August 25, 2023 09:00 PM GMT

Friday Finish – US Economics | North America

Jackson Hole, Strikes, Revisions

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Chair Powell warned "there may be significant further drag in the pipeline." His JH speech stressed patience as the Fed judges incoming data. A saint's patience will be needed as significant revisions are made to GDP late September, and strike activity may push payrolls and GDP negative in the fall

From the desk of the Chief US Economist

Summer isn't over but it feels like it is as we head toward the final week of August. I won't publish a Friday Finish ahead of Labor Day, and instead in this note I set the stage for how thick the fog may be around the data ahead. In short, and in order, comprehensive revisions to GDP come in late September, a possible government shutdown looms around the same time, and the summer of strikes stretches into the fall, which raises the chance of negative October payroll print and a decline in 4Q GDP. My colleague, Sarah Wolfe, is also studying the potential payback in 4Q consumer spending as a confluence of extraordinary temporary factors fades (Swift's Eras Tour, Beyonce', Barbenheimer, for example). We continue to see the Fed on extended hold into 2024 with the data providing no clear direction for the next policy move.

Chair Powell's annual appearance at Jackson Hole has come and gone, with no more clarity on the policy path forward. The key message is patience – there is still plenty of time to watch the incoming data and Powell is confident policy is sufficiently restrictive. The Fed has done a lot of work, and he noted that policy lags "suggest there may be significant further drag in the pipeline." My colleague, Diego Anzoategui, recently took a deep dive into estimating policy lags in "This Is Enough". His work further strengthened our view that the effects of monetary policy on economic activity are long-lasting and, therefore, a large part of economic slowdown is yet to come.

Uncertainty leads to policy paralysis. The Fed has plenty of time to gauge the incoming data as it ponders whether additional tightening is needed. If the data do not point in a definitive direction, I expect policymakers to remain divided on the next move. The default stance would be to do nothing and let policy lags and above neutral real rate restrain growth and inflation over time. This has been our outlook for Fed policy for an extended period. We continue to see the Fed on extended hold into 2024, with the first cut coming in March.

The looming data fog. What to watch for ahead:

GDP Comprehensive Revision (Thursday, September 28): The annual revision to GDP will go back to 2005 and affect the level of GDP through 1Q23. Recent data have shown tension between real Gross Domestic Product (GDP) and Gross

Domestic Income (GDI). In principle, these should equal one another; in fact, they do not, because of measurement difficulty. **Real GDP has come in much stronger than GDI— GDP up 1.8% in the four quarters through 1Q23 versus a 0.8% decline in GDI. How that gap is closed is important—through faster GDI growth or slower GDP growth?**

Possible Government Shutdown (Saturday, September 30): Our public policy strategists are taking seriously the risk of a government shutdown. A divided Congress faces a Sept 30 deadline to find consensus on a variety of spending bills to avoid a government shutdown. We estimate a shutdown would shave 0.05pp off GDP per week and would affect employment & data releases**.**

United Auto Workers strike (September event, 4Q impact): UAW workers at Stellantis, GM and Ford have voted to authorize a strike if the big three and the union do not reach agreement before labor contracts expire on September 14. If they do strike, depending on the length and breadth of the strike, **it could be a noticeable drag on 4Q GDP, and result in a negative October payroll print that would be reported on November 3.**The union has 146k member employees of the big three, which is 56% of total motor vehicle production employment. In 2019 a limited strike (48k workers—24% of motor vehicle production employment at the time) started in mid September and lasted through October; the decline in motor vehicle production subtracted 0.4pp at an annual rate from 4Q real GDP growth. **If this strike lasts as long but extends to all 146k union members, the impact could be almost a 1 point drag on GDP growth.**

Chair Powell laid out the necessary conditions for further policy tightening, saying "we are attentive to signs that the economy may not be cooling as expected... additional evidence of persistently above-trend growth could put further progress on inflation at risk and could warrant further tightening of monetary policy." He also added that if labor market softening were to stop or reverse, it "could also call for a monetary policy response." **As the Fed ponders the need to deliver an additional hike by the end of this year, we think the fog around the data will remain too thick for action.**

Enjoy your weekend.

Incorporating new and existing home sales, as well as durable goods data, lowered our GDP tracking from 2.4% to 2.2% in 3Q23.

Data I'm watching next week: Key Data Watch Calendar.

Job openings and labor turnover (JOLTs) (Tuesday, 10:00am) The job openings rate is normalizing only slowly. From its high of 7.4% in March 2022, it has fallen to 5.8%, about half way back to its prepandemic 4.4%—without significant increase in the unemployment rate. (Please see New Work on the Labor Market Supports a Soft Landing.) We expect further decline.

GDP 2Q, 2nd est (Wednesday, 8:30am) We are tracking 2Q GDP as unrevised at 2.4%. Consumption probably gets revised up, but the 1.9% consumption growth we estimate includes a 0.3% contribution from utilities usage amid unusual warm weather.

Personal income, spending, and PCE prices (Thursday, 8:30am) We forecast core PCE inflation in July at 0.27%M vs. 0.17% in May. The 12-month pace rebounds to 4.3%Y from 4.1% in June, but it is still below the pace earlier in the year. Headline prices probably rose 0.27%M and 3.3%Y.

Personal income probably increased 0.25%M in July, decelerating from 0.31% in June and 0.46% in May. Personal spending is set to accelerate off strong Prime Day sales. We forecast consumption increases 0.7%M vs. 0.6% in June. The saving rate falls from 4.3% to 4.0%.

For real consumption, we expect a 0.37% rise. We are estimating 3Q consumption increases at a 1.9% annual rate, including payback in August after strong online sales in July

Employment report (Friday, 8:30am) We revised our payroll estimate up from last week. The BLS reported fewer SAG strikers than we originally expected: an impact of only 16k on August payrolls notwithstanding the 140k actors in SAG. We expect private payrolls rise 115k and headline payrolls 155k in August. Excluding the strikers this represents further slowing: private payrolls averaged 185k per month in the prior three months.

Our forecast also incorporates a 30k drag from the shutdown of Yellow trucking. It is unclear how many might have been picked up by other trucking companies given the shortage of labor in the sector.

Average hourly earnings probably rose 0.2% after last month's above trend 0.4%, and the 12-month pace slows by 0.2 point to 4.2%. We expect no change in the unemployment rate at 3.5% or the labor force participation rate at 62.6%.

Light-weight vehicle sales (Friday) Early indications are for a decline in sales from June and July's 15.7M unit annual rate to a 15.3M unit pace in August.

Manufacturing ISM index (Friday, 10:00am) We forecast the ISM index at 47.5, a 1.1 point rise from last month but still in mild contraction.

Weekend Reading/Listening:

- US Economics: Chair Powell's Speech at Jackson Hole (25 Aug 2023)
- Podcast | Thoughts on the Market: Is the Fed Done Raising Rates? (25 Aug 2023)
- Podcast | Thoughts on the Market: What to Expect from Presidential Debates (24 Aug 2023)
- US Consumer Economics & Retail: Back-to-School (22 Aug 2023)

Past Friday Finish Commentary:

- Friday Finish – US Economics: Soft Landing Doesn't Lower Recession Odds (18 Aug 2023)
- Friday Finish – US Economics: The Real Real (11 Aug 2023)

- Friday Finish – US Economics: Insights from Taylor Rules (4 Aug 2023)
- Friday Finish – US Economics: Hawkish or Dovish? Yes. (28 Jul 2023)
- Friday Finish – US Economics: Stimulative, Not Necessarily Inflationary (21 Jul 2023)
- Friday Finish – US Economics: Strong Views Are Worth Repeating (14 Jul 2023)
- Friday Finish – US Economics: Focus on Services (7 Jul 2023)
- Friday Finish – US Economics: Risks Beyond July (23 Jun 2023)

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