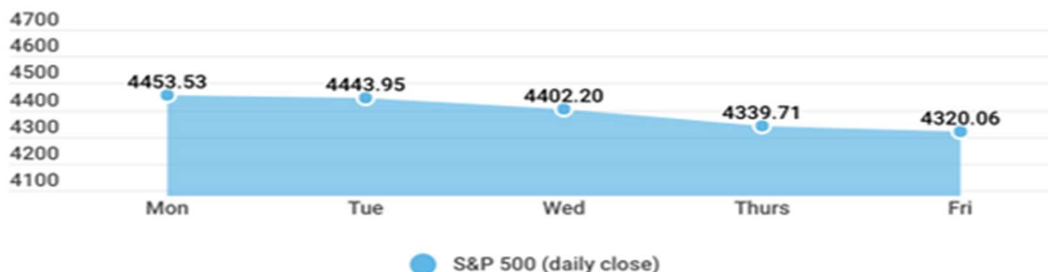
WEEKLY ECONOMIC UPDATE SEPT. 25, 2023

Rising bond yields and fears of a government shutdown hammered stocks last week, with technology shares bearing the brunt of the retreat.

The Dow Jones Industrial Average lost 1.89%, while the Standard & Poor's 500 dropped 2.93%. The Nasdaq Composite index tumbled 3.62% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, fell 1.77%.[1,2,3]

Market Index	Close	Week	Y-T-D
DJIA	33,963.84	-1.89%	+2.46%
NASDAQ	13,211.81	-3.62%	+26.23%
MSCI-EAFE	2,070.88	-1.77%	+6.53%
S&P 500	4,320.06	-2.93%	+12.52%



	Treasury	Close	Week	Y-T-D
	10-Year Note	4.44%	+0.11%	+0.56%

Sources: The Wall Street Journal, September 22, 2023; Treasury.gov, September 22, 2023
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, September 15, to Friday, September 22 close. Weekly performance for the MSCI-EAFE is measured from Friday, September 15 open to Thursday, September 21 close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

Stocks Sell Off

Investor sentiment took a decidedly negative turn last week when investors were caught off-guard by the Fed signaling another potential rate hike this year, upending hopes that the Fed might finish its current rate-hike cycle.

Stocks declined sharply following the Federal Open Market Committee (FOMC) announcement and continued to fall the following day as bond yields spiked. The 10-year Treasury yield hit 4.48% on Thursday, touching its highest point in more than 15 years.[4]

Stocks also reacted to news that the House of Representatives went into recess on Thursday, increasing the prospect of a government shutdown. The sell-off cooled on Friday, adding only incrementally to the week's accumulated losses.

Fed Signals Rate Hike

As expected, the Fed held interest rates steady but surprised many investors by signaling another rate hike before year-end and suggesting that rates may need to remain high through 2024. In his post-announcement press conference, Fed Chair Powell remarked the inflation battle would continue, and upcoming economic data would inform the FOMC's future rate hike decision.

In their economic projections, 12 of 19 Fed officials expect to raise rates once more this year. (The FOMC meets again on October 31-November 1, and in December.) The Fed also lowered their unemployment projection from their June estimate and revised their projection for annual core inflation to 3.7% in the fourth quarter, down from June's 3.9% forecast.[5]

This Week: Key Economic Data

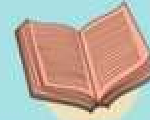
Tuesday: Consumer Confidence. New Home Sales.

Wednesday: Durable Goods Orders.

Thursday: Jobless Claims. Gross Domestic Product (GDP).

Friday: Personal Income and Outlays.

Quote of the Week



“The process of gaining power employs means which degrade or brutalize the seeker, who awakes to find that power has been possessed at the cost of virtue or moral purpose lost.”

– Barbara W. Tuchman

Of Note

Money supply growth can often be a helpful measure of economic activity and an indicator of coming recessions. During periods of economic boom, money supply tends to grow quickly as commercial banks make more loans. Recessions, on the other hand, tend to be preceded by slowing rates of money supply growth.

Money supply growth fell again in June of this year, remaining deep in negative territory after turning negative in November 2022 for the first time in twenty-eight years. June's drop continues a downward trend from the unprecedented highs experienced during much of the past two years.

Since April 2021, money supply growth has slowed quickly, and since November, we've been seeing the money supply repeatedly contract—year-over-year— for months in a row. The last time the year-over-year (YOY) change in the money supply slipped into negative territory was in November 1994. At that time, negative growth continued for fifteen months, finally turning positive again in January 1996.

As of June, money-supply growth has been negative for eight months. The downturn continued as YOY growth in the money supply was at –12.4 percent. That's up slightly from May's rate of –13.1 percent and was far below June's 2022's rate of 5.7 percent. With negative growth now

falling near or below –10 percent for three months in a row, money supply contraction is the largest we've seen since the Great Depression. Prior to March through June of this year, at no other point for at least sixty years has the money supply fallen by more than 6 percent (YoY) in any month.

It should be noted that the money supply does not need to actually contract to signal a recession and the boom-bust cycle. As shown by Ludwig von Mises, recessions are often preceded by a mere slowing in money supply growth. But the drop into negative territory we've seen in recent months does help illustrate just how far and how rapidly money supply growth has fallen. That is generally a red flag for economic growth and employment.

The fact that the money supply is shrinking at all is remarkable because the money supply almost never gets smaller. The money supply has now fallen by $2.8 trillion (or 15%) since the peak in April 2022. Proportionally, the drop in money supply since 2022 is the largest fall we've seen since the Depression. In spite of this recent drop in total money supply, the trend in money supply remains well above what existed during the twenty-year period from 1989 to 2009. To return to this trend, the money supply would have to drop at least another $4 trillion or so—or 22 percent—down to a total below $15 trillion.

The monetary slowdown has been sufficient to considerably weaken the economy. The Philadelphia Fed's manufacturing index is in recession territory. The Empire State Manufacturing Survey is as well. The Leading Indicators index keeps looking worse. The yield curve points to recession. Individual bankruptcy filings were up 68 percent in the first half of the year. Temp jobs were down year-over-year, which often indicates an approaching recession.

An inflationary boom begins to turn to bust once new injections of money subside, and we are seeing this now. Not surprisingly, the current signs of malaise come after the Federal Reserve finally pulled its foot slightly off the money-creation accelerator after more than a decade of quantitative easing, financial repression, and a general devotion to easy money. As of July, the Fed has allowed the federal funds rate to rise to 5.5%, the highest since 2001. This has meant short-term interest rates overall have risen as well. In June, for example, the yield on 3-month Treasurys remains near the highest level measured in more than 20 years.

Without ongoing access to easy money at near-zero rates, however, banks are less enthusiastic about making loans, and many marginal companies will no longer be able to stave off financial trouble by refinancing or taking out new loans. For example, Yellow Corporation, a trucking company, has declared bankruptcy and will lay off 30,000 workers. Tyson Foods recently announced it is closing four chicken

processing plants in an effort to cut costs and 3,000 workers are likely to lose their jobs as a result. These firms have experienced financial problems for years, but rising interest rates preclude additional delays of the inevitable. We will see more of this as more companies face the reality of higher rates. (In another sure sign of a slowing economy, state and local tax revenues have been falling.)

Meanwhile, as lenders get spooked by tightening cash availability, it's getting more difficult to qualify for a home loan, and credit availability is the tightest it's been in a decade. Meanwhile, the average 30-year mortgage rate rose in July to nearly the highest point since 2002.

One of the most troubling indicators is soaring credit card debt even as interest rates rise. As of May 2023, the commercial bank interest rate rose to the highest rate measured in at least 30 years. Just last year, the interest rate hovered around 15%. In May 2023, it reached over 20%. This is happening as credit card debt and other revolving loans have reached a new all-time high.

These factors all point toward a bubble that is in the process of popping. The situation is unsustainable, yet the Fed cannot change course without reigniting a new surge in price inflation. Any surge in prices would be especially problematic given the rising cost of living. Both new and used cars are becoming increasingly unaffordable. Ordinary Americans face a similar problem with homes. According to the Atlanta Fed, the housing affordability index is now the worst it's been since 2006, in the midst of the Housing Bubble.

If the Fed reverses course now, and embraces a new flood of new money, prices will only spiral upward. It didn't have to be this way, but ordinary people are now paying the price for a decade of easy money cheered by Wall Street and the profligates in Washington. The only way to put the economy on a more stable long-term path is for the Fed to stop pumping new money into the economy. That means a falling money supply and popping economic bubbles. But it also lays the groundwork for a real economy, i.e. an economy not built on endless bubbles, built by saving and investment rather than spending made possible by artificially low interest rates and easy money.[6]

Footnotes and Sources

1. The Wall Street Journal, September 22, 2023
2. The Wall Street Journal, September 22, 2023
3. The Wall Street Journal, September 22, 2023
4. CNBC, September 21, 2023
5. The Wall Street Journal, September 23, 2023
6. zerohedge.com/personal-finance/credit-crunch-money-supply-has-shrunk-eight-months-row

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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