Fed Officials Weigh Solid Growth as Inflation Retreats

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This morning, the Fed's preferred inflation measure for July met expectations as price pressures continue to cool. Both headline personal consumption expenditures (PCE) and core PCE increased +0.2% in July, equaling the median forecast. On a year-over-year basis through July, overall PCE was rising at a +2.5% pace, while the annual core rate was up +2.6%. *No real surprises here.*

In other news today, July personal income rose +0.3%, slightly stronger than the prior month, while personal spending climbed +0.5%, up from +0.3% in June. *This indicates consumers started the new quarter on a positive note.*

Inflation is low enough to begin easing; the bigger question is *how aggressive can the Fed afford to be when the economy remains on solid ground?*

Yesterday, the first revision of second quarter GDP brought Q2 growth up from +2.8% to +3.0% (QoQ, annualized), *more than double the pace of the previous quarter.* Business investment, housing and government spending were all trimmed, but consumer spending was revised higher from +2.2% to +2.9%, more than making up the shortfall.

Later that day, Raphael Bostic, the Atlanta Fed President (and a current FOMC voting member) indicated he would continue to exercise patience, saying "If I'm going to err on one side, it's going to be waiting longer." Bostic went on to say: "I don't want us to be in a situation where we cut, and then we raise rates again." Bostic believes upcoming data, including the August CPI and employment reports will help determine future Fed policy.

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Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)

Source: Bureau of Economic Analysis

Please see disclosure starting on page 2

Earlier this week, the Conference Board's August measure of consumer confidence climbed from 100.3 to a six-month high of 103.3 with both the present situation and future expectation indexes rising. Consumer sentiment isn't well correlated with consumer spending, but the notion that consumers *feel better* is just one more positive for the economy.

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Bond yields are up on the day after a week of less meaningful data releases. *Next week's slate of economic numbers are significantly more impactful.* Both the ISM manufacturing and service indexes, along with July job openings are in the queue, but since Powell and the Fed have expressed concern over recent softness in the labor market, most market attention will focus on next Friday's August employment report.

The September Fed meeting is less than three weeks away, but policymakers will wait on key data before making their decision.

Market Indications as of 12:33 P.M. Central Time

DOW	Down -102 to 41,233 (HIGH: 41,335)
NASDAQ	Up 57 to 17,574 (HIGH: 18,647)
S&P 500	Up 10 to 5,602 (HIGH: 5,667)
1-Yr T-bill	current yield 4.41%; opening yield 4.40%
2-Yr T-note	current yield 3.93%; opening yield 3.90%
3-Yr T-note	current yield 3.79%; opening yield 3.75%
5-Yr T-note	current yield 3.71%; opening yield 3.67%
10-Yr T-note	current yield 3.91%; opening yield 3.86%
30-Yr T-bond	current yield 4.20%; opening yield 4.15%

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