Macro Month Ahead August 2024

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No summer break for US politic and central bankers

At the heart of the summer, the macroeconomic agenda takes no break! August will be a very busy month for investors, with the US presidential election campaign entering its final phase after the unexpected developments of July. As expectations around a first rate cut by the Fed in September are rising, inflation and employment data will be key to cement or alter the current market views, while the annual Jackson Hole meeting of global central bankers will be scrutinized for potential hints around the monetary policy outlook. In fairness, the current level of rates across most economies now appears too restrictive given softer growth and inflation dynamics, several central banks have already started to ease and more should follow in August. Lower rates by year end would certainly be welcomed by rate-sensitive sectors, such as the US residential real estate market that has been basically frozen over the past two years. Back-to-school is not there yet, but there is no holiday for the economy.

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PRIVATE BANKING

The beginning of a decisive few months for the US economy

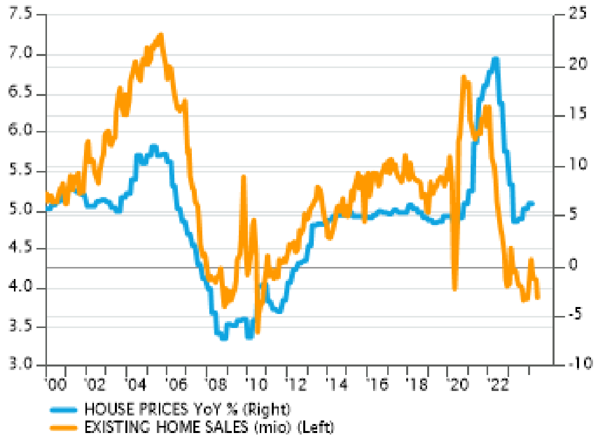
The US presidential election has taken a dramatic turn with the assassination attempt on former President Donald Trump and the withdrawal of incumbent President Joe Biden in favor of Vice President Kamala Harris. This chain of events has reshuffled the cards of a campaign that has become even more uncertain. The latest polls suggest that Kamala Harris is neck and neck with Donald Trump and even enjoys positive momentum in key swing states. The Democratic National Convention scheduled in Chicago from **August 19 to 22** will formally induct Kamala Harris as the party's candidate, along with her (unknown yet) Vice-President on the Democrat ticket. Another key step to watch in a campaign that will likely have major implications for the future of the US economy in the years ahead given the differences in the two candidates' programs.

In the meantime, key economic data will have to be closely watched throughout August in order to assess progresses on the path toward the soft landing that the US economy has seemingly embraced. Job market data will once again be a key focus this month, starting with the Employment Report for July, to be released on **August 2**. It will shed new light on the labor market normalization trend at play this year. As tensions on the job market are easing, with slower job creations and the unemployment rate edging higher from a record low level, upward pressures on wages are gradually diminishing, paving the way for lower interest rates. The trend has been quite encouraging in the past few months but needs to be confirmed. Any significant upside or downside surprise could lead investors to reassess the likelihood of the "soft-landing scenario". Price-related data released later in the month will also be key to confirm the clear easing in inflationary pressures that has been recorded recently. In particular, the Consumer Price Index **(August 14)**, the Personal Consumption Expenditure deflator (the Fed's favored inflation gauge, released on **August 30**), but also the Producer Price Index **(August 13)** and surveys of consumers' expectations on future inflation (University of Michigan survey **August 16**) will all have to be closely watched. In parallel, confirmations of the resilience in households' consumption will be looked for in Retail sales data **(August 15)**. August can be the month when two defining themes of 2024 will reach full speed: a mix of softer inflation data and reassuring growth indicators should pave the way for the beginning of the Fed's monetary policy in September, and the US Presidential campaign that will enter its decisive phase.

The US housing market needs an easing in financing conditions

Within the broader dynamic of the US economy, the housing market has been through a peculiar period over the past years. After a post-Covid boom in 2020/21, the sharp tightening in financing conditions has heavily impacted this highly rate-sensitive segment of the economy. However, as the economy continued to grow, the impact of decade-high interest rates has been different from previous corrections on residential real estate market. Rather than a fall in prices similar to what had happened in 2007 and the ensuing years, the housing market has basically frozen since 2022, with a collapse in transactions (down at 2008 levels) and in housing starts, but no price adjustment to the downside. US households would simply not move, repelled by multi decades-high mortgage rates, but they had no need to sell, enjoying their fixed low-rate mortgage and a full-employment economy.

Housing sales have collapsed to 2008 levels, but home prices have continued to rise since 2022



However, even if less dramatic than a full-blown 2008-like crisis, this freeze in the residential real estate market has negative consequences for the economy. Residential investment was a drag on Q2 GDP growth. Business activity in the construction, refurbishing and home improvement is sluggish and it limits geographical mobility in the labor force, a key feature of the US economy. Housing market activity needs an easing in financing conditions that will eventually take place after the summer. And investors need to be reassured on the fact that the situation doesn't abruptly deteriorate as this segment of the US economy could finally choke under the effect of restrictive financing conditions. The NAHB index of housing market activity **(August 15)**, Existing and New Home Sales (respectively **August 22 & 23**), Building Permits and Housing Starts data **(August 16)** will all have to be closely watched. The quarterly survey of bank lending conditions (Senior Loan Officer Opinion Survey on Bank Lending Practices) released on **August 5** will also provide interesting hints on the evolution of broader financing conditions for US households and businesses.

More central bank rate cuts and the Jackson Hole symposium

As inflationary pressures are generally easing across the globe, central banks are busy reassessing the stance of their monetary policy after the unprecedented post-Covid increase in rates. In August, the Bank of England **(August 1)**, the Riksbank **(Sweden - August 20)**, the Norges Bank **(Norway - August 15)** and the Reserve Bank of New Zealand **(August 14)** could all lower their key rate. The Reserve Bank of Australia **(August 6)** should keep its rate unchanged as inflation remains above its target, but the possibility of a rate hike has been ruled out by reassuring Q2 inflation data. The Reserve Bank of India and the Banco de Mexico will also have their monetary policy meeting this month (both on **August 8**).

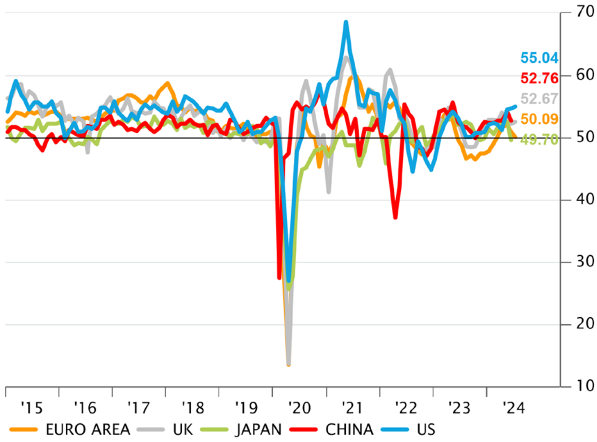
August is also the month of the Fed's annual Jackson Hole Economic Symposium, that will be held from **August 22 to 24**. This year's theme "Reassessing the Effectiveness and Transmission of Monetary Policy" will try to shed light on the seemingly unusual long lag with which the tightening in monetary policy has impacted inflation dynamics and economic activity in this cycle. It may also be the opportunity, as it has been several times in the past, for Jerome Powell, Christine Lagarde and their peers to convey messages on the outlook for monetary policy, ahead of September meetings when both the Fed and the ECB are currently expected to cut their key rate by 25bp. The minutes of the last Fed FOMC and ECB meetings (respectively **August 21 and 22**) will also be of interest in that respect, with also a key indicator for the ECB to be released the same day, the Q2 negotiated wage indicator. A slowdown from the still elevated level of Q1 would certainly facilitate the ECB's decision to ease monetary policy in a context of weak European growth.

Downside risks to the growth outlook increase

July has seen a set of mixed data regarding global economic activity, with weaker than expected indicators coming from China and Europe, while the US economy continued to power ahead. Q2 GDP numbers for the Eurozone **(August 14)**, the United Kingdom **(August 15)**, Japan **(August 15)** and India **(August 30)** will help complete the global growth picture of the first half of the year. Chinese data on Industrial Production, Retail Sales and Investment **(August 15)** will be closely watched after July's disappointment on Q2 GDP growth, and dashed hopes of significant government measures following the Third Plenum.

The preliminary release of PMI indices for August **(August 22)** across most large economies will also be closely watched, especially in areas where concerns are mounting around a weaker growth trajectory for the remainder of the year. Europe, and Germany in particular, indeed have seen the encouraging dynamic of the beginning of the year fade away during the spring, while China's domestic demand continues to be hampered by the real estate crisis. The global growth outlook remains supportive for the coming months, but risks have gradually been tilted to the downside and August PMI data will provide an important update on ongoing dynamics.

Global growth momentum has been losing steam recently, with the US still the exception



The continuation of the Q2 earnings season in the US

In the United States, the release of Q2 results will continue. The month will start with the results of the two behemoths Apple and Amazon **(August 1)** and will close with the release of Nvidia **(August 28)**, which has seen its market cap slashed by over $ 1 billion in July. In the meantime, Chevron and Exxon Mobile, but also Berkshire Hathaway **(August 2)**, industrial bellwether Caterpillar **(August 6)** and Deere **(August 16)**, pharma leaders Novo Nordisk **(August 7)** and Eli Lilly **(August 8)** will have published their results among others. Important indications regarding the health of the US consumer and housing market will also come from the results of Home Depot **(August 13)** and Walmart **(August 15)**.

For further information

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