

#### тне ECONOMY GLANCE ΑΤ Α

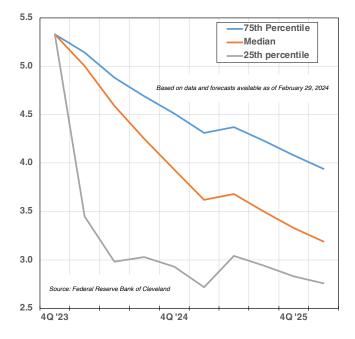
# ECONOMIC HIGHLIGHTS

May 6, 2024 Vol. 91, No. 65

#### SIMPLE RULES OFFER INSIGHTS ON FED POLICY

A systematic approach to understanding potential actions is more important than ever. The Fed's Monetary Policy Report contains a section on "Monetary Policy Rules." The March 2024 section says, "Policymakers regularly consult the prescriptions of a variety of simple interest rate rules without mechanically following the prescriptions of any particular rule." The report also says, "The policy rates prescribed by these rules have now declined to values that are close to the federal funds rate." In a 2016 speech, Loretta Mester, the president of the Cleveland Fed (and a current FOMC voting member) said "I believe in a systematic approach to monetary policy, but I don't believe we are at the state of knowledge where we can choose a single policy rule to set policy..." The Cleveland Fed's website provides seven "Simple Monetary Policy Rules" and three sets of forecasts for economic conditions. Our chart provides the median funds rate from these scenarios along with the seventy-fifth and twenty-fifth percentiles of estimates from the array. The current target range is 5.25%-5.5%. The best-known monetary policy rule is a formula developed by Stanford economist John Taylor. In a 2015 commentary for the Brookings Institution, former Fed Chair Bernanke offered the following. "The Taylor rule predicts that the FOMC will raise the federal funds rate by one half point: for each percentage point that inflation rises relative to the Fed's target, assumed to be 2 percent; or for each percentage that output rises relative to its potential." The Atlanta Fed's website has a Taylor Rule utility that can be customized. We expect the Fed to start reducing rates in the second half of this year.

#### FED FUNDS RATES BASED ON SIMPLE MONETARY POLICY RULES



Thomas Fisher, SVP / Chief Investment Officer Scott Estby, SVP / Sr. Portfolio Manager ...... Albert Chu, VP / Sr. Portfolio Manager ..... Luca Romani, Portfolio Manager ......@montecito.bank

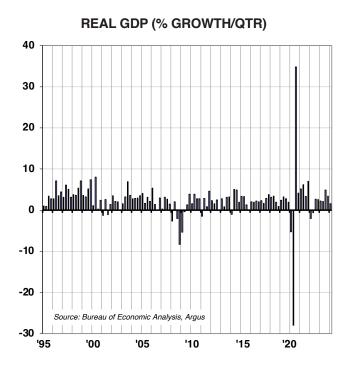
.(805) 560-3429 · tfisher@montecito.bank (805) 979-4506 · achu@montecito.bank 

# **GDP GROWTH SLOWS TO 1.6%**

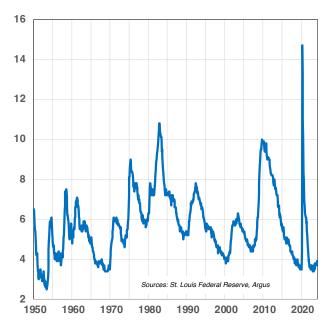
According to the advance estimate released by the Bureau of Economic Analysis, U.S. Gross Domestic Product expanded in the first quarter at an annualized rate of 1.6%, well below the 3.4% growth in the fourth quarter. Personal consumption expenditures were up 2.5%, but was carried by the huge services category, which was up 4.0%. Consumer spending on goods declined 0.4%. Within goods, nondurable goods were flat but durables were down 1.2%. We believe weakness in big-ticket categories is a sign that many consumers are feeling the weight of still-high food prices and record credit-card rates. Within this context, it may seem surprising that residential fixed investment (housing) was up 13.9%. We believe the answer is that the Millennial generation is coming of age and forming households. The GDP report also contains data on inflation, which, consistent with recent reports, came in hotter than we hoped. The PCE Price Index increased 3.4% in the first quarter, compared with an increase of 1.8% in the fourth quarter. Excluding food and energy, the index increased 3.7%, compared with an increase of 2.0% in the previous quarter. In our view, the report indicates that many consumers are feeling the weight of inflation that is lingering the after Fed's 11 rate hikes.

## **COOLER JOBS SUGGEST SEPTEMBER RATE CUT**

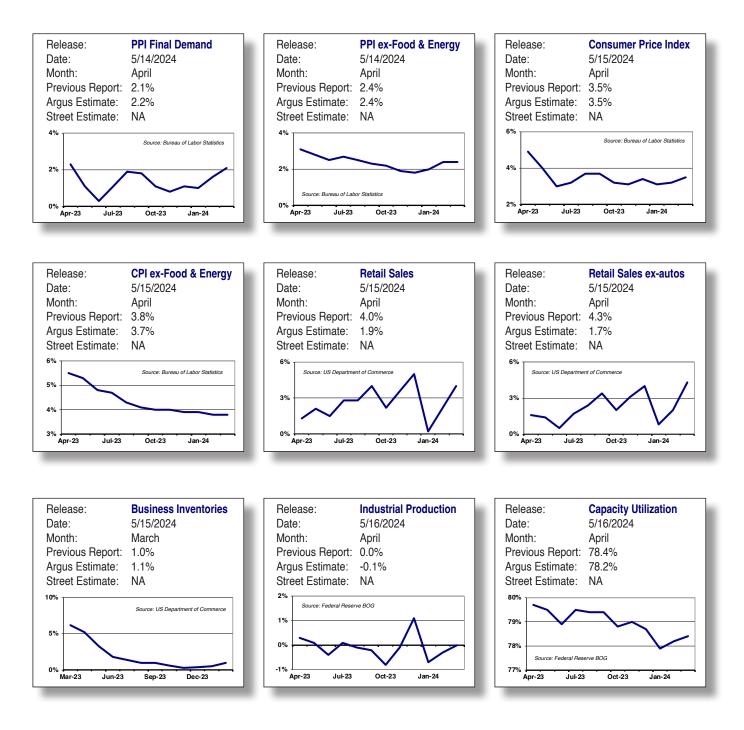
The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated 175,000 new jobs in April, below the consensus of 243,000. April's increase in payrolls and revisions to the March and February results took the threemonth average to 242,000, which is in line with the 12-month average of 242,000 and signals a healthy-but-cooling job market. The unemployment rate rose to 3.9% from 3.8%, which remains below the threshold for triggering the widely followed Sahm Rule recession indicator. The four-week average of initial jobless claims is 210,000, well below the 300,000 that would trigger our concerns about a potential recession. Average hourly earnings increased seven cents month-to-month and are now 3.9% higher year-over-year (compared to 4.1% in March). The average workweek dipped to 34.3 hours in April from 34.4 hours in March. Job gains occurred in healthcare, social assistance, and transportation and warehousing. Employment showed little change over the month in construction; government; mining; quarrying, oil and gas extraction; manufacturing; wholesale trade; information; financial activities; professional and business services; leisure and hospitality; and other services.



#### U.S. UNEMPLOYMENT RATE (%)



# **ECONOMIC TRADING CHARTS & CALENDAR**



Previous Week's Releases and Next Week's Releases on next page.







### **Previous Week's Releases**

			Previous	Argus	Street	
Date	Release	Month	Report	Estimate	Estimate	Actual
6-May	Total Vehicle Sales	April	15.56 mln.	15.70 mln.	NA	15.74 mln.
8-May	Wholesale Inventories	March	-1.5%	-2.1%	NA	NA
10-May	U. of Michigan Sentiment	Мау	77.2	76.0	NA	NA

## **Next Week's Releases**

			Previous	Argus	Street	
Date	Release	Month	Report	Estimate	Estimate	Actual
22-May	Existing Home Sales	April	4.19 Mln.	NA	NA	NA
23-May	New Home Sales	April	693 K	NA	NA	NA
24-May	Durable Goods Orders	April	-2.3%	NA	NA	NA

This information is not meant as a guide to investing, or as a source of specific investment recommendations, and Montecito Bank & Trust make no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's investment objectives. The information is general in nature and is not intended to be, and should not be construed as, legal or tax advice. In addition, the information is subject to change and, although based upon information that Montecito Bank & Trust consider reliable, is not guaranteed as to accuracy or completeness. Montecito Bank & Trust make no warranties with regard to the information or results obtained by its use and disclaims any liability arising out of your use of, or reliance on, the information. Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. This report is not an offer to sell or a solicitation of an offer to buy any security. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.