Macro Summary

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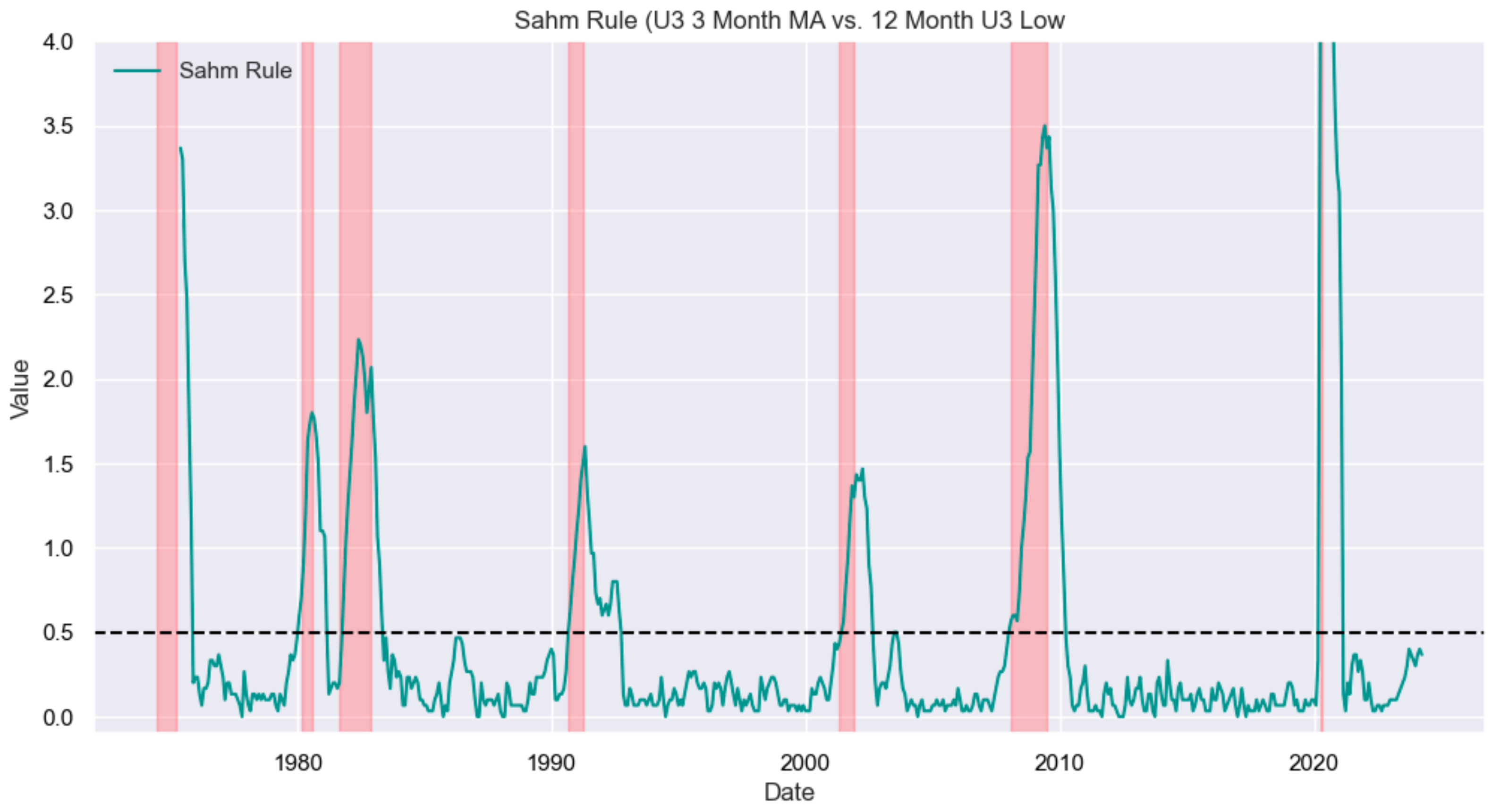
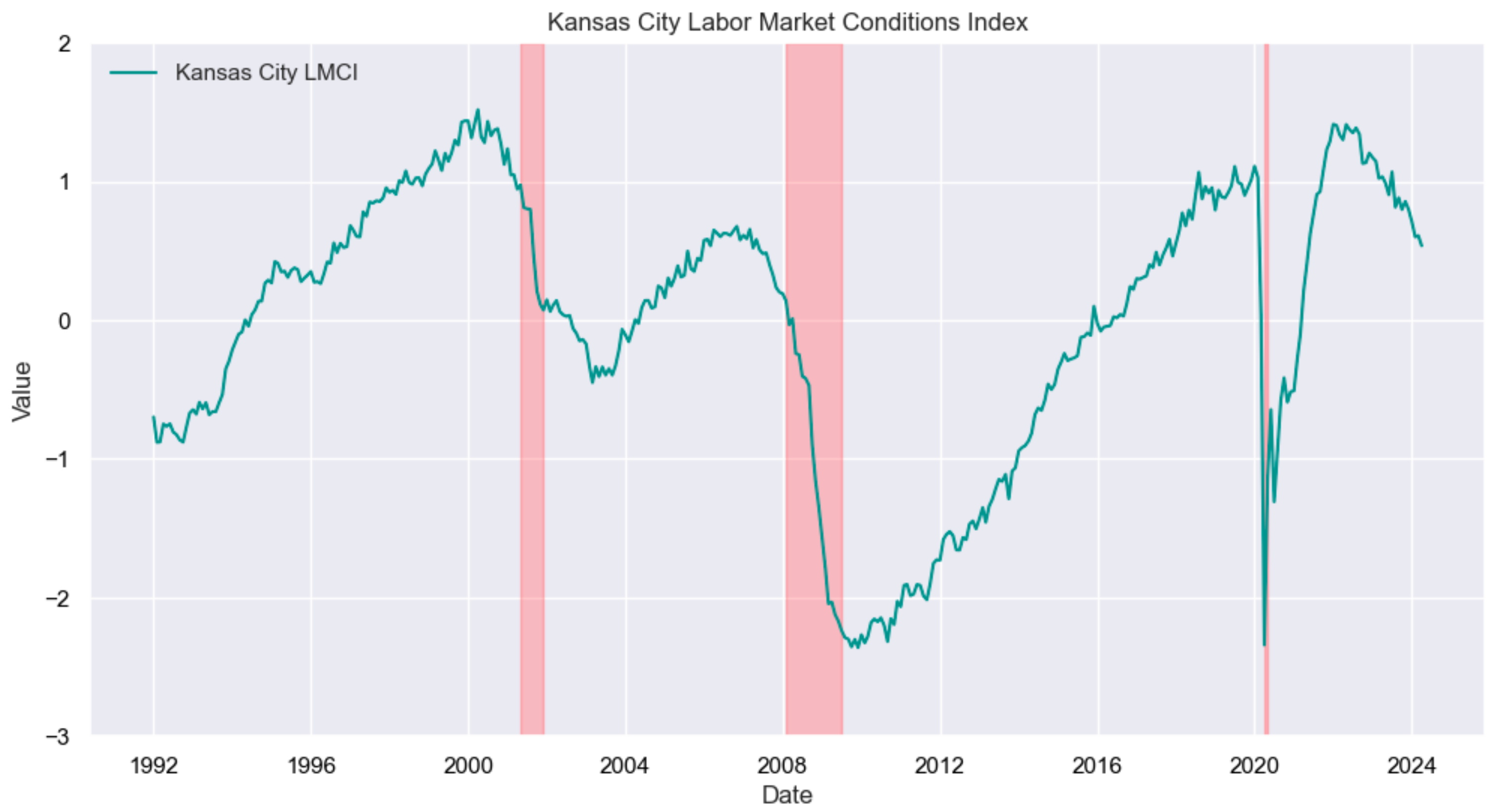
Labor Market

Strong but showing weakness

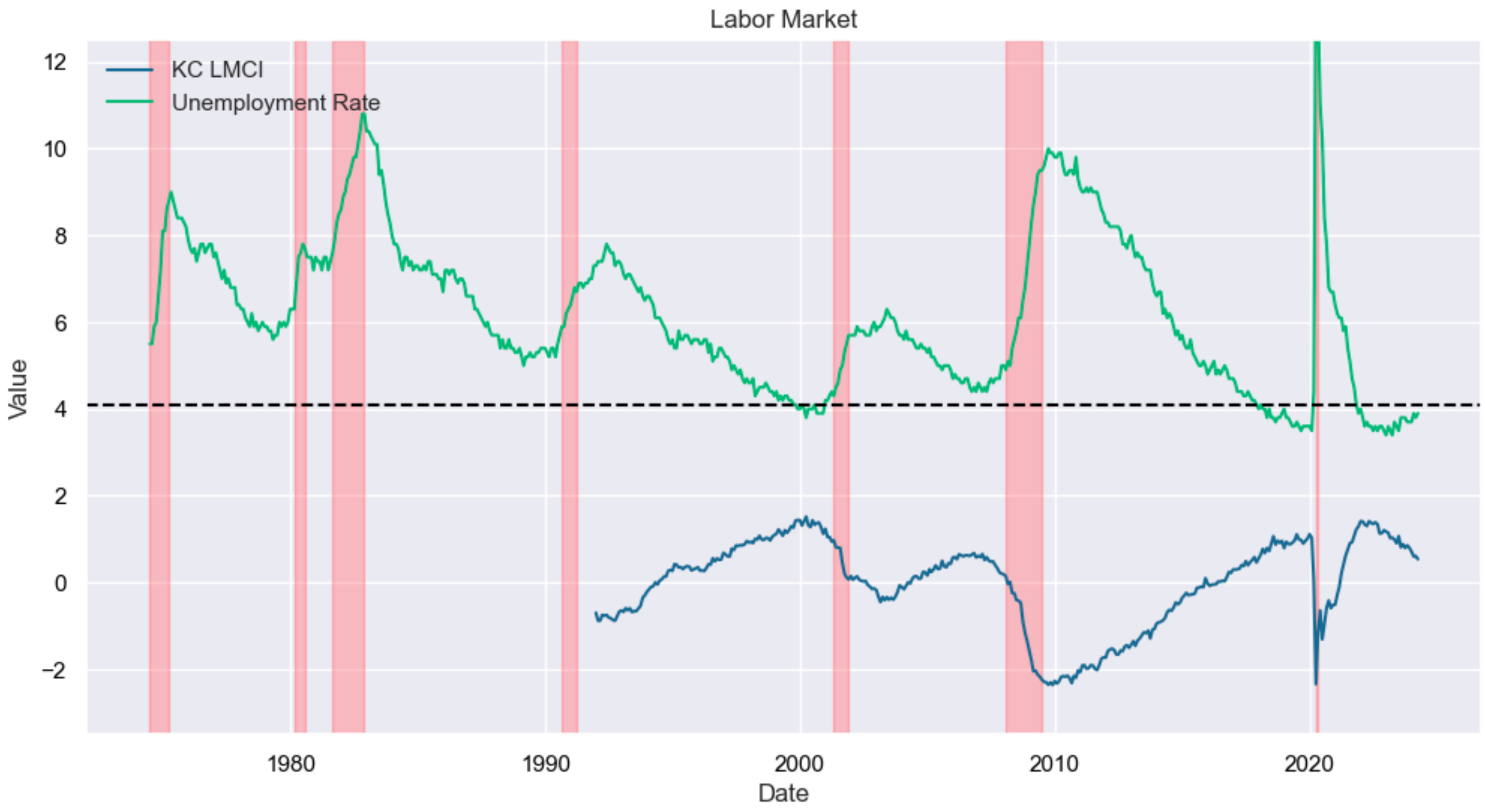
Sahm Rule is approaching 0.5pp. Sahm Rule is the 3-month MA rising .5 pp above the 12-month U3 low.



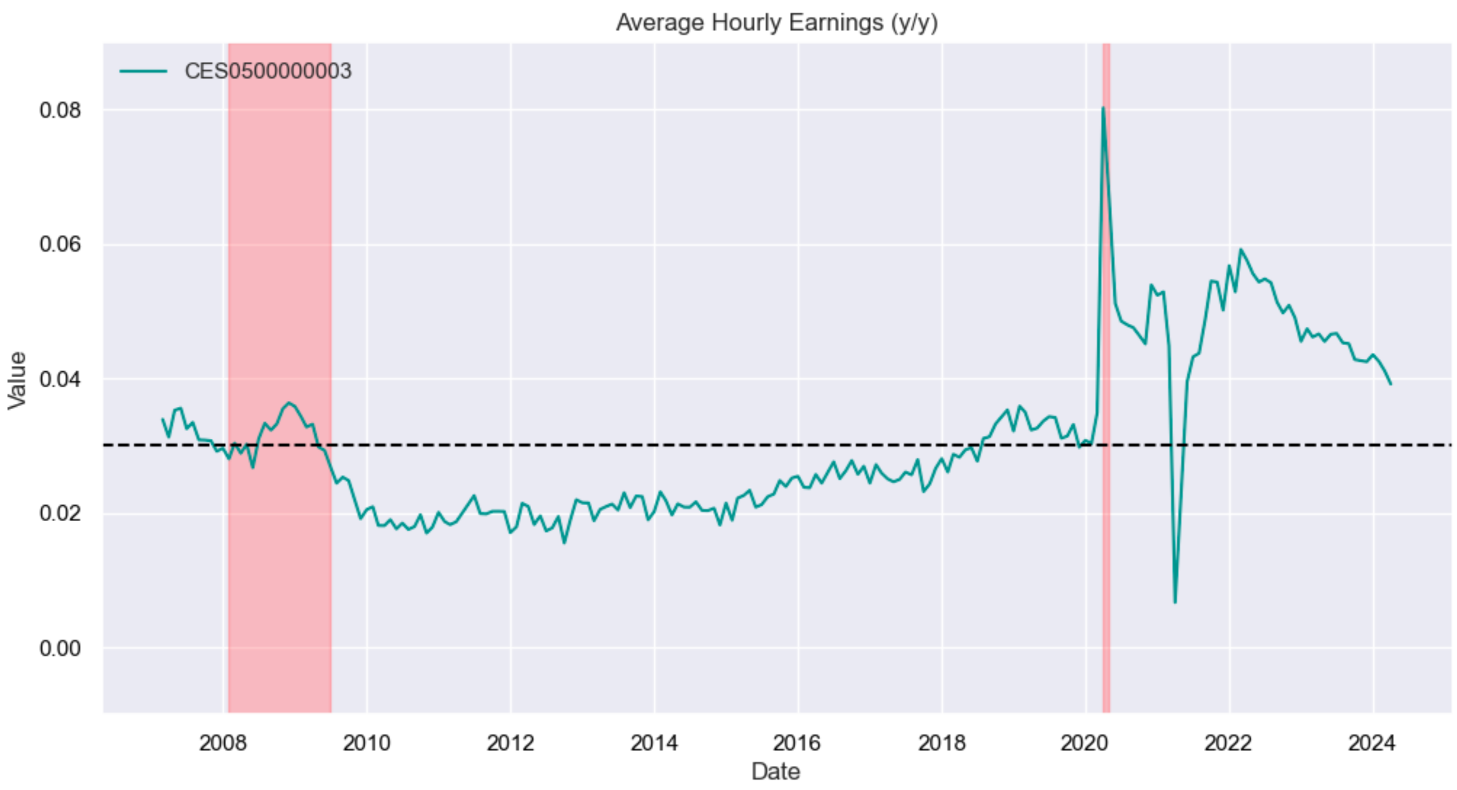
24 Aggregate Indicators point towards a labor market that isn't as strong as it might seem.



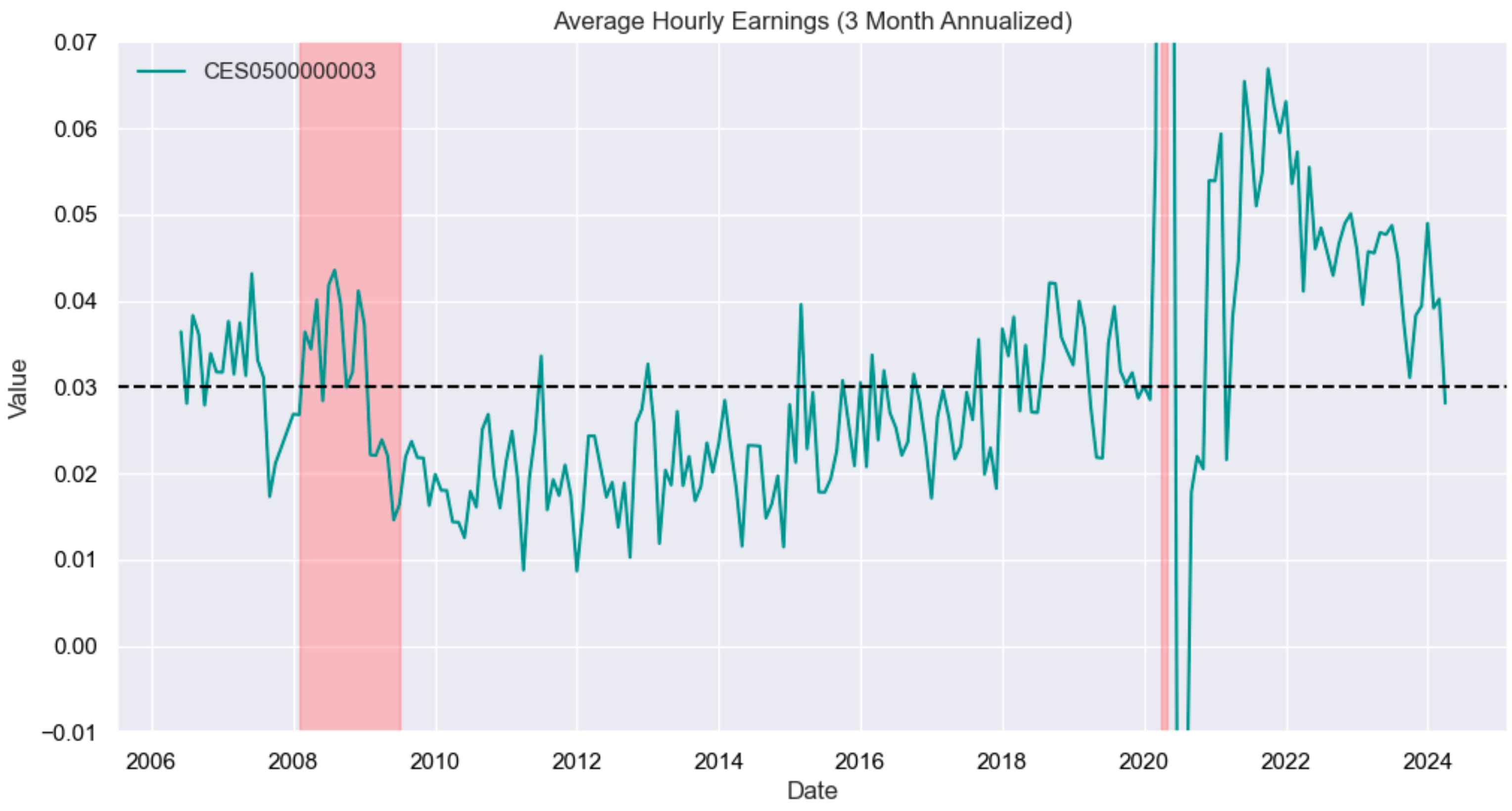
Kansas City Labor Market Indicator alongside Unemployment Rate.



Average Hourly Earnings are coming down which should cool off sticky services inflation.

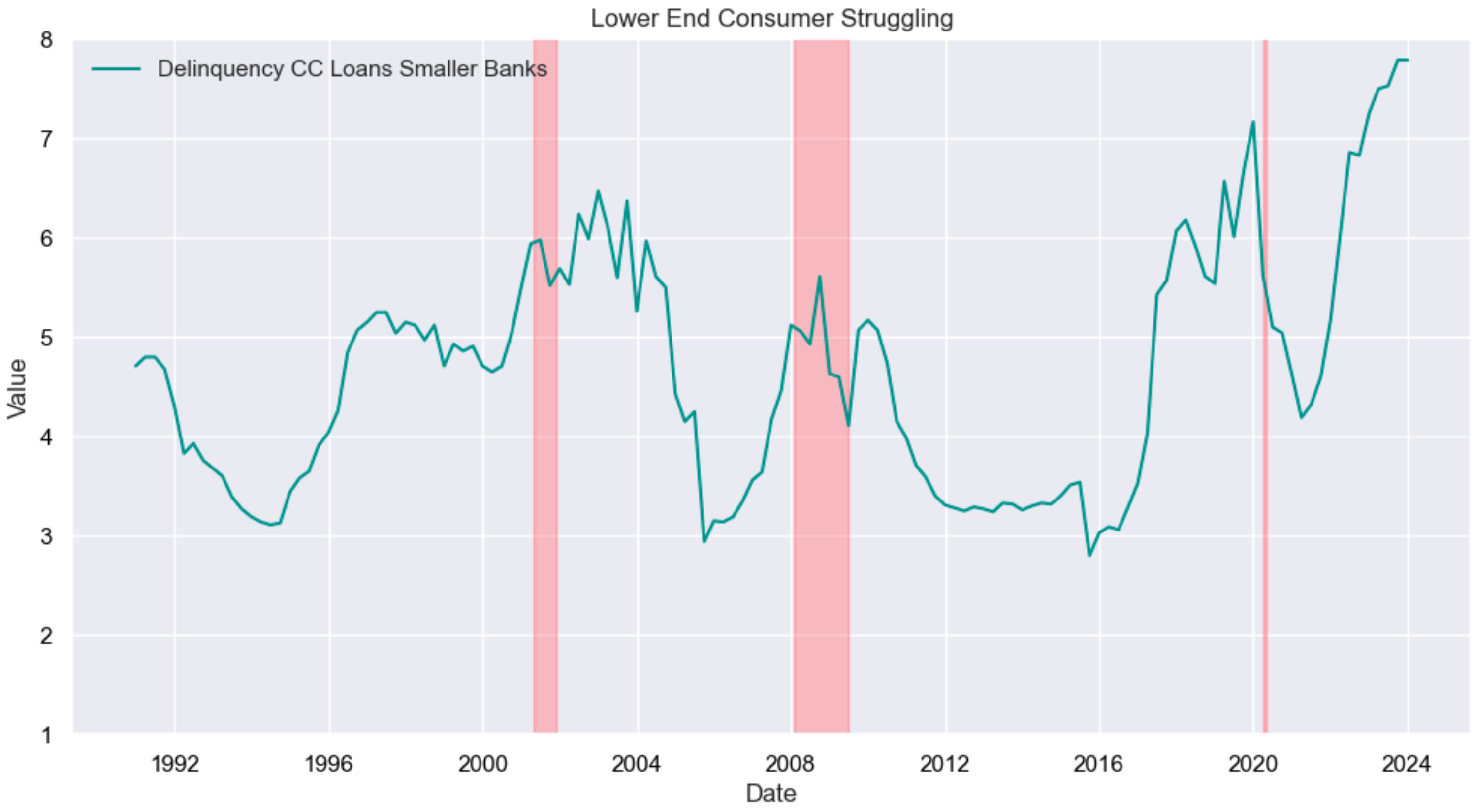


3-month annualized AHE is already at 3% target.

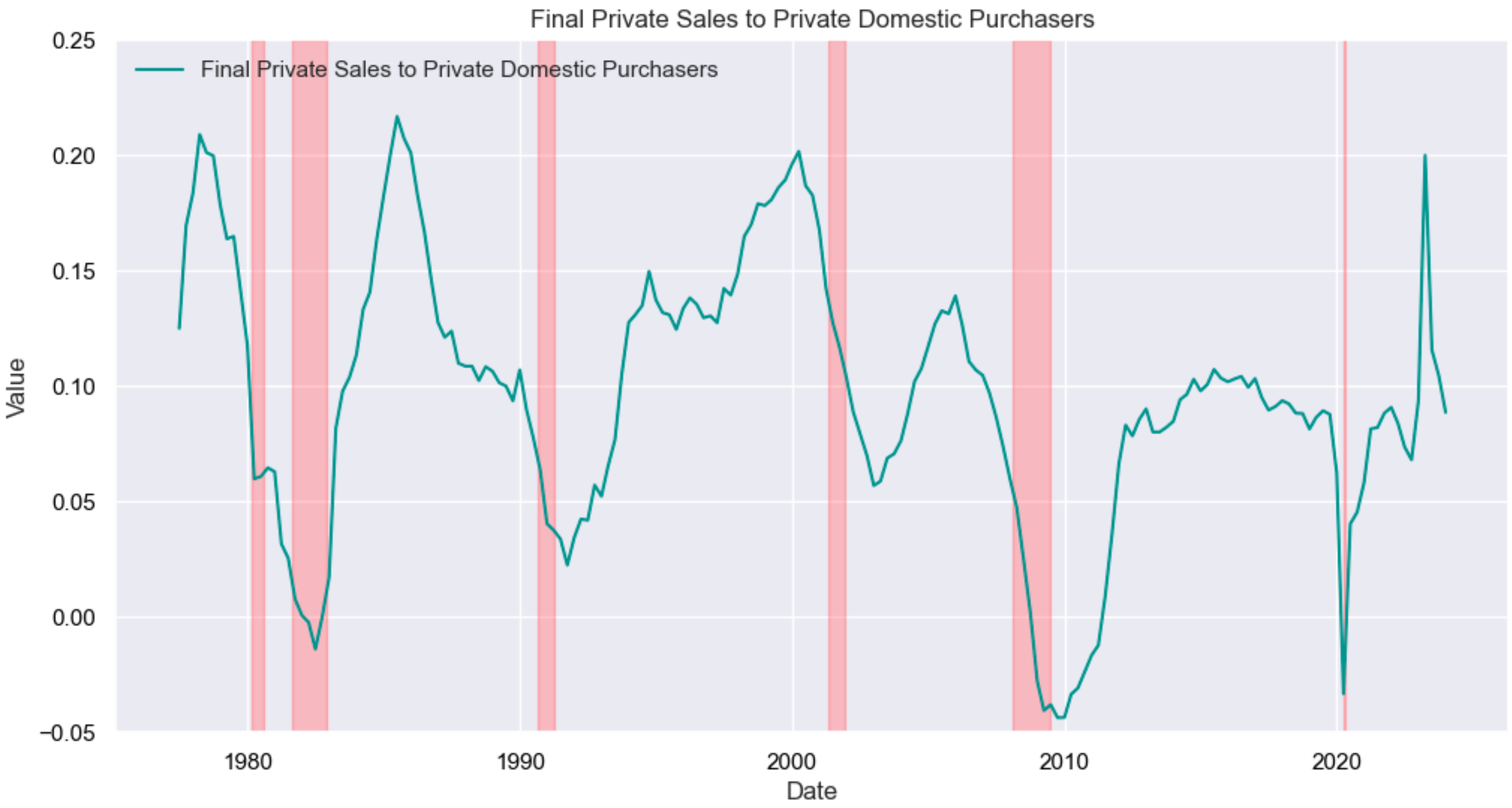


Consumer - Bifurcated

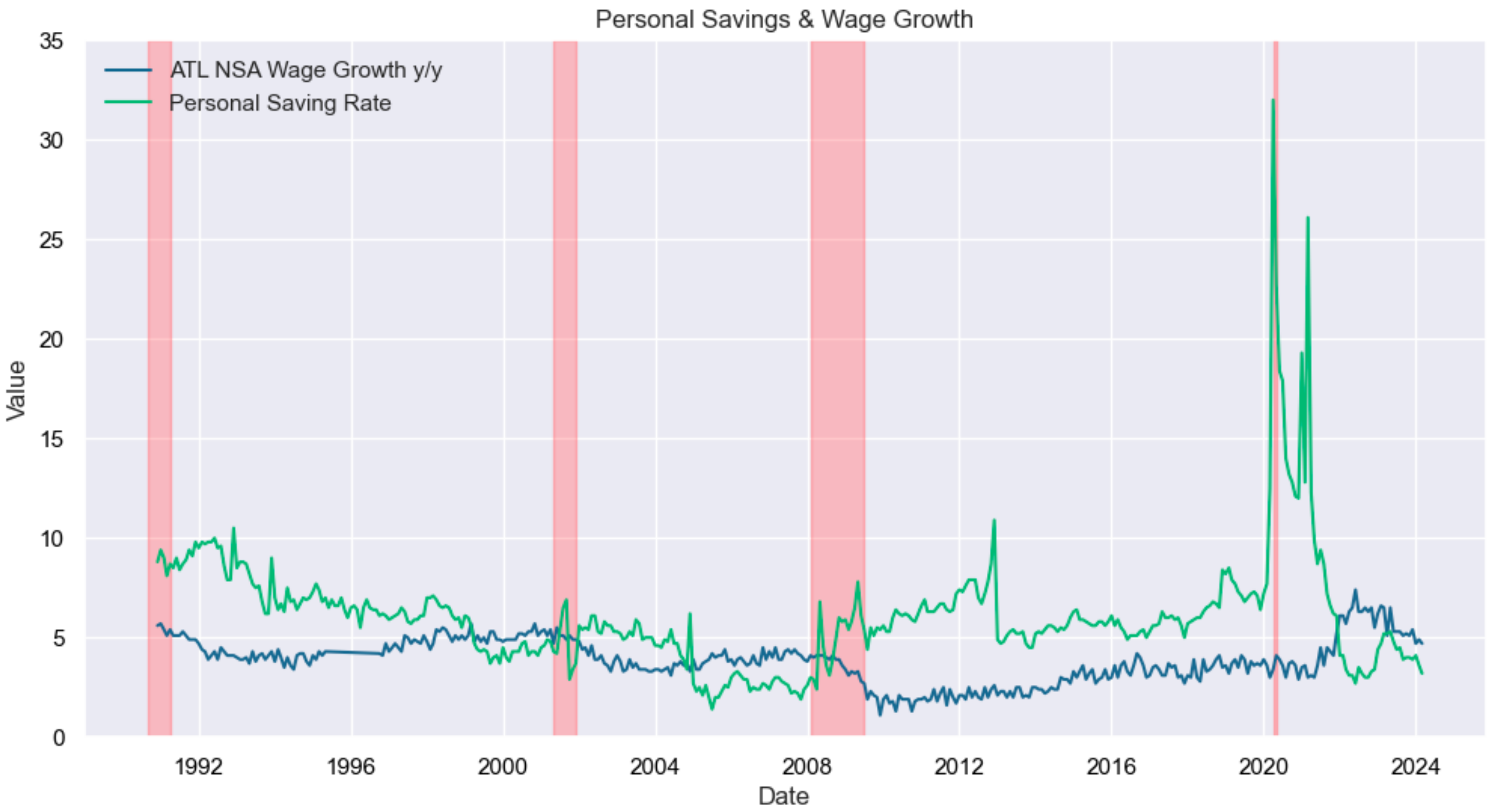
Lower cohort consumers usually have to get credit from smaller local banks.



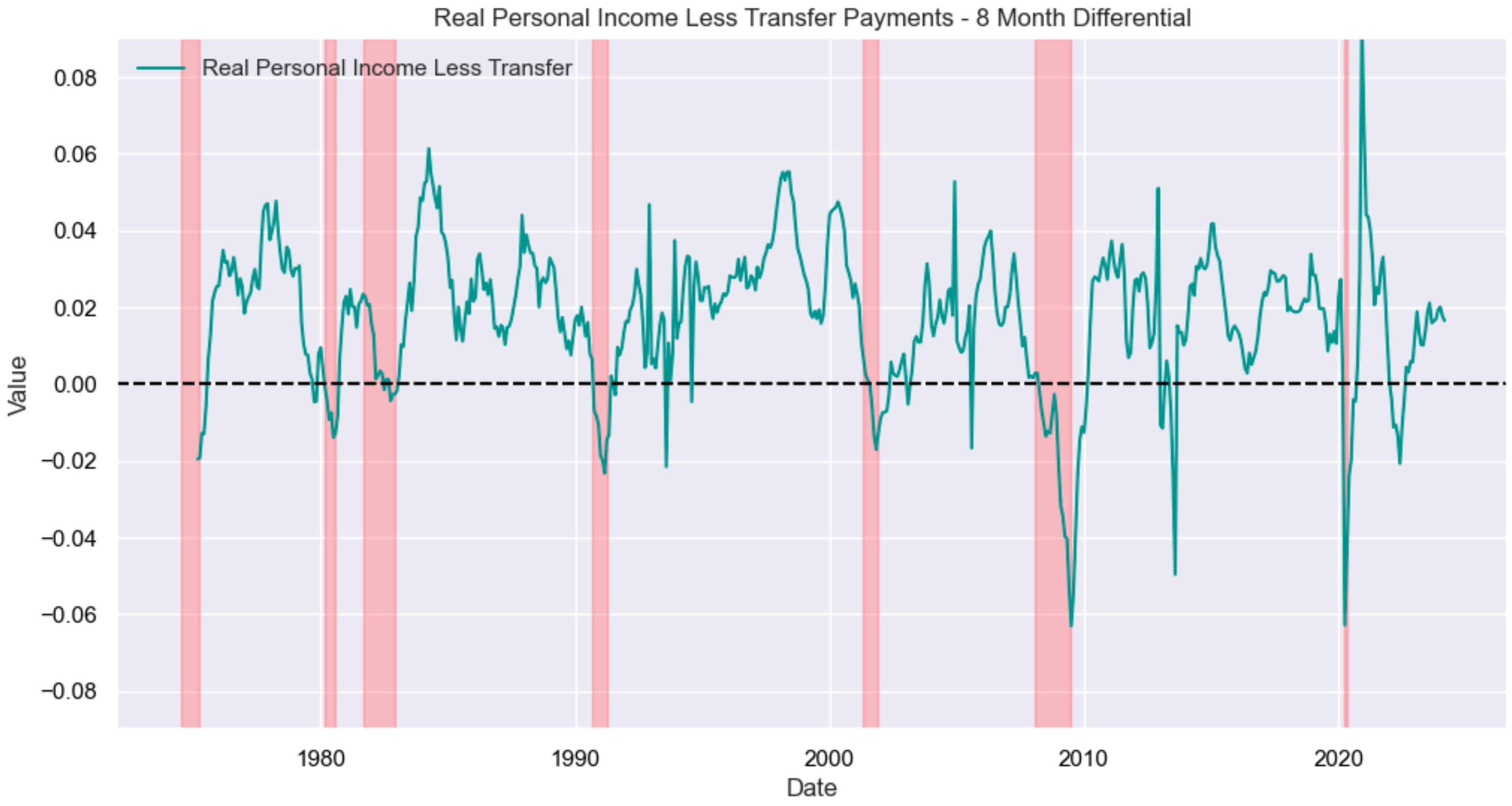
Final Private Sales to Private Domestic Purchasers has been quite poor as of late.



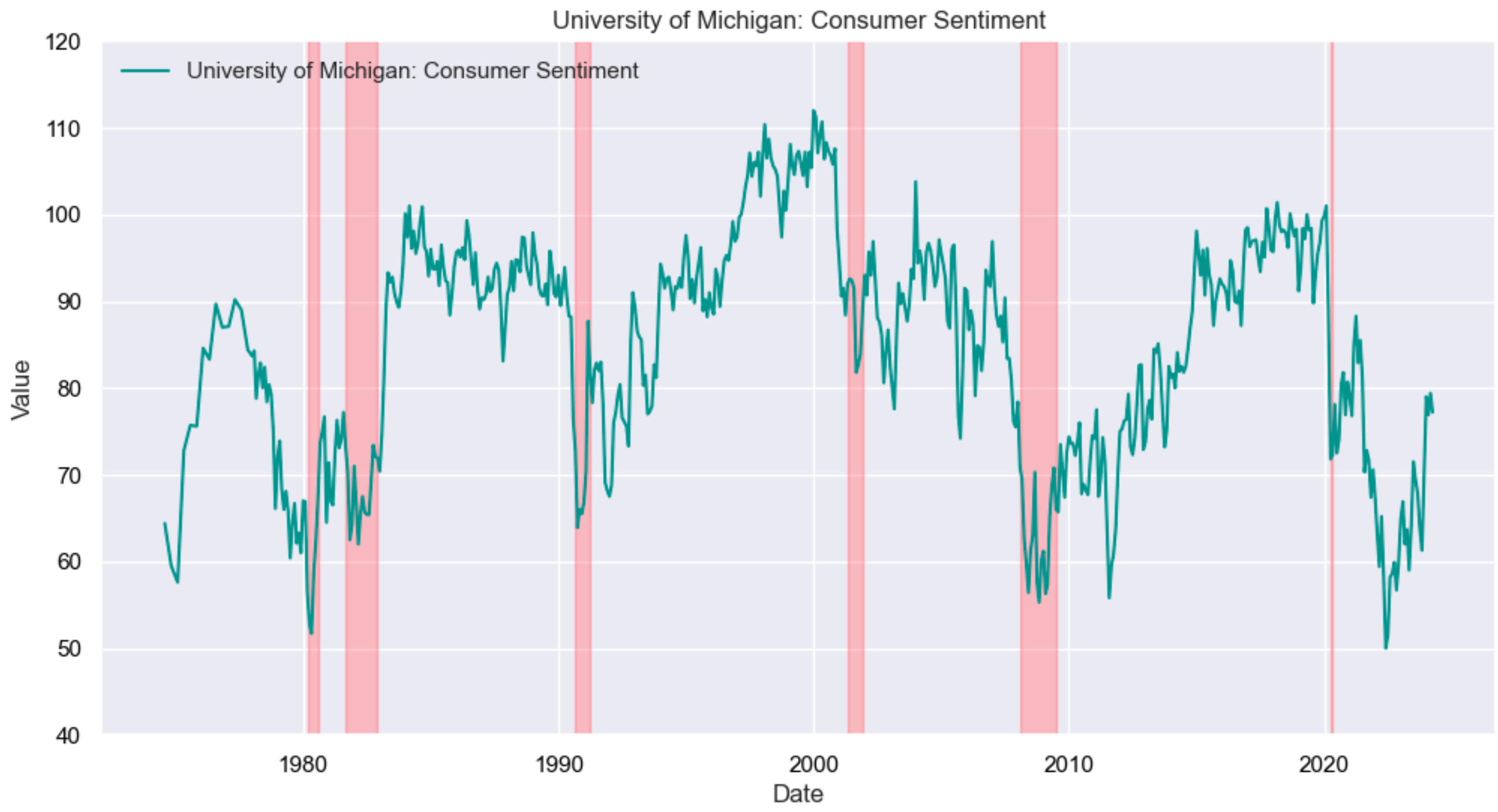
Personal Savings and Wages have been coming down showing a consumer that is making less and still spending on credit.



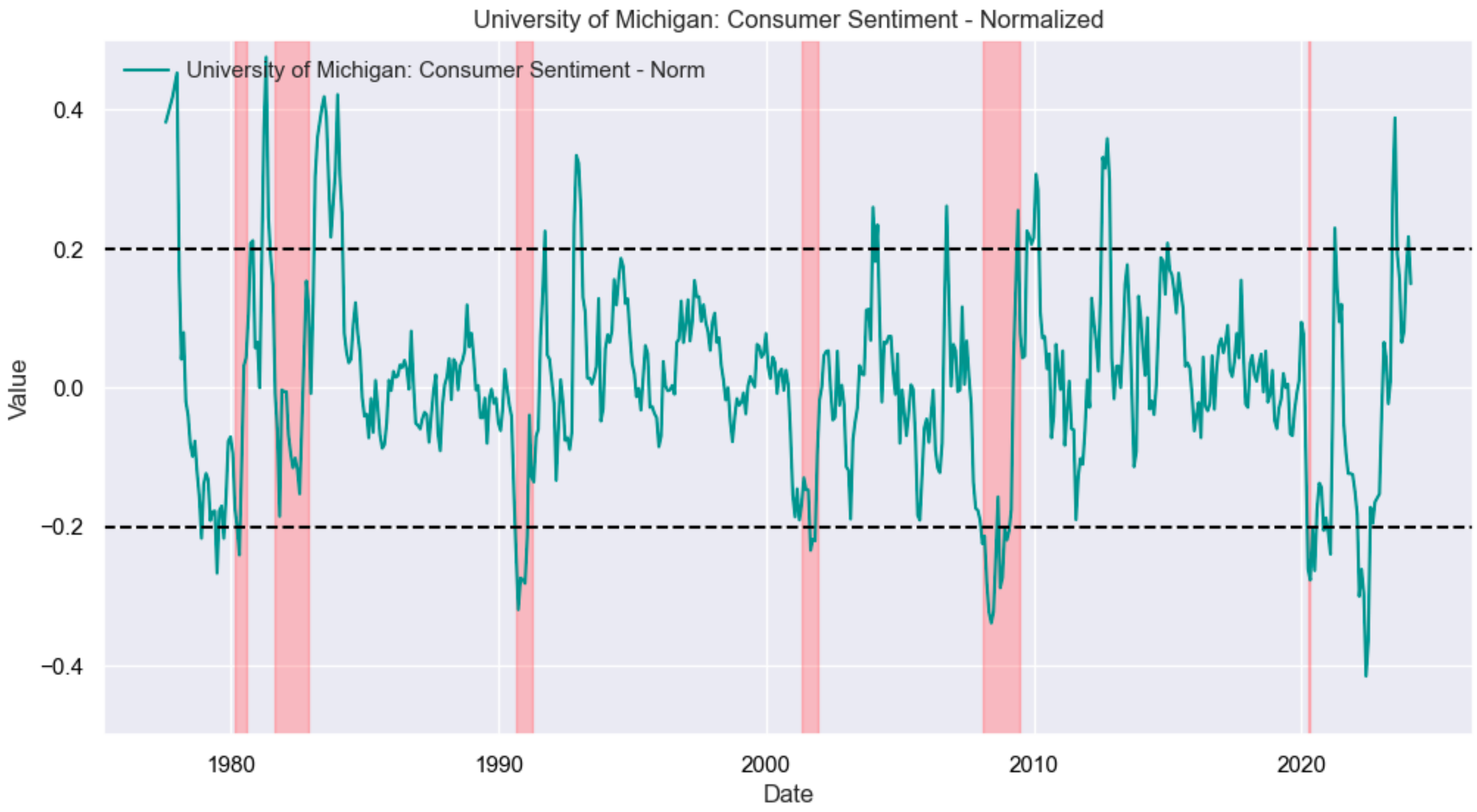
Real Personal Income less Transfer Payments reaching top.



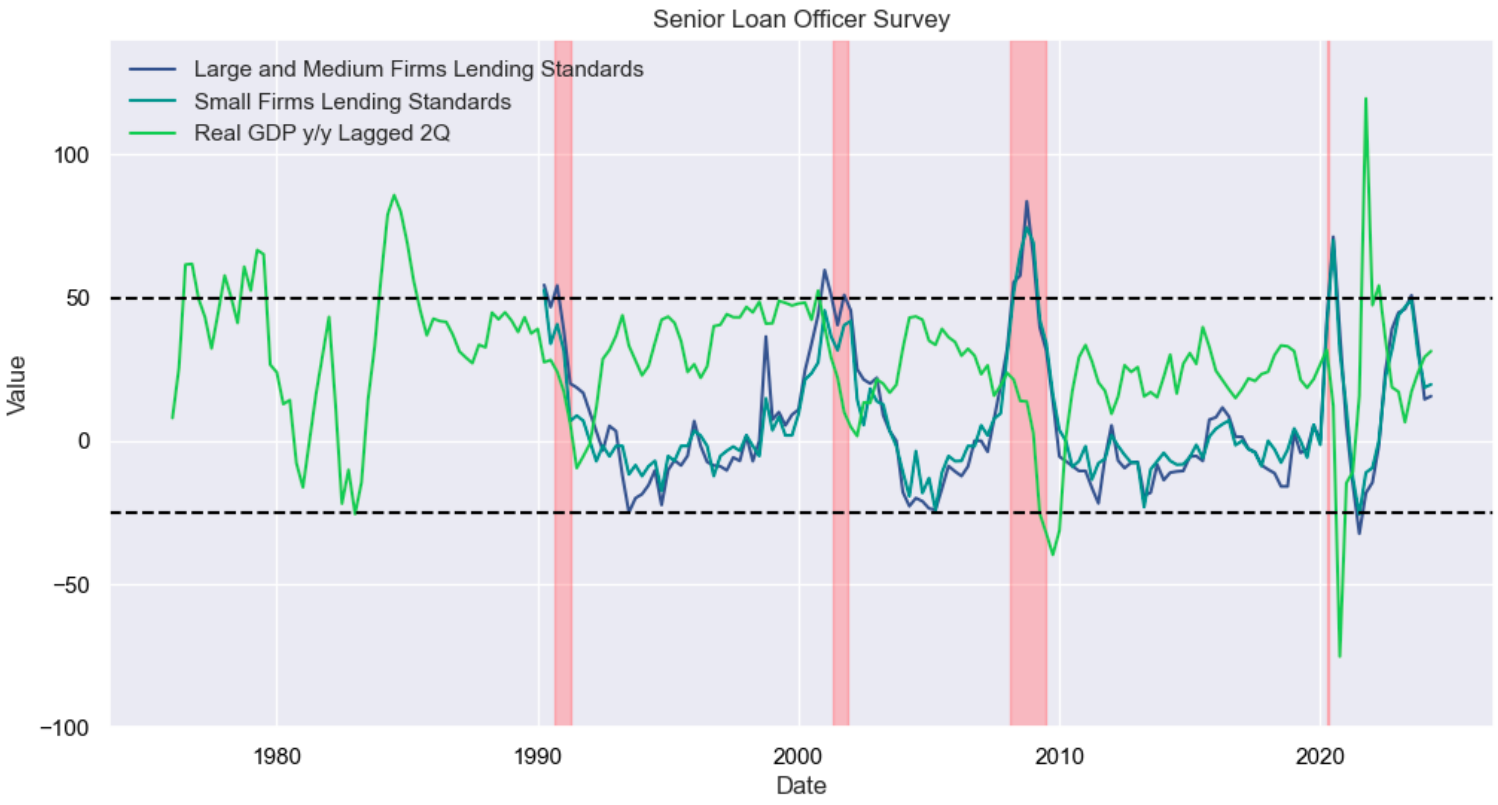
University of Michigan Consumer Sentiment surveys isn't as bad as people are saying.



University of Michigan Consumer Sentiment normalized to paint a better picture.

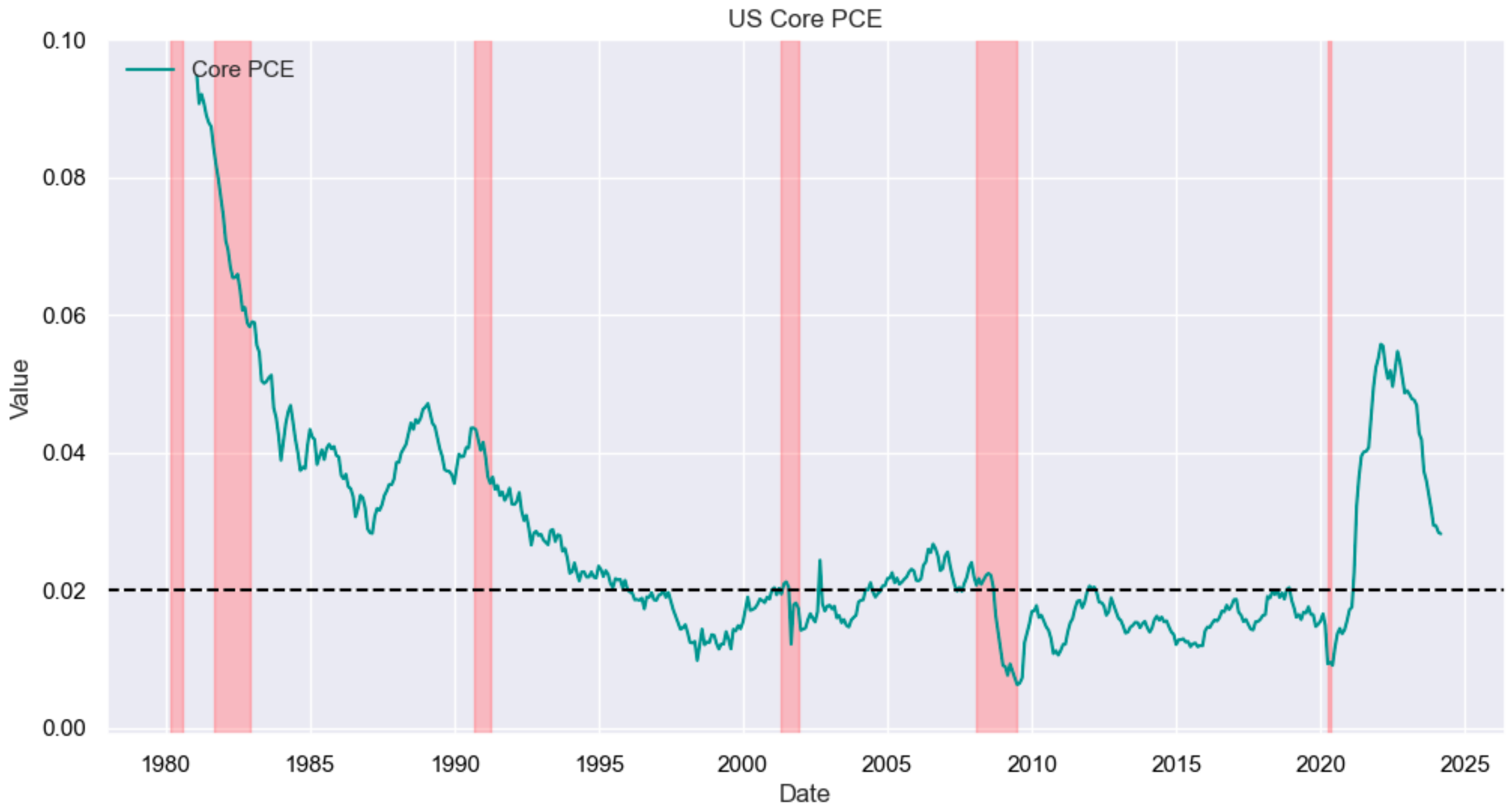


Credit conditions are not as tight as they were a few quarters ago.

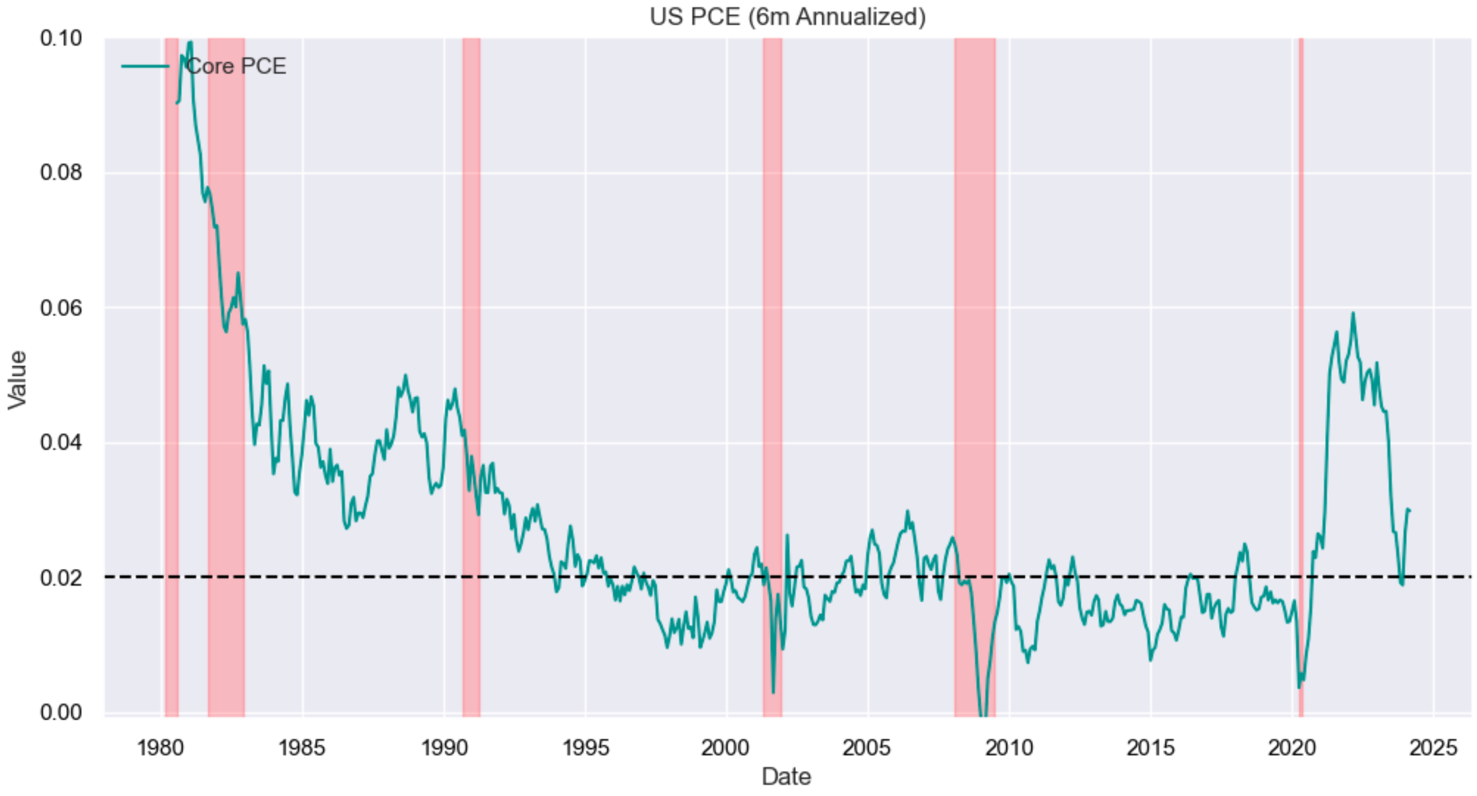


Inflation

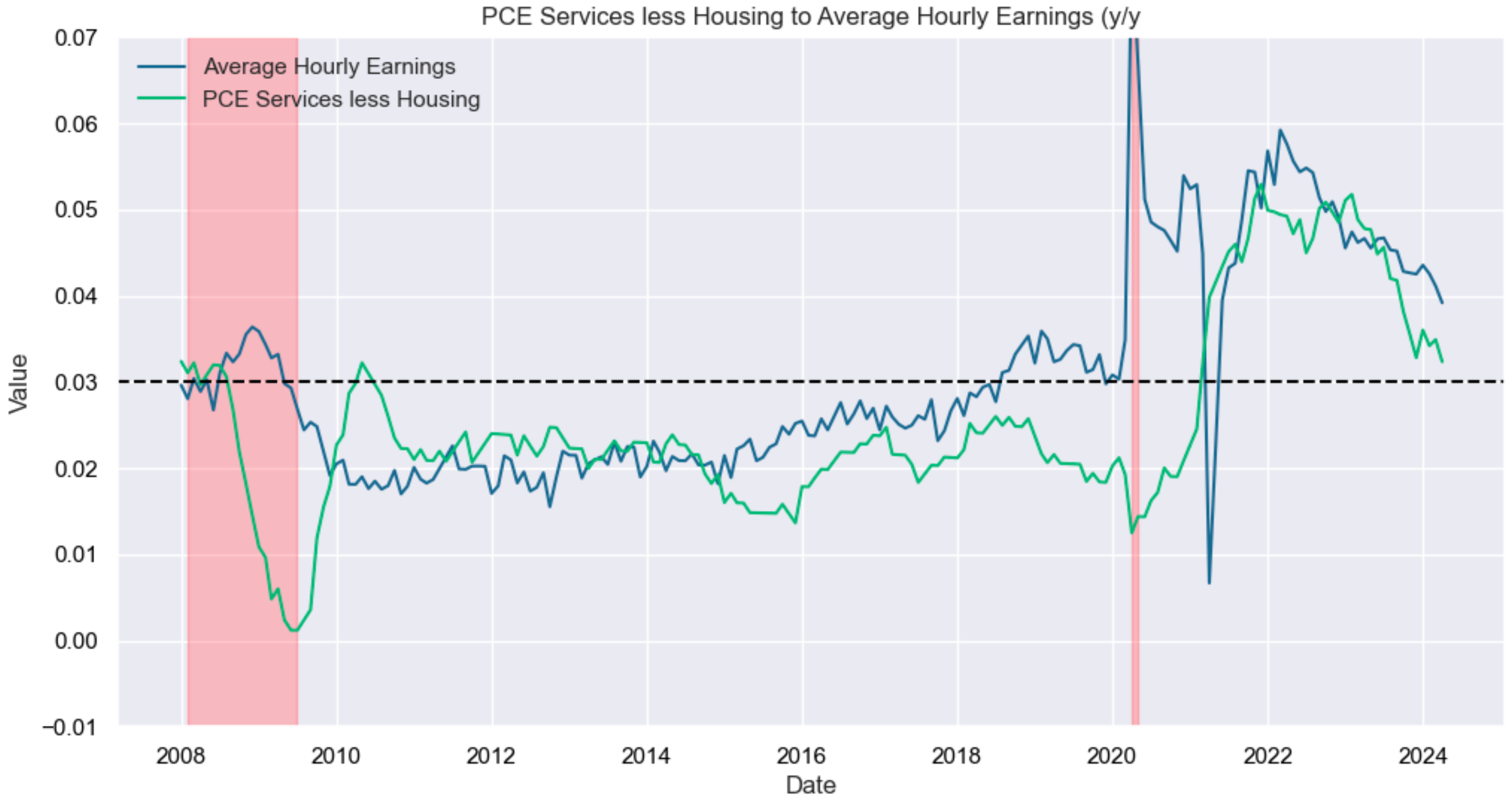
Core PCE trending in the right direction.



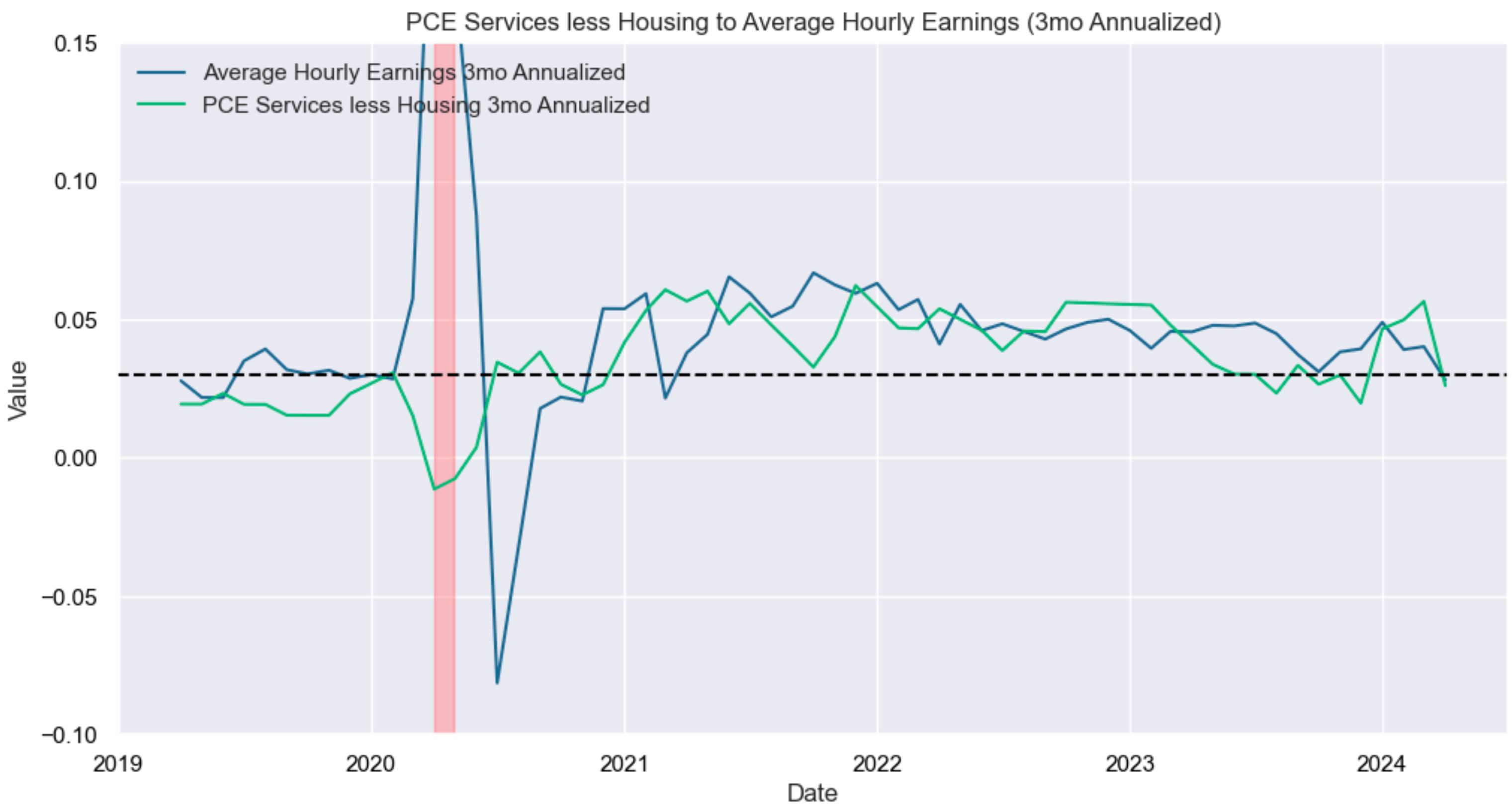
Core PCE 6-month annualized was at the target but reaccelerating. Will get better color this Friday.



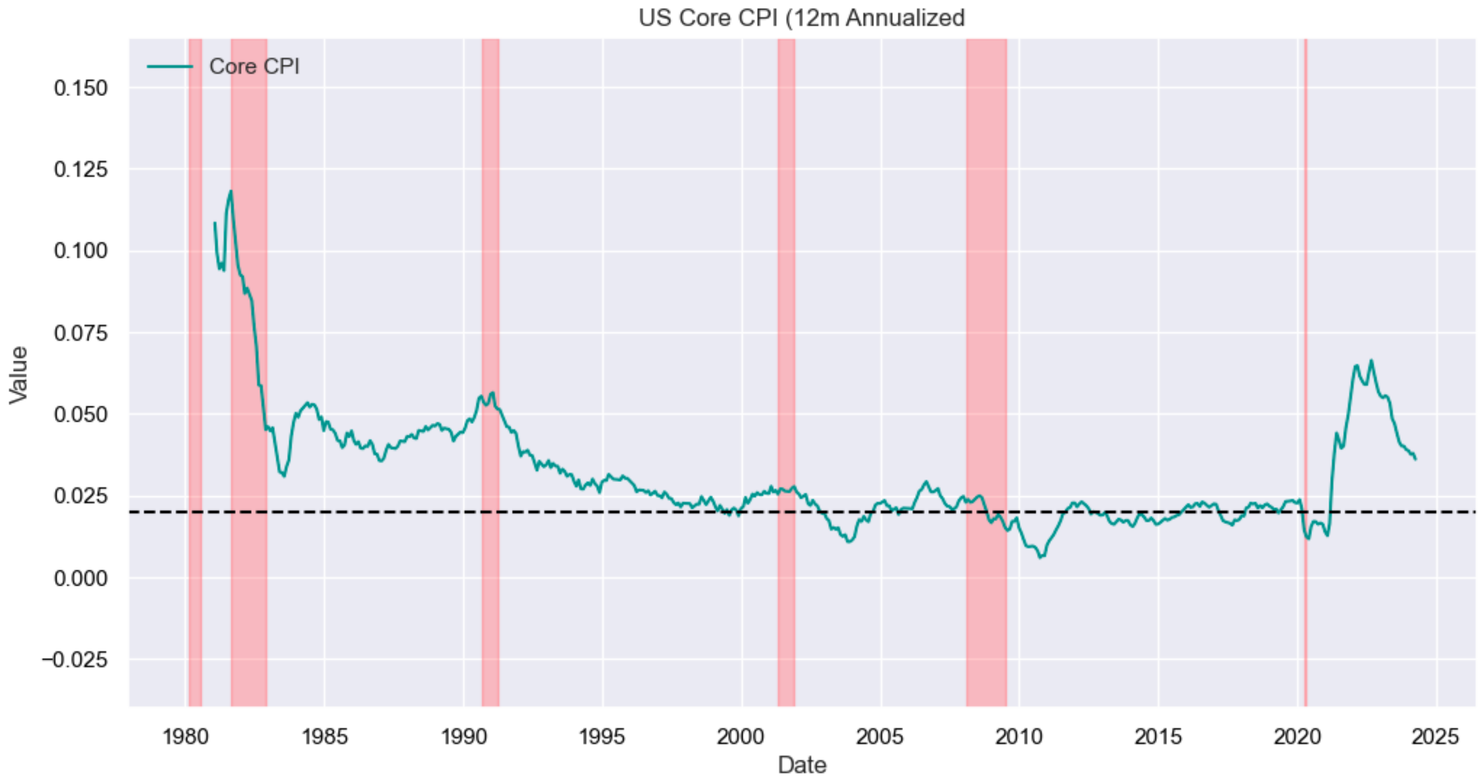
Core PCE Services less Housing trending in the right direction. Loosely correlated to Wages.



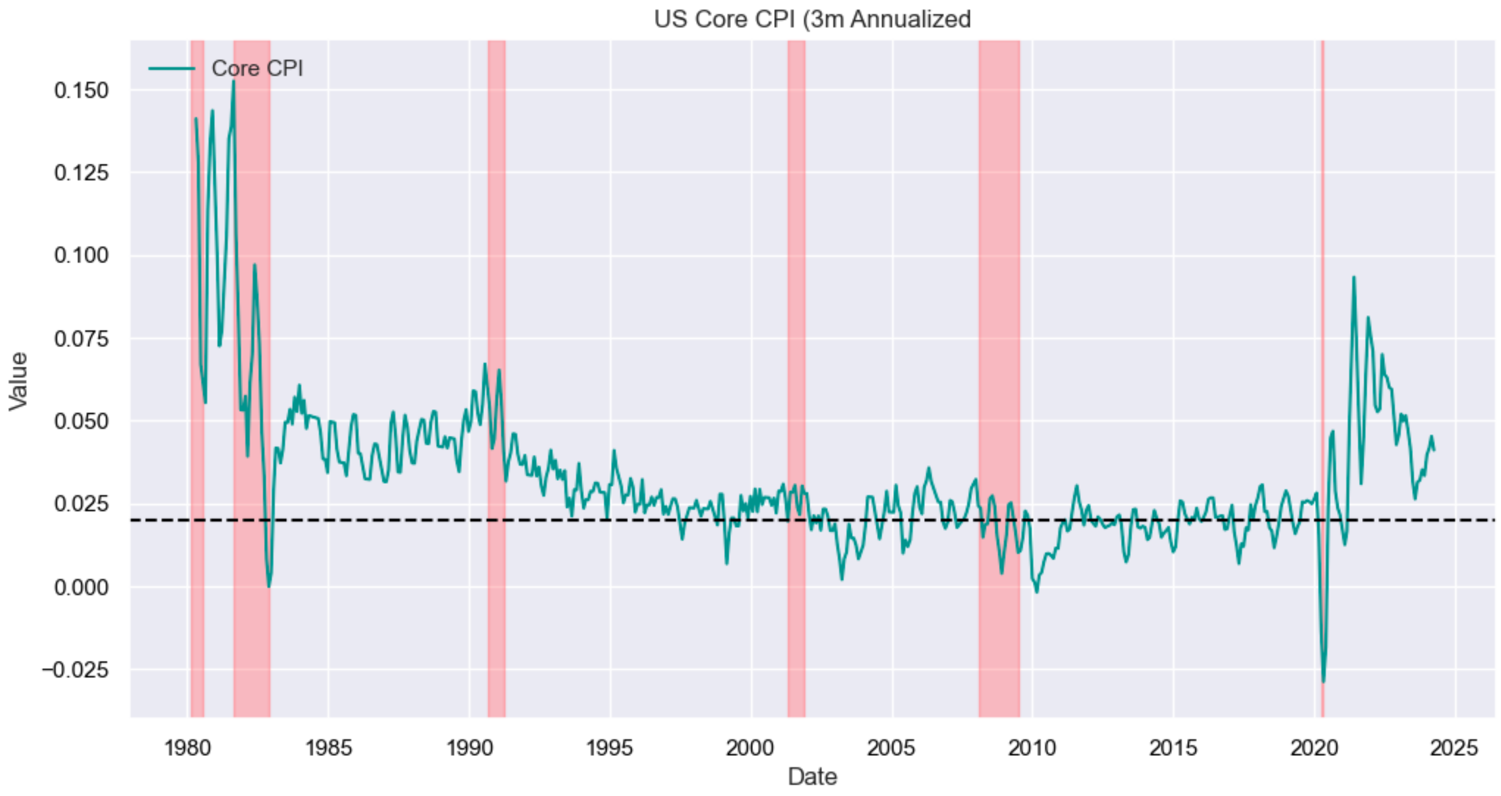
Core PCE Services less Housing vs AHE 3 month Annualized.



Is not the PCE, but Core CPI has been discussed by Powell and still not close to the 2% target.

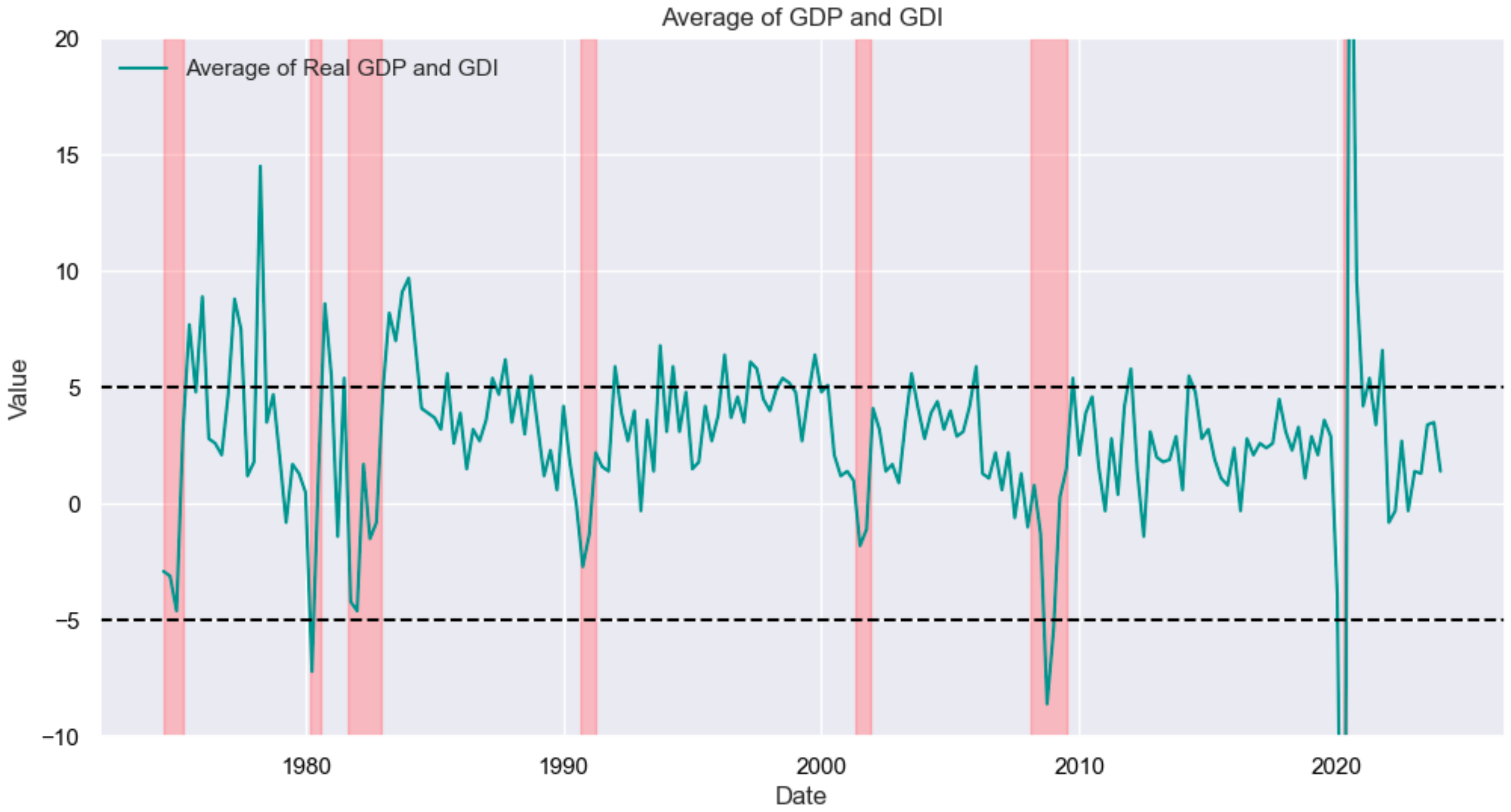


3-month annualized Core CPI is showing a worse picture for disinflation but historically bumpy.

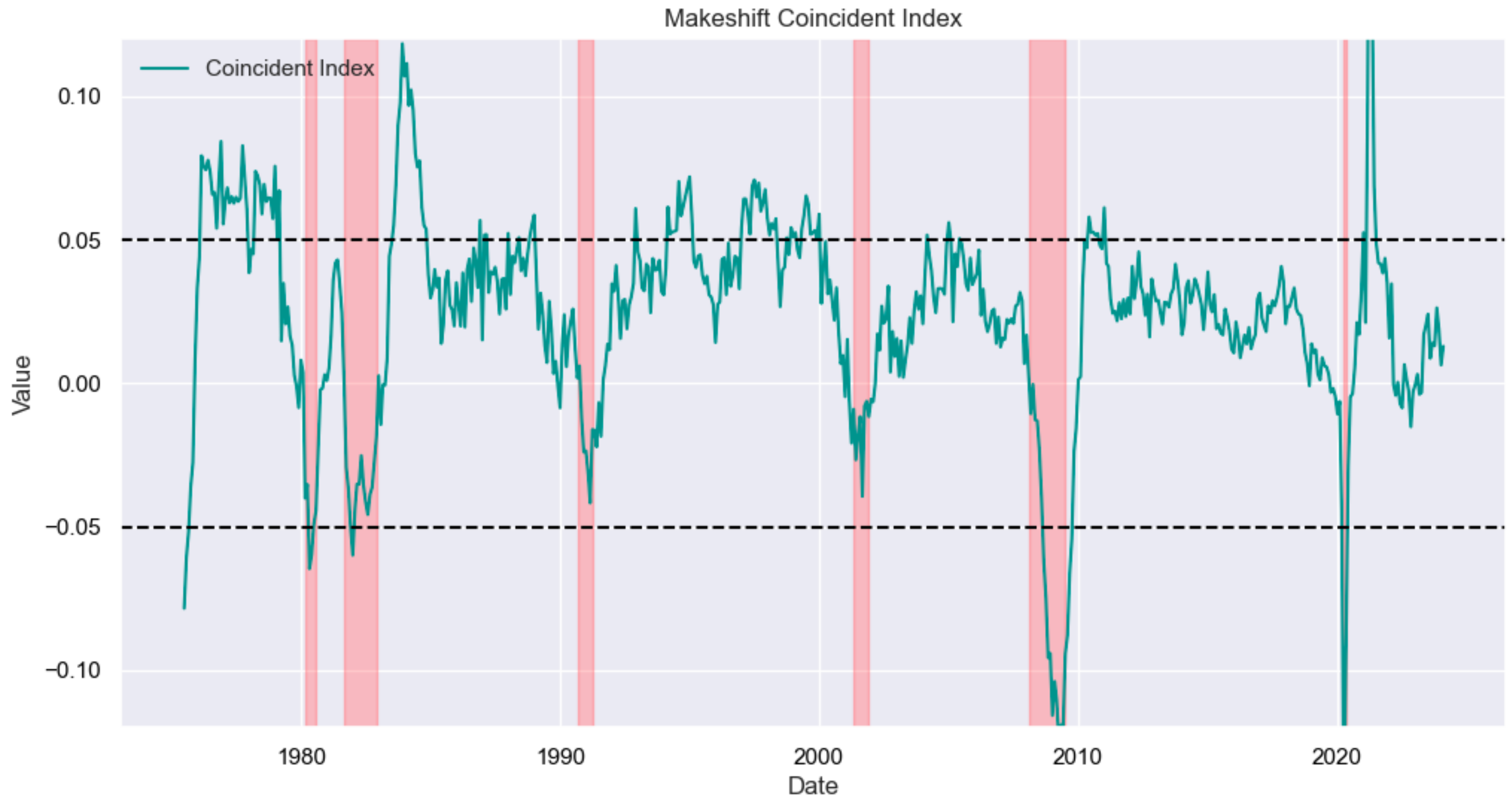


Market Activity

Average of GDP and GDI are now at 1.4% from 3.5% in 4Q23. Lower than FOMC average for sustainable pace at 1.8%.

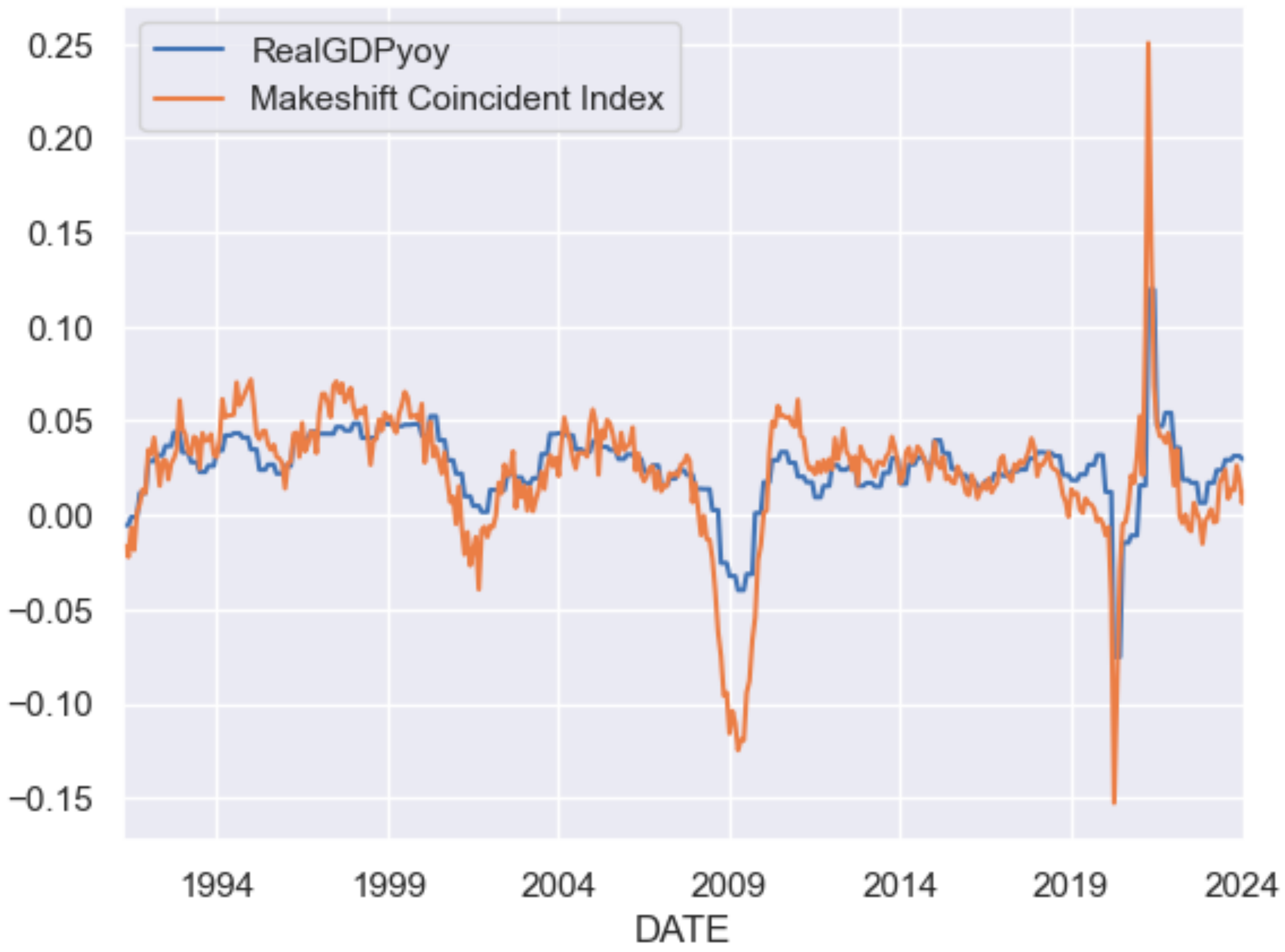


Created an index with the same components as the Coincident Economic Index.

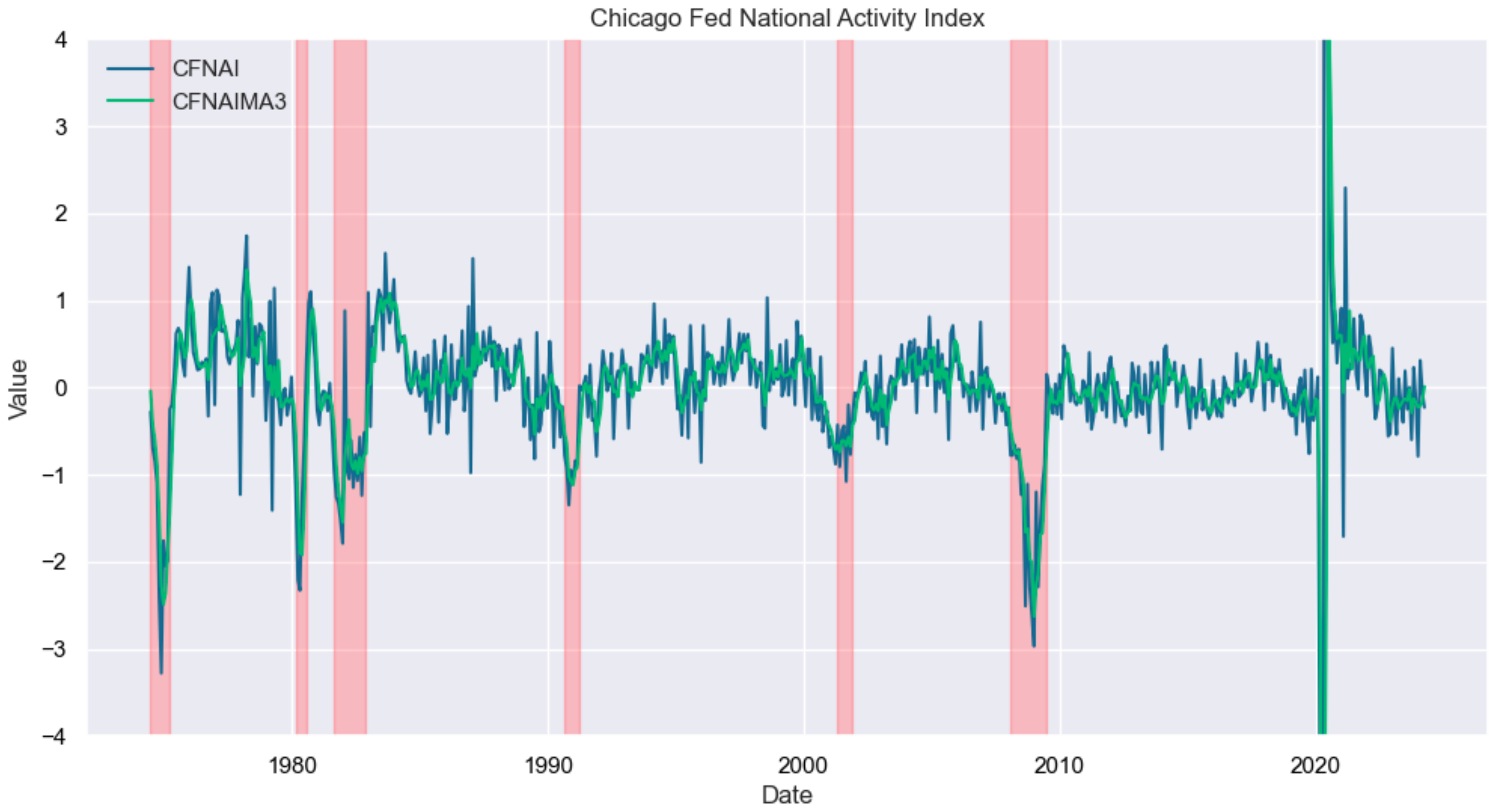


All can be found on FRED database (took the average of the 4):
1. CMRMTSPL = Real Manufacturing and Trade Industries Sales 2. INDPRO = Industrial Production
3. W875RX1 = Real personal income excluding current transfer receipts 4. PAYEMS = Useful employment of data

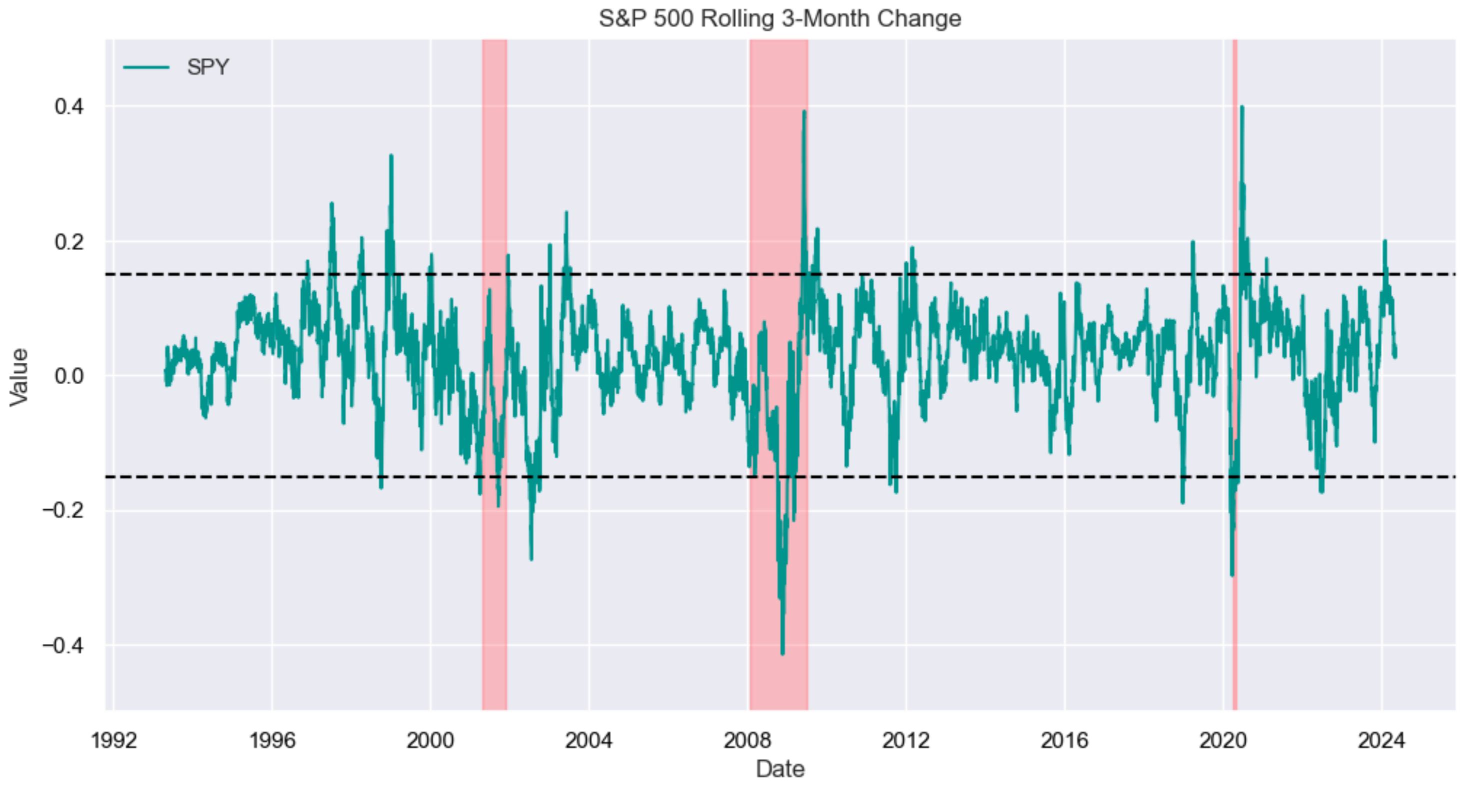
Makeshift CEI next to Real GDP.



Chicago Fed National Activity Index is released monthly and is good because it’s a collection of a wide range of 85 indicators.



S&P 500 3-month rolling returns.



Bottom Line

Disinflation is on the correct path, but based on FOMC speak, most are willing to wait and see which I think is a pretty good idea. The labor market seems to be cracking more and given the soft data out of retail earnings and the two most recent Beige Books, more discussion should be placed away from inflation and more towards the labor market and the consumer. High Labor costs are reducing firm's profits however margins have room to fall as the consumer has been historically strong as of late. Firms will seek to prevent margins from falling further by slowing hiring or cutting jobs. I think labor market will crack first before inflation cools to Fed Target (if they don't ditch that inflation target altogether / slice and dice the PCE).