First Trust
Monday Morning OUTLOOK

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The Week Ahead

Pretty much every month there's one week that has the most important economic reports. For the month of August that's this week. The reports this week include consumer price inflation, producer prices, retail sales, industrial production, housing starts, and unemployment claims.

As it stands, it looks like the broader economy is decelerating as the tighter monetary policy of the past two years finally gains traction. The deceleration has taken longer than it normally does, probably due to the unusual nature of COVID lockdowns and reopening, the massive amount of monetary stimulus that preceded the tightening, plus the unusual expansion of the federal budget deficit last year, in spite of low unemployment and a Supreme Court decision on student loans that artificially reduced the official deficit last year.

In the past two weeks economic reports have included a decline in construction, slower job growth, and mixed ISM indexes, with manufacturing signaling contraction while the service sector remains slightly positive.

What's likely for this week? It looks like both consumer and producer prices rose 0.2% in July, which would be welcome news compared to the higher average inflation rates of the past few years. If tighter money is gaining traction, these inflation rates should slow even further later this year. It doesn't mean this trend will be permanent, though. Eventually the Federal Reserve will loosen once again, probably too much, and send inflation higher.

Meanwhile, retail sales and industrial production should bring mixed news. Due to a bounce back in auto sales in July, after the technology-related snafus at auto-dealers in June, total retail sales should be up for the month. However, even if they grow the 0.5% we expect, that would leave them up only 2.5% from a year ago, barely treading water versus inflation.

Worse, we anticipate a decline in industrial production for July, led by the manufacturing sector. Production should still be up slightly versus a year ago, but not by much.

Does this mean the US is already in recession? Not yet. But dark clouds are gathering. Monetary policy is tight right now and has been for some time. Meanwhile, capital standards for banks are likely tightening up even as cuts in short-term rates are nearing. Investors should be wary about slower economic growth than the financial markets now assume.

In the meantime, taking all these data in, it looks more like stagflation than at any time since the 1970s. In spite of AI, space travel, and 3D printing, the economy is growing slowly with inflation still above the 2% level most people have wrongly considered "price stability." COVID lockdowns and then reopening have seriously impaired seasonal adjustments. Massive federal deficits have allowed spending to continue, but created a bill that is coming due.

The US has backed itself into an economic corner where many are demanding more government interference. We wish we knew exactly how this will end, but experimental policies of the Fed and Treasury are making it very hard to predict.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-13 / 7:30 am	PPI – Jul	+0.2%	**+0.2%**		+0.2%
7:30 am	"Core" PPI – Jul	+0.2%	**+0.2%**		+0.4%
8-14 / 7:30 am	CPI – Jul	+0.2%	**+0.2%**		-0.1%
7:30 am	"Core" CPI – Jul	+0.2%	**+0.2%**		+0.1%
8-15 / 7:30 am	Initial Claims – Aug 10	237K	**237K**		233K
7:30 am	Retail Sales – Jul	+0.4%	**+0.5%**		0.0%
7:30 am	Retail Sales Ex-Auto – Jul	+0.1%	**-0.1%**		+0.4%
7:30 am	Empire State Mfg Survey – Aug	-6.0	**-11.0**		-6.6
7:30 am	Philly Fed Survey – Aug	5.0	**5.0**		13.9
7:30 am	Import Prices – Jul	0.0%	**-0.1%**		0.0%
7:30 am	Export Prices – Jul	0.0%	**-0.1%**		-0.5%
8:15 am	Industrial Production – Jul	-0.3%	**-0.3%**		+0.6%
8:15 am	Capacity Utilization – Jul	78.5%	**78.4%**		78.8%
9:00 am	Business Inventories – Jun	+0.3%	**+0.3%**		+0.5%
8-16 / 7:30 am	Housing Starts – Jul	1.337 Mil	**1.335 Mil**		1.353 Mil