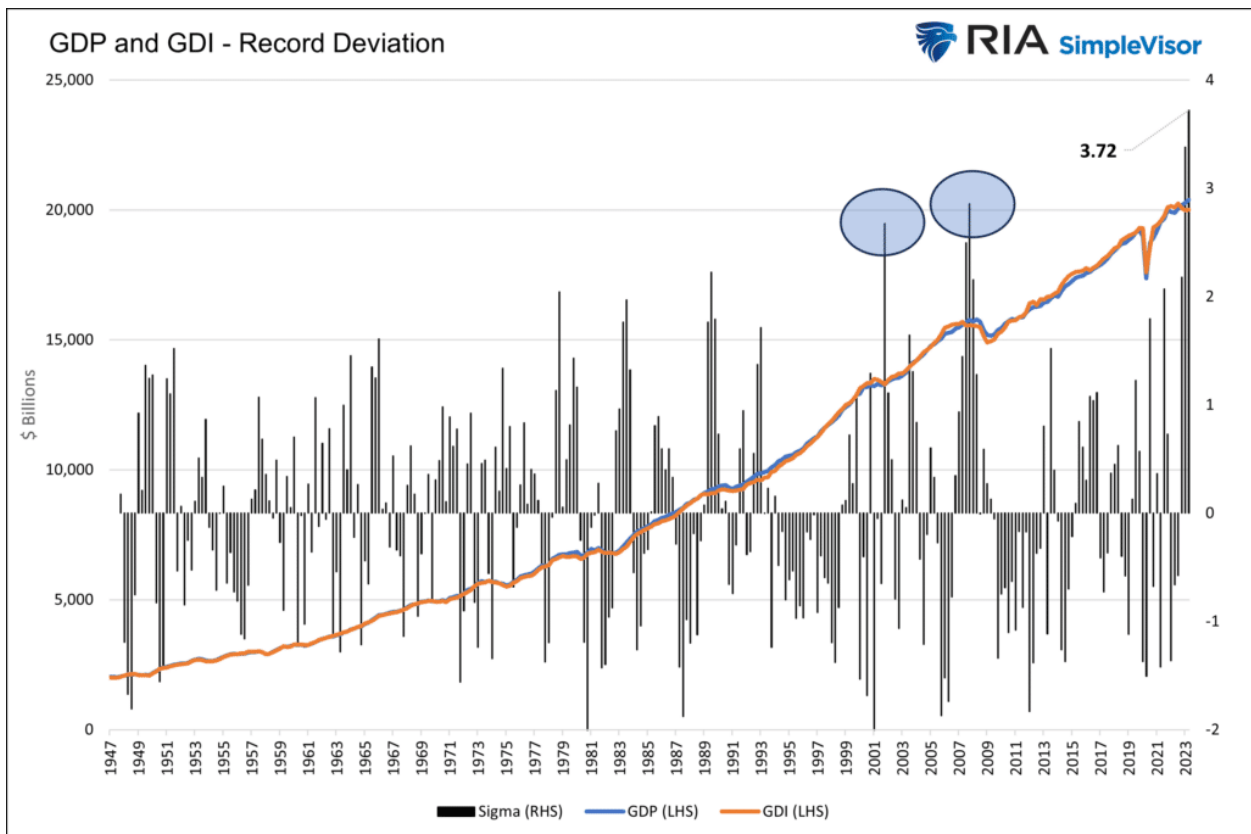


Gross Domestic Product (GDP) and Gross Domestic Income (GDI) are two very similar measures of economic activity. The difference is that GDP measures output, while GDI assesses income. In both theory and history, these two measures should tell the same economic story. Historically, GDI has proven to be more reliable but is less followed as it is released a month later than GDP.

It's hard to see in the graph below, but GDI growth has been negative for the last three quarters while GDP has grown. The Tweet of the Day at the bottom shows a close-up chart of the recent divergence. We are concerned that significant differences between GDP and GDI tend to occur before recessions. In addition to showing the strong correlation between GDP and GDI, the graph also shows the standard deviation (sigma) between changes in the two figures. Currently, at 3.72 sigmas, the difference is the largest going back to WWII. The circles highlight similar albeit smaller differences that occurred before the recession of 2000 and 2008.



What To Watch Today

Economics

Time	Event	Impact	Actual	Dev	Consensus	Previous
FRIDAY, SEPTEMBER 1						
12:30	USD Average Hourly Earnings (MoM)(Aug)		-	-	0.3%	0.4%
12:30	USD Average Hourly Earnings (YoY)(Aug)		-	-	4.4%	4.4%
12:30	USD Average Weekly Hours(Aug)		-	-	34.3	34.3
12:30	USD Labor Force Participation Rate(Aug)		-	-	62.6%	62.6%
12:30	USD Nonfarm Payrolls(Aug)		-	-	170K	187K
12:30	USD U6 Underemployment Rate(Aug)		-	-	6.8%	6.7%
12:30	USD Unemployment Rate(Aug)		-	-	3.5%	3.5%
13:45	USD S&P Global Manufacturing PMI(Aug)		-	-	47	47
14:00	USD Construction Spending (MoM)(Jul)		-	-	0.5%	0.5%
14:00	USD ISM Manufacturing Employment Index(Aug)		-	-	44.2	44.4
14:00	USD ISM Manufacturing New Orders Index(Aug)		-	-	46.3	47.3
14:00	USD ISM Manufacturing PMI(Aug)		-	-	47	46.4
14:00	USD ISM Manufacturing Prices Paid(Aug)		-	-	43.9	42.6
17:00	USD Baker Hughes US Oil Rig Count		-	-	-	512
19:30	USD Total Vehicle Sales(Aug)		-	-	-	15.7M

Earnings

Time	Symbol	Company Name	Market Cap	Fiscal Quarter Ending	Consensus EPS+ Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
⊖	SATX	SatixFy Communications Ltd.	\$38,561,538,172	Jun/2023		N/A	N/A	N/A
⊖	TLK	PT Telekomunikasi Indonesia, Tbk	\$24,824,991,479	Jun/2023		N/A	7/29/2022	\$0.51
⊖	EBR.B	Centrais Electricas Brasileiras S.A.- Eletrobras	\$18,810,736,283	Jun/2023		N/A	N/A	\$0.06
⊖	EBR	Centrais Electricas Brasileiras S.A.- Eletrobras	\$17,065,173,453	Jun/2023		N/A	N/A	\$0.06

Market Trading Update

After four straight days of gains, the market traded mostly in positive territory yesterday but ultimately succumbed to a bout of selling pressure ahead of the much-anticipated employment report this morning. An employment number that is too strong will be a negative for the markets as it will keep the Fed on the rate-hiking path to slow economic activity. A soft number could send stocks higher to start the first trading day of the new month.

Once again, we have slipped back into the *"bad news is good news"* for stocks in hopes of the Fed returning to more accommodative monetary policies to push asset prices higher. A soft employment report this morning will not be unsurprising, given that much of the data as of late was weaker than expected. The market remains in a bullish rally following the August sell-off, with Technology, Communications, and Discretionary continuing to lead the charge so far. Will 2024 be the year that the laggards again become the leaders?



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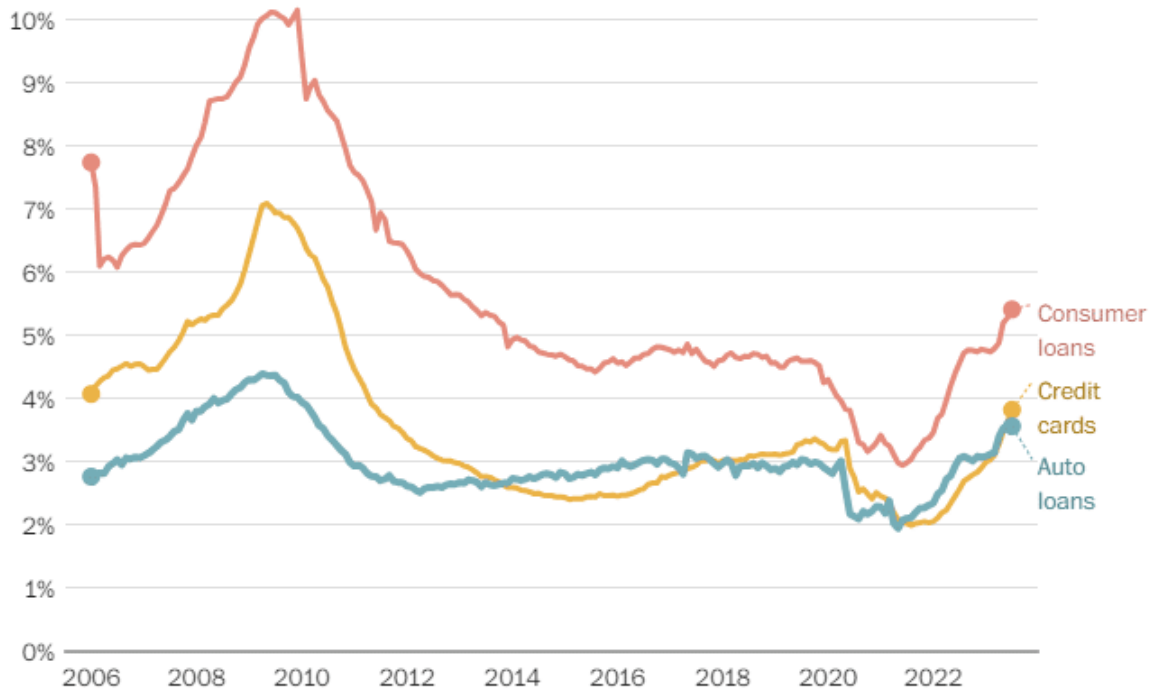
Delinquencies On The Rise

We have recently posited that the excess savings from the two massive stimulus checks and other financial benefits have largely been used. The graph below from the Washington Post adds further credence to our logic. As it shows, delinquencies for the three major consumer credit types fell during 2020 and 2021. The combination of stimulus and reduced spending made paying credit bills easier than usual for consumers. The beneficial financial situation lasted until 2022. At that time, excess savings were declining, and the interest rates on said credit started to rise, making the debt payments more onerous. Also, inflation outpaced wages in many cases. Such led some consumers to borrow more than they otherwise would have.

The unwind of the stimulus, the increased use of credit, inflation, and higher interest rates are finally resulting in delinquencies. They are now at their highest levels in ten years and likely increasing further. As long as the labor market remains healthy, this will likely remain a problem for lower-income earners. However, if unemployment upticks, weak consumption will become a much broader economic concern.

Delinquencies by type of debt, 2006-2023

Delinquencies on auto loans, credit cards and consumer loans are at their highest levels in a decade. Experts say they could rise even higher.



Source: Equifax/Moody's Analytics

AARON GREGG / THE WASHINGTON POST

PCE Prices Update

The PCE price index, the Fed's preferred inflation gauge, was in line with expectations, rising 0.2% for July. The year-over-year PCE ticked up 0.1% to 3.3%. While PCE, like CPI, appears to be sticky around 3.0-3.5%, inflation is much closer to 2% than the number portrays.

In [Is Inflation Already At The Fed's Target](#), we explained how CPI is likely already at the Fed's 2% target if you factor in that reporting for shelter prices lags the real world significantly. Per the article:

The last three months of CPI- excluding shelter, have averaged +0.001%. The year-over-year data show CPI, excluding shelter prices, is +1.19%. Compare that to the +3.1% reported last week. Also, note that shelter prices lagged when inflation was heating up. Not surprisingly, they are now lagging with inflation rates normalizing.

We revisit the analysis because PCE is telling us the same story. As we highlight below, the market-based PCE measure, which excludes imputed rents (about 25% of CPI), is running at 0.1% a month and 1.8% on a three-month annualized basis.

US July Market-Based Consumption Price Indexes (Table)

By Chris Middleton

(Bloomberg) -- Following is a comparison of the US market-based personal consumption price indexes and the regular price indexes prepared by the Commerce Department.

The market-based indexes do not include most imputed prices, or prices for which there is no direct cost measure available. The market-based indexes do include imputed prices for owners equivalent rent, and thus is more comparable to the consumer price index prepared by the Bureau of Labor Statistics.

	July	June	May	April	March	Feb.	Jan.
MOM%	2023	2023	2023	2023	2023	2023	2023
Market based PCE	0.1%	0.1%	0.1%	0.3%	0.1%	0.3%	0.5%
PCE price index	0.2%	0.2%	0.1%	0.3%	0.1%	0.3%	0.6%
Market PCE core	0.1%	0.1%	0.3%	0.3%	0.4%	0.4%	0.5%
PCE core prices	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.5%
YOY%							
Market based PCE	2.8%	2.7%	3.7%	4.2%	4.1%	5.1%	5.6%
PCE price index	3.3%	3.0%	3.8%	4.3%	4.2%	5.0%	5.4%
Market PCE core	3.9%	4.0%	4.5%	4.6%	4.6%	4.7%	4.8%
PCE core prices	4.2%	4.1%	4.5%	4.6%	4.6%	4.7%	4.7%
3 Mo Annualized Avg.							
Market based PCE	1.8%	2.3%	3.0%	3.8%	3.9%	3.5%	3.2%
PCE price index	2.3%	2.5%	3.0%	3.8%	4.1%	3.8%	3.6%

Tweet of the Day



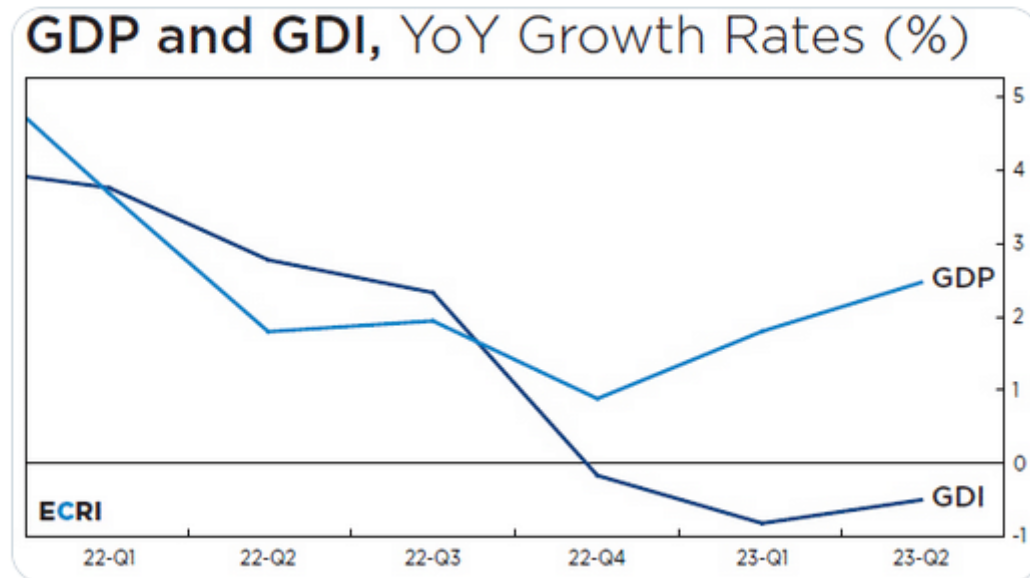
Economic Cycle Research Institute (ECRI) @businesscycle · 20h



This is the third straight quarter of negative yoy **GDI** growth.

This has never happened away from recession.

#GDI is often overlooked because it's released one month later, but is just as valid as **#GDP**. More here: bit.ly/3XVznij



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