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Date	Indicator	For	Estimate	Consensus*	Previous Period
31-Aug-2020	Dallas Fed Manufacturing Activity	Aug	0.0	0.0	-3.0
1-Sep-2020	Markit US Manufacturing PMI	Aug F	53.6	NA	53.6
1-Sep-2020	ISM Manufacturing	Aug	54.0	54.4	54.2
1-Sep-2020	Construction Spending MoM	Jul	1.1%	1.0%	-0.7%
1-Sep-2020	Wards Total Vehicle Sales	Aug	14.40m	14.55m	14.52m
2-Sep-2020	ADP Employment Change	Aug	900k	1004k	167k
2-Sep-2020	Factory Orders	Jul	3.8%	3.8%	6.2%
2-Sep-2020	U.S. Federal Reserve Releases Beige Book				
3-Sep-2020	Nonfarm Productivity	2Q F	7.3%	7.3%	7.3%
3-Sep-2020	Unit Labor Costs	2Q F	12.2%	12.2%	12.2%
3-Sep-2020	Initial Jobless Claims	29-Aug	980k	NA	1006k
3-Sep-2020	Trade Balance	Jul	-$51.7b	-$52.3b	-$50.7b
3-Sep-2020	Markit US Services PMI	Aug F	54.7	NA	54.8
3-Sep-2020	Markit US Composite PMI	Aug F	54.6	NA	54.7
3-Sep-2020	ISM Services Index	Aug	57.4	57.0	58.1
4-Sep-2020	Change in Nonfarm Payrolls	Aug	1310k	1518k	1763k
4-Sep-2020	Change in Manufacturing Payrolls	Aug	50k	88k	26k
4-Sep-2020	Unemployment Rate	Aug	9.9%	9.9%	10.2%
4-Sep-2020	Average Hourly Earnings MoM	Aug	0.0%	0.0%	0.2%
4-Sep-2020	Average Weekly Hours All Employees	Aug	34.5	34.5	34.5

*Consensus from Bloomberg

Fed Green Lights Higher Inflation and Rates Follow

After nearly two years of study, the Federal Reserve finally updated its framework statement on its long-run goals and monetary policy strategy first adopted in 2012. Jerome Powell announced the new framework yesterday at the virtual Jackson Hole symposium. While the revised framework maintains the Fed's dual goals of maintaining full employment and stable prices, the new framework statement clearly puts the Fed's labor market goal front and center, and makes important changes in its inflation targeting regime that the Fed believes will better help them achieve their 2.0% inflation target over the long term.

Citing important changes in the economy over the past decade, including a measurable decline in the long-term potential growth rate of the U.S. economy, a historically low neutral interest rate, and declines in the realized unemployment rate in the last expansion and economists declining estimates of the natural rate of unemployment, the Fed believed important changes to their monetary policy framework statement were necessary.

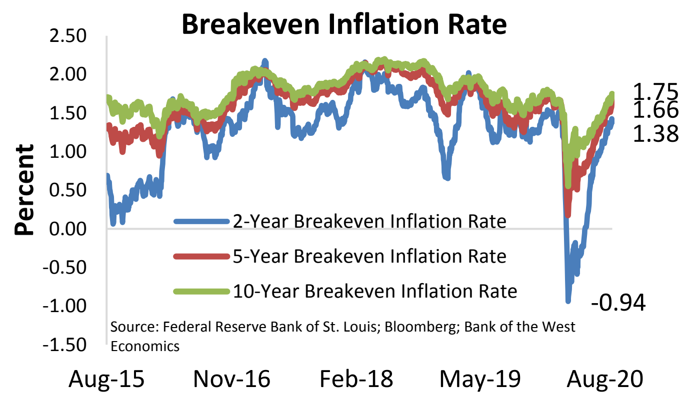
The new statement better appreciates the benefits of a strong labor market, especially for low and moderate income communities, and acknowledges a strong labor market can be sustained without an unwelcome increase in inflation. Going forward the Committee's policy decisions will be informed by assessments of the "shortfalls of employment from its maximum level" instead of "deviations from maximum employment". A subtle change, but one that puts the emphasis on reducing or eliminating shortfalls in employment and remains silent on periods when employment may overshoot economists' estimates of the non-inflationary level of employment, or when the unemployment rate drops below estimates of the economy's natural rate of unemployment. The Fed acknowledges estimates of the natural unemployment rate are highly uncertain, and in the past decade those estimates have fallen from a 5.5% unemployment rate to around 4.1% today. The Fed is essentially saying they won't tighten monetary policy or increase the Fed funds target rate just because the unemployment rate has dropped too low or employment growth is too strong.

On price stability, the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2.0% by adopting a new flexible inflation targeting regime. Acknowledging the Fed's inability to hit its 2.0% inflation target over much of the past decade, the Fed's new statement says the goal is to achieve inflation that "averages 2.0 percent over time", and therefore judges that, following periods when inflation is running persistently below 2.0 percent, appropriate monetary policy will aim to achieve inflation "moderately above 2 percent for some time".

In the past, the Fed has sometimes started raising interest rates after just a few months of inflation exceeding their 2.0 percent target as long as forecasts were for even higher inflation in the future. In the new monetary policy framework this will no longer be the case and inflation will be allowed to move moderately above 2.0 percent for some time before the Fed would feel the need to take some action to rein in inflation pressures. The Fed is basically "green lighting" or giving its blessing for higher inflation and higher inflation expectations in the bond market and among consumers in this new low inflation world.

The bond market's reaction to the Fed's revised statement was swift, pricing in higher nominal yields and higher inflation expectations at the 2, 5, and 10 year horizons. The 10 year Treasury yield jumped to 0.75% yesterday from 0.688% the day before. Investors have been hedging against higher inflation for some time, given the spike in gold prices, real estate prices, and stock prices, and the large increase in inflation breakevens since the March lows. Bond yields walked back some of their gains on Friday as investors realized a Fed goal of higher inflation is not the same as actual higher inflation tomorrow. Still, not all of the yield gains were lost, and the 10-year inflation breakeven continues to climb.

Inflation Expectations On The Rise in The Bond Market



It appears the Federal Reserve's commitment to its new framework will be tested by the markets in the days and months ahead. Even so, any increase in inflation and interest rates is likely to remain gradual by historical standards. Remember the Fed has been trying to bolster inflation for some time now and has largely fallen short of its goal in the past decade. Moreover, the Fed isn't deploying any new tools to achieve their inflation goal at the moment except pledging to keep the Fed funds target rate lower for long than they may have done in the past. In other words, our economic, inflation and interest rate outlook very much remains in the hands of Congress and the virus at the moment.

In a nod to the strength of U.S. economic indicators that continue to exceed most economists' forecasts for economic recovery in the third quarter and the Fed's revised monetary policy framework statement that elevates the full employment mandate and weakens the 2.0 target inflation threshold for tightening monetary policy, we made some modest upward revisions to our Q4 near-term interest rate forecasts today. But since we were already forecasting a continuation of the FOMC's lower bound interest rate policy into 2024, we made no upward adjustment to our interest rate forecasts in 2021 and beyond. The burden of proof is on inflation to actually accelerate in this global economic environment, something that was anticipated by investors in the early days of the post-Great Recession, but was never actually achieved.

Key Economic and Interest Rate Forecasts

	History						Forecast						Yr/Yr % chg or Annual Avg.			
Economic Data	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2018**	**2019**	**2020**	**2021**
Real GDP*	2.9	1.5	2.6	2.4	-5.0	-31.7	26.7	3.2	2.0	4.0	3.3	3.3	3.0	2.2	-4.0	3.3
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-34.1	36.8	4.8	2.0	3.1	2.6	2.5	2.7	2.4	-3.9	4.2
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-26.0	6.1	3.2	1.4	2.5	3.2	3.1	6.9	2.9	-6.0	0.9
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,064	1,210	1,160	1,190	1,195	1,210	1,230	1,208	1,296	1,230	1,206
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	14.3	14.5	14.7	15.0	15.2	15.3	17.2	16.9	13.8	15.1
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.7	-43.2	22.0	8.0	6.0	5.3	4.5	4.4	3.9	0.9	-8.6	3.9
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	140.1	141.1	142.9	144.5	146.2	147.8	146.6	150.9	141.7	145.3
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	10.0	9.5	9.2	8.5	7.4	6.3	4.4	3.7	9.1	7.9
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	3.4	1.6	1.4	1.4	1.4	1.4	2.4	1.8	1.0	1.4
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	2.0	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.4	1.4
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-10.7	6.4	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.3	1.0
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.9	122.2	118.4	117.5	117.3	117.0	116.7	116.5	91.1	115.7	119.0	116.9
Crude Oil Prices -WTI ($ per barrel)	55	60	56	57	45	28	42	42	41	40	40	41	51	57	39	41

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History						Forecast						Annual Average			
Financial Data	**2019.1**	**2019.2**	**2019.3**	**2019.4**	**2020.1**	**2020.2**	**2020.3**	**2020.4**	**2021.1**	**2021.2**	**2021.3**	**2021.4**	**2018**	**2019**	**2020**	**2021**
S & P 500	2,721	2,882	2,958	3,083	3,056	2,932							2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571							21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.06	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.39	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.14	0.10	0.11	0.12	0.13	0.13	0.14	0.95	2.11	0.36	0.13
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.15	0.16	0.18	0.20	0.21	0.23	1.40	1.97	0.39	0.20
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.29	0.32	0.34	0.37	0.40	0.42	1.91	1.96	0.53	0.38
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.65	0.72	0.75	0.78	0.85	0.90	2.33	2.15	0.85	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.35	1.47	1.52	1.56	1.64	1.70	2.90	2.58	1.52	1.60
Prime Rate	5.50	5.50	5.31	4.83	4.43	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.53	0.60	0.26	0.26	0.27	0.27	0.27	0.27	1.26	2.33	0.66	0.27
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	2.96	2.97	3.05	3.05	3.05	3.10	3.99	3.94	3.17	3.06
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.30	3.45	3.65	3.78	4.05	4.10	4.44	4.38	3.64	3.89

Source: Bank of the West Economics, Bloomberg, Federal Reserve