

Morning Market Tidbits

Is this a mild downturn or a soft landing?

In focus

In the latest [US Economic Weekly](#), we discuss the 2Q GDP print and its implication on our outlook. The advance estimate of 2Q US GDP came in at 2.4% q/q saar, led by growth in nonresidential fixed investment (Exhibit 1). Moderate growth in final sales and stable inventory accumulation point to upside risks to our growth outlook in 2H 23. We retain our outlook for a mild downturn next year, but incoming data have increased the probability of a softer landing.

In the latest [Global Economic Weekly](#), Ethan Harris in his last Global Letter discussed the art and science of forecasting. The best approach to forecasting is to find out what the consensus is missing, and take a strong out-of-consensus view on it. Trust the team. If a view is not compelling to colleagues, it is unlikely to be suitable for clients. Know when to hold, know when to capitulate. The goal is to beat the consensus more than half of the time, not to be perfect.

Exhibit 1: BEA's advance estimate of 2Q US GDP

Strong growth on the back of a still resilient consumer, increase in non-residential investment spending

	Third Estimate 1Q		Advance Estimate 2Q	
	% q/q saar	Contribution to real GDP (pp)	% q/q saar	Contribution to real GDP (pp)
GDP	2.0		2.4	
Consumer Spending	4.2	2.8	1.6	1.1
Residential Investment	-4.0	-0.2	-4.1	-0.2
Structures	15.8	0.4	9.7	0.3
Equipment	-8.9	-0.5	10.8	0.5
Intellectual Property Products	3.1	0.2	3.9	0.2
Government	5.0	0.9	2.6	0.5
Exports	7.8	0.9	-10.8	-1.3
Imports	2.0	-0.3	-7.8	1.2
Net Exports (Bil 2012\$)	-1208	0.6	-1206	-0.1
Inventory Accumulation (Bil 2012\$)	3.5	-2.1	9.3	0.1
Final Sales	4.2		2.3	
Domestic Final Sales	3.5		2.3	

Source: BEA, Haver Analytics, BofA Global Research

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Market action

The Asian equity markets that we cover closed positive overnight. Looking at individual markets, the Shanghai Composite, the Indian Sensex, the Hang Seng, the Korean Kospi and the Nikkei rose 0.5%, 0.6%, 0.8%, 0.9% and 1.3% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.1% and S&P500 futures are up 0.1%. In the bond markets, 10-year Treasury yields are up 2bp to 3.97% and German Bund yields are up 2bp to 2.51%. The dollar is strengthening against a basket of other major currencies with the DXY index up 0.02% to \$101.64. WTI crude oil prices are up \$0.74 to \$81.32/bbl, and gold prices are at \$1,958.51/oz.

Data previews

Data in the week ahead (July 31)

Chicago Purchasing Managers Index

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
7/31/23	9:45	Chicago Purchasing Managers	Jul	43.0	43.5	41.5

Source: BofA Global Research, Bloomberg

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Chicago Purchasing Managers Index (PMI)

We look for the Chicago PMI index to print at 43.0 in July, up from 41.5 in June. The index has been below 50 since last September as activity in the region continues to exhibit signs of slowing.

Data review

Personal Income and Outlays

Personal income rose by 0.3% m/m in June, which was weaker than expected. As expected, wages and salaries increased a strong 0.6% on the back of a pickup in hours and strong wage growth. The spending data for June paint a picture of continued consumer strength, consistent with the 2Q GDP data. Personal spending increased by 0.5% m/m in nominal terms. Goods spending picked up a solid 0.8%, led by a 1.4% increase in durables. Services spending continued its steady growth of the last few months, increasing by 0.4%. With spending growth outpacing disposable income growth in June, the saving rate ticked down by three tenths to 4.3%.

PCE inflation data were broadly in line with expectations. Headline and core both rose by 0.2% m/m in June, in line with expectations. As a result, headline inflation fell eight tenths on a y/y basis to 3.0%, as expected. However, on a y/y basis core inflation came in a touch below expectations at 4.1% y/y. The PCE data is broadly showing inflation is moderating. Given the choppiness of the m/m data we prefer to look at three-month annualized rates to identify trends in the data. The latest data suggest an improvement in the run-rate of inflation no matter which measure you focus on. Indeed, the three-month annualized change in core PCE inflation fell six-tenths to 3.4%, core goods declined by 1.5ppt to 1.6%, core services were down three-tenths to 4.0%, and core services ex housing decreased by four-tenths to 3.3%. In short, the data is encouraging. There is still a long and winding road to get inflation down to 2.0% on a persistent basis, but we're heading in the right direction.

University of Michigan Sentiment

University of Michigan consumer sentiment finalized at 71.6 in July's final reading from the preliminary reading. This is a noticeable improvement from June's final read of 64.4. Current conditions and expectations index finalized at 76.6 and 68.3 respectively, both up from 69.0 and 61.5 at the end of June. Overall, consumer sentiment seems to have recovered noticeably since May's trough, with more optimism on the economic outlook and inflation cooling. Furthermore, the measure of long-run inflation expectations ticked down a tenth in the final reading to 3.0%, leaving it in a range that is consistent with the Fed's measure of price stability.





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