US Economics Weekly

Chair Powell: "The time has come"

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Economic Comment: The time has come

Chair Powell said "the time has come" to being dialing back monetary policy restraint in his remarks today at the Jackson Hole symposium. The Chair again noted that the balance of risks has changed — the downside risks to employment have risen, while upside risks to inflation have diminished. As expected, the Chair did not offer much color on the exact pace and timing of rate cuts, using the word "appropriate," and said "the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." We recap the Chair's remarks inside and Alan offers his review of the Chair's view of the recent inflation experience. We continue to to expect three 25 bps rate cuts at each of the three remaining FOMC meetings this year. We have been expecting the economic slowdown would prompt the FOMC to get out of restrictive policy faster than signalled in their last several quarterly projections, but that shift has come sooner than we thought early this year, and looks to start in a matter of weeks. The Economic Comment begins on the next page.

Preliminary benchmark revision reveals a weaker labor contour

The BLS released its preliminary estimate of the annual benchmark revision to nonfarm payroll employment this week, estimating that the NSA level will revise down by -818K jobs as of March 2024. We think the Fed staff had likely already expected a significant downward revision to establishment survey employment, but the magnitude was larger than we and they likely expected. We recap the revisions inside, and implications for other measures like productivity.

The US Fiscal Outlook: An "unsustainable" path

With most of the 2024 fiscal year behind us, this week we updated our estimates of the fiscal contribution to growth, and our assessments of the potential impact of the Presidential election, and a view of the debt trajectory and potential implications in our latest US Fiscal Outlook.

Week Ahead: PCE prices and GDP

Next week we expect Q2 real GDP growth, originally reported to be 2.8%, to be little revised, but income revisions will take on board the Q1 QCEW data (see chart on page 7). We expect both core and headline PCE prices rose 0.15% in July, leaving the 12-month change in core prices at 2.64% through July. Headline durable goods orders are expected to bounce back in July off of a rebound in aircraft orders, which fell in June. The Conference Board consumer sentiment index should improve a touch and the final estimate of University of Michigan sentiment should be little changed. The run of regional Fed surveys for August will continue as will the run of housing data for July. In the wake of the Jackson Hole symposium, the Fedspeak calendar looks light. The Week Ahead begins on page 17.

The Week in Review: All eyes on Jackson Hole

The shadows of the Tetons stole the spotlight, but the BLS's preliminary benchmark revisions stole some thunder, which we walk through on page 4 to 9. The July FOMC minutes and FOMC participant comments have been somewhat superseded by the Chair. The flash S&P Global manufacturing PMI for August slid to its lowest level all year. Sales of existing homes rose moderately in July but remained at a low level, especially after the June tumble. However, sales of new homes rose robustly in July and the dial-back in mortgage rates in recent weeks could ease some pressure. We estimate that the impacts of Hurricane Beryl and auto plant shutdowns continue to dissipate in the unemployment insurance claims data. The Week in Review (and links to the remaining Jackson Hole agenda) begins on page 9.

Economic Comment: The time has come

Chair Powell said "the time has come," to start dialing back monetary policy restrictiveness. In his remarks at the Jackson Hole symposium (see agenda here), he again noted the risks have shifted, with rising risks to employment and diminished (and diminishing) risks to inflation failing to move back to 2%. As expected, he did not give a concrete indication on the anticipated pace of easing, just noting that with an "appropriate" pace he believed the economy could achieve 2% inflation and a strong labor market. We continue to expect 25 bps rate cuts at each of the three remaining FOMC meetings this year.

"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," the Chair said.

Powell no longer considers the labor market to be an upside risk to inflation.

Two points worth noting. One, the Chair did not use the word "gradual" to describe the pace, as has been the case with a number of other FOMC participants in the past few weeks. Second, he no longer views the labor market as a potential source of upside risk to inflation, at least for the time being. That removes an important reason for constraining the pace of growth, in turn removing a reason for restrictive monetary policy.

"*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."* — Chair Powell, August 23

Similar to the minutes, the shift in tone in testimony and as we discussed in our preview Wednesday, risk management has come to the fore. The Chair made clear that the balance of risks has shifted: upside risks to inflation decreased while downside risks to employment increased. He also stated clearly he would like to avoid the labor market slowing further.

"We will do everything we can to support a strong labor market as we make further progress toward price stability. With an appropriate dialing back of policy restraint, there is good reason to think that the economy will get back to 2 percent inflation while maintaining a strong labor market," the Chair said.

Overall, the time has come. We expect conditions are not so weak yet to warrant 50 bp rate cuts, but we expect the Chair would like to remove policy restrictiveness more quickly than the quarterly pace seen in the Summary of Economic Projections. The risks have shifted and the FOMC is facing a more serious tradeoff between growth and inflation.

Inflation was all about supply and demand

Powell spent much of his relatively short Jackson Hole speech outlining his view of why inflation rose and fell, noting that the debate is far from settled (and that there would be presentations on that topic in a session later in the day). In Powell's version of the inflation history: During the pandemic there was a large burst of demand for goods brought on by "pent-up demand, stimulative policies, pandemic changes in work and leisure practices, and the additional savings associated with constrained services spending" as well considerable supply constrained from "a combination of lost workers, disrupted international trade linkages, and tectonic shifts in the composition and level of demand". As a result, inflation that was "running below target through 2020"(i.e. the first year of the pandemic) swung to a spike in inflation in March and April 2021 that was concentrated in goods that were in short supply.

He recounted that initial supply was expected to improve quickly and inflation would come down sharply. Indeed, he noted that this appeared to be the case over the next six months. However, in October 2021 inflation started to pick up again and broaden into services prices. At that point, the Fed pivoted toward tightening monetary policy. The rising inflation was further aided by new supply shocks in early 2022 from the Russia invasion of Ukraine and further COVID waves. PCE price inflation peaked at 7.1% in June 2022.

Powell believes monetary policy successfully anchored inflation expectations.

Overall Powell notes that "Pandemic-related distortions to supply and demand, as well as severe shocks to energy and commodity markets, were important drivers of high inflation, and their reversal has been a key part of the story of its decline. The unwinding of these factors took much longer than expected but ultimately played a large role in the subsequent disinflation… This narrative attributes much of the increase in inflation to an extraordinary collision between overheated and temporarily distorted demand and constrained supply." That said, he believes that monetary policy has played a key role in inflation coming down by helping to moderate demand and maintaining anchored inflation expectations.

How much did the Fed really help ease inflation?

Powell's basic narrative largely aligns with our view. However, Powell went further than the narrative by stating that "An important takeaway from recent experience is that anchored inflation expectations, reinforced by vigorous central bank actions, can facilitate disinflation without the need for slack."We are somewhat skeptical of this takeaway. While it is possibly correct, it is also quite possible that the inflation surge would largely have come back down without interest rates rising notably above neutral. We have noted that this was the case in the post-World War II inflation — which also had pent-up demand, changes in work and leisure, disrupted international trade linkages, and tectonics shifts in the composition and level of demand. It is by far the closest comparison to the recent inflation that we have in US history.

We are also somewhat less certain about the role of inflation expectations — something that FOMC members have long focused on but many inflation forecasters are less enamored with (as eloquently laid forth by a current Fed staffer who has been a leading voice among the inflation forecasters on the Fed Board staff for the past 25 years).

But we believe the extent to which policy has been appropriately rather than overly restrictive is yet to be seen.

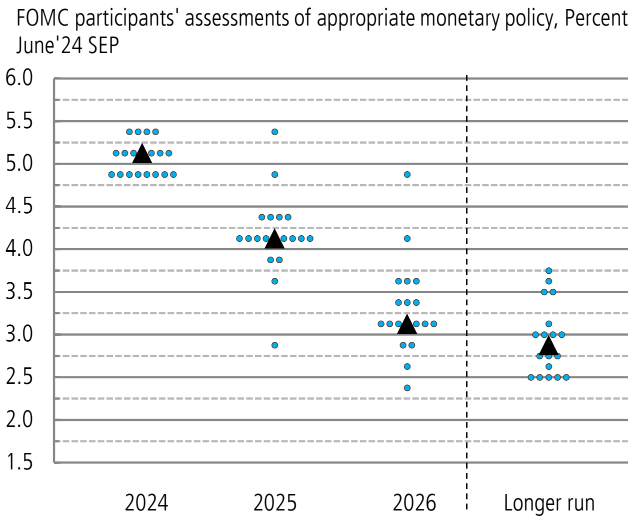
Directionally tightening monetary policy was clearly appropriate, what is not clear is how tighter monetary policy improved goods supply, increased the size of the labor force participation, satiated pent-up demand, or led to most of the excess saving being spent — probably the biggest reasons inflation has slowed. While the Fed's tightening of monetary conditions has not put the US into recession yet (and our baseline forecast does not include a recession), with the unemployment rate and credit card and auto delinquencies rising, the future is not yet written, and it will be some time before the full impact and appropriateness of the Fed's actions are clear.

Figure 1: June Summary of Economic Projections

Variable:	2024	2025	2026	LR
Change in real GDP	2.1	2.0	2.0	1.8
Mar projection	2.1	2.0	2.0	1.8
Unemployment rate	4.0	4.2	4.1	4.2
Mar projection	4.0	4.1	4.0	4.1
PCE inflation	2.6	2.3	2.0	2.0
Mar projection	2.4	2.2	2.0	2.0
Core PCE inflation	2.8	2.3	2.0	
Mar projection	2.6	2.2	2.0	
Federal funds rate	5.1	4.1	3.1	2.8
Mar projection	4.6	3.9	3.1	2.6

Source: Federal Reserve Board, UBS

Figure 2: June FOMC dot plot: quick shift away



Source: Federal Reserve Board, UBS

March 2024 NFP looks set to revise lower

The BLS released its preliminary estimate of the annual benchmark revision to nonfarm payroll employment, estimating that the NSA level will revise down by -818K jobs as of March 2024. That would imply the current published 242K average pace of employment gains for the 12 months ending March 2024 was closer to 174K per month. That more rapid pace of job gains fuelled the view of the economy's resilience, and bolstered the view that neutral rates of interest must be higher. Combined with falling inflation, this new estimate would seem likely to incrementally undermine that view, and reenforce the sense that monetary policy has been restrictive.

We have been writing about how the monthly employment report was overstating the strength, and in the event more than we thought it seems.

Chair Powell has mentioned the NFP overstatement and Governor Bowman has discussed it specifically in her last two speeches touching on the economic outlook, including yesterday. Bowman mentioned the Q4 Quarterly Census of Employment and Wages data released on June 5. That suggests to us a downward revision to nonfarm payroll employment has been expected by the Federal Reserve Board and their staff since at least then, and more likely for several months. Our guess is that the staff has been prepared for a downward revision of as much as -500K already. How much this incremental news might shift the view from that starting point is unclear.

The Federal Reserve Board already appeared to know a downward revision was coming.

As the table below shows, the distribution of employment shifted sharply too. Almost the entire estimate of the downward revision is expected to be to private employment, leaving in place the very strong gains in government employment during that period, which averaged a brisk 55K jobs added per month in the 12 months ending in March 2024. Our view has been that strong fiscal policy buoyed growth in 2023, helping to insulate the expansion from the impact of interest rate hikes by the Federal Reserve. This new information would be consistent with that view.

Even more than before, fiscal policy appeared to driven an outsized share of the growth in 2023.

Figure 3: BLS prelim. estimate of revision to NSA level in March 2024

Industry	Benchmark rev. (in thousands)	Benchmark rev. (in pct.)
Total nonfarm	-818	-0.5
Total private	-819	-0.6
Mining and logging	-11	-1.7
Construction	-45	-0.6
Manufacturing	-115	-0.9
Trade, transportation, and utilities	-104	-0.4
Wholesale trade	-33.6	-0.6
Retail trade	-129	-0.8
Transportation and warehousing	56.4	0.9
Utilities	1.7	0.3
Information	-68	-2.3
Financial activities	-76	-0.8
Professional and business services	-358	-1.6
Private education and health services	87	0.3
Leisure and hospitality	-150	-0.9
Other services	21	0.4
Government	1	<0.05

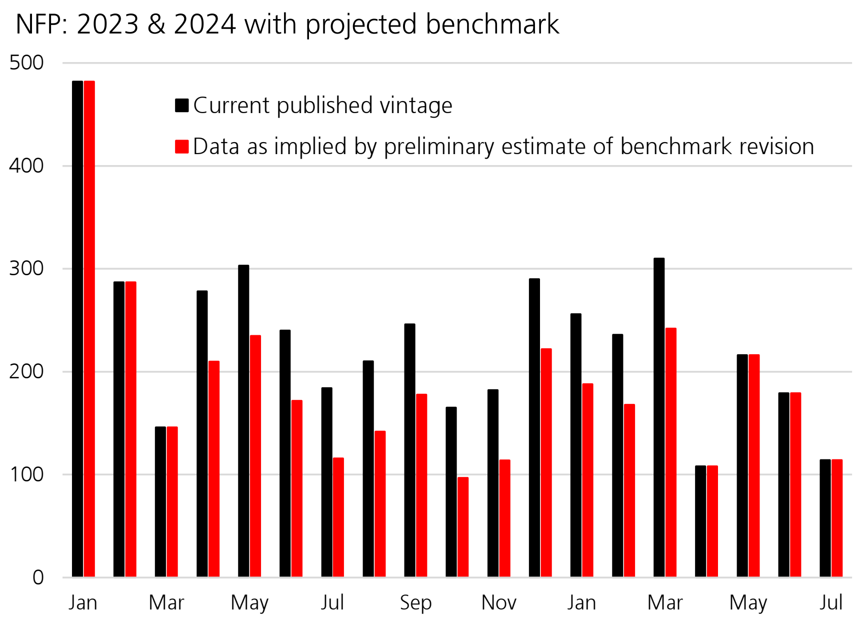
Source: BLS, UBS

We have been writing for most of the last year that we thought nonfarm payroll employment gains were overstated by roughly 30K per month, and in the event, the estimate this week would suggest something double that. Note that an average pace of gains of 174K per month is still a respectable pace of job gains, and not much different than the pace in 2018 and 2019 pre-Covid. A counterfactual chart of job gains that incorporates today's announcement is shown in Figure 1.

Also, note that today's estimate is preliminary. Last year the preliminary estimate of nearly -306K was revised to be smaller, -187K, when the final assessment was made and incorporated into the published data series with the January employment report released in early February. We expect again that this year, that the final revision is likely smaller than what was announced today, due to the processing of tax records and reconciliation of multiple work sites.

Note that the tendency has been for the actual revision to be more positive than the preliminary estimate.

Figure 4: Pre and post revision contour of job gains

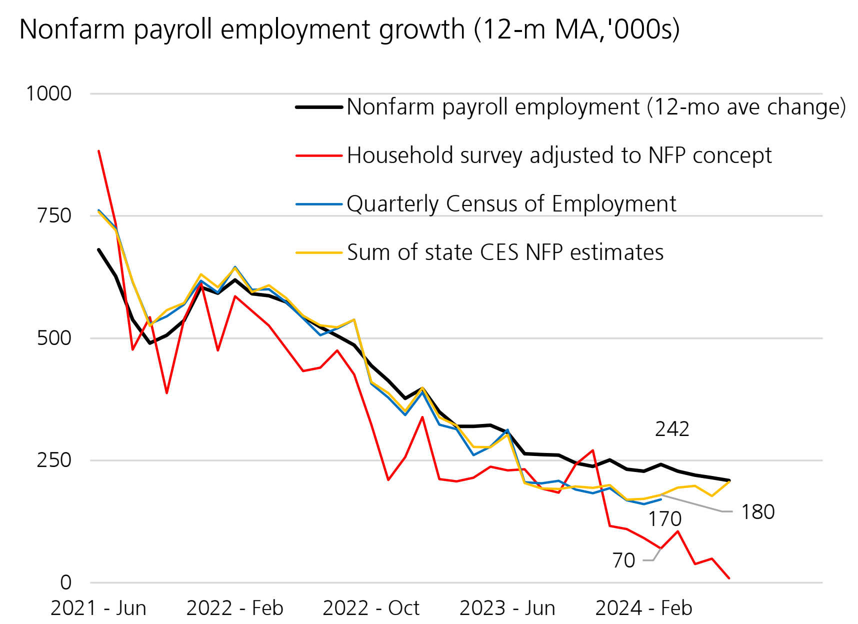


Source: BLS, Haver, UBS calculations

Today's data implication that the average pace of job gains was 174K per month over the 12 months ending in March 2024, would bring the pace of nonfarm payroll employment into alignment with the pace of job gains in the Quarterly Census of Wages and Employment, which is constructed from the same source data, the so-called ES-202 program. It would also align with the sum of state nonfarm payroll employment, data which had been benchmarked through September and is constructed in parternship between the BLS and state employment agencies. The figure below shows the data labels of each series as of March 2024.

Even if the 242K average pace of gains turns out to actually have been 174K jobs per month, that's not all that bad.

Figure 5: Bringing series into line, except the household survey



Source: BLS, Haver, UBS

As the chart also shows, the household survey data has been running noticeably different for the past few years. Note we reviewed how net international migration might play a role in our note, [US Population Growth](). It can explain some but not all of the deviation. A recent paper by Brookings also addresses this issue of how the household survey is exaggerating the weakness (link here).

The announced estimate today will be updated, and incorporated into the published data series with the release of the January 2025 employment report released in early February of next year. At that time, the published data from April 2023 to March 2024 will revise. New residual birth death adjustments will be estimated for the post-benchmark period, April 2024 through December 2024, and along with the annual reevaluation of seasonal adjustment, the data will all be re-seasonally adjusted. New sample units will also be introduced at that time.

Do people think that businesses are doing a UI eligibility determination before paying federal, state and local taxes?

The source data used to estimate the benchmark revision are tax records, the tabulated accounting reports that accompany tax payments made by businesses that employ workers and paid to the states. There appears to be some confusion over whether some kind of eligibility determination for unemployment insurance is needed to be included in this source data. There does not, and employees who are eligible and ineligible are included. These reports are a by product of the accounting system in each state. Employers fund the state unemployment insurance systems through tax payments ("proceeds payable"), and the tax assessments depend upon several factors, including the number of employees and compensation which are expected to be provided with the tax payment, and are subject to audit. As a result, the reports are generally considered an accurate assessment of the near census of employees in the United States.

From the BLS: "*These counts are derived from state unemployment insurance (UI) tax records that nearly all employers are required to file*," and "*along with these accounting reports, employers provide funds for their contributions payable, which finance the UI benefits system in each state*." The tabulations of the accounting reports filed with tax payments has nothing to do with who does or does not collect unemployment insurance benefits. Eligibility in most states is linked to an earnings determination test, and many part-time workers do not qualify in many states because they do not work enough hours. Because part-time workers might be ineligible for unemployment insurance, would they not be included in the benchmarked estimate of nonfarm payroll employment? That is not how the BLS description of the data is written, nor does that reflect how most firms pay taxes. Employees who are part time are included in revised nofarm payroll employment data, and that can be seen simply by looking at the workweeks reported in the data.

Productivity implications: a smidge better not a big shift

The implications for productivity growth are relatively minor.

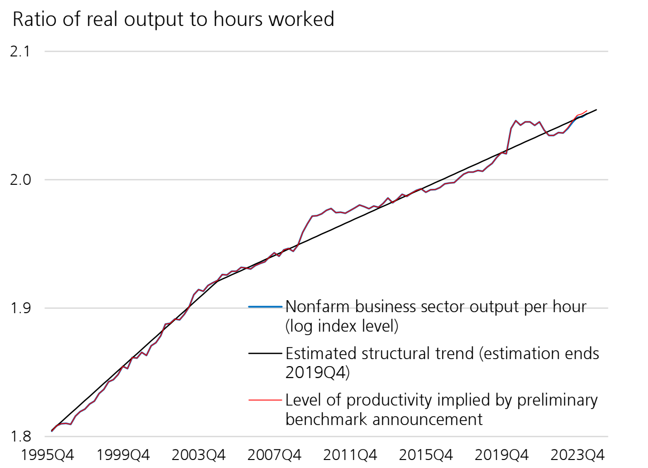
The preliminary estimate of the annual revision is based upon data that has already been partly incorporated into estimates of wage and salary data in the National Income and Product Accounts, and the estimates of compensation used in computing compensation per hour and unit labor costs. Because unit labor costs is output and compensation and abstracts from hours worked, the estimated revision has only minor implications for unit labor costs, that published measure has already had the income data benchmarked to the UI tax records through Q4.

The chart Figure 2 shows the downward revisions over the last few years reflecting the overstatement of wage and salary income by the monthly employment report, a point we have been writing about for some time. Because the income data has been benchmarked through 2023Q4, the news today has no implication for the saving rate through the end of last year. The Q1 records will be incorporated into the personal income estimates with the second release of Q2 GDP week after next.

The 0.6% downward revision to the level of private employment would be consistent with a 0.536% downward revision to the level of hours worked in the nonfarm business sector in 2024Q1, and thus imply roughly 0.5 pp more productivity growth over the four quarters ending in 2024Q1, or growth of 3.5%, from the current four quarter pace of 2.9%. Note that the compensation data through Q4 has already been benchmarked so holding Q1 constant the revision would imply higher compensation per hour, and unaffected unit labor costs (through Q4).

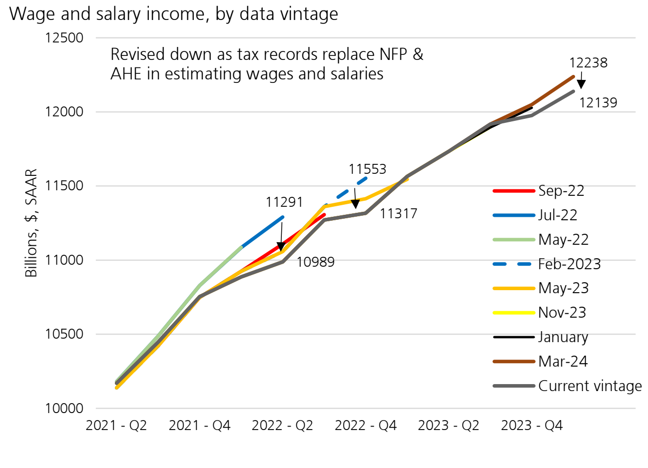
That added productivity would push the level a little further above the trend as of 2024Q2, or from being 0.068% above the trend to 0.601% above the trend. That could imply that either the level of output is too high (which seems very plausible) or there is room for more hiring or hours worked. Or maybe the trend should be a wee bit higher.

Figure 6: Productivity estimated to be 0.536% higher



Source: BLS, Haver, UBS calculations

Figure 7: Income implications already in the data, in part



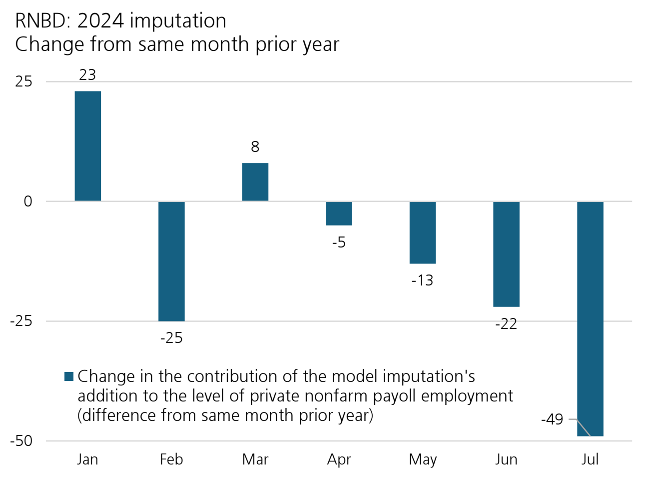
Source: BEA, Haver, UBS

Implications for current data

Analysts should be careful extrapolating too much. One point worth noting, which we published after the July employment report, the residual birth death adjustment is starting to revise. That is likely the primary source of the overstatement reported this morning. In July the imputation added 246K jobs. In July 2023 the imputation added 295K. That deceleration of 49K jobs accounts for most of the deceleration in the over-the-month change between those two months. In other words, if we added another 49K jobs to the July 2024 change in nonfarm payroll employment, the same as the imputation added in July 2023, the over the month change would have been +163K jobs. If July 2024's gain was 163K jobs, that would not be much different from the 184K gain in July 2023, when many assessed the labor market to be very strong. A significant amount of the shift in view appears to have been due to the evolution in a model-based imputation. Is that reflective of "truth"? We won't know until we see the next annual revision estimate next year.

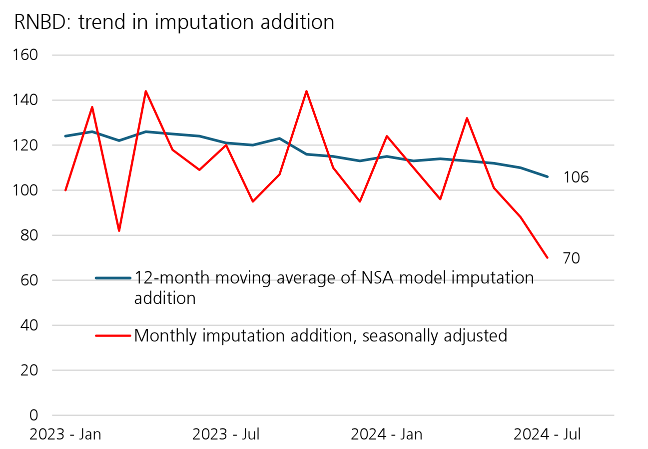
Be careful extrapolating too far. We expect a large part of the downward revision is due to the residual net birth death adjustment being off, and that is now starting to revise. The July 2024 addition to NFP was noticeably shy of the July 2023 addition, likely holding down the July 2024 gain in nonfarm payroll employment.

Figure 8: Residual net birth death adjustment revising



Source: BLS, Haver, UBS

Figure 9: An SA counterfactual fell off sharply in July 2024

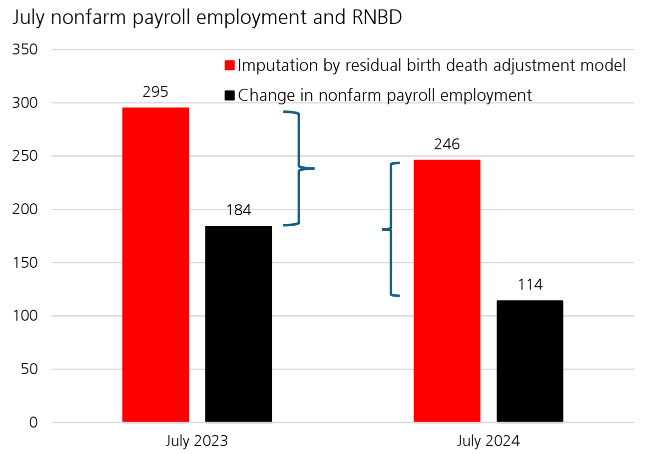


Source: BLS, Haver, UBS

While much of this is a debate over measurement, initial and continuing claims which are administrative data seem to continue to hang in at levels consistent with slowing but nothing ominous. Note that the claims data should capture any slowing in hiring, despite the common misperception of the data only capturing layoffs. First the flows of the labor market are large. If the flow into jobs (hiring) slows, the number of people moving from benefits to employment would likely slow and the stock of continuing claims would rise. Second, from 2011 to 2019, layoffs steadily climbed. Initial claims steadily fell. Why the disconnect? Because hiring was strong. Someone leaving a closing or shrinking establishment is less likely to file an initial claim if hiring is strong and that person can transition into a new job more quickly. If hiring slows, the more likely someone laid off files an initial claim.

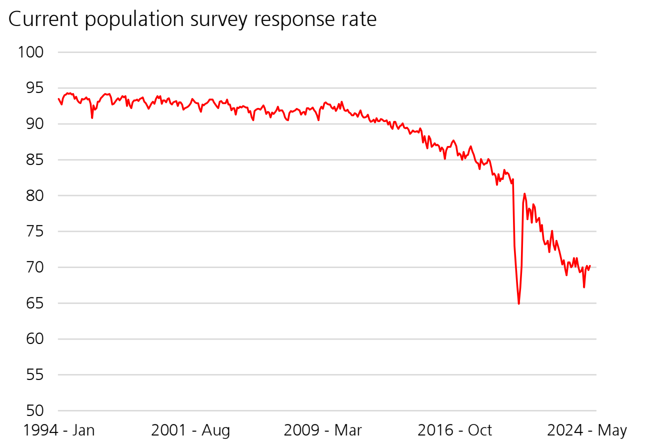
Finally, mismeasurement abounds. The sample size for the Current Population Survey has fallen sufficiently that only about 40K households are representing over 333 million, Plus, we published a note on immigration arguing the population weights are incorrect. The tiny sample relative to the population, known problems with the sample weights, and disproportionate representation of some demographic groups among respondents, suggests treating the household survey data cautiously too.

Figure 10: Y/Y the RNBD change mapped July change



Source: BLS, Haver, UBS

Figure 11: Household survey measurement suspect too



Source: BLS, Haver, UBS

The Week in Review: All eyes on Jackson Hole

The Chair said it: the time for rate cuts is here. More data to come before the September meeting, but we see the Committee teeing up a 25-bp rate cut.

The focus of attention in the macro world this week was in the shadows of the Tetons, where Jerome Powell today addressed the yearly gathering of monetary policymakers and academics at the Jackson Hole symposium (see the agenda for the conference "Reassessing the Effectiveness and Transmission of Monetary Policy," as well as the paper links). As we expected, Chair Powell said "the time has come" to start dialing back monetary policy restrictiveness. The Chair defended the progress of disinflation back to the FOMC target, as well as the strength of the labor market, although it is clear that the FOMC faces a changed balance of risks. We explore the speech in more depth in the Economic Comment, as well as the preliminary BLS benchmarking of the nonfarm payrolls data, which suggested that job gains in the 12 months ending in March are set to revise 68K lower per month, on average.

More soft activity survey data for August.

The data flow was relatively light otherwise. The flash S&P Global manufacturing PMI for August slid further into contraction to its lowest level all year. The August run of Federal Reserve bank regional activity surveys continued remained soft with data from FRB of Philadelphia and FRB of Kansas City. Housing data this week was mixed — sales of existing homes rose moderately in July but remained at a low level, especially after the June tumble. However, sales of new homes rose robustly in July and the dial-back in mortgage rates in recent weeks could ease some pressure. We estimate that the impacts of Hurricane Beryl and auto plant shutdowns continue to dissipate in the unemployment insurance claims data.

Vice President Kamala Harris formally accepted the Democratic nomination for president.

In other news, Vice President Kamala Harris accepted the Democratic presidential nomination in the Democratic National Convention in Chicago this week, formalizing the ticket alongside Minnesota Governor Tim Walz, the nominee for vice president. In addition, Canada's two main railroads shut down for several hours on Thursday after talks with a labor union failed to result in a deal. The stoppage threatened to snarl North American supply chains, but late on Thursday, the Canadian government told a labor board to end the shutdown and forced arbitration. Steve MacKinnon, Canada's labor minister, said that he expects trains would be rolling "within days." As such, it appears that significant disruption will be avoided.

Chair Powell signals a cut in Jackson Hole, other participants chime in

The time has come.

The clear headline of the week's Fedspeak was the Chair's remarks at the Jackson Hole symposium, where he gave the strongest indication yet that the Committee is looking toward lowering rates at the September meeting, and highlighted the shifting balance of risks that the FOMC sees. Beyond that, he did not offer much color on the pace and timing of future cuts, nor the labor market conditions that might prompt a more aggressive rate cut in September or before year-end. Instead, he said that the Committee will rely on the incoming data. See the Economic Comment for a deeper dive into the speech.

Bostic could be open to more than one rate cut this year, and Collins repeated the word "soon."

A handful of other FOMC participants hit the airwaves as well and generally signalled their support for upcoming policy easing, although some were more strident than others about the need to cut rates (and when). FRB of Atlanta President Bostic, who has long expressed that his outlook was one 25-bp rate cut at the end of the year, said today in a CNBC interview from Jackson Hole that it is possible that more than one cut may be needed by year-end. This is a shift in his publicly expressed view, as he noted that inflation had slowed more than he expected, and he said it may be appropriate to "pull forward" the first rate move. "*You can't ignore the data … the data has come in in a way which would suggest that it's going to be appropriate to be closer to moving*," he said. When asked if he favors more than one rate cut this year, he said "it is in play." Meanwhile, FRB of Boston President Collins reiterated her view that the Commitee will begin dialing back monetary policy restrictiveness "soon."

Schmid and Goolsbee see the labor market slowing with different levels of urgency, highlighting a range of views on the Committee.

FRB of Kansas City President Schmid offered a cautious outlook on rate cuts this week, saying that he needed to see more data before supporting a decision to begin rate cuts. Speaking after the preliminary benchmark revisions to the establishment survey were released, he brushed aside concerns that the labor market had been cooling by more and for longer than previously thought. "While it's a big number, it doesn't really change the path of the way I think of things when I think about monetary policy," he said. Taking a more concerned tack in reference to the labor market, FRB of Chicago President

Goolsbee aruged that by "almost all measures" the job market is cooling, and that policy is at its tightest point of the current cycle. In comments last week, Goolsbee indicated that he is growing more concerned about the labor market. "*On the margin, I'm getting more concerned about the employment side of the mandate,*" *he said last week.*" The comments from Schmid and Goolsbee may highlight the range of views the FOMC currently holds on the labor market outlook, and stridency to ease policy.

July FOMC meeting minutes: the balance of risks shifting

The July FOMC meeting minutes released on Wednesday reflected the FOMC seeing the balance of risks shifting. Inflation risks have been receding, and risks to the labor market expansion were rising. This prompted a notable shift in between the June and July FOMC meetings, on not all that much change in the tenor of the data, we would argue, to get most FOMC participants on board with a September rate cut, and presumably a 25-bp rate cut.

The minutes may be eclipsed by events such as the July employment report, but at the time of the meeting at least the "vast majority" of the Committee was on board to start to ease policy at the next meeting (September).

"*The vast majority observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting. Many participants commented that monetary policy continued to be restrictive, although they expressed a range of views about the degree of restrictiveness, and a few participants noted that ongoing disinflation, with no change in the nominal target range for the policy rate, by itself results in a tightening in monetary policy,*" said the minutes. Several participants saw a case for lowering rates at the July meeting, according to the minutes, but in the end all participants supported the decision to leave policy unchanged.

The labor market was still assessed as strong, despite the shifting risks, with the summary characterization of "*Participants generally assessed that, overall, conditions in the labor market had returned to about where they stood on the eve of the pandemic — strong but not overheated*. " For more detail, see our recap here.

S&P Global manufacturing PMI slides, still contractionary at 48.0

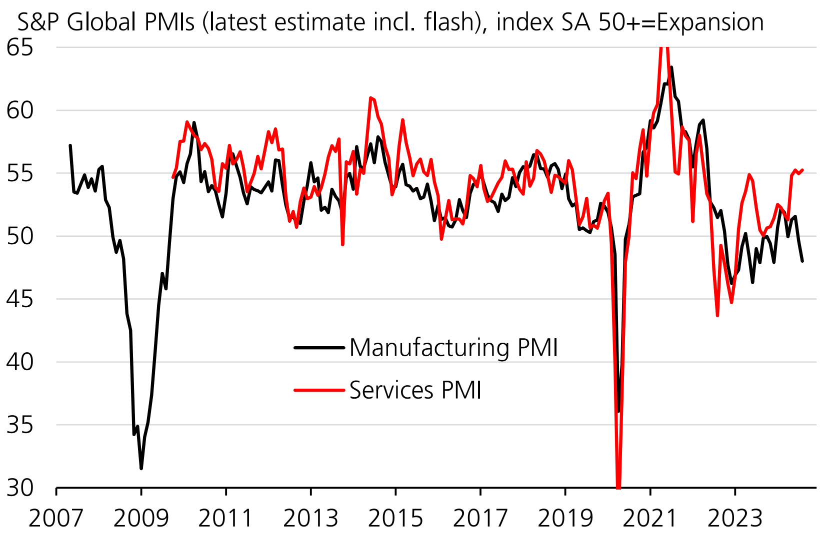
Mentions of election-related uncertainty have been a recurring theme of late in activity survey comments, and these were present in the flash August S&P Global PMI.

The S&P Global manufacturing PMI headline fell 1.6 points to 48.0 in the flash August data, remaining below the 50 breakeven, the weakest reading for the index this year, and weak for an economic expansion. Among the components, the new orders index fell 0.2 points to 47.2, remaining in contraction for the second month. The employment index fell 2.1 points to 50.2, moving closer to stalling at the 50 breakeven level, but still remaining somewhat above levels seen at the end of 2023. Supplier delivery times shortened, up 2.6 points to 52.6 (in this index, above 50 indicates shorter delivery times). Comments indicated that firm optimism was checked in part by uncertainty regarding the presidential election and concerns about future demand.

The services PMI, which is not a composite but a business conditions index, increased 0.2 points to 55.2. The index has remained above 50 since February of last year, and in recent months has moved more into the range seen during the 2010-2019 expansion.

Figure 12: S&P Global manufacturing PMI contracted again

The flash August manufacturing PMI fell to 48.0, its lowest level all year.



Source: Copyright © 2024, UBS, S&P Global™

FRB of Philadelphia non-manufacturing survey falls again in August

The FRB of Philadelphia non-manufacturing index fell six points to -25.1 in the August data, following a 22-point plunge in July. The employment components were especially weak. Full-time employment plunged 10.0 points to -14.9 and part-time employment fell 4.5 points to -0.5, though the workweek picked up 3.1 points to 2.1. New orders picked up 6.8 points but remained in contraction at -0.3. The capex component for physical plants plunged 11.5 points into contraction (-2.2), though equipment & software rose 4.2 points to 15.0.

The employment components of the FRB of Philadelphia non-manufacturing survey were especially weak.

Looking ahead, the outlook was very gloomy. Six-month expected business activity slumped 28.7 points to -9.0, tracing back improvement in 2024 and bringing the index back to the lowest level since late 2022. Like other regional non-manufacturing surveys, the FRB of Philadelphia index has recently been weak for an expansion and the move in August pushes the index further into the lower end of the range we have seen in the index since mid-2022.

FRB of Kansas City manufacturing survey rises but still weak

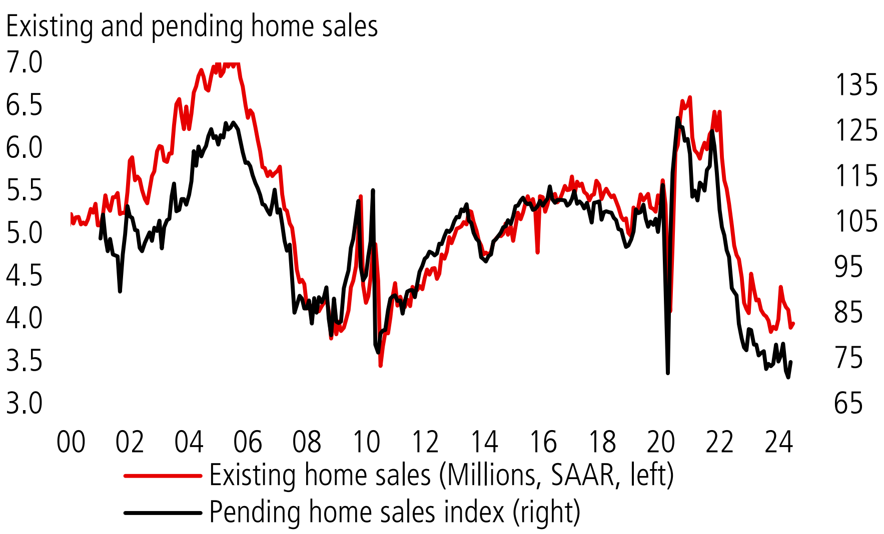
In August, the FRB of Kansas City manufacturing gauge rose 10 points to -3, leaving the index 5.0 points higher at 47.9 on an ISM-adjusted basis, still below the 50 breakeven. The new orders, shipments, employment and workweek components all rose but remained contractionary. The production index increased 18 points to 6, back into expansion. However, the six-month outlook for capex deteriorated, falling 14 points to -4.

Although the FRB of Kansas City manufacturing gauge improved in August, it remained in contraction.

Sales of existing homes rise 1.3% in July

Existing home sales (EHS) rose 1.3% on the month to 3.95 million (SAAR) in July, after a revised 5.1% tumble in June. Even with the July increase existing home sales remain quite low. The median existing-home sales price rose 4.2% on the year in July, while months' supply at the current sales pace ticked down 0.1 to 4.0. Existing home sales rose or were flat in every region but were particularly strong in the Northeast, where they rose by 5.1%.

Figure 13: Existing home sales still at low level



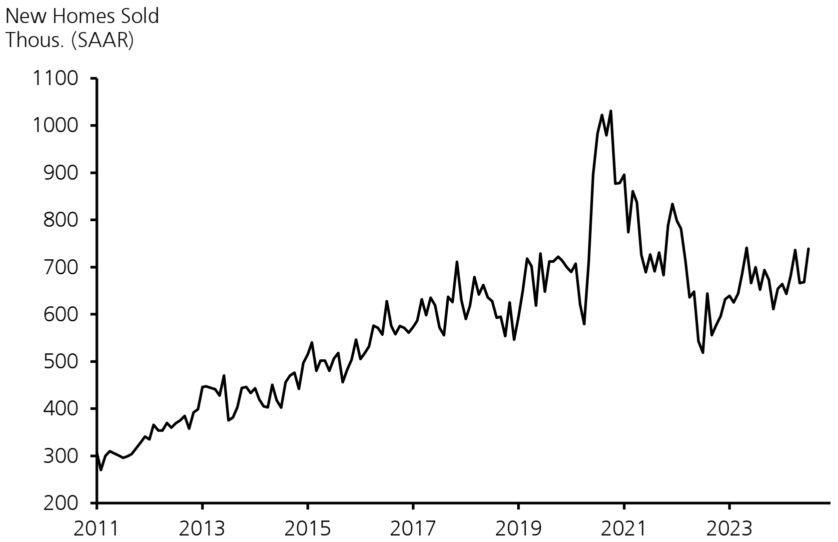
Source: National Association of Realtors, UBS

In spite of the move upward in July, the level of existing home sales still remains depressed.

New home sales rise robustly in July, May and June heavily revised

Sales of new single-family homes surged in July by 71K to 739K (10.6% on the month), beating consensus (623K) and our estimate (610K). A caveat to the front-month NHS data is that the figures (from the Census Bureau) are often revised heavily in subsequent months. The three months subject to revision in today's report were upwardly revised a cumulative 102K. The bulk of the revisions (96K) were added to May (45K) and June (51K), with the April level revised up 6K. With the large rise, the July report saw the level of new home sales 39K below its July level last year and 128K above its November 2023 trough. The level is also now in the range it occupied in late 2019, on the eve of the pandemic. Months' supply for new single-family homes at the current sales pace fell 0.9 to 7.5.

Figure 14: New home sales within the eve-of-pandemic range



Source: Census Bureau, Haver, UBS

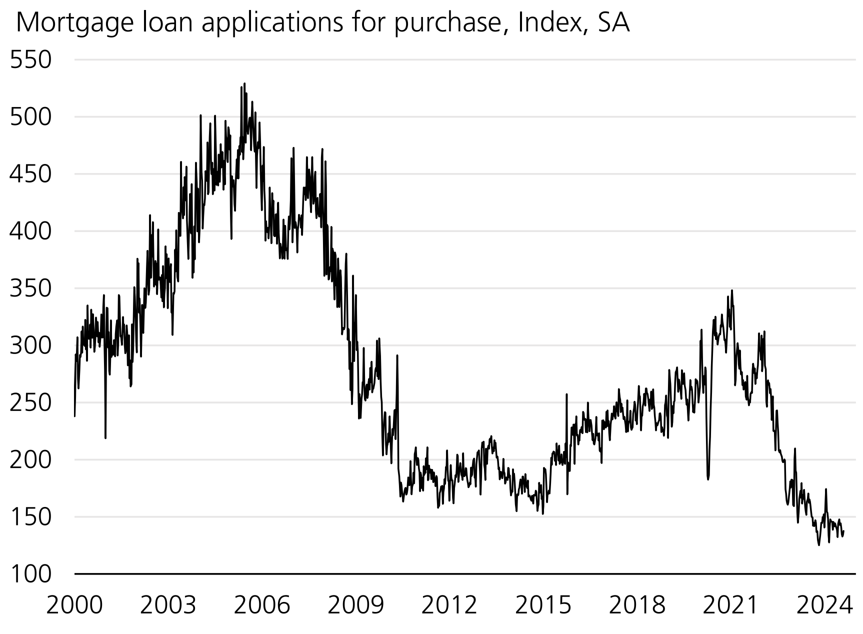
New home sales rose 10.6% on the month in July, and the two prior months were revised up, bringing the level up to the range it occupied in late 2019.

Mortgage applications fall further

Mortgage applications for purchase fell further, -5.2%, in the week of August 16, following a 2.8% rise the preceding week, according to the Mortgage Bankers Association. A number of housing market indicators were weak in the second quarter, and the weakness in mortgage applications for purchase continues as the index languishes through mid-August. The 30-year fixed rate mortgage contract rate remained elevated at 6.50% in the latest week, though that is down from 6.82% at the end of July and off recent peaks of about 7.6% in October 2023.

Housing market data continues to struggle to gain traction in the high interest rate environment.

Figure 15: Mortgage applications still historically depressed



Source: Mortgage Bankers Association, Haver, UBS

Initial claims edge up to 232K, Texas further normalizes

Initial claims for unemployment insurance rose 4K to 232K in the week ending August 17. Initial claims filings in hurricane-impacted Texas continue to unwind the July noise. We wrote in our preview that we expected to see the continued impact from special factors — Hurricane Beryl and auto plant shutdowns — wane in the initial filings, and that looks to have been borne out in this week's data. For more detail on this, see our recap. We also wrote that we did not see discernable impact from Hurricane Debby in

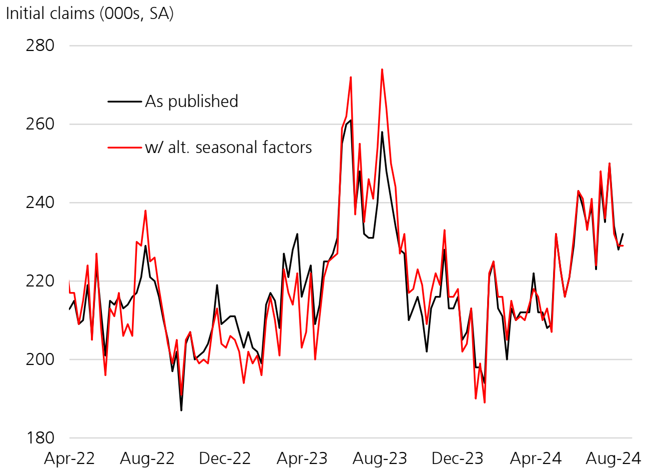
Noise related to Hurricane Beryl and auto plant shutdowns looks to be quieting in the claims data.

Florida, Georgia, and South Carolina in last week's data, and that appeared to be the case this week as well.

Continuing claims have felt the follow-through of falling initial claims in recent weeks. In the week ending August 3, continuing claims rose 4K to 1863K, below consensus expectations (1870K) but closer to our estimate (1860K). We estimate that continuing claims are still running about 5K above what they would be without the hurricane impact. Note that hurricane-related initial claims do not always flow through to continuing claims because many people are filing initial claims as part of the process to claim Disaster Unemployment Assistance (DUA) claims, a program run by the Federal Emergency Management Agency (FEMA), not the regular state programs.

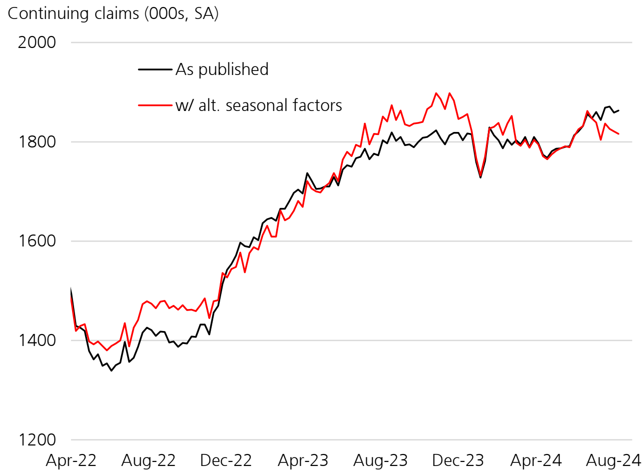
For another comparison, with our estimates of pre-pandemic seasonality, in this report initial claims were unchanged at 229K and continuing claims fell 5K to 1816K. In either case, continuing claims' rise, typically an indication of hiring slowing, backing up the stock of claimants, has leveled off somewhat in recent weeks.

Figure 16: Initial claims stabilize



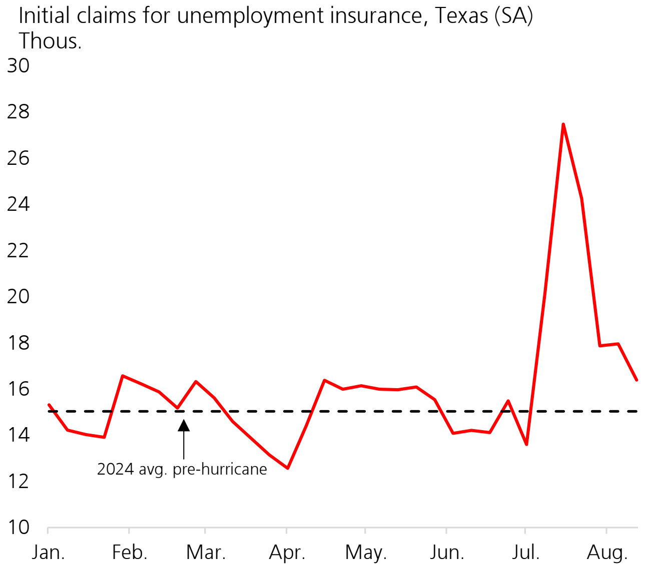
Source: DoL, UBS

Figure 17: Continuing claims too



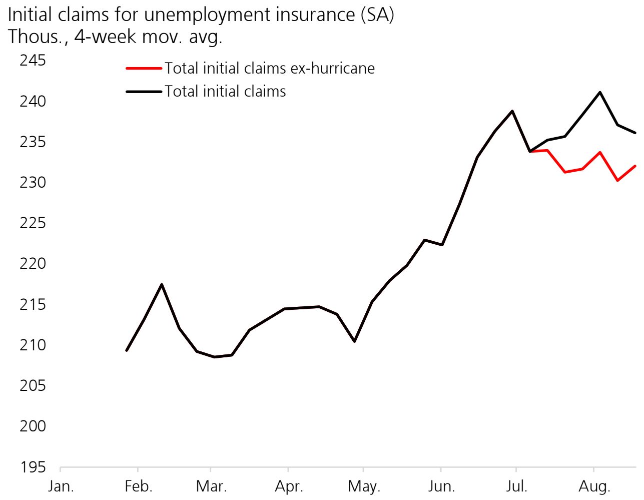
Source: DoL, UBS

Figure 18: Initial claims jumped in Texas post-Beryl, but have normalized significantly



Source: DoL, UBS

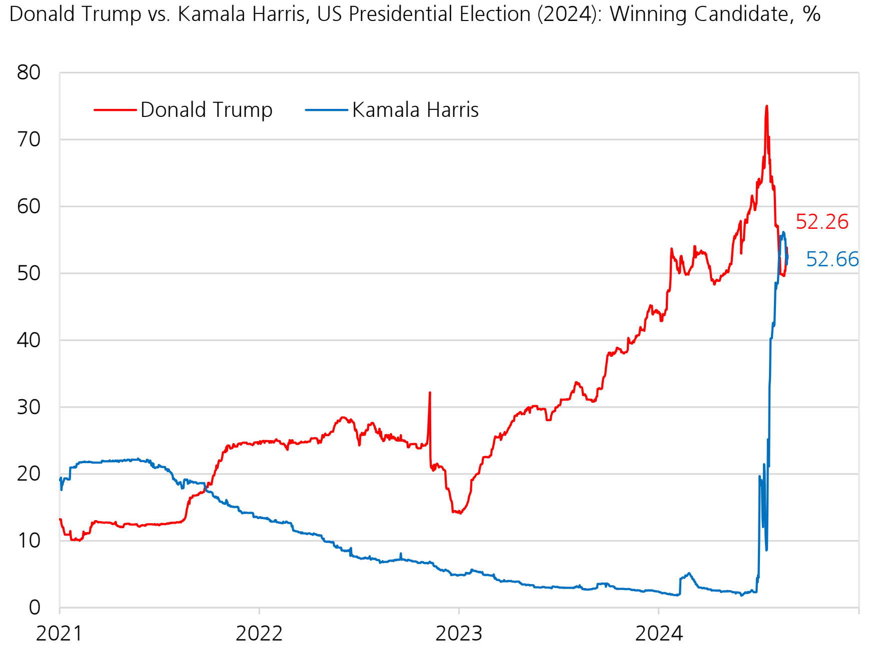
Figure 19: Gap between total and ex-hurricane claims is narrowing as noise subsides



Source: DoL, UBS

UBS Evidence Lab betting odds monitor:

Figure 20: Probabilities of election outcome from betting odds



Source: UBS Evidence Lab ([> Access Dataset]) . *Implied probability based on betting odds at leading bookmakers, compiled by UBS Evidence Lab, with data and details available at the source link. Please note UBS does not try to predict the outcome of elections.

Figure 21: Factors affecting reserve balances

Factors Affecting Reserve Balances

Reserve Bank credit, related items, and reserve balances, of despository institutions at Federal Reserve Banks (Millions of dollars)

	Wednesday figures (EOP)			
	Change from week ended			Week ended
	Aug. 14, 2024	Jul. 24, 2024	Aug. 23, 2023	Aug. 21, 2024
Factors Supplying Reserve Funds				
Reserve Bank credit	(37,948)	(66,287)	(1,004,736)	7,098,080
Securities held outright	(18,994)	(43,125)	(806,819)	6,715,162
U.S. Treasury securities	(14,949)	(24,989)	(607,758)	4,398,736
Bills	-	-	(64,129)	195,293
Notes and bonds, nominal	(14,984)	(26,315)	(530,590)	3,742,444
Notes and bonds, inflation-indexed	-	1,048	(20,505)	344,044
Inflation compensation	36	279	7,467	116,956
Federal agency debt securities	-	-	-	2,347
Mortgage-backed securities	(4,045)	(18,137)	(199,061)	2,314,079
Unamortized premiums on securities held outright	(612)	(2,281)	(31,022)	260,059
Unamortized discounts on securities held outright	(142)	(288)	2,786	(24,712)
Repurchase agreements	1	1	1	1
Foreign official (FIMA Repo Facility)	1	1	1	1
Others	-	-	-	-
Loans	(1,319)	(7,732)	(148,417)	104,212
Primary credit	(349)	(4,690)	(129)	2,061
Secondary credit	-	-	-	-
Seasonal credit	17	29	32	97
Paycheck Protection Program Liquidity Facility	(23)	(149)	(3,251)	2,566
Bank Term Funding Program	(964)	(2,922)	(7,898)	99,488
Other credit extensions	-	-	(137,171)	-
Net portfolio holdings of MS Facilities LLC (Main Street Lending Program)	(270)	(245)	(8,877)	10,635
Net portfolio holdings of Municipal Liquidity Facility LLC	-	-	(5,615)	-
Net portfolio holdings of TALF II LLC	-	-	(1,581)	-
Float	22	(55)	(101)	(325)
Central bank liquidity swaps	-	(8)	(79)	151
Other Federal Reserve assets	(16,635)	(12,554)	(5,014)	32,896
Foreign currency denominated assets	212	692	484	18,785
Gold stock	-	-	-	11,041
Special drawing rights certificate account	-	-	5,000	10,200
Treasury currency outstanding	14	56	708	53,003
Total factors supplying reserve funds	**(37,721)**	**(65,539)**	**(998,544)**	**7,191,109**
Factors Absorbing Reserve Funds				
Currency in circulation	(1,742)	(463)	19,065	2,347,140
Reverse repurchase agreements	(3,671)	(87,440)	(1,393,987)	718,527
Foreign official & international accounts	3,472	(9,648)	101,217	397,198
Others	(7,143)	(77,792)	(1,495,204)	321,329
Treasury cash holdings	(15)	(24)	62	377
Deposits with Federal Reserve banks, other than reserve balances	(54,519)	(54,236)	300,887	897,420
Term deposits held by depository institutions	-	-	-	-
U.S. Treasury, General Account	(54,096)	(32,692)	318,696	734,727
Foreign official	(2)	(3)	(5)	9,681
Other	(421)	(21,541)	(17,805)	153,011
Treasury contributions to credit facilities	-	-	(8,400)	4,958
Other liabilities and capital	2,063	(6,569)	(97,869)	(136,391)
Total factors, other than reserve balances, absorbing reserve funds	**(57,883)**	**(148,732)**	**(1,180,242)**	**3,832,031**
Reserve balances with Federal Reserve Banks	**20,162**	**83,193**	**181,698**	**3,359,078**

Source: Federal Reserve, UBS

Economic Forecast

Figure 22: GDP, employment, inflation, and interest rates

August 23, 2024	2023 Q/Q % ch, ar				2024				2025				2022 Q4/Q4 % ch	2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1Q	2Q	3Q	4Q					
Real GDP	**2.2**	**2.1**	**4.9**	**3.4**	**1.4**	**2.9**	**1.2**	**1.1**	**1.3**	**1.6**	**1.6**	**1.7**	**0.7**	**3.1**	**1.6**	**1.6**	**1.7**
Personal consumption exp	3.8	0.8	3.1	3.3	1.5	2.4	2.2	1.5	1.4	1.5	1.5	1.5	1.2	2.7	1.9	1.5	1.5
Goods	5.1	0.5	4.9	3.0	-2.3	2.5	2.1	0.4	0.5	0.7	0.3	0.3	-0.6	3.3	0.7	0.4	0.8
Services	3.1	1.0	2.2	3.4	3.3	2.3	2.3	2.0	1.8	1.9	2.1	2.1	2.1	2.4	2.5	2.0	1.8
Business fixed investment	5.7	7.4	1.5	3.8	4.4	5.2	0.8	-0.2	1.7	2.1	2.7	2.6	5.6	4.6	2.5	2.3	2.8
Structures	30.3	16.1	11.2	10.9	3.4	-3.4	-0.4	-0.5	-1.5	-0.5	1.5	2.0	0.8	16.9	-0.3	0.4	2.2
Equipment	-4.1	7.7	-4.4	-1.1	1.6	11.6	0.1	-2.5	1.0	1.5	2.0	2.0	5.3	-0.6	2.6	1.6	0.9
Intellectual property products	3.8	2.7	1.8	4.3	7.7	4.5	2.1	2.1	4.0	4.0	4.0	3.5	8.3	3.1	4.1	3.9	4.7
Residential	-5.3	-2.2	6.7	2.8	16.0	-1.4	-8.3	5.5	3.0	4.0	3.0	2.0	-17.4	0.4	2.6	3.0	4.0
Government purchases	4.8	3.3	5.8	4.6	1.8	3.1	1.1	1.1	1.1	1.1	1.1	1.2	0.8	4.6	1.8	1.1	1.2
Net exports (contrib, pct pt)	0.6	0.0	0.0	0.3	-0.7	-0.7	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2	0.2	0.2	-0.4	-0.2	-0.2
Exports	6.8	-9.3	5.4	5.0	1.6	2.0	1.4	1.8	2.1	2.2	2.2	2.1	4.3	1.8	1.7	2.1	2.0
Imports	1.3	-7.6	4.2	2.2	6.1	6.9	1.6	2.6	2.7	2.7	3.0	2.7	2.1	-0.1	4.3	2.8	2.8
Inventory contribution (pct pts)	-2.2	0.0	1.3	-0.5	-0.4	0.8	-0.2	-0.1	0.0	0.1	0.1	0.2	-0.3	-0.4	0.0	0.1	0.1
Memo: Private domestic final purchases	3.6	1.7	3.0	3.3	2.6	2.6	1.5	1.4	1.5	1.7	1.8	1.7	2.0	2.9	2.0	1.7	1.8
Labor market																	
Payrolls (monthly pace, 000s)	305	274	213	212	267	168	148	123	105	105	110	115	377	251	177	109	114
Civilian unemployment rate (%)	3.5	3.6	3.7	3.8	3.8	4.0	4.2	4.2	4.3	4.3	4.3	4.3	3.6	3.8	4.2	4.3	4.1
Labor force participation rate (%)	62.5	62.6	62.7	62.6	62.6	62.6	62.7	62.6	62.6	62.6	62.5	62.5	62.2	62.6	62.6	62.5	62.4
Inflation																	
CPI-U	3.8	3.0	3.4	2.7	3.8	2.8	1.1	2.6	2.9	2.4	2.1	2.5	7.1	3.2	2.6	2.5	2.4
Core CPI-U	4.9	4.7	3.0	3.4	4.2	3.2	2.0	3.3	3.2	2.6	2.5	2.6	6.0	4.0	3.2	2.7	2.5
PCE Chain Price Index	4.2	2.5	2.6	1.8	3.4	2.6	1.4	2.0	2.3	2.1	1.7	2.0	5.9	2.8	2.3	2.0	2.1
Core PCE Chain Price Index	5.0	3.7	2.0	2.0	3.7	2.8	2.0	2.3	2.5	2.2	2.0	2.0	5.1	3.2	2.7	2.1	2.1
Incomes																	
Average hourly earnings	4.4	4.7	4.4	3.6	4.3	3.5	3.5	3.3	3.3	3.3	3.3	3.3	5.0	4.3	3.6	3.3	3.4
Employment cost index	4.7	4.1	3.8	3.8	4.5	3.5	3.4	3.3	3.2	3.1	3.0	3.0	5.1	4.1	3.7	3.1	3.0
Real disposable income	10.8	3.3	0.5	0.9	1.3	1.0	1.1	1.0	1.1	1.8	1.3	0.9	-1.5	3.8	1.1	1.2	1.0
Saving rate (%)	4.8	5.1	4.3	3.7	3.8	3.4	3.1	3.0	2.9	3.0	2.9	2.7	3.2	3.7	3.0	2.7	2.2
Other indicators																	
Housing starts (mil, a.r.)	1.37	1.46	1.38	1.48	1.41	1.34	1.37	1.49	1.50	1.51	1.52	1.53	1.40	1.48	1.49	1.53	1.54
Nonfarm business productivity	-0.3	3.3	4.6	3.5	0.4	2.3	0.6	0.1	1.1	1.5	1.3	1.4	-1.8	2.8	0.8	1.3	1.4
Federal budget balance ($ bil, FY)													-1376	-1694	-1897	-1943	-1926
Federal funds rate (top of range, %)	5.00	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.00	3.50	3.25	4.50	5.50	4.75	3.25	3.25

Q2 2024 included expected revisions, Q3 onward are UBS forecasts. Source: Commerce Dep't, Federal Reserve, Bureau of Labor Statistics, Treasury Department, & UBS

The Week Ahead: PCE prices and GDP

Both core and headline PCE prices are expected to have risen 0.15% in July, which would leave the 12-month change in core PCE prices at 2.64%, a similar pace to June. We still expect that base effects will keep 12-month core PCE prices tracking broadly sideways until the end of the year. We expect that July spending was robust at 0.5% in nominal terms, while nominal incomes are expected to have risen a muted 0.1%, suggesting a possible tick lower in the saving rate in July. The second estimate of Q2 GDP is expected to be little changed. Headline durable goods orders are expected to bounce back in July, but core orders are expected to be soft. The Conference Board consumer sentiment index is expected to improve a touch in August, and the final estimate of University of Michigan sentiment is expected to be little changed. The run of regional Fed surveys for August will continue, as will the run of housing data for July. The Fedspeak calendar is looking a little light.

We expect real GDP to be little revised next week, but the compensation data will take on board the Q1 UI tax records.

Figure 23: The data in the week ahead

	Release	Time (ET)	Consensus	UBS Est.	Previous
Mon, Aug 26	Durable goods (Jul)	8:30 AM		6.6%	-6.7%
	Ex transport (Jul)	8:30 AM		-0.1%	0.4%
	Nondefense capital goods ex aircraft (Jul)	8:30 AM		-0.1%	0.9%
	Shipments of nondef. capital goods ex aircraft (Jul)	8:30 AM		0.1%	0.2%
	Dallas Fed manufacturing survey (Aug)	10:30 AM			-17.5
Tue, Aug 27	S&P/CS home prices, Composite 20 index (Jun)	9:00 AM			0.3%
	Conference Board confidence (Aug)	10:00 AM		101	100.3
	Richmond Fed manufacturing survey (Aug)	10:00 AM			-17
	Richmond Fed nonmanufacturing survey (Aug)	10:00 AM			-9
	Dallas Fed nonmanufacturing survey (Aug)	10:30 AM			-0.1
Wed, Aug 28	MBA Mortgage applications for purchase index (Aug 23)	7:00 AM			XX
Thu, Aug 29	GDP (Q2, 2nd est)	8:30 AM		2.90%	2.8%
	Real consumption (Q2, 2nd est)	8:30 AM		2.40%	2.3%
	Core PCE prices (Q2, 2nd est)	8:30 AM		2.80%	2.9%
	Corporate profits (Q2, prelim)	8:30 AM			-1.4%
	Initial claims for unemployment insurance (Aug 24)	8:30 AM		235K	232K
	Continuing Claims (Aug 17)	8:30 AM		1855K	1863K
	Advance trade goods balance (Jul)	8:30 AM		-$97.7B	-$96.6B
	Retail inventories ex auto (Jul)	8:30 AM			0.2%
	Wholesale inventories (Jul)	8:30 AM			0.2%
	Pending Home Sales Index (Jul)	10:00 AM		0.2%	4.8%
Fri, Aug 30	Personal income (Jul)	8:30 AM		0.1%	0.2%
	Nominal personal spending (Jul)	8:30 AM		0.5%	0.3%
	Real personal spending (Jul)	8:30 AM		0.3%	0.2%
	PCE prices, m/m % change (Jul)	8:30 AM		0.15%	0.08%
	Core PCE prices, m/m % change (Jul)	8:30 AM		0.15%	0.18%
	PCE prices, 12-month % change (Jul)	8:30 AM		2.51%	2.51%
	Core PCE prices, 12-month % change (Jul)	8:30 AM		2.64%	2.63%
	Chicago PMI (Aug)	9:45 AM			45.3
	Univ. of Michigan sentiment (Aug, final)	10:00 AM		66.4	66.4
	Strike report (Aug)				

Source: Bloomberg, Haver, UBS

Figure 24: FOMC participants speaking in the week ahead

Date	Event	Time (ET)	Subject / Event
Mon, Aug 26			
Tue, Aug 27			
Wed, Aug 28	Atlanta Fed Pres Bostic	6:00 PM	Economic Outlook at Stanford Club of Georgia
Thu, Aug 29	Atlanta Fed Pres Bostic	3:30 PM	Economic Outlook Georgia Tech
Fri, Aug 30			

Source: Bloomberg, UBS

Data in the week ahead:

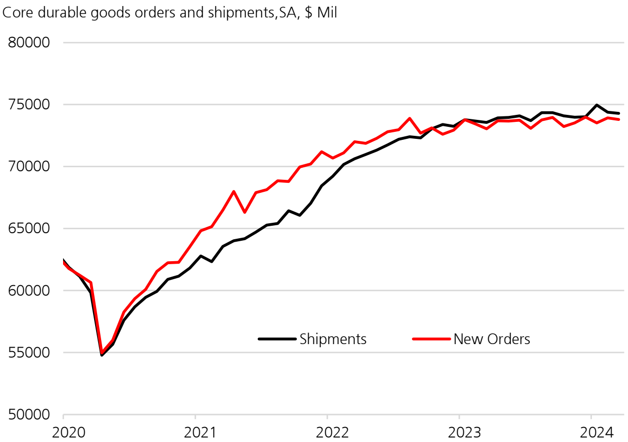
Monday, August 26

Durable Goods (Jul), 8:30 AM

We estimate headline durable goods orders rose 6.6% in July, reversing the 6.7% decline seen in June. We expect durable goods orders excluding transportation and orders of non-defense capital goods excluding aircraft (core goods) both ticked down 0.1%. Core goods shipments are expected to advance 0.1% over the month in July. We had been forecasting a drag from aircraft orders in the durable goods report in recent months, given weak orders reported by Boeing, which was clear in the June data. However, Boeing's reported aircraft orders were stronger in July, and we therefore expect a rebound in aircraft orders reported by the Census Bureau in next week's report. In June, the headline durable goods orders plunged 6.7% over the month. When transportation orders were stripped out, orders were up 0.4% on the month. Non-defense capital goods orders excluding aircraft (core goods) reversed their 0.9% May decline, increasing 0.9% over the month in June. Shipments of core goods inched up by 0.2% on the month. Core shipments and orders have been moving sideways since 2023, but the level of orders was broadly in line with orders in June after lagging behind in recent months.

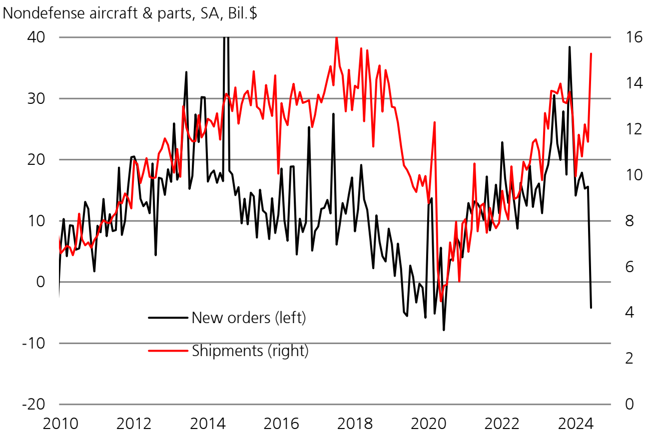
Headline durable goods orders likely increased in July driven by a rebound in aircraft orders.

Figure 25: Orders and shipments moving sideways



Source: Census Bureau, Haver, UBS

Figure 26: Aircraft orders slid in June



Source: Census Bureau, Haver, UBS

Regional Manufacturing Surveys (Aug 26-30)

Figure 27: Factory surveys, ISM-adjusted

	ISM-adjusted			
Manuf.	**May**	**Jun**	**Jul**	**Aug**
ISM Man.	48.7	48.5	46.8	
S&P PMI	51.0	51.4	49.7	48.0
Empire	46.9	49.0	48.0	47.2
Philly	46.4	47.0	54.9	52.5
Richmond	50.2	48.3	46.9	
Dallas	47.6	49.2	48.5	
Kansas City	49.8	47.2	42.9	47.9
Chicago	39.6	49.1	46.8	

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With the exception of the FRB of Philadelphia index, the swathe of manufacturing surveys for August so far have been contractionary on an ISM-adjusted basis.

Next week, the FRB of Dallas manufacturing activity index and the Chicago PMI will round out the manufacturing surveys for August. In July, the Dallas Fed survey declined to 48.5 in ISM-adjusted terms from a prior of 49.2. It was noted in the comments from the survey that Hurricane Beryl had impacted activity in July, so it is possible we see an improvement in the index in August. The Chicago PMI, which will also be released next week, declined in July after rising strongly to near breakeven in June. The series has generally been even weaker than the weakness signaled across the range of manufacturing surveys with the index remaining in contraction since November 2023. In the flash August data, the S&P Global manufacturing PMI fell 1.6 points to 48.0, the weakest level all year and weak for an economic expansion.

Regional Fed manufacturing surveys have softened so far in August.

Tuesday, August 27

S&P/Case-Shiller Home Price Index (Jun), 9:00 AM

The monthly pace of increase in S&P/Case-Shiller home prices has been moderating in recent months. In May the nationwide existing home price index increased 0.3% over the month, little changed from the April rate, but slower than the pace seen at the beginning of the year and down from the monthly rates that prevailed through the summer of 2023. The composite-20 subindex increased 0.3% in May after a 0.4% April climb. Over the year, the nationwide index grew 5.9% and the composite-20 subindex rose 6.8%.

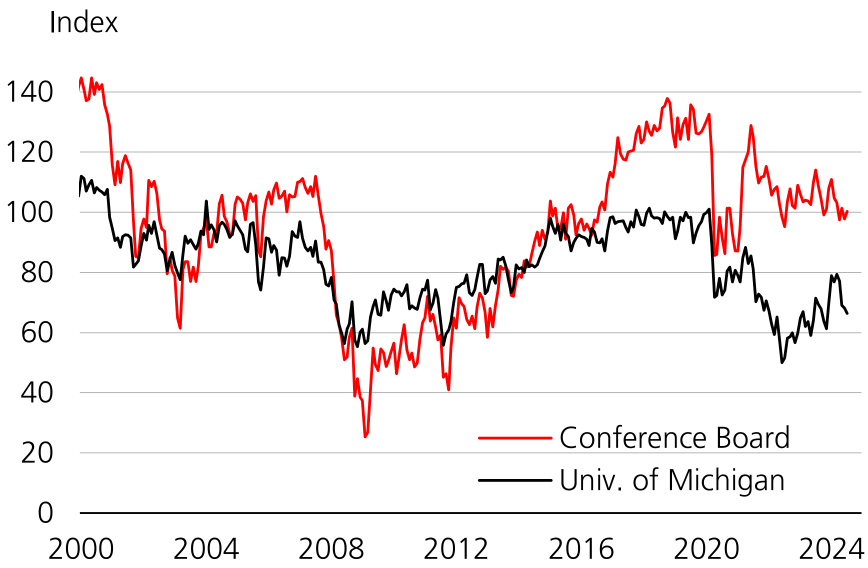
Home price growth has slowed in recent months.

Conference Board Consumer Confidence (Aug), 10:00 AM

We expect a small improvement in Conference Board consumer confidence to 101 in August from a prior of 100.3 July reflecting the small improvement seen in the University of Michigan sentiment index in the preliminary release, and also despite the intra-month volatility in equity markets the S&P 500 gained back its losses relative to the end of July by the August 15, likely before the survey cutoff date. The Conference Board index has been fairly range bound in recent months and the tick higher we are projecting would put the index back towards the upper end of that range.

Conference Board sentiment to improve a little.

Figure 28: Conference board fairly range bound



Source: Conference Board, University of Michigan, Haver, UBS

Regional Non-manufacturing Surveys (Aug 27)

The Richmond and Dallas Fed nonmanufacturing surveys for August will be released next week. So far, for August the surveys have been mixed with the Philadelphia Fed's nonmanufacturing survey declining 6 points to -25.1, while the New York Fed's services index rose 6.3 points to 1.8. The S&P/Markit Global services PMI, which isn't a composite, and instead is a business activity index , increased 0.2 points to 55.2 in the flash August data.

Regional nonmanufacturing surveys have been mixed so far in August.

Figure 29: Services surveys

Services	Activity/Headline May	Jun	Jul	Aug
ISM Serv.	53.8	48.8	51.4	
S&P PMI	54.8	55.3	55.0	55.2
Kansas City	11	2	-4	
Philly	-0.6	2.9	-19.1	-25.1
Richmond	-7	-8	-9	
Dallas	-12.1	-4.1	-0.1	
NY	3.0	-4.7	-4.5	1.8

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Thursday, August 29

GDP (Q2, 2nd est), 8:30 AM

We see minor 0.1 pp revision to Q2 GDP growth in the second release next week.

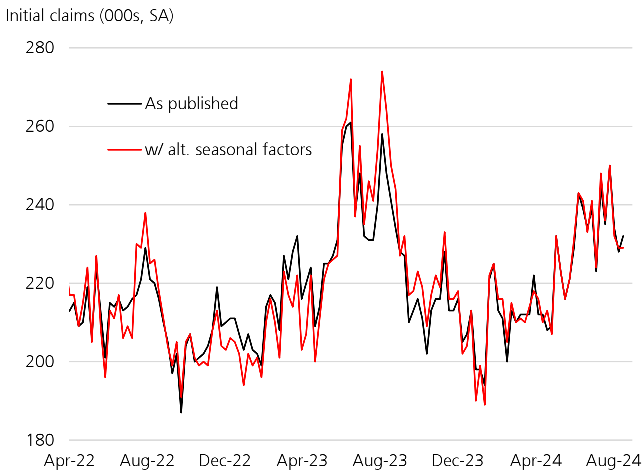
The second estimate of real GDP growth is expected to revise to 2.9% (saar) from the advance estimate of 2.8% (saar). Real goods spending is likely to be left unrevised at 2.5% (saar) in the print next week, with the cumulative revisions to control group sales very minor through May and June, just up 2 bp. Real services spending is estimated to have risen 2.3% (saar) with the QSS data, relative to the 2.2% (saar) pace in the advance estimate. There is also potential that revisions to Q2 data could come in the advance trade report, and the retail and wholesale inventories reported next week alongside the second estimate.

Unemployment Insurance Claims (Aug 24), 8:30 AM

Initial claims to rise a touch, continuing to decline.

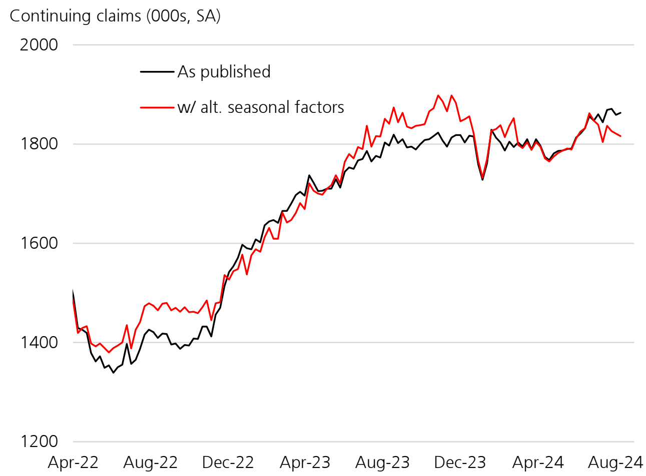
We expect initial claims to rise 3K to 235K in the week ending August 24. We continued to see the impact from special factors — Hurricane Beryl and auto plant shutdowns — wane in this week's data. Initial and continuing claims in Texas still remain slightly elevated above the pre-hurricane pace, so there is still a little room to unwind in the coming data. Filings in auto-intensive states, such as Michigan, Ohio, Kentucky, Illinois and Missouri, saw NSA declines in this week's data, so we note that auto industry related claims appear to be normalizing too. We also didn't see any discernable impact from Hurricane Debby in state claims from Florida, Georgia and South Carolina this week but we note that ongoing disruption could be a potential upside risk.

Figure 30: Initial claims rise



Source: DoL, Haver, UBS

Figure 31: Continuing claims edged higher



Source: DoL, Haver, UBS

Continuing claims are expected to decline 8K to 1855K in the week ending August 10. In the week ending August 3, continuing claims rose 4K to 1863K. We estimate that continuing claims are still running about 5K above what they would be without the hurricane impact, so there is still some potential for normalization. Note that hurricane-related initial claims do not always flow through to continuing claims because many people are filing initial claims as part of the process to claim Disaster Unemployment Assistance (DUA) claims, a program run by the Federal Emergency Management Agency (FEMA), not the regular state programs.

We expect that seasonal adjustment that appears slightly out of line with pre-pandemic history is putting a little upward pressure on the seasonally adjusted level of initial claims, while the opposite is true for continuing claims.

Advance Goods Trade Balance (Jul), 8:30 AM

We expect the goods trade balance to widen in July.

We expect the goods trade deficit to widen $1.1 billion to $97.7 billion in July. Underlying this, we see exports declining 0.2% over the month, with capital goods exports to moderate after rising a strong 3.6% in June, and imports are expected to rise 0.3% on the month. The tick higher in imports reflects a reversal of the 1.6% decline seen in imports of food, feeds and beverages in June as well as stronger imports of industrial supplies and materials with these up 0.7% over the month relative to the 3.4% decline seen in June.

Wholesale & Retail Inventories (Jul), 8:30 AM

Auto inventories have been driving retail inventories for some time, absent these inventories have been moving sideways.

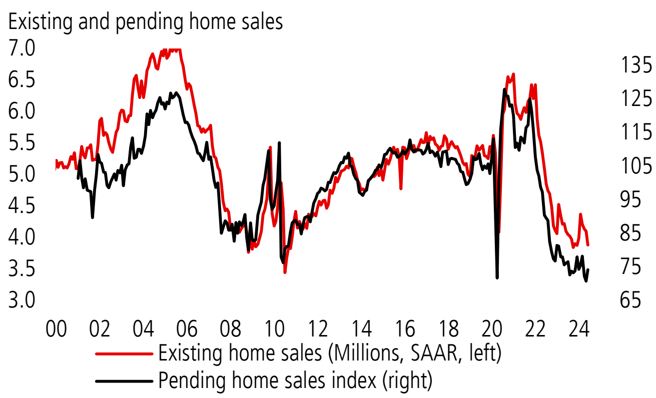
The build-up in retail inventories has been driven by the auto industry for more than a year. Stripping out autos, retail inventories have been moving sideways and a similar trend has been visible in wholesale inventories. In June, retail inventories increased 0.7% over the month to $802.1 billion. Most of the growth, as in prior months, came from the continued build in autos inventories with these rising 1.8% on the month, absent this retail inventories were up 0.2% in June. Wholesale inventories rose 0.2% on the month to $903.0 billion following 0.5% in May and 0.2% in April.

Pending Home Sales Index (Jul), 10:00 AM

We expect pending home sales were relatively flat in July.

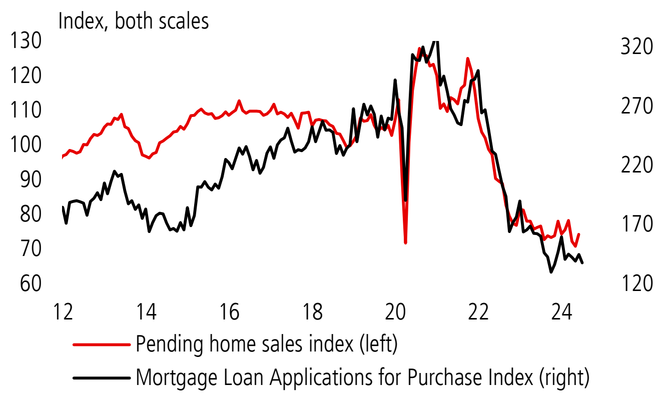
We project that the pending home sales index will be relatively flat, rising 0.2% in July. General weakness continues in most of the housing market data, though new home sales rose robustly (10.6%) in July, and the drop in mortgage rates in July could be an upside risk. Mortgage applications declined 4.8% over the month in July.

Figure 32: Home sales still soft



Source: National Association of Realtors, Haver, UBS

Figure 33: Mortgage purchase apps also weak



Source: Mortgage Bankers' Association, Census Bureau, Haver, UBS

Friday, August 30

Income and Spending, PCE inflation (Jul), 10:00 AM

Headline and core PCE prices are expected to have risen 15 bp in July.

Both headline and core PCE prices are projected to have risen 15bps in July. With these increases, along with a slight downward revision projected to prior months, the 12-month change in core PCE prices is projected at 2.64% through July — roughly unchanged from June and more than 80% of the way back to the FOMC's 2.0% inflation target from its 5.6% peak in February 2022.

We estimate that nominal spending rose 0.5% over the month in July. Alongside our PCE price estimate, this would imply real spending growth of 0.3%. Spending was likely supported by the push of auto sales into July, after a disrupted sales period in June given the cyberattack hitting sales software at dealers. We think incomes rose 0.1% in nominal terms implying a potential tick higher in the saving rate in next week's release.

Figure 34: Income and spending

	12-m % change				m/m % change			
	Dec 2021	Dec 2022	Dec 2023	Jun 2024	Mar	Apr	May	Jun
Income	8.0	4.5	4.5	4.5	0.5	0.2	0.4	0.2
Disposable income	6.3	4.5	6.6	3.6	0.5	0.2	0.4	0.2
Consumption	13.5	6.8	6.0	5.2	0.7	0.2	0.4	0.3
Real disposable income	0.1	-0.9	3.8	1.0	0.2	-0.1	0.3	0.1
Real consumption	6.9	1.3	3.3	2.6	0.3	-0.1	0.4	0.2
Saving rate (%)	6.1	3.4	3.6	3.4	3.5	3.5	3.5	3.4
PCE prices	6.2	5.4	2.6	2.51	0.34	0.27	0.03	0.08
Core (ex food & energy)	5.2	4.9	2.9	2.63	0.33	0.26	0.13	0.18
Market based	4.5	4.8	3.0	2.4	0.3	0.2	0.1	0.2

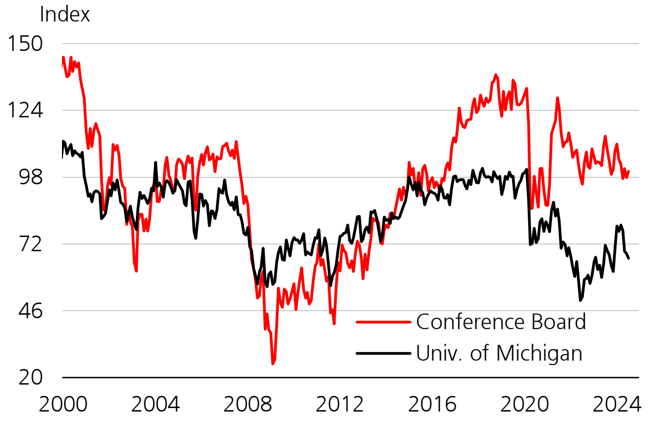
Source: BEA, Haver, UBS

Univ. of Michigan Consumer Sentiment (Aug, final), 10:00 AM

The preliminary release of the University of Michigan sentiment index for August saw sentiment rise by 1.4 points to 67.8, reflecting stronger expectations which rose from 68.8 to 72.1, while consumers perceptions of current conditions actually worsened down to 60.9 from a prior of 62.7. The median 5-10 year ahead inflation expectations remained at 3.0% in the August preliminary estimate, where they have been since April.

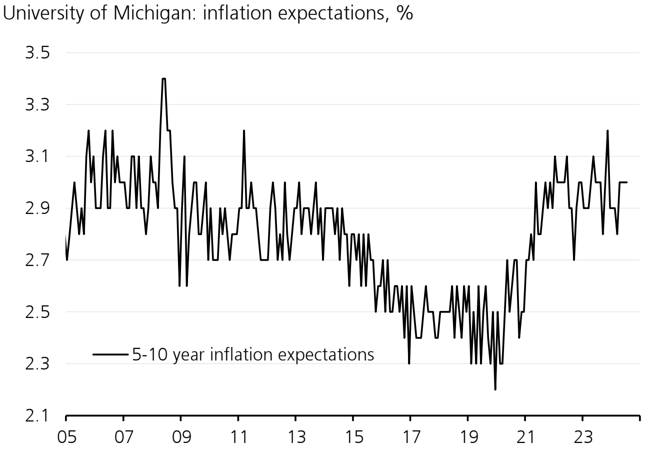
The final read of the University of Michigan consumer sentiment index is expected to be little changed next week.

Figure 35: Uni. of Michigan and Conference Board



Source: University of Michigan, Conference Board, Haver, UBS

Figure 36: Longer-run expectations around 3.0%



Source: University of Michigan, Haver, UBS

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