FALL 2024 OUTLOOK

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Current Forecast	2023	2024 Est	2025 Est	2026 Est
GDP Growth	3.1%	1.7%	1.2%	1.7%
Change in Consumer Prices	3.3%	2.6%	2.7%	2.7%
Fed Funds Target Rate	5.50%	4.75%	3.75%	3.75%
5-Year Treasury Yield	3.85%	4.25%	4.25%	4.50%
10-Year Treasury Yield	3.84%	4.25%	4.75%	5.00%
S&P 500 EPS	$218	$242	$253	$267

Recent reports indicate that inflation is currently below the FRB's 2% goal. We expect inflationary pressures to remain tame for the foreseeable future. Longer-term inflation will likely be higher than what prevailed before the pandemic. We expect the FRB to begin an easing cycle in September. The FFR will return to the neutral level of 3.75% next year. We expect the 10-year Treasury to end the year at 4.25%. Fiscal pressures will eventually lead to higher long-term rates. We expect earnings for the S&P 500 to post modest growth for the rest of this economic cycle. We do not foresee a recession this year or next, but growth will likely disappoint.

Last Month's Rates and Total Returns				
August 31, 2024	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	5.50%	--	--	--
3-Month Treasury Yield	5.09%	-17 bp	-26 bp	-37 bp
2-Year Treasury Yield	3.92%	-34 bp	-33 bp	-92 bp
5-Year Treasury Yield	3.71%	-21 bp	-14 bp	-52 bp
10-Year Treasury Yield	3.92%	-13 bp	+4 bp	-17 bp
Mortgage News 30-Year	6.43%	-27 bp	-24 bp	-64 bp
S&P SuperComposite 1500	1,277	2.18%	18.82%	26.42%
S&P 500 Index	5,648	2.43%	19.53%	27.14%
S&P 500 Equal Weight Index	7,116	2.50%	12.53%	19.49%
S&P Midcap 400	3,092	-0.08%	12.24%	18.75%
S&P SmallCap 600	1,413	-1.44%	8.41%	17.31%
S&P 500 Growth	3,760	2.19%	24.63%	30.52%
S&P 500 Value	1,930	2.96%	14.09%	23.63%
World ex-US, USD	323	2.85%	11.22%	18.21%
Wilshire Liquid Alts	194	0.57%	7.01%	8.32%
BB U.S. Aggregate	93	1.68%	3.32%	7.56%
Crude Oil – WTI Near Term	$74	-5.60%	2.65%	-12.05%
Gold – Near Term	$2,494	2.77%	20.92%	28.67%
U.S. Dollar Index	101	-2.30%	0.36%	-1.85%

Prepared by Damian Howard September 06, 2024

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Security National Bank's Private Client Services Department authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as clouded as other prognosticators and that all forecasters have poor track records. Our projections are based on what we think monetary and fiscal policymakers *will* do, not what they *should* do. Commonly used abbreviations and terms are listed at the end of the report.

Gyrations

The first few days of August saw another mini meltdown as a change in Japanese monetary policy triggered this sell-off. The Bank of Japan (BOJ) raised its benchmark rate from 0.10% to 0.25% and promised additional hikes. This modest rate hike prompted global macro funds to unwind their carry trade. In a carry trade, an investor borrows in a low-interest-rate currency (Japanese Yen) and invests the funds in a higher interest-rate currency (US Dollar or Mexican Peso). When interest rates are stable, investors can reap outsized returns. With Japanese rates rising and U.S. rates falling, investors headed for the exit all at once, causing a cascading effect.

Intermonth Total Return		
	7/31 to 8/5	8/6 to 8/31
Large Cap Stocks	-6.1%	9.1%
Small Cap Stocks	-9.0%	8.3%
QQQs	-7.6%	9.4%
NVDA	-14.2%	18.8%
Japan TOPIX	-20.3%	21.8%

By August 6, the BOJ retracted some of its higher interest rate rhetoric, allowing global markets to stabilize and recover. Market prognosticators are split on whether the carry trade has unwound or if there is another shoe to drop.

The recent market action illustrates the importance of asset allocation and managing position size. Reversals, rotations, and gyrations can be fast and furious. It also demonstrates the need to take the long-term view. It is easy to get caught up in selloffs or rallies and make hasty decisions, thus missing market recoveries, leading to unnecessary trading and ultimately being on the wrong side of a rotation.

Over the last four Septembers, the S&P 500 has lost 4.9%, 9.3%, 4.8%, and 3.9%. September is by far the worst month for investors. So far, September 2024 is following this pattern. An interest rate cut and the infusion of liquidity may offset seasonality. We will see how the month unfolds.

Stock Market

The S&P 500 and the S&P1500 recorded their all-time high close on July 16. While both indices had positive returns for the month, they could not eclipse their previous high water marks.

The S&P 500 returned 2.4% for the month, and the broader S&P 1500 returned 2.2%, bringing the YTD returns to 19.5% and 18.8%. The equal-weighted S&P 500 Index returned 2.5% and is up 12.5% YTD.

Historically, small-capitalization stocks underperform during periods of uncertainty. August was one such period. Small-cap stocks fell 1.4%, while mid-caps were essentially flat, with a loss of 0.1%. Small-cap

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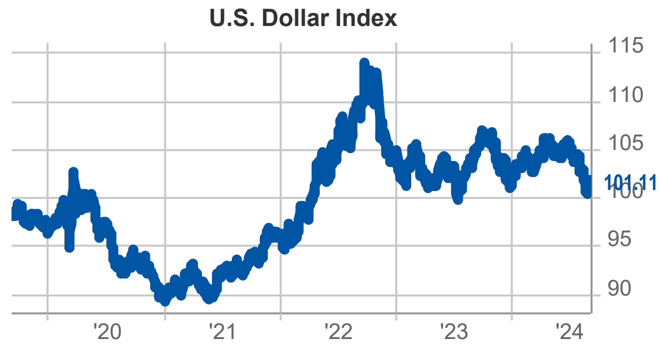
stocks have also underperformed in September. We remain cautious about putting new money into the stock market in September.

For the month, consumer staples was the top-performing sector ETF (up 6.0%), and energy was the worst-performing sector ETF (down 2.1%). YTD, the financials ETF was the top-performing sector (up 22.6%), and consumer discretionary ETF was the worst-performing sector (up 5.1%).

International Stock Returns
Last month, international stocks rose 0.5% in local currencies and 2.9% when translated into U.S. dollars. YTD, international stocks rose 12.4% in local currencies and 11.2% when translated into U.S. dollars. Last month, the U.S. dollar index fell 23% and was flat YTD. A rising (falling) dollar hurts (helps) dollar-denominated returns for international stocks. The dollar index is trade-weighted and may differ from an investment-weighted index.



Fixed Income Returns
U.S. interest rates fell across the curve last month. Longer-duration fixed income products outperformed. The 20+ year Treasury ETF returned 2.1%, while the 1-3 Year Treasury ETF returned 0.9%. YTD, interest rates are mixed, with short-term rates down the most, causing shorter-duration fixed-income products to outperform. The 1-3 Year Treasury ETF returned 3.2%, while the long-term treasury ETF was down 0.1%. For the month, investment-grade fixed income outperformed high yield by 0.3%. YTD, high yield outperformed investment grade by 2.5%.

The Long View
Over the last forty years, the U.S. experienced a terrorist attack, presidential impeachments, a global financial crisis, a pandemic, bouts of inflation, and multiple bear markets. Stock market returns (as measured by the S&P 1500) have shown consistency over the longer term. We list the longer-term returns for the broad stock and bond markets each month. This table reminds us to focus on the long term.

	Five Years	Ten Years	Twenty Years	Thirty Years	Forty Years
Stocks	15.6%	12.7%	10.7%	11.0%	11.1%
Bonds	0.0%	1.6%	3.2%	4.6%	6.2%

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Interest Rate Policy

Based on the futures market, there is a 100% chance that the FOMC will cut interest rates on September 18. There is a 59% chance the cut will be 0.25% and a 41% chance the cut will be 0.50%. The futures market expects a steady stream of rate cuts until interest rates bottom at 3.25% in July.

Meeting Date	Futures Market 09/06/2024	SNB Forecast
September 18	5.25%	5.25%
November 7	4.75%	5.00%
December 18	4.50%	4.75%
January 29	4.00%	4.50%
March 12	3.75%	4.25%
April 30	3.50%	4.00%
June 18	3.50%	3.75%
July 30	3.25%	3.75%
September 17	3.25%	3.75%

The August employment report was slightly weaker than consensus estimates. The labor market continues to weaken but is not in a freefall. The report was not decisive enough to tip the scales from a 0.25% rate cut to 0.50%. We still favor a 0.25% rate cut on September 18. The CPI report on the 11 will likely be the deciding factor.

Our FFR forecast is less aggressive than that of the futures market. We expect 0.25% at every meeting until interest rates reach 3.75%. Our terminal rate is slightly higher than the futures market implies, and the FRB's 2.75% terminal rate. We also project a higher rate of inflation and higher real rates.

Recent Economic Reports

The chart at the right shows that economic reports have been mixed since the end of June. The Citi Economic Surprise Index compares economic reports with expectations. When the line falls, actual results are less favorable than expectations. This is our favorite graph; it summarizes many economic reports into an easily understood graph.

In July, bad news was seen as good news for stocks. Softer economic growth implied that the FRB was succeeding in slowing the economy enough to tame inflation. Now, bad news is seen as bad news. Softer economic reports imply that the FRB has gone too far in slowing the economy, raising the specter of recession.

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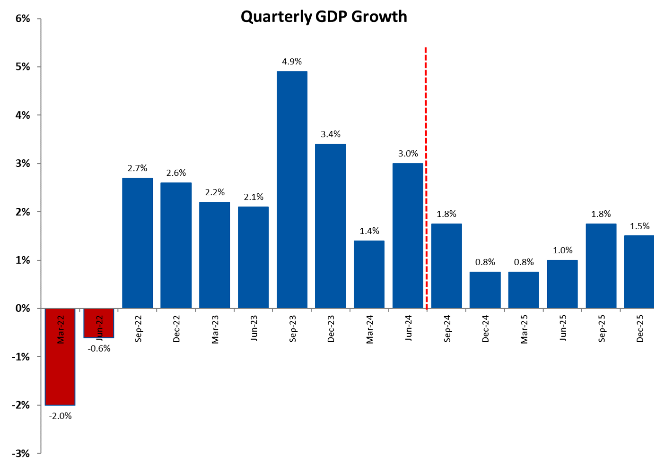
Economic Growth

On August 29, the BEA reported that the economy expanded at a 3.0% pace, accelerating from the 1.4% pace reported in the first quarter. Inventory swings boosted second-quarter growth by 0.8%, while net exports subtracted 0.8% from growth.

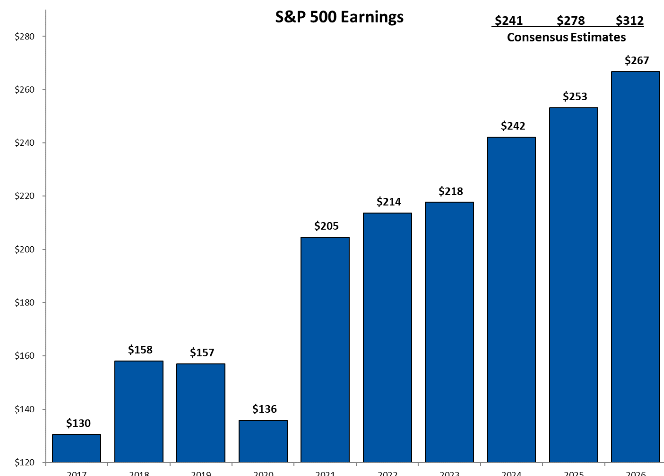


Core economic growth strips out the impact of inventory flows, net exports, and government purchases, which we view as a more accurate picture of underlying growth momentum. We calculated that core growth was 2.5%, an increase from the 2.2% posted for the first quarter. Over the last four quarters, core economic growth has averaged 2.5%.

Since our Summer Outlook, we raised our 2024 GDP growth by 0.2% to reflect stronger momentum and reduced our 2025 GDP growth by 0.2% to incorporate the need to slow consumption to rebuild savings. The chart above illustrates a classical soft landing. We do not foresee a recession. We expect next year's growth to be slower than most observers expect. Growth is likely to disappoint. The slower growth translates into lower earnings growth for the S&P 500.

Stock Earnings Forecast

We raised our earnings estimates to incorporate better-than-expected corporate earnings and economic growth. We expect the S&P 500 to earn $242 this year and $253 next year. The S&P 500 trades at 22 times our forward earnings (P/E). Over the last ten years, it has traded at a median P/E of 17.7 times forward earnings. We calculate a 20.2 multiple as fair value based on the current interest rate environment. The stock market's valuation is stretched but not overly so. Please remember a stretched valuation does not necessarily lead to a market correction.



It is unlikely that the market's multiple will expand from here. This implies that earnings growth and dividends will drive stock market returns. A six percent annual total return over the next several years seems reasonable.

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If you have questions or comments about this Outlook, do not hesitate to contact our Security National Bank Private Client Services team.

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Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates"—commonly called the Federal Reserve's "dual mandate." For this reason, we always start our economic review with employment followed by inflation.

Employment

Please remember that the labor market is a lagging indicator. Job losses typically occur after the economy enters a recession.

The August employment report was slightly weaker than consensus estimates. The labor market continues to weaken but is not in a freefall. The report was not decisive enough to tip the scales from a 0.25% rate cut to 0.50%. We still favor a 0.25% rate cut on September 18. The CPI report on the 11 will likely be the deciding factor.

The economy added 142,000 jobs, less than the consensus estimate of 160,000. The payroll numbers for the previous two months were also revised down by 86,000. The unemployment rate eased to 4.2% as the number of unemployed people decreased by 48,000 to 7.1 million.

Private sector jobs grew by 118,000, above the three-month moving average of 96,333 but below the twelve-month moving average of 156,000 While private sector job growth was weaker than expected, it is still high enough to signal a growing economy. Job growth above 90,000 is considered strong. Layoffs and new unemployment insurance claims remain below long-term averages. Wage growth accelerated to 0.4% from 0.2% the previous month. The TMA of 3.8% for wage growth is near the FRB's target of 3.5%.

We begin our employment review by examining the JOLTs (Jobs Openings and Labor Turnover) report published by the Bureau of Labor (BLS). This gives us an idea of how big a cushion the economy has before employment is impacted. Generally, companies will first cut open positions before employees.

JOLTS Report				
	Most Recent	Previous Month	Previous Year	Long-Run
Open Positions	7,673,000	7,910,000	8,805,000	
Open/Unemployed	1.1X	1.2X	1.5X	0.9X
Open Rate *	4.7%	4.8%	5.5%	4.4%
Hire Rate *	3.8%	3.6%	4.0%	4.1%
Lay-Off Rate *	1.2%	1.1%	1.2%	1.4%
Quit Rate *	2.3%	2.3%	2.6%	2.4%

* Private Sector

The July JOLTS report was much weaker than expected. The BLS reported 7,163,000 open positions versus the consensus of 8,100,000. The previous month's figure was revised down 274,000 positions. The ratio of job openings to unemployed individuals fell to 1.1X. This is below the 1.2X ratio that prevailed just before the pandemic but above the long-term average of 0.9X.

The open rate is the number of open jobs divided by the total (filled and unfilled). FRB research suggests that unemployment significantly increases once the open rate falls below 4.5%. The rate decreased to 4.7% in July. This measure gives job openings room to ease before unemployment rises, but the safety margin has narrowed.

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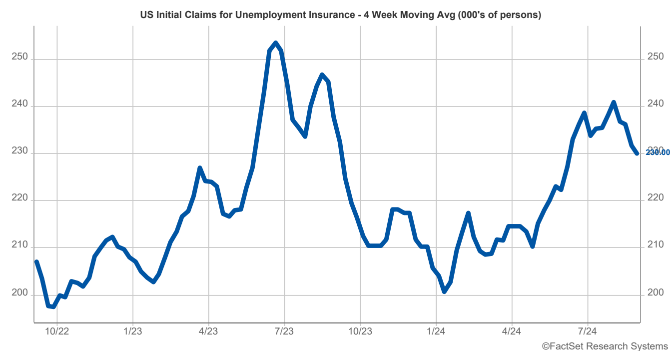
The hire rate rose to 3.8%, below the long-term average. The layoff rate remained below the long-run average. This indicates that employers are retaining their talent (low layoff rate) but are unable to or unwilling to expand payrolls dramatically (low hire rate).

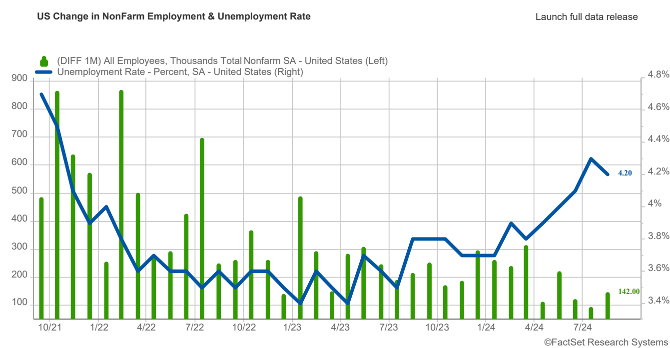
The quit ratio is now below pre-pandemic levels. An elevated quit rate is associated with higher wage growth, as employees usually switch jobs for higher pay. The ratio tends to lead to compensation costs by nine months. The lower quit rate should lead to lower wage growth in the second half of this year.

The demand for new workers continues to fade, as evidenced by the decline in job openings. The lower quit rate mirrors consumers' reduced perception of job availability, as the Consumer Confidence report reported. With fewer workers quitting, companies do not need to hire as many workers, thus resulting in a lower hire rate and ISM employment index. Employers are also holding the line when it comes to letting workers go. The layoff rate is substantially below pre-pandemic levels. This suggests businesses are reluctant to let existing employees go, considering the difficulty of hiring them in the first place. The exceptional jobs market that followed the pandemic has come to an end. We are now back to a more normal and cyclical labor market. The labor market is no longer a source of inflation.

Initial jobless claims for the week ending August 60, 2024, were 227,000, bringing the four-week average to 230,000. Continuing claims fell by 33,000 M/M to 1,838,000. While up from their January lows, initial claims are below last year's peak and would need to rise above 300,000 before unemployment would increase dramatically. The continued modest level of jobless claims supports the view of a slowing but healthy labor market.



The BLS reported that the number of jobs either rose by 142,000 or 168,000 in August. The Establishment survey puts the job gains at 142,000 versus the consensus estimate of 160,000 jobs added. The volatile Household survey indicates that the economy gained 168,000 jobs. This is the first time in a long time that the two surveys have agreed on the number of jobs created.



The Household survey estimates the economy lost 66,000 jobs over the last year, while the Establishment survey estimates the economy added 2.4 million positions over the last twelve months. There is a substantial difference between the two surveys. Most economists emphasize the Establishment Survey. Both measures of employment have errors.

Establishment survey payrolls for the previous two months were revised lower by 86,000. The unemployment rate fell by 0.1% to 4.2% as the number of unemployed persons decreased by 48,000, and the labor force rose by 120,000. On a Y/Y basis, the number of unemployed persons rose by 775,000 while the labor force rose by 709,000. The 0.4% growth in the labor force may not fully reflect the impact of immigration. It appears the BLS continues to have problems incorporating the surge in immigration into

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the labor statistics. August marks the fourth consecutive month of 4.0% or greater unemployment. The participation rate held steady at 62.7%. Hourly earnings rose by 0.4%, above the consensus estimate of 0.3%.

According to the Establishment survey, the economy added 142,000 jobs, 118,000 of which were in the private sector. The consensus was for 160,000 and 140,000 new jobs (private sector). Total and private job growth was below consensus.

Job gains were concentrated in healthcare (30,900 added), food service (29,900 jobs added), and construction (34,000 jobs added). Manufacturing shed 24,000 jobs, led by job losses in the transportation equipment sector. Retail trade lost 11,000 jobs.

Employment in temporary services contracted an additional 2,900 jobs. Since peaking in March 2022, temporary services shed 487,000 employees.

The unemployment rate fell to 4.2% as the number of officially unemployed persons decreased by 48,000 to 7.1 million. The unemployment rate for the 25-year-old and older cohort fell by 0.1% to 3.4%. The broader U-6 unemployment rate rose by 0.1% to 7.9%.

The participation rate held steady at 62.7%. The employment-to-population ratio held at 60.0%.

Last month's average hourly earnings (wages) rose by $0.14 per hour to $35.21, up 0.4% and above the consensus estimate of 0.3%. Average hourly earnings are up $1.30 per hour or 3.8% Y/Y. Over the last three months, average hourly earnings grew at a 3.8% pace, slightly increasing from the 3.7% pace reported the previous month. The FRB wants wage growth to stay below 3.5% for an extended period. Wage growth is only slightly above the FRB's target. Wage growth is insufficient to prevent the FRB from lowering interest rates.

The average workweek rose by 0.1 hours to 34.3 hours, down 0.1 hours year over year. Average weekly earnings rose by $8.31, or 0.7%, from the previous month as more hours worked added to higher wages. Average weekly earnings are up $41.20 (3.5%) year over year. Total weekly payroll (number employed individuals times average weekly earnings) increased 0.8% M/M and 3.5% year over year.

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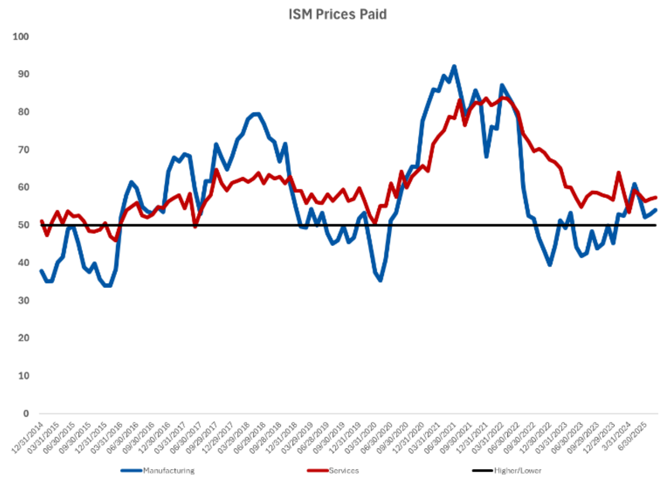
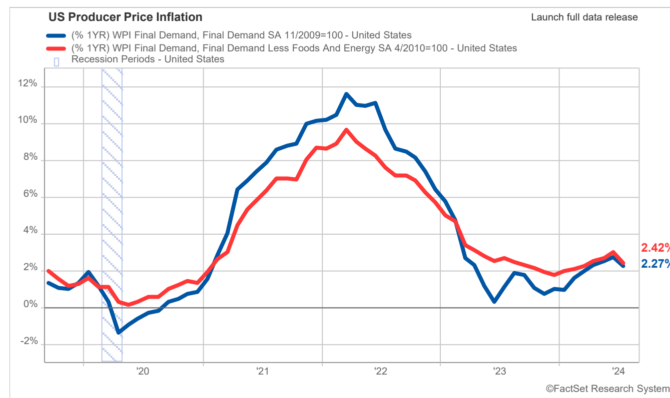
Inflation

The next FOMC interest rate decision will be announced on September 18, a week after the next Consumer Price Reports (September 11). When contemplating its next move, the FRB will have one more inflation data point. The last four reports showed moderating inflation, and we expect the next inflation report to continue this trend.

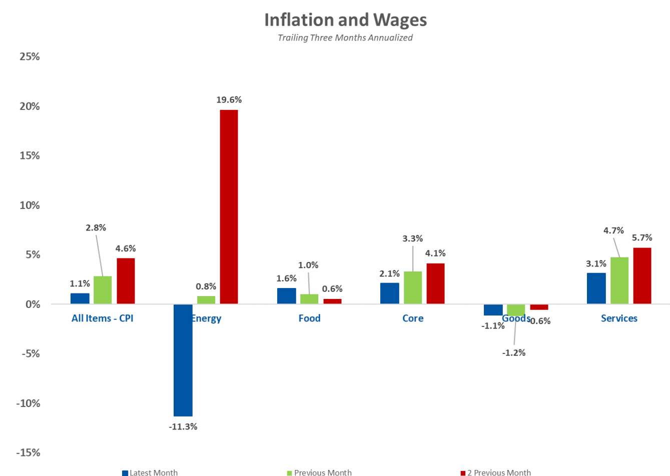


The ISM prices paid indices measure input inflation and indicate near-term inflation changes. The services and manufacturing indices rose in August. However, the percentage of respondents who saw higher prices fell, and the percentage of respondents who saw steady prices increased substantially, which points to a leveling of inflationary pressures.

The Bureau of Labor Statistics (BLS) prepares the Producer Price Index (PPI) to measure inflation at the wholesale level. Investors use the PPI as an indicator of inflation and profit margins. If the PPI indicates producers are raising prices, then inflation will likely appear at the retail level of the economy. The size of the change suggests the amount that inflation is increasing or decreasing. Producer prices rose 0.1% in July, down from 0.2% the previous month. The PPI points to 1% to 2% inflation trends.



The Consumer Price Index (CPI) rose by less than 0.2% in July and 0.4% on a Trailing Three-Month Annualized (TMA). Core prices rose less than 0.2% and 1.6% TMA. All items, less food, energy, and shelter, were eventually flat M/M and fell by 0.3% TMA.



Food inflation remained controlled. Food prices were up 0.2% M/M and 12.2% TMA. Energy prices were flat M/M but fell 15.1% TMA.

Goods prices fell 0.3% M/M and 1.9% TMA.

Service inflation was 0.3% M/M and 2.7% TMA. Owners Equivalent Rent (OER) was up 0.4% M/M and 4.4% TMA. OER has finally moderated after being stickier than anticipated.

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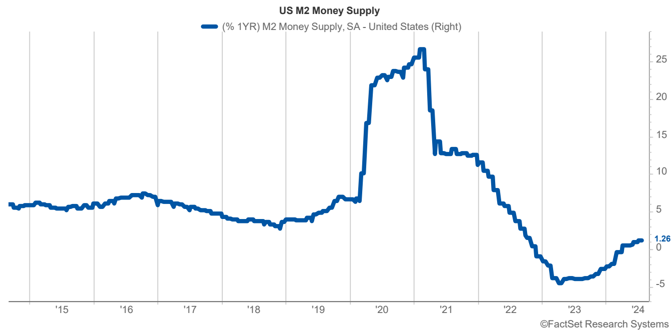
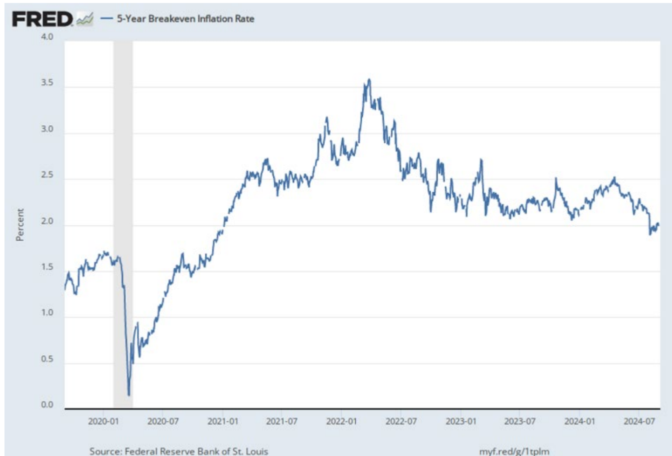
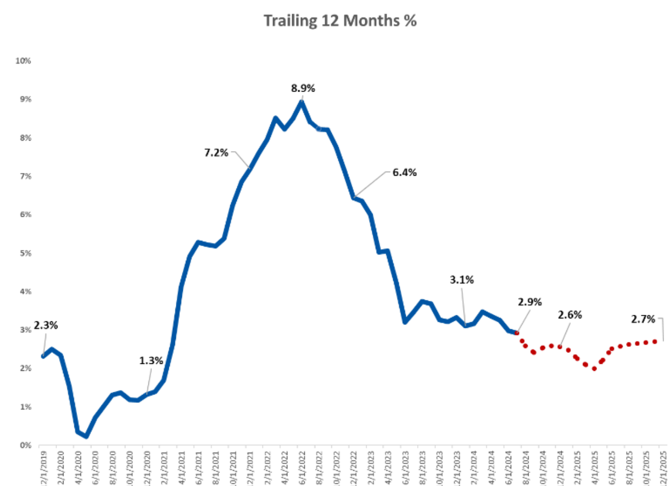
Milton Friedman famously said: "Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output." Much of 2022's and 2023's inflation was caused by the rapid growth of the monetary supply in 2020 and early 2021. At its peak growth, the money supply grew at over 27% Y/Y. The money supply increased faster than output for three years, leading to inflation. The FRB slammed on the brakes in 2022. From March 2022 to March 2023, the money supply contracted 3.7%, or $0.8 trillion. Since March 2023, the money supply has grown by 0.7%. The flat money supply is better than rapid shrinkage but insufficient for a growing economy. Based on the money supply, inflation and economic growth should moderate. Cumulatively, since 12/31/2019, the money supply has grown by 37%, or 7.1% CAGR. Dr. Friedman would attribute our recent spike in inflation to this excessive growth.



Because inflation statistics are lagging indicators, economists use forward-looking inflation expectations. The breakeven inflation rate implies what market participants expect inflation to be in the next five years, on average. The 5-year break-even inflation rate peaked at 3.6% in March 2022. Inflation expectations have fallen to the current 1.9%. The FRB has been successful in re-anchoring expectations to 2%. Inflation will likely reaccelerate to 2.7% toward the end of next year. In the meantime, FRB will declare victory, as it usually takes a year or so before inflation reaccelerates.



We expect inflation to reaccelerate by mid-2025. However, we do not envision inflation rising enough to prompt the FRB to raise the FFR above 3.75%. The graph on the right shows our most recent CPI inflation forecast. We project that y/y headline inflation will end the year at 2.6% and rise to 2.7% next year.



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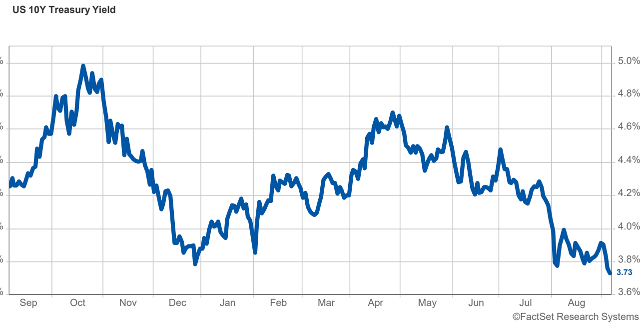
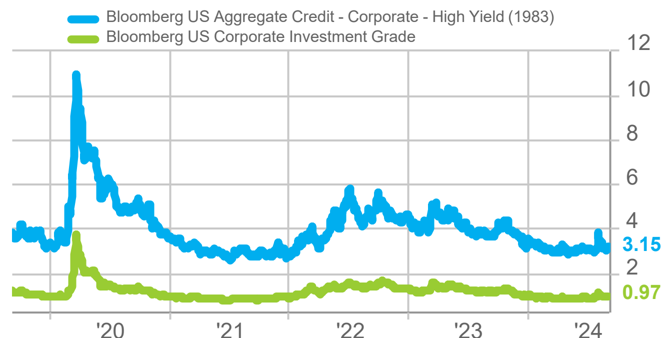
Interest Rates and Credit Markets -
Yields moved lower across the curve in August. The 3-Month Treasury now incorporates several interest rate cuts. The 2-year Treasury ended the month at 3.92%, down 34 basis points, while the 10-year ended at 3.92%, down 13 basis points.



Real rates (nominal yields minus inflation) have eased off their recent highs. After the Great Financial Crisis (GFC), real rates rarely rose above 1% and were occasionally negative. The 10-year real rate is currently 1.7%. Negative real rates generally lead to a misallocation of capital and asset bubbles. The current real rate will lead to better economic capital allocation decisions. We currently peg a 2% long-term real ten-year rate as sustainable and base our long-term assumptions on that level.

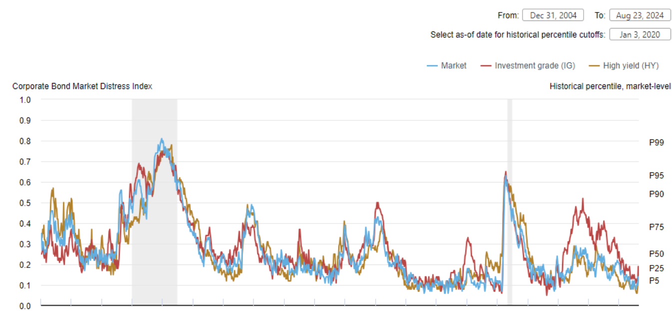
We view real rates of 2% plus or minus 0.25% as sustainable. We base our long-term ten-year rate (4.75%) on 2.0% real rates plus 2.7% CPI inflation. This is generally higher than most forecasters expect.

While risk-free rates have returned to adequate levels, credit spreads could be more attractive. During periods of financial stress, investment grade spreads often widen beyond 2%. During periods of exuberance, investment grade spreads fall below 0.8%. Investment grade spreads ended the month at 0.9%, flat M/M. Investment grade spreads are discounting continued strong economic growth. They are not signaling a recession or credit stress in large corporate America,



High-yield spreads widened by five basis points to 3.0%. During periods of economic stress, high-yield spreads often widen to above 8.00%. During periods of exuberance, they fall below 3.5%. We currently classify high-yield spreads as highly exuberant. High-yield credit spreads forecast a "Goldie Locks" economy.

The Federal Reserve Bank of New York calculates the Corporate Bond Market Distress Index (CMDI), a unified measure quantifying joint dislocations in the primary and secondary corporate bond markets. The index incorporates a wide range of indicators, including measures of primary market issuance and pricing, secondary market pricing and liquidity conditions, and the relative pricing between traded and nontraded bonds. By this measure, the corporate bond market is functioning at a healthy level. The index is just below its historical 25th percentile (least stress). Overall, credit remains strong, and defaults are within historical norms.



Prepared by Damian Howard September 06, 2024

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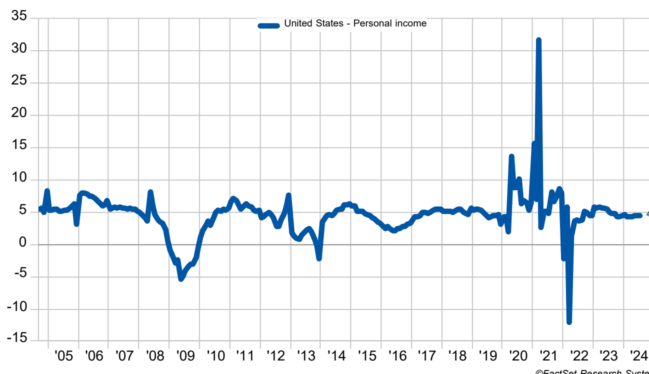
The Consumer Sector

Personal income rose by 0.3% in July, while personal consumption expenditures rose by 0.5%. The savings rate fell from a revised 3.1% to 2.9%. The PCE inflation index rose by 0.2%, while the core PCE inflation index rose by 0.2%.



Personal income rose 0.3% M/M and 3.7% on a Trailing Three-Month Annualized (TMA). Private sector wages and salaries were up 0.3% M/M and 4.7% TMA. Investment income was down 0.1% M/M but up 1.2% TMA. Disposable personal income was up 0.3% M/M and 3.0% TMA. Wages and other sources of income continue to advance at a modest pace.

Disposable personal income (DPI) is what consumers have left after paying income and social security taxes. It is what they use to pay for everything else. Y/Y growth in DPI did not keep pace with purchases, necessitating reduced savings or increased debt usage. Over the long term, consumption cannot grow faster than DPI. The savings rate has hit a cyclical low of 2.9%. It is still too low, especially compared to the 7% level that prevailed before the pandemic. The savings rate needs to be built from here. The consumption growth will trail the income growth, resulting in slower economic growth.

Personal Consumption Expenditures				
	M/M		Y/Y	
	Nominal	Real	Nominal	Real
Disposable Personal Income	0.3%	0.1%	3.6%	1.1%
Durable Goods	1.4%	1.7%	0.9%	3.4%
- Motor Vehicles and Parts	3.3%	4.1%	-3.5%	0.2%
Non-Durables	0.4%	0.2%	3.1%	1.7%
- Gas and Other Energy	0.0%	-0.1%	1.1%	.9%
Services	0.4%	0.2%	6.8%	2.9%
- Utilities	0.8%	0.7%	4.1%	-0.3%
Total	**0.5%**	**0.4%**	**5.3%**	**2.7%**

Personal Consumption Expenditures (PCE) were up 0.5% for the month and 0.4% on a real basis (after subtracting the impact of inflation). Energy and grocery prices were tame last month. Energy and food prices have a disproportionate effect on consumer confidence. Consumer confidence (especially the present situation component) has improved with calmer inflation. We expect nominal personal consumption expenditures to grow at a 0.1% to 0.2% average monthly rate. Last month's report exceeded our longer-term expectations.

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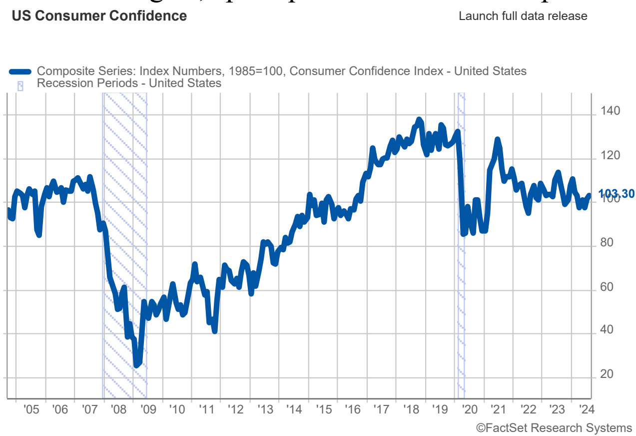
As expected, the Consumer Confidence Index rose to 103.3 in August, up 1.4 points from 101.9 the previous month.



The present situation component rose by 1.4 points to 134.4, and the forward-looking expectation component rose by 1.4 points to 82.5.

Employment Confidence Fell

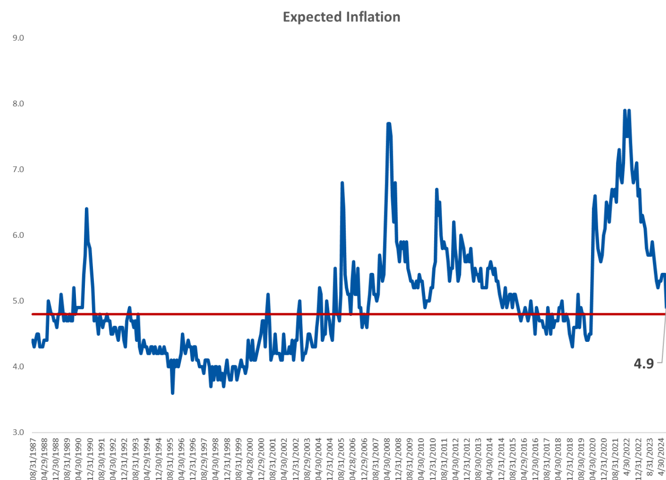
The current conditions net employment sub-index (plentiful minus hard to get) fell to 16.4 from 17.1 the previous month. Consumers' outlook for future employment worsened as the net sub-index (more jobs minus fewer jobs) fell slightly to -1.4 from -1.2 the previous month. Consumer confidence reflects the weakening labor market.

Business Confidence Improves

Consumers' perception of current business conditions improved as the net sub-index (good minus bad) rose to 3.1 from 1.0 the previous month. Consumers' outlook for future business conditions fell as the net sub-index (better minus worse) rose to 2.8 from -0.8 last month. Consumers' outlook for business conditions likely reflects the strong YTD stock market returns and the hope of lower rates.

Inflation Expectations Moderated

The Conference Board started asking consumers about inflation expectations in 1987. Consumers' expectations for inflation for the next 12 months fell dramatically. Consumers forecast inflation will be 4.9% in 12 months versus the 5.4% reported the previous month and 7.9% reported in June 2023. Inflation expectations have returned to the long-term average of 4.8%. For now, the FRB has accomplished its task of taming inflation expectations.



SECURITY NATIONAL BANK
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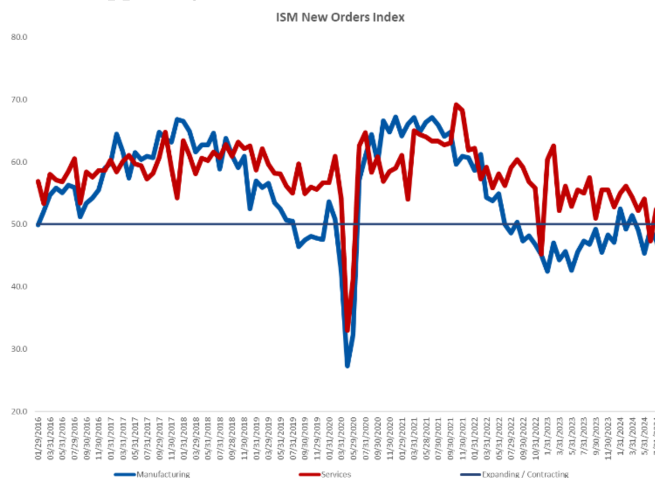
The Business Sector
The Institute for Supply Management (ISM) reports monthly on manufacturing and non-manufacturing (service) sector activity. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.



The New Orders Index is a leading indicator for the ISM Activities Index and the economy. This chart supports our forecast of a shallow manufacturing recession and continued modest growth for the services industry. The manufacturing new orders index has remained below 50 for five months. The service sector index rebounded after a brief month in contraction territory.

As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 indicate the same level of activity. A Manufacturing PMI above 42.5 generally indicates an expansion of the overall economy.

Activity in the service sector expanded in August. The Services Index rose 0.1 points to 51.54. The breadth of growth modestly widened, as ten industries reported growth the same as last month, and one fewer industry reported contraction. Comments from the ISM included, “Slow-to-moderate growth was cited across many industries, while ongoing high costs and interest-rate pressures were often mentioned as negatively impacting business performance and driving softness in sales and traffic. Although the Inventories Index increased by 3.1 percentage points into expansion territory in August, many respondents indicated their companies are still actively managing down their inventories.”

Employment expanded for the second consecutive month. The employment index fell by 0.9 points to 50.2. 14.5% of respondents reported reducing employment, while 14.3% reported increasing employment. Employment in the service sector remains balanced.

Prices paid for materials and services rose slightly faster. Prices have risen for 87 consecutive months. The price component rose by 0.3 points to 57.3. 18.6% of respondents reported higher prices, while 6.7% reported lower prices. Inflationary pressures have eased a bit but remain a concern for the service sector.

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Faster
New Orders	Growing	Faster
Backlog of Orders	Contracting	From Growing
Employment	Growing	From Contracting
Prices Paid	Increasing	Faster
Supplier Deliveries	Faster	Slower
Service Sector	Growing	Faster
Industries Expanding	10	--
Industries Contracting	7	-1

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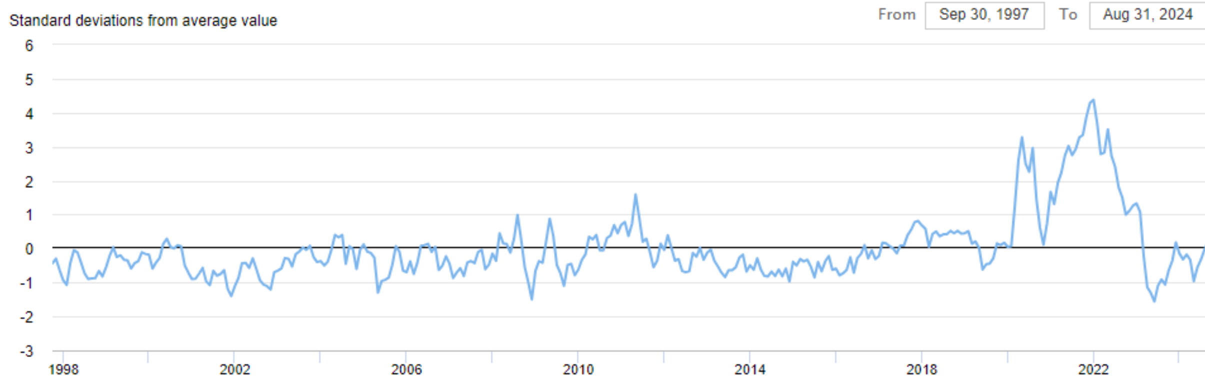
Activity in the manufacturing sector contracted for the fifth straight month in July. The manufacturing index rose by 0.4 points to 47.2 points. Growth was sparse as only five industries reported growth while one additional industry reported contraction. Comments from the ISM included, "Demand remains subdued, as companies show an unwillingness to invest in capital and inventory due to current federal monetary policy and election uncertainty."

Manufacturing Sector	Direction	Rate of Change
Production	Contracting	Faster
New Orders	Contracting	Faster
Backlog of Orders	Contracting	Slower
Employment	Contracting	Slower
Prices Paid	Increasing	Faster
Supplier Deliveries	Slowing	Slower
Manufacturing Sector	**Contracting**	**Slower**
Industries Expanding	5	---
Industries Contracting	12	+1

Employment contracted at a slower pace in August. The employment index rose by 2.6 points to 46.0. 19.1% of respondents reduced employment, while 10.0% increased employment.

Prices paid for materials and services rose for the eighth month and at a faster pace. The price component rose by 1.1 points to 54.0. 21.4% of respondents reported higher prices, while 13.4% reported lower prices.

The Federal Reserve Bank of New York tracks supply chain disruptions with its Global Supply Chain Pressure Index (GSCPI). Supply chain pressures have increased slightly but remain within normal ranges. Despite issues with the Suez and Panama canals, global supply chains continue functioning. Any supply chain issues are modest and isolated.



The manufacturing sector continues to experience a modest recession, while the more significant service sector continues to grow steadily. The forward-looking ISM indices point to continued modest economic growth.

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Abbreviations and Other Terms Used

This report will use FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee, and BLS for the Bureau of Labor Statistics. The FOMC is part of the FRB, which meets eight times yearly to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured regarding money or things counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal less inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations are commonly used.
QTD = Quarter-to-date
YTD = Year-to-Date
M/M = Month Over Month
TMA = Trailing Three-Month Annualized
Y/Y = Year Over Year

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