.0	1.1	1.8		1.8
<b>Unemployment rate (%)</b>					
September SEP	3.8	4.1	4.1	4.0	4.0
September SEP (BofA forecast)	3.8	4.2	4.2	4.0	4.0
June SEP	4.1	4.5	4.5		4.0
<b>PCE inflation (% 4Q/4Q)</b>					
September SEP	3.3	2.5	2.2	2.0	2.0
September SEP (BofA forecast)	3.3	2.6	2.1	2.0	2.0
June SEP	3.2	2.5	2.1		2.0
<b>Core PCE inflation (% 4Q/4Q)</b>					
September SEP	3.7	2.6	2.3	2.0	2.0
September SEP (BofA forecast)	3.7	2.8	2.2	2.0	2.0
June SEP	3.9	2.6	2.2		
<b>Federal funds target rate (midpoint)</b>					
September SEP	5.6	5.1	3.9	2.9	2.5
September SEP (BofA forecast)	5.6	4.9	3.9	2.9	2.6
June SEP	5.6	4.6	3.4		2.5

Source: Federal Reserve, BofA Global Research

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CPI = Consumer Price Index

PPI = Producer Price Index

FOMC: Federal Open Market  
Committee

SAAR = Seasonally Adjusted  
Annualized Rate

UAW = United Auto Workers

SEP = Summary of Economic  
Projections

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Timestamp: 22 September 2023 04:30AM EDT

## Squaring the circle: a higher $r^*$ ?

Importantly, the median 2024 inflation forecasts remained unchanged, and revisions to the rest of the inflation trajectory were minimal. In our view, the only internally consistent explanation for the FOMC's rosy forecast is that policymakers are becoming more confident that i) the neutral rate has gone up, so policy rates are not as much of a drag on growth as the Fed previously thought, and ii) continued improvements in supply conditions will allow inflation to moderate without a slowdown in aggregate demand.

## “Neutral” vs. “longer run”

The FOMC's longer-run policy projections reflected upward revisions among participants who were already above the median, but no change among those who were at or below the median. Therefore, the median dot remained at 2.5%. Interestingly, however, the 2026 median was higher at 2.875%, even though growth, unemployment and inflation are shown to be in equilibrium in 2026. This suggests that the Fed is coming around to the idea that the neutral rate might be higher in this cycle, even though a majority of participants are still unwilling to embrace a structural, long-term increase in policy rates.

## Pragmatic Powell

Chair Powell was generally non-committal in his press conference, stressing data dependence and elevated uncertainty. We think this makes sense around the end of the hiking cycle, as the Fed attempts to fine-tune the policy path. Powell was open-minded about the last hike, noting that the Fed would “proceed carefully” and that the data would guide the ultimate decision.

When pressed on the optimistic nature of the SEP, Powell declined to validate it. He said that the SEP reflected an extrapolation of recent trends, but argued that forecasting is very difficult, and the Fed is not committing to a policy path. He said the Fed was aiming for a soft landing, but it is not a done deal. Powell also stated that the economy has not yet felt the full impact of rate hikes and a period of below-trend growth would be needed to get inflation back to target. However, as discussed above, this view is only very marginally reflected in the SEP. Broadly, we thought Powell's stance was more sober than the “Goldilocks” SEP forecasts.

There were a couple of other interesting comments in the press conference. Powell stated that the neutral rate could be higher than the long-run rate, consistent with our interpretation of the 2026 forecasts. Given this distinction, we think the neutral rate is more relevant to markets. When asked about the spike in gas prices, Powell said the Fed would look through it because it is a supply shock that is not reflective of the state of underlying demand, except to the extent that it affects inflation expectations.

## Our take: curb your enthusiasm

Our policy rate projections are close to the SEP median: we look for one more hike this year (in November), and a similar path of cuts through end-2025. However, we are less optimistic about the economic impact of this policy path. While we think there is enough economic momentum to avoid an outright recession, we do expect growth to slow to 0.7% on a 4Q/4Q basis in 2024 as the economy feels the lagged effects of monetary tightening. Despite slower growth, we expect PCE inflation to be slightly stickier than the Fed is forecasting. In other words, we are more hesitant about fully extrapolating the recent resilience of the economy in the face of 5%-plus policy rates.

Shifting focus to the near term, the Fed's November decision is a close call. While the Fed will be happy with the progress on disinflation, we think the strength in economic activity, and the associated risks of re-acceleration in inflation, will tip the scales in favor of a hike. But this assessment could change because the economy is facing a few imminent speed bumps: the UAW strike, a possible government shutdown, higher energy prices and the resumption of student loan repayments. If there is a protracted shutdown, the lack of data availability could also keep the Fed on hold in November.

# US GDP Tracking

## 3Q and 2Q US GDP tracking unchanged at 2.9% and 2.3%

Lower-than-expected August export prices raised our 3Q export tracking estimate and hence our net exports tracking estimate as well.

Higher-than-expected mining, business equipment and utilities in the August Industrial Production (IP) report raised our 3Q estimates for structures and equipment investment.

Lower-than-expected August single and multi-family housing starts and existing home sales slightly lowered our 3Q residential tracking estimate.

We have been shaving off a tenth from growth per week on account of the ongoing UAW (United Auto Workers) strike. This is reflected in a decline in our inventory tracking estimate.

Overall, the data flow since our last report left our 3Q and 2Q US GDP tracking unchanged at 2.9% q/q saar and 2.3% q/q saar, respectively. Next week, August new home sales, durable goods, advance goods trade balance, personal income and outlays and 2Q GDP (T) will affect our GDP tracking.

### Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 3Q US GDP tracker remained unchanged at 2.9% q/q saar

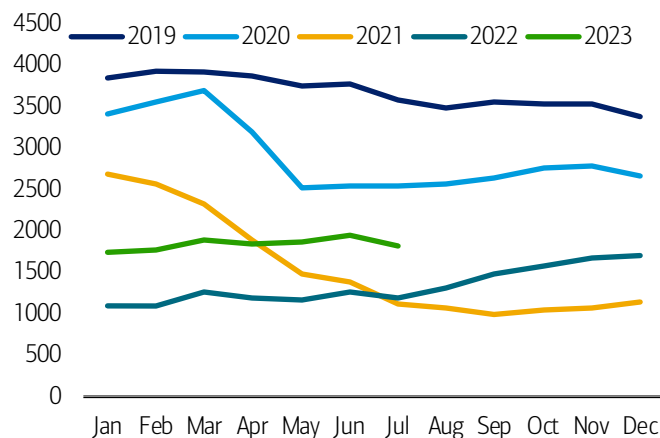
Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
9/14/23	Business Inventories	2.9	2.7	2.8	3.3	6.9	5.9	4.0	0.0	6.7	3.7	-1185.5	<b>5.8</b>
9/15/23	Import and Export Prices	<b>3.0</b>	2.7	2.8	3.3	6.9	5.9	4.0	0.0	<b>7.1</b>	<b>3.9</b>	<b>-1184.3</b>	5.8
9/15/23	Industrial Production	<b>3.1</b>	<b>2.8</b>	2.8	3.3	<b>7.6</b>	<b>7.3</b>	4.0	0.0	7.1	3.9	-1184.3	5.8
9/15/23	UAW Strike Add Factor	<b>3.0</b>	2.8	2.8	3.3	7.6	7.3	4.0	0.0	7.1	3.9	-1184.3	<b>4.8</b>
9/19/23	Housing Starts and Permits	<b>3.0</b>	2.8	2.8	<b>3.2</b>	7.6	7.3	4.0	0.0	7.1	3.9	-1184.3	4.8
9/21/23	Existing Home Sales	3.0	2.8	2.8	<b>3.1</b>	7.6	7.3	4.0	0.0	7.1	3.9	-1184.3	4.8
9/21/23	UAW Strike Add Factor	<b>2.9</b>	2.8	2.8	3.1	7.6	7.3	4.0	0.0	7.1	3.9	-1184.3	<b>0.7</b>
	GDP tracking	2.9	2.8	2.8	3.1	7.6	7.3	4.0	0.0	7.1	3.9	-1184.3	0.7
	Contribution to GDP growth (pp)			1.9	0.1	0.2	0.4	0.2	0.0			0.2	-0.1
	BofA official GDP forecast	2.0	2.0	2.0	2.5	5.0	6.0	4.0	0.5	3.0	3.5	-1223.5	-8.0

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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### Exhibit 3: Auto inventories (thous., end of period)

Auto inventories have recovered somewhat this year. A strike threatens to reverse this progress

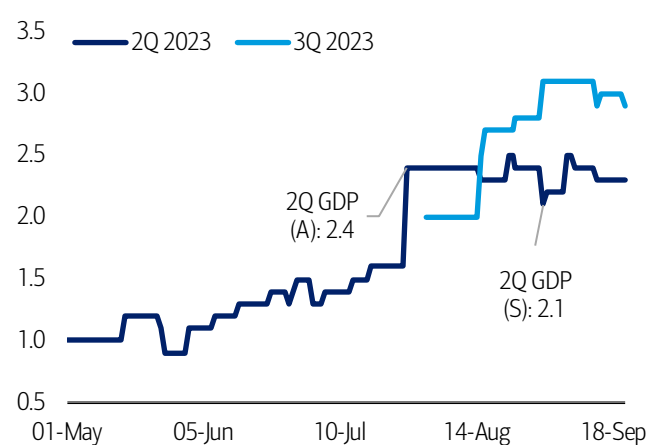


Source: Bureau of Economic Analysis, Ward's Automotive group

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### Exhibit 4: 3Q and 2Q GDP tracking evolution (% q/q, SAAR)

3Q and 2Q US GDP tracking unchanged at 2.9% and 2.3% q/q saar, respectively, since our last weekly publication



Source: BofA Global Research

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## Data in the past week

### Data in the past week (Sep 18-22)

Last week's focus was on the FOMC rate decision and housing data

Date	Time	Indicator	Period	Actual	Consensus	Previous
9/18/23	10:00	NAHB Housing Market Index	Sep	45	49	50
9/18/23	16:00	Net Long-term TIC Flows	Jul	\$8.8bn	—	\$186.0bn
9/19/23	8:30	Housing Starts	Aug	1283k	1439k	1447k
9/19/23	8:30	Building Permits	Aug	1543k	1440k	1443k
9/20/23	7:00	MBA Mortgage Applications	Sep 15	5.4%	—	-0.8%
<b>9/20/23</b>	<b>14:00</b>	<b>FOMC Rate Decision (mid-point)</b>	<b>Sep 20</b>	<b>5.375%</b>	<b>5.375%</b>	<b>5.375%</b>
9/21/23	8:30	Initial Jobless Claims	Sep 16	201K	225K	221K
9/21/23	8:30	Philadelphia Fed Business Outlook	Sep	-13.5	-1.0	12.0
9/21/23	8:30	Current Account Balance	2Q	-\$212.1BN	-\$220.0bn	-\$214.5bn
9/21/23	10:00	Leading Indicators	Aug	-0.4%	-0.5%	-0.3%
9/21/23	10:00	Existing Home Sales	Aug	4.04M	4.10M	4.07M
9/22/23	9:45	S&P Global US manufacturing PMI	Sep P	NR	48.2	47.9
9/22/23	9:45	S&P Global US services PMI	Sep P	NR	50.7	50.5

Source: Bloomberg, BofA Global Research

NR: Not Released

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## Core views

### Growth

- We expect a soft landing for the US economy, where growth falls below trend in 2024, but remains positive throughout our forecast horizon. We forecast US GDP growth of 1.9% (4Q/4Q) this year, 0.7% in 2024, and 1.8% in 2025. This is about 0.4pp and 0.7pp higher in 2023 and 2024 than we assumed previously.

### Inflation

- We now have PCE inflation falling to 2.2% y/y in 2H 2025, about two quarters later than in our prior mild recession baseline. Our expectations for the four-quarter change in core PCE inflation is 3.8% in 2023, 2.8% in 2024, and 2.2% in 2025.

### Federal Reserve

- After the September pause, in a close call, we continue to expect one additional 25bp rate hike in November for a terminal target range of 5.50-5.75%. We expect the first rate cut in June 2024 and quarterly 25bp reductions in the policy rate for a total of 75bp of rate cuts in 2024 and 100bp of cuts in 2025.

# Data in the week ahead

## Data in the week ahead (Sep 25-Sep 29)

Next week the focus will be on the 2Q GDP (T), August personal income and outlays, durable goods and housing data

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
9/26/23	9:00	Case-Shiller HPI (yoy)	Jul	0.5%	—	0.0%
9/26/23	10:00	New Home Sales	Aug	680k	700k	714k
9/26/23	10:00	Consumer Confidence	Sep	104.0	105.9	106.1
9/27/23	7:00	MBA Mortgage Applications	Sep 22	—	—	5.4%
9/27/23	8:30	Durable Goods Orders	Aug P	-0.5%	-0.4%	-5.2%
9/27/23	8:30	Durables Ex Transportation	Aug P	0.2%	0.1%	0.4%
9/27/23	8:30	Core Capital Goods Orders	Aug P	0.0%	—	0.1%
9/27/23	8:30	Core Capital Goods Shipments	Aug P	-0.1%	—	-0.3%
9/28/23	8:30	Initial Jobless Claims	Sep 23	206k	—	201k
9/28/23	8:30	GDP (qoq saar)	2Q T	2.5%	2.3%	2.1%
9/28/23	8:30	Personal consumption (qoq saar)	2Q T	1.8%	—	1.7%
9/28/23	8:30	GDP Price Index (qoq saar)	2Q T	2.0%	2.0%	2.0%
9/28/23	8:30	Core PCE (qoq saar)	2Q T	3.8%	—	3.7%
9/28/23	10:00	Pending Home Sales	Aug	-1.0%	—	0.9%
9/29/23	8:30	Wholesale Inventories	Aug P	—	—	-0.2%
9/29/23	8:30	Personal Income	Aug	0.5%	0.5%	0.2%
9/29/23	8:30	Personal Spending	Aug	0.3%	0.4%	0.8%
9/29/23	8:30	PCE Headline Prices (mom)	Aug	0.4%	0.5%	0.2%
9/29/23	8:30	PCE Headline Prices (yoy)	Aug	3.4%	3.5%	3.3%
9/29/23	8:30	PCE Core Prices (mom)	Aug	0.2%	0.2%	0.2%
9/29/23	8:30	PCE Core Prices (yoy)	Aug	3.8%	3.9%	4.2%
9/29/23	8:30	Personal saving rate	Aug	3.9%	—	3.5%
9/29/23	8:30	Advance Goods Trade Balance	Aug	-\$92.0bn	-\$91.2bn	-\$90.9b
9/29/23	9:45	Chicago Purchasing Managers	Sep	47.0	47.6	48.7
9/29/23	10:00	U. of Michigan Sentiment	Sep F	67.5	67.7	67.7

Source: Bloomberg, BofA Global Research

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## Monday, Sep 25

No important data releases today

## Tuesday, Sep 26

### Data in the week ahead (Sep 26)

Case Shiller HPI, New Home Sales, Conference Board Consumer Confidence

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
9/26/23	9:00	Case-Shiller HPI (yoy)	Jul	0.5%	—	0.0%
9/26/23	10:00	New Home Sales	Aug	680k	700k	714k
9/26/23	10:00	Consumer Confidence	Sep	104.0	105.9	106.1

Source: Bloomberg, BofA Global Research

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## S&P CoreLogic Case Shiller House Price Index (HPI)

S&P CoreLogic Case Shiller national home prices likely grew 0.5% y/y in July, slowly recovering from the almost flat -0.02% y/y growth seen in June. On a year over year basis, home prices have been cooling since mid 2022, and only recently have shown signs of picking back up. We think the housing market is near a bottom, and the low inventory in the existing homes market alongside high mortgage rates is causing a lock-in effect with homeowners unwilling to list their homes, ultimately putting some floor underneath prices.

## New Home Sales

We expect new home sales to cool to 680k saar in August, reversing some of the pickup seen in July to 714k. Overall, new home sales have been holding up better than existing home sales due to the limited inventory in the existing homes market. But we expect the high mortgage rates which picked up recently to have deterred some potential buyers,



and the hurricanes that swept through the West and South could have posed some headwinds for August sales. Housing demand should gradually recover as mortgage rates and home prices fall further and inventories pick up.

### Conference Board Consumer Confidence

We expect the Conference Board confidence to remain near current levels, cooling slightly to 104.0 in September. Consumer confidence plunged 7.9 pts in August, with consumers preoccupied with high prices particularly for gasoline. Inflation has been moderating in recent months, but not enough to satisfy consumers. The Expectations index also dropped 7.8pts, indicating lower confidence for outlook. Furthermore, the labor market differential which captures sentiment on whether jobs are plentiful or hard to get, decreased 6.2pts with more saying jobs are hard to get and less saying jobs are plentiful. These responses signal on-going challenges that consumers face in the current economy.

## Wednesday, Sep 27

### Data in the week ahead (Sep 27)

Durable Goods Orders

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
9/27/23	7:00	MBA Mortgage Applications	Sep 22	—	—	5.4%
9/27/23	8:30	Durable Goods Orders	Aug P	-0.5%	-0.4%	-5.2%
9/27/23	8:30	Durables Ex Transportation	Aug P	0.2%	0.1%	0.4%
9/27/23	8:30	Core Capital Goods Orders	Aug P	0.0%	—	0.1%
9/27/23	8:30	Core Capital Goods Shipments	Aug P	-0.1%	—	-0.3%

Source: Bloomberg, BofA Global Research

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### Durable Goods Orders

We expect headline durable goods orders decreased by 0.6% m/m in August after the 5.2% decline in July. Boeing only reported a small decrease in orders to 45 from 52 planes in July. Hence excluding transportation, we look for orders to come in at a more modest 0.2% m/m. We look for core capital goods orders to come in flat and shipments are expected to decrease 0.1% over the month.

## Thursday, Sep 28

### Data in the week ahead (Sep 28)

Jobless claims, GDP 2Q (T), Pending home sales

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
9/28/23	8:30	Initial Jobless Claims	Sep 23	206k	—	201k
9/28/23	8:30	GDP (qoq saar)	2Q T	2.5%	2.3%	2.1%
9/28/23	8:30	Personal consumption (qoq saar)	2Q T	1.8%	—	1.7%
9/28/23	8:30	GDP Price Index (qoq saar)	2Q T	2.0%	2.0%	2.0%
9/28/23	8:30	Core PCE (qoq saar)	2Q T	3.8%	—	3.7%
9/28/23	10:00	Pending Home Sales	Aug	-1.0%	—	0.9%

Source: Bloomberg, BofA Global Research

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### Jobless claims

Initial jobless claims likely increased to 206k in the week ending September 23 after declining by 20k to 201k in the previous week. This is the lowest level since January. Three of the last four weeks saw substantial declines. NSA claims showed a small increase of 67. Next week, we expect to see a small rise as payback for the big decline last week. But overall, the labor market continues to look pretty resilient as far as layoffs are concerned. Although there might be some upside risks in the coming weeks due to the UAW strike and the likelihood of a shutdown which might put some workers out of work, albeit temporarily.

## GDP 2Q (T)

In its third estimate, we expect 2Q GDP to be revised up to 2.5% q/q saar from 2.1% q/q saar. We expect personal consumption to get revised up a tenth to 1.8% q/q saar from 1.7% q/q saar. This was largely due to the revised data on services trade through June which implied a rise in the net exports estimate of services in 2Q and the revenue and expenses in the services sector coming in higher than expected in the 2Q Quarterly Services Survey. We expect this print to continue pointing towards a more resilient US economy than we previously expected along with a still-resilient US consumer.

## Pending home sales

We forecast August pending home sales to fall 1.0% m/m, reversing the 0.9% increase seen in July. We take signal from high mortgage rates and buyers still grappling with limited inventories in the existing homes market. Furthermore, the hurricanes that swept through the West and South could have negatively impacted sales activity during the month.

## Friday, Sep 29

### Data in the week ahead (Sep 29)

Personal Income and Outlays, Advance Goods Trade Balance, Chicago PMI, U of Michigan Sentiment

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
9/29/23	8:30	Wholesale Inventories	Aug P	—	—	-0.2%
9/29/23	8:30	Personal Income	Aug	0.5%	0.5%	0.2%
9/29/23	8:30	Personal Spending	Aug	0.3%	0.4%	0.8%
9/29/23	8:30	PCE Headline Prices (mom)	Aug	0.4%	0.5%	0.2%
9/29/23	8:30	PCE Headline Prices (yoy)	Aug	3.4%	3.5%	3.3%
9/29/23	8:30	PCE Core Prices (mom)	Aug	0.2%	0.2%	0.2%
9/29/23	8:30	PCE Core Prices (yoy)	Aug	3.8%	3.9%	4.2%
9/29/23	8:30	Personal saving rate	Aug	3.9%	—	3.5%
9/29/23	8:30	Advance Goods Trade Balance	Aug	-\$92.0bn	-\$91.2bn	-\$90.9b
9/29/23	9:45	Chicago Purchasing Managers	Sep	47.0	47.6	48.7
9/29/23	10:00	U. of Michigan Sentiment	Sep F	67.5	67.7	67.7

Source: Bloomberg, BofA Global Research

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## Personal Income and Outlays

We estimate that nominal personal income rose by a solid 0.5% in August. Nonfarm payroll growth was tepid, but hours worked increased by a tenth. We forecast a 0.3% increase in nominal spending on the month. Retail sales ex-autos were up 0.6% in August, but unit motor vehicle sales declined. Meanwhile, services spending likely slowed after two sharp monthly increases. Given our forecast of 0.35% headline PCE inflation, we think real spending was flat on the month, although there is a risk that it decreased by a tenth. These projections suggest that the saving rate increased by two tenths. However, downward revisions to June and July retail sales should boost the saving rate by around another two tenths, so we think it will settle at 3.9% in August. An important caveat is that the annual benchmark GDP revisions, which will be released on September 28, could meaningfully shift the trajectory of the saving rate.

The large deceleration in mutual fund sales charges and trust services in the PPI should slow PCE (personal consumption expenditure) inflation in August. Another component of PPI used in the calculation of PCE inflation – PPI for domestic airfares – was weaker this month. Additionally, measures related to health care generally were milder this month than last.

Given this data and the CPI data, we expect core PCE inflation to remain at 0.2% m/m in August (0.15% m/m unrounded in August vs 0.24% in July). This would push the y/y rate down by five-tenths to 3.8%. Core services ex housing is also likely to decelerate meaningfully to 0.1% m/m from 0.5% previously. Meanwhile, we look for the headline PCE to increase by 0.4% m/m (0.35% unrounded), resulting in the y/y rate increasing by one-tenth to 3.4%, due to less favorable base effects.

**Advance Goods Trade Balance**

We expect the August advance goods trade deficit to come in at \$92.0B, widening from the July deficit of \$90.9B. We expect a decrease in both exports and imports. The fall in goods imports likely reflects higher services spending and an ongoing softness in business spending. Meanwhile, the decline in goods exports could be driven by the deterioration in the outlook for global growth as well as on overall rotation towards services.

**Chicago Purchasing Managers' Index (PMI)**

We forecast the Chicago PMI index to decline to 47.0 in September from 48.7 previously, which would be the first decline in four months. We expect some retracement after the index surged by 5.9pts to its highest reading since August 2022, especially given uncertainty over the UAW strikes and any effect it may have on activity in the region.

**U. Of Michigan Sentiment**

We expect the University of Michigan consumer sentiment to finalize at 67.5 in September. In the preliminary reading, sentiment cooled to 67.7 from August's 69.5, with consumers still not completely relieved from inflationary pressures and some remaining skeptical on the economic outlook. Concerns around a potential government shutdown could also pose some headwinds to sentiment growth, but inflation expectations ticked lower for both 1-year and long-run, which is a positive signal.



# Upcoming policy speakers

## Upcoming policy speakers

Key speaking engagements and news events\*

### Monday, Sep 25

18:00 Fed's Kashkari (voter) speaks

### Tuesday Sep 26

### Wednesday, Sep 27

### Thursday, Sep 28

09:00 Fed's Goolsbee (voter) speaks at Peterson Institute

16:00 Fed Chair Powell hosts Town Hall with educators

19:00 Fed's Barkin gives speech on monetary policy outlook

### Friday, Sep 29

12:45 Fed's Williams (voter) to speak on monetary policy

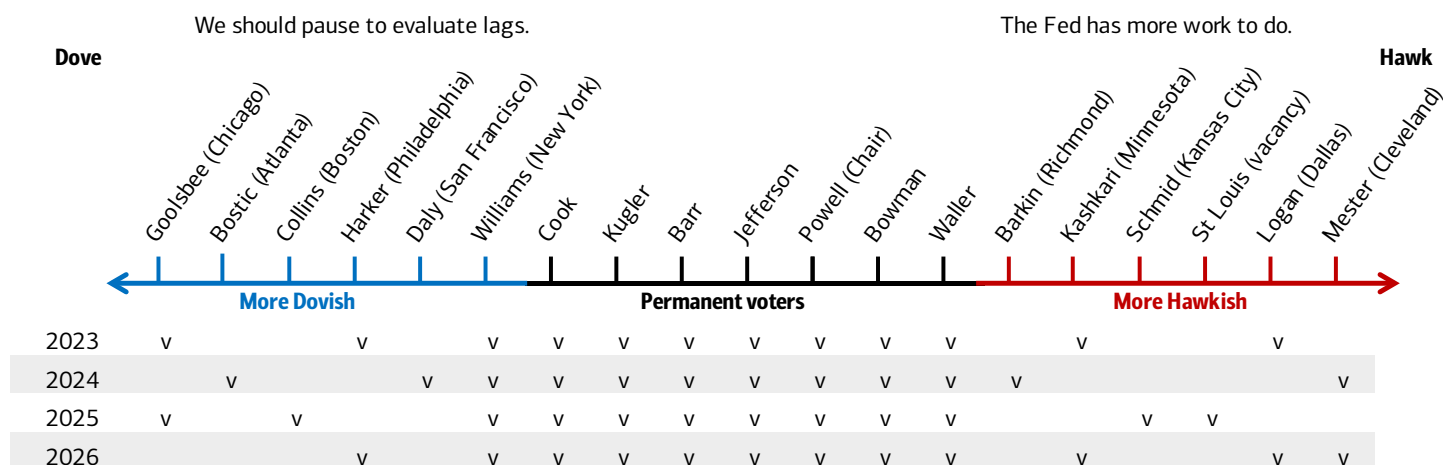
Source: Bloomberg.

Note: All listed times are Eastern times. Dates and times are subject to change.

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## Exhibit 5: BofA US Economics Dove-Hawk chart

More turnover is coming to the Federal Open Market Committee



Note: "v" denotes voting member. We prefer to group Board Governors together since they traditionally vote in line with the views of the Chair. St Louis Fed President Bullard resigned effective August 14, 2023.

Source: Federal Reserve Board, BofA Global Research

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# Economic forecast summary

## Exhibit 6: BofA US economic outlook

We continue to expect a soft landing for the US economy

	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	2022	2023	2024	2025
<b>Real Economic Activity, % SAAR</b>																
Real GDP	2.0	2.1	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0	2.1	2.1	1.1	1.3
% Change, Year Ago	1.8	2.5	2.2	1.9	1.6	1.2	0.9	0.7	0.9	1.1	1.5	1.8				
Final Sales	4.2	2.2	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	1.5	1.5	1.3	2.7	1.2	1.2
Domestic Demand	3.5	2.4	2.0	1.5	1.0	1.0	0.5	1.0	1.5	1.5	2.0	2.0	1.7	2.0	1.4	1.4
Consumer Spending	4.2	1.7	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0	2.7	2.3	1.1	1.3
Residential Investment	-4.0	-3.6	2.5	2.0	1.5	1.0	0.5	1.0	1.5	1.5	2.0	2.0	-10.6	-11.4	1.1	1.2
Nonresidential Investment	0.6	6.2	5.0	4.0	3.5	3.0	2.0	2.5	2.0	2.5	3.0	3.0	3.9	3.7	3.5	2.4
Structures	15.8	11.3	5.0	4.0	3.0	1.0	0.5	1.0	1.0	1.0	1.5	1.5	-6.6	8.3	3.1	1.0
Equipment	-8.9	7.7	6.0	5.0	4.0	3.5	2.0	2.5	1.0	1.0	1.5	1.5	4.3	0.6	4.2	1.6
Intellectual Property	3.1	2.2	4.0	3.5	3.0	3.0	3.0	3.5	4.0	5.0	5.0	5.0	8.8	4.5	3.2	4.0
Government	5.0	3.3	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	-0.6	3.0	0.6	0.8
Exports	7.8	-10.6	3.0	2.0	1.5	1.0	1.0	2.0	3.0	3.0	3.5	3.5	7.1	2.0	0.8	2.5
Imports	2.0	-7.0	3.5	3.0	2.5	2.0	1.5	3.0	4.0	4.5	5.0	5.0	8.1	-2.2	1.9	3.7
Net Exports (Bil 12\$)	-1208	-1212	-1224	-1238	-1253	-1265	-1275	-1292	-1312	-1337	-1364	-1390	-1357	-1220	-1271	-1351
Contribution to growth (ppts)	0.6	-0.2	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	0.5	-0.2	-0.2
Inventory Accumulation (Bil 12\$)	3.5	-1.8	-8.0	-10.0	-13.0	-23.0	-24.0	-22.0	-8.5	5.0	25.0	45.0	125.0	-4.1	-20.7	16.4
Contribution to growth (ppts)	-2.1	-0.1	-0.1	0.0	-0.1	-0.2	0.0	0.0	0.2	0.2	0.3	0.3	0.7	-0.6	-0.1	0.2
Nominal GDP (Bil \$, SAAR)	26530	26799	27197	27581	27927	28201	28463	28762	29111	29442	29805	30180	25463	27027	28338	29635
% SAAR	6.2	4.1	6.1	5.8	5.1	4.0	3.8	4.3	4.9	4.6	5.0	5.1	9.2	6.1	4.9	4.6
<b>Key Indicators</b>																
Fed Funds Rate (midpoint, % EOP)	4.875	5.125	5.375	5.625	5.625	5.375	5.125	4.875	4.625	4.375	4.125	3.875	4.375	5.625	4.875	3.875
Industrial Production (% SAAR)	-0.3	0.0	2.5	2.0	1.5	1.0	0.5	0.5	1.5	1.5	1.5	1.5	3.4	0.4	1.4	1.1
Capacity Utilization (%)	79.5	79.3	79.5	79.5	80.0	80.0	80.0	80.5	80.5	80.5	81.0	81.0	80.3	79.5	80.1	80.7
Nonfarm Payrolls (Avg mom ch, 000s)	312	244	150	100	75	75	50	50	75	100	125	125	399	202	63	106
Civilian Unemployment Rate (%)	3.5	3.5	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.3	4.3	4.2	3.6	3.6	4.0	4.3
Civilian Participation Rate (%)	62.5	62.6	62.7	62.8	62.8	62.8	62.8	62.8	62.8	62.8	62.8	62.8	62.2	62.6	62.8	62.8
Productivity (% SAAR)	-1.2	3.5	1.0	1.0	1.0	0.5	1.0	1.0	1.5	1.0	1.5	1.0	-1.7	1.1	0.9	1.3
Personal Saving Rate (%)	4.3	4.4	4.3	4.3	4.4	4.7	5.0	5.1	5.2	5.3	5.4	5.5	3.5	4.3	4.8	5.3
Light Vehicle Sales (Millions SAAR)	15.3	15.6	15.3	15.2	15.4	15.6	15.7	15.8	16.1	16.4	16.7	17.1	13.8	15.3	15.6	16.6
Housing Starts (Thous. SAAR)	1385	1450	1325	1220	1245	1270	1300	1325	1335	1365	1375	1390	1551	1345	1285	1366
Current Account (% of GDP)													-3.7	-3.6	-3.4	-3.3
US Budget Balance (\$bn, Fiscal Year)													-1375	-1450	-1500	-1650
<b>Inflation</b>																
GDP Price Index (% SAAR)	4.1	2.2	4.0	4.2	4.1	3.5	3.3	3.2	3.4	3.1	3.0	3.1	7.0	4.0	3.7	3.2
% Change, Year Ago	5.3	3.6	3.5	3.6	3.6	3.9	3.7	3.5	3.3	3.2	3.2	3.1				
PCE Chain Prices (% SAAR)	4.1	2.6	3.5	3.7	3.5	2.5	2.3	2.2	2.4	1.9	1.8	1.9	6.3	3.9	3.0	2.1
% Change, Year Ago	4.9	3.7	3.5	3.5	3.3	3.3	3.0	2.6	2.3	2.2	2.1	2.0				
Core PCE Chain Prices (% SAAR)	4.9	3.8	3.2	3.3	3.3	2.7	2.6	2.7	2.6	2.2	2.0	2.0	5.0	4.2	3.1	2.4
% Change, Year Ago	4.6	4.4	4.1	3.8	3.4	3.1	3.0	2.8	2.6	2.5	2.3	2.2				
CPI, Consumer Prices (% SAAR)	3.8	2.7	3.4	4.1	3.7	2.6	2.3	1.9	2.3	2.0	2.1	2.8	8.0	4.2	3.2	2.2
% Change, Year Ago	5.8	4.0	3.5	3.5	3.5	3.4	3.2	2.6	2.3	2.1	2.0	2.3				
CPI ex Food & Energy (% SAAR)	5.0	4.7	2.7	3.3	3.4	3.2	2.9	2.7	2.6	2.5	2.5	2.4	6.1	4.8	3.2	2.7
% Change, Year Ago	5.6	5.2	4.4	3.9	3.5	3.2	3.2	3.1	2.9	2.7	2.6	2.5				

Source: BofA Global Research

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# Rates and dollar forecast

**Table 1: Rates and dollar forecast**

We expect the Fed to hike by another 25bp in November in a close call and start cutting in 2Q 2024

	Spot	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
<b>Interest rates</b>								
Fed Funds	5.33	5.00-5.25	5.25-5.50	5.50-5.75	5.50-5.75	5.25-5.50	5.00-5.25	4.75-5.00
Fed Effective Rate	5.33	5.13	5.38	5.63	5.63	5.38	5.13	4.88
2-Year T-Note	5.14	4.00	5.00	4.75	4.55	4.35	4.20	4.00
5-Year T-Note	4.61	3.60	4.35	4.30	4.10	4.05	3.95	3.75
10-Year T-Note	4.47	3.50	4.10	4.00	3.80	3.75	3.65	3.50
30-Year T-Bond	4.55	3.70	4.25	4.20	4.00	3.95	3.85	3.70
<b>Dollar</b>								
EUR-USD	1.07	1.09	1.08	1.05	1.07	1.10	1.15	1.15
USD-JPY	148	144.31	147	150	146	142	138	135
USD-CAD	1.35	1.32	1.33	1.32	1.32	1.30	1.28	1.26
AUD-USD	0.64	0.67	0.63	0.64	0.66	0.68	0.71	0.71
NZD-USD	0.59	0.61	0.59	0.59	0.60	0.62	0.64	0.64
GBP-USD	1.23	1.27	1.27	1.24	1.26	1.29	1.35	1.35
USD-CHF	0.90	0.89	0.91	0.93	0.93	0.90	0.87	0.87
USD-SEK	11.15	10.80	11.11	11.14	10.65	10.18	9.57	9.30
USD-NOK	10.77	10.74	10.46	10.48	10.09	9.73	9.13	8.96
USD-CNY	7.31	7.25	7.40	7.20	7.10	7.00	6.80	6.70
USD-MXN	17.18	17.12	17.50	18.00	18.30	19.00	19.30	19.50

Source: BofA Global Research

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## Rolling calendar of business indicators

### Key economic data over the next three weeks

Next week the focus will be on the 2Q GDP (T), August personal income and outlays, durable goods and housing data

Monday Sep 25	Tuesday Sep 26	Wednesday Sep 27	Thursday Sep 28	Friday Sep 29
	9:00 am: S&P CoreLogic CS HPI – Jul 10:00 am: New Home Sales – Aug 10:00 am: Conference Board Confidence – Sep	7:00 am: MBA Mortgage Applications – week ending 09/22/2023 8:30 am: Durable Goods Orders – Aug (P)	8:30 am: Initial Jobless Claims – week ending 09/23/2023 8:30 am: GDP - 2Q (T) 10:00 am: Pending Home Sales - Aug	8:30 am: Advance Goods Trade Balance – Aug 8:30 am: Personal Income & Outlays – Aug 9:45 am: Chicago PMI – Sep 10:00 am: U. of Mich Sentiment – Sep (F)
<b>Oct 2</b> 9:45 am: S&P Global US Manufacturing PMI – Sep (F) 10:00 am: ISM manufacturing – Sep 10:00 am: Construction Spending – Aug	<b>Oct 3</b> All Day: Wards Auto Sales - Sep	<b>Oct 4</b> 7:00 am: MBA Mortgage Applications – week ending 09/29/2023 8:15 am: ADP Employment – Sep 9:45 am: S&P Global US Services PMI – Sep (F) 10:00 am: Factory orders – Aug 10:00 am: ISM services– Sep	<b>Oct 5</b> 8:30 am: Initial Jobless Claims – week ending 09/30/2023 8:30 am: Trade Balance – Aug	<b>Oct 6</b> 8:30 am: Employment Report – Sep
<b>Oct 9</b> Columbus Day	<b>Oct 10</b> 6:00 am: NFIB Small Bus. Optimism – Sep 10:00 am: Wholesale Inventories – Aug	<b>Oct 11</b> 7:00 am: MBA Mortgage Applications – week ending 10/06/2023 8:30 am: Producer Price Index – Sep 2:00 pm: FOMC Minutes	<b>Oct 12</b> 8:30 am: Initial Jobless Claims – week ending 10/07/2023 8:30 am: Consumer Price Index – Sep 2:00 pm: Monthly Budget Statement - Sep	<b>Oct 13</b> 8:30 am: Import Price Index – Sep 10:00 am: U. of Mich Sentiment – Oct (P)

\*Projections- subject to revision as additional data become available. P - preliminary reading, S - second reading, T - third reading, F - final reading

Source: Bloomberg

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# CPI Forecast table

## Exhibit 7: CPI monthly forecast table

We expect CPI inflation to moderate over the course of our forecast horizon given our expectations for restrictive monetary policy and a soft landing

	Non-seasonally Adjusted						Seasonally Adjusted									
	Headline CPI			Energy			Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y	Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2022: Jan	281.15	0.8	7.5	260.65	1.7	27.0	282.60	0.6	7.6			286.79	0.6	6.1		
2022: Feb	283.72	0.9	7.9	267.77	2.7	25.6	284.61	0.7	8.0			288.15	0.5	6.4		
2022: Mar	287.50	1.3	8.5	298.25	11.4	32.0	287.47	1.0	8.5	9.2	8.0	289.05	0.3	6.5	6.7	6.3
2022: Apr	289.11	0.6	8.3	298.47	0.1	30.3	288.61	0.4	8.2			290.41	0.5	6.1		
2022: May	292.30	1.1	8.6	316.76	6.1	34.6	291.27	0.9	8.5			292.25	0.6	6.0		
2022: Jun	296.31	1.4	9.1	340.92	7.6	41.6	294.73	1.2	8.9	9.7	8.6	294.02	0.6	5.9	6.0	6.0
2022: Jul	296.28	0.0	8.5	325.41	-4.5	32.9	294.63	0.0	8.4			294.93	0.3	5.9		
2022: Aug	296.17	0.0	8.3	305.37	-6.2	23.8	295.32	0.2	8.2			296.64	0.6	6.3		
2022: Sep	296.81	0.2	8.2	297.34	-2.6	19.8	296.54	0.4	8.2	5.5	8.3	298.34	0.6	6.6	6.2	6.3
2022: Oct	298.01	0.4	7.7	300.36	1.0	17.6	297.99	0.5	7.8			299.33	0.3	6.3		
2022: Nov	297.71	-0.1	7.1	292.95	-2.5	13.1	298.60	0.2	7.1			300.26	0.3	6.0		
2022: Dec	296.80	-0.3	6.5	274.94	-6.1	7.3	298.99	0.1	6.4	4.2	7.1	301.46	0.4	5.7	5.1	6.0
2023: Jan	299.17	0.8	6.4	283.33	3.1	8.7	300.54	0.5	6.3			302.70	0.4	5.5		
2023: Feb	300.84	0.6	6.0	281.67	-0.6	5.2	301.65	0.4	6.0			304.07	0.5	5.5		
2023: Mar	301.84	0.3	5.0	279.08	-0.9	-6.4	301.81	0.1	5.0	3.8	5.8	305.24	0.4	5.6	5.0	5.6
2023: Apr	303.36	0.5	4.9	283.35	1.5	-5.1	302.92	0.4	5.0			306.49	0.4	5.5		
2023: May	304.13	0.3	4.0	279.82	-1.2	-11.7	303.29	0.1	4.1			307.82	0.4	5.3		
2023: Jun	305.11	0.3	3.0	283.85	1.4	-16.7	303.84	0.2	3.1	2.7	4.1	308.31	0.2	4.9	4.7	5.2
2023: Jul	305.69	0.2	3.2	284.83	0.3	-12.5	304.35	0.2	3.3			308.80	0.2	4.7		
2023: Aug	307.03	0.4	3.7	294.33	3.3	-3.6	306.27	0.6	3.7			309.66	0.3	4.4		
2023: Sep	307.32	0.1	3.5	292.77	-0.5	-1.5	307.01	0.2	3.5	3.4	3.5	310.41	0.2	4.0	2.7	4.4
2023: Oct	307.94	0.2	3.3	291.76	-0.3	-2.9	307.87	0.3	3.3			311.25	0.3	4.0		
2023: Nov	307.96	0.0	3.4	290.37	-0.5	-0.9	308.79	0.3	3.4			312.14	0.3	4.0		
2023: Dec	308.04	0.0	3.8	289.33	-0.4	5.2	310.16	0.4	3.7	4.1	3.5	313.02	0.3	3.8	3.3	3.9
2024: Jan	309.57	0.5	3.5	292.77	1.2	3.3	310.99	0.3	3.5			313.89	0.3	3.7		
2024: Feb	310.90	0.4	3.3	293.15	0.1	4.1	311.73	0.2	3.3			314.75	0.3	3.5		
2024: Mar	312.47	0.5	3.5	300.72	2.6	7.8	312.49	0.2	3.5	3.7	3.5	315.62	0.3	3.4	3.4	3.5
2024: Apr	313.62	0.4	3.4	303.91	1.1	7.3	313.17	0.2	3.4			316.45	0.3	3.2		
2024: May	314.41	0.3	3.4	307.23	1.1	9.8	313.53	0.1	3.4			317.24	0.3	3.1		
2024: Jun	315.89	0.5	3.5	314.40	2.3	10.8	314.51	0.3	3.5	2.6	3.4	318.04	0.3	3.2	3.2	3.2
2024: Jul	316.22	0.1	3.4	309.11	-1.7	8.5	314.78	0.1	3.4			318.83	0.2	3.2		
2024: Aug	316.61	0.1	3.1	308.79	-0.1	4.9	315.79	0.3	3.1			319.54	0.2	3.2		
2024: Sep	316.34	-0.1	2.9	301.51	-2.4	3.0	316.02	0.1	2.9	2.3	3.2	320.27	0.2	3.2	2.9	3.2
2024: Oct	316.41	0.0	2.8	295.93	-1.9	1.4	316.35	0.1	2.8			320.96	0.2	3.1		
2024: Nov	315.95	-0.1	2.6	291.61	-1.5	0.4	316.82	0.2	2.6			321.66	0.2	3.1		
2024: Dec	315.59	-0.1	2.4	287.93	-1.3	-0.5	317.80	0.3	2.5	1.9	2.6	322.36	0.2	3.0	2.7	3.1

Source: Bureau of Labor Statistics, BofA Global Research

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