As Gilda Radner used to say on Saturday Night Live, "If it’s not one thing, it’s another." This is certainly one of those times when that expression fits well with what is going on in the economy. New turbulence from the expanding autoworkers strike and threat of a government shutdown – which could still happen once Congress’ short-term funding measure expires – have added to the existing headwinds already facing the economy. Interest rates are at the highest level in two decades, gasoline prices have been on the rise since midsummer, inflation is still biting into household budgets, consumer sentiment is backsliding and student loan payments are resuming. Nonetheless, the economy continues to chug along and defy recession predictions, proving it to be more resilient than anticipated.

The expansion in economic activity persisted in the second quarter even though the final reading from the Bureau of Economic Analysis showed that gross domestic product rose 2.1% rather than the 2.4% originally reported and just below the 2.2% gain in the first quarter. The outlook is a bit murky and perplexing as the mix of growth has changed. The final results primarily reflected a downward revision to consumer spending that was partly offset by upward revisions to nonresidential fixed investment, exports and private inventory investment but imports were also revised down. Consumer spending, which makes up approximately 70% of the economy, was revised from 2.3% year-over-year growth adjusted for inflation to 1.8%, with both services and goods spending revised down. The leading contributors to the downward revision for services were household utilities (both electric and gas) and transportation (specifically motor vehicle maintenance and repair). Within goods, the downward revision was led by furnishings and durable household equipment as well as clothing and footwear.
While the data has shown continued economic growth, weaker growth as mirrored in the GDP revisions suggests that higher interest rates and tighter lending standards are working more thoroughly than previously recognized. Since higher interest rates typically slow down the economy, the Federal Reserve is most likely pleased to see that higher rates are having an impact on employment, economic output and corporate results.

Against that backdrop, the Fed held interest rates steady in September after 11 rate hikes in 16 months but signaled that one more increase could be coming this year. The Fed’s interest rate setting has resulted in business-cycle highs for consumer and mortgage rates, treasury rates and corporate borrowing rates. Chairman Jerome Powell said no decision had been made on whether or when to hike rates again, despite the monetary policymakers’ Summary of Economic Projections assumption that one more quarter-point increase to the current range between 5.25%-5.5% this year would be appropriate.

Consumer confidence declined for the second month in a row in September. The Conference Board’s Consumer Confidence Index fell 5.7 points to 103. The University of Michigan consumer sentiment index also retreated as oil and gas prices continue to rise, dipping to 68.1 from August’s already-low 69.5. Paradoxically, consumer confidence doesn’t match consumer spending and low readings do not necessarily translate into weaker spending. While inflation and high interest rates are dimming many households’ outlook, they have still been spending. This was evident in August as year-over-year spending rose 5.8%, tracking the 7.3% increase in disposable income. Although progress is being made in the Fed’s battle to thwart inflation, higher prices continue to take a toll on the economy. The Personal Consumption Expenditures Price Index – the Fed’s preferred measure of inflation – was up 0.4% from July in August and 3.5% year over year.

With the Fed eager to see job growth weaken without causing the unemployment rate to take off, a number of indicators suggest that the tight labor market is cooling but in the right way. Monthly job growth is averaging lower, with nonfarm payrolls gaining 187,000 jobs in August, up from 157,000 in July but far below the average monthly gain of 271,000 over the past year. The unemployment rate jumped 0.3 percentage points to 3.8% in August as more people looked for jobs. After falling for three consecutive months through July, job openings rose to 9.6 million in August from 8.9 million in July but were far below the 10.2 million a year earlier. Meanwhile, hiring ticked up slightly from 5.82 million in July to 5.86 million but again was below the 6.5 million a year earlier. Separations, including layoffs, were essentially unchanged in August and have come down after a small surge earlier in the year. Alternatively, unemployment insurance claims remain at historical lows and show no signs of a pickup in layoff activity, which would be a leading signal of a pending recession. Initial claims for jobless benefits rose 2,000 to 204,000 in the week ending September 23. Continuing claims rose 12,000 to 1.67 million.
SALES AND SENTIMENT

The pace of retail sales stayed closely within the range of the three-month moving average of 3% in August. Consumer sentiment has continued to show weakness in the last couple of months.

REAL GDP & UNEMPLOYMENT

GDP grew at an annual rate of 2.1% in the second quarter. Incoming data suggests that the third quarter was on par and that 2023 could still have a “soft landing.”

INCOME & CONSUMPTION

Households continued to spend in August, providing ongoing resilience to the U.S. economy despite lingering headwinds. The pace of consumer spending tracked the growth in income.

EMPLOYMENT

The U.S. labor market added 187,000 jobs in August, which was higher than both June and July. The average gain for the past three months moderated from 181,000 in July to 150,000.
DEBT SERVICE RATIO


CONSUMPTION EXPENDITURE

The Personal Consumption Expenditures Price Index – the Fed’s preferred measure of inflation – picked up in August. Consumer prices rose 0.4% month over month and were up 3.5% year over year.

GOODS VS SERVICES

Consumer spending showed healthy spending across both goods and services in August. The transition in spending from goods to services continues.

LOAN OFFICER SURVEY

Federal Reserve Senior Loan Officer survey data gave advance warning that banks expected to further tighten standards during the third quarter.