Deutsche Bank
Research

North America
United States

Economics
US Economic Notes

Date
4 August 2023

What you need to know for the week ahead

Monday	Release	Forecast	Previous	Consensus
3:00 PM	Consumer credit (Jun):	+$11.0B	+$7.2B	+$13.0B

Source: Bloomberg Finance LP, Deutsche Bank

Commentary for Monday: With the July employment report in the rear view mirror, market attention should turn to the inflation data, namely Thursday's CPI report and Friday's PPI report. To recap, last week's employment report was again close to our expectations, with the gains in both headline (+187k vs. +185k) and private (+172k vs. +128k) very much in line with our forecast of +175k on both. As has been the case recently, most of the job gains came from private education and health services as well as leisure and hospitality, which together grew by 117k. Some of the leading indicator industries showed job losses, namely manufacturing (-2k), transportation and warehousing (-8k), and temporary help services (-22k).

There seemed to be some softness on the intensive margin as well with a one-tenth decline in average weekly hours. This, combined with the moderating pace of job growth, has aggregate hours worked unchanged over the last six months. While average hourly earnings (AHEs) surprised again to the upside (+0.4% vs. +0.4%), the year-over-year growth rate of our nominal wage income proxy (private payrolls times average weekly hours times average hourly earnings) declined from 6.3% to 5.7%, much closer to the average of 4.6% that prevailed from 2015 to 2019. As we discussed in our consumer chartbook (see "Consumer outlook: Living (longer) in a material world?"), this should speak to consumption growth continuing to slow over the back half of the year.

While the Fed is likely to be happy with the continued gradual slowing in job growth, there were some aspects of the report that could make them somewhat uncomfortable. In particular, the unemployment rate fell back down to 3.5% while the U-6 underemployment rate unwound its two-tenths rise in June, falling to 6.7%. In addition, the prime-age labor force participation rate fell by a tenth to 83.4%, though it still remains above the high of the previous cycle (83.1% in January 2020).

Wage growth also seems to be showing little signs of moderating further towards the 3% that Chair Powell cited as being consistent with their inflation target. Indeed, year-over-year growth in AHEs seems to have stalled out around 4.3-4.4%, where it has hovered since the beginning of the year. Short-term trends also show signs of re-acceleration, with the three-month annualized change at 4.8%. This is even

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Policy Speeches
8:30 am: Fed Governor Bowman speaks at Fed Listens Event
8:30 am: Atlanta Fed President Bostic (non-voter) speaks at Fed Listens Event

2023 Economic/Financial Projections

Real GDP growth:	+1.1% Q4/Q4
	1.9% Annual average
Core CPI:	3.6% Q4/Q4
Unemployment:	4.1% Q4
Fed target rate:	5.375% year end

higher for production and non-supervisory workers, who have seen almost 5.0% annualized AHE growth over the last three months. For more see our labor market chartbook: "July Jobs: Same song, different verse?".

This week's Fed docket is relatively sparse, with only Philadelphia Fed President Harker's (non-voter / hawk) Tuesday speech focused on the economic outlook. Last Friday, we heard that Atlanta's Bostic (non-voter / hawk) was "comfortable" with the pace of job gains, downplayed the faster-than-expected wage growth, and continued to advocate for no further rate hikes. While Harker is similarly not a voter, it will be interesting to see what aspects of the employment report that the less dovish may focus on.

In terms of the data this week, it will mostly be focused on Thursday's CPI report for July. With seasonally adjusted gas prices down a bit from June, we expect a slightly weaker headline (+0.17% forecast vs. +0.18% previously) reading relative to core (+0.21% vs. +0.16%). Should our expectations hit the mark, year-over-year core CPI inflation would remain roughly steady at 4.8% (though it is very close to rounding down to 4.7%), however shorter-term trends would show significant improvement. The three-month annualized rate should fall by about 80bps to 3.3%, while the six-month annualized rate would fall by 40bps to 4.2%, both the lowest in over two years.

At the component level, core goods should be soft, led by used cars and trucks continuing to unwind the sharp price gains seen earlier this year. As a reminder, used car prices in the CPI spiked by 4.4% in both April and May, and saw a half a percent decline in June. With wholesale prices down by about 10% over the past four months, there is plenty of scope for used cars and truck prices to remain a drag on inflation into the second half of the year.

In terms of services, we are looking for both primary rents and owners' equivalent rent to post similar increases to the June data. We continue to expect further softening in rental inflation to set in towards the end of this year into next, consistent with the four-quarter lag for slower gains in asking rents to work their way into the CPI measures. We will also be looking for whether recent price gains in professional medical services and hospital services continue to offset the drag from health insurance. As a reminder, health insurance will likely reset in the October data, and it is entirely possible that it does so at a higher rate that would persist well into 2024.

Regarding the ever-important core services excluding rent and medical services sector, last month's data showed significant progress. This category posted the second-lowest monthly print in the last 21 months (unch.), though much of this weakness was due to a sharp 8.1% drop in airfares. This decline brings airfares back to pre-pandemic levels, so we see little reason for big moves going forward, either up or down, however, this category has been notably volatile since covid's onset.

As to Friday's PPI release, we expect similar gains on the headline (+0.2% vs. +0.1%) and core components (+0.2% vs. +0.1%). As always, we will pay closest attention to the components of the report that inform our forecast for the core PCE deflator, the Fed's preferred inflation metric, the most important being health care services. Though this series was somewhat soft in June, rising only 0.1%, the three-month annualized growth rate was still high at 3.3%. As we have noted previously, elevated health care wage growth (namely the ECI for hospital workers) continues to point to upside risks to this sector over the coming months.

The remainder of the week's data are somewhat less important. On Tuesday, we expect Tuesday's trade balance (-$65.7bn vs. -$69.0bn) to narrow slightly and for wholesale inventories to eke out a small gain (+0.1% vs. -0.3%). Thursday, as usual, will see jobless claims (229k on initial vs. 227k) but is likely to be outshined by the CPI data. Finally, on Friday, we get the preliminary University of Michigan consumer sentiment data (74.0 vs 71.6), which, given the aforementioned job and wage gains, should continue to improve. However, we will be more interested in the long-run inflation expectations reading, especially if the CPI data were to surprise.

In short, remaining labor market tightness and potentially re-accelerating wage growth could, at the margin, give the Fed reason to question whether or not they can count on the softening trend in the inflation data, particularly for labor-intensive services, to continue. Thus, it will be up to the inflation data to prove whether last month's disinflation was a fluke and there is more work to be done or if monetary policy has reached a level that is restrictive enough.

Please see the following pages for a summary of our preliminary estimates of the upcoming US high-frequency data over the next several weeks.

Figure 1: Data and Events Calendar

Jul-31	Aug-01	Aug-02	Aug-03	Aug-04
Chicago PMI 9:45 AM May: 40.4 Jun: 41.5 Jul: 42.8	Construction Spending 10:00 AM Apr: +0.3% May: +1.1 Jun: +0.5 June JOLTS data released ISM Index 10:00 AM May: 46.9 Jun: 46.0 Jul: 46.4 Unit motor vehicle sales May: 15.1M Jun: 15.7 Jul: 15.7	ADP Employment Report 8:15 AM May: +267k Jun: +455 Jul: +324 3 Yr Note Announcement $42bn 10 Yr Note Announcement $38bn 30 Yr Bond Announcement $23bn	Initial Claims 8:30AM Jul-15 228k -9k Jul-22 221 -7 Jul-29 227 +6 Productivity ULCs 8:30AM 4Q22: +1.6% -2.2% 1Q23: -1.2 +3.3 Prelim: 2Q23: +3.7 +1.6 Factory Orders 10:00 AM Apr: +0.3% May: +0.4 Jun: +2.3 ISM Services 10:00 AM May: 50.3 Jun: 53.9 Jul: 52.7	Employment 8:30 AM May: Jun: Jul: Payrolls +281k +185 +187 Private +255k +128 +172 UnRate 3.7% 3.6 3.5 Hrly Erngs +0.3% +0.4 +0.4 Workwk 34.3 34.4 34.3
FORECAST				
Aug-07	Aug-08	Aug-09	Aug-10	Aug-11
Consumer Credit 3:00 PM Apr: +$20.3B May: +7.2 *Jun: +11.0*	International Trade Balance 8:30 AM Apr: -$74.4B May: -69.0 *Jun: -65.7* Wholesale Inventories 10:00 AM Apr: -0.3% May: -0.3 *Jun: +0.1* 3 Yr Note Auction *$42bn*	10 Yr Note Auction *$37bn*	Initial Claims 8:30AM Jul-22 221k -7k *Jul-29* 227 +6 *Aug-05 229 +2* CPI Price Total Core 8:30AM May: +0.1% +0.4% Jun: +0.2 +0.2 *Jul: +0.2 +0.2* 30 Yr Bond Auction *$23bn*	PPI Total Core 8:30AM May: -0.4% +0.1% Jun: +0.1 +0.1 *Jul: +0.2 +0.2* Consumer Sentiment 10:00 AM Jun: 64.4 Jul: 71.6 *Prelim: Aug: 74.0*
Aug-14	Aug-15	Aug-16	Aug-17	Aug-18
	Retail Sales 8:30AM May: Jun: *Jul:* Total +0.5% +0.2 *+0.2* Ex Autos +0.3% +0.2 *+0.3* Control +0.3% +0.6 *+0.2* NY Fed Empire State Survey 8:30AM Jun: +6.6 Jul: +1.1 *Aug: -1.2* Business Inventories 10:00 AM Apr: +0.1% May: Unch. *Jun: -0.1* NAHB Housing Market Index 10:00 AM Jun: 55 Jul: 56 *Aug: 56*	Housing Starts Permits 8:30AM May: 1.559M 1.496M Jun: 1.434 1.441 *Jul: 1435 1450* Industrial Production Cap. Util 9:15AM May: -0.5% 79.4% Jun: -0.5 78.9 *Jul: +0.5 79.4* FOMC Minutes	Philadelphia Fed 08:30AM Jun: -13.7 Jul: -13.5 *Aug: -11.1* Leading Economic Indicators 10:00AM May: -0.6% Jun: -0.7 *Jul: -0.7* 20 Yr Bond Announcement *$16bn* 30 Yr TIPS Announcement *$8bn* 2 Yr FRN Announcement *$22bn*	
Aug-21	Aug-22	Aug-23	Aug-24	Aug-25
	Existing Home Sales 10:00 AM May: 4.30M Jun: 4.16 *Jul: 4.05*	New Home Sales 10:00 AM May: 715k Jun: 697 *Jul: 702* 20 Yr Bond Auction *$16bn* 2 Yr FRN Auction *$22bn*	Durable Goods Orders 8:30 AM May: Jun: *Jul:* Headline +2.0% +4.6 *-0.5* Ex-Trans. +0.7% +0.5 *+0.2* Core +0.4% +0.1 *Unch.* 2 Yr Note Announcement *$42bn* 5 Yr Note Announcement *$43bn* 7 Yr Note Announcement *$35bn* 30 Yr TIPS Auction *$8bn*	Consumer Sentiment 10:00 AM Jun: 64.4 Jul: 71.6 *Final: Aug: 74.0*

Source : Deutsche Bank

Appendix 1

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