

Put up or shut up time

Monday, August 24, 2026

Warsh is running out of excuses into Jackson Hole

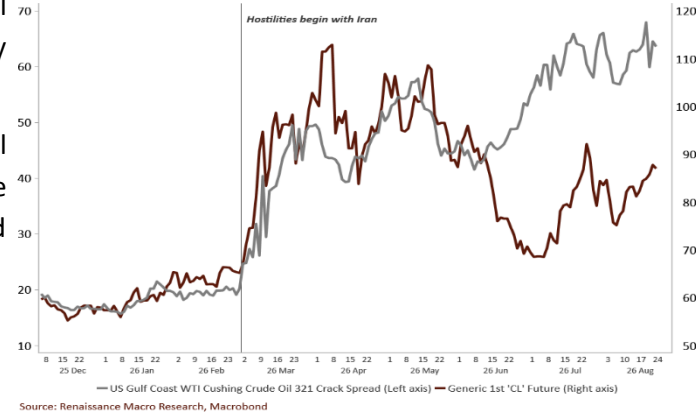
In June, the Fed laid out a three-part checklist framing the conversation around returning inflation to its two percent target: (1) tariffs, (2) energy and (3) AI-investment. Each of these three factors has gotten worse since the June FOMC.

In the last week we have seen trade tensions escalate with Canada, a major trading partner. The Canadians seem to be gearing up for an extended trade war. Bloomberg News reports, "Some of Nvidia Corp.'s biggest customers have been told that the prices of servers containing its artificial intelligence chips are going up more than 15% in many cases with memory chip costs soaring."

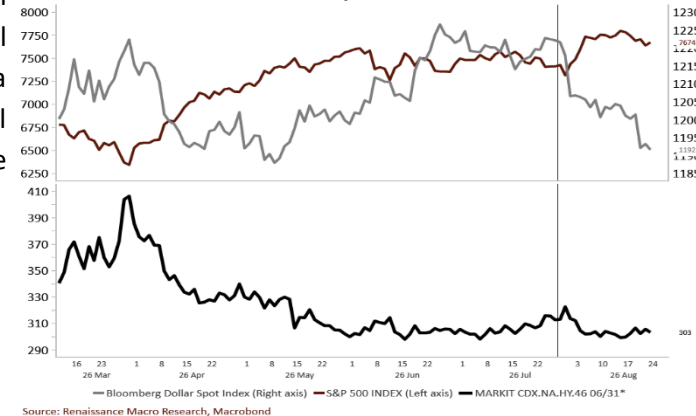
On energy, wholesale gasoline futures suggest some upward drift in retail gasoline prices is on the horizon. Diesel prices have been surging. The issue is not necessarily a shortage of crude oil, but a shortage of the refined products that households and businesses use.

July's FOMC minutes introduced a new aspect to the framework – financial conditions. To wit, "Some participants commented that financial conditions might not currently be sufficiently restrictive to facilitate a return of inflation to 2 percent." Since the July meeting, financial conditions have eased: the dollar exchange rate is down, stock prices are up, and credit spreads are tight.

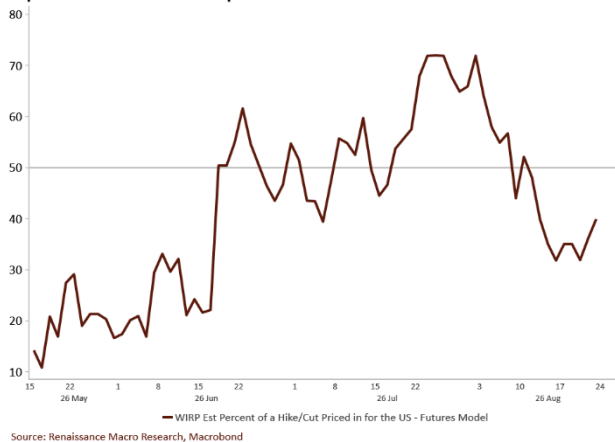
Crack spreads have been climbing



Financial conditions have eased since July



September is at least a coinflip



I am tuning out a lot of the noise – i.e., “will Warsh play the Bessent Treasury ball or not?” “Will he lean against the shift in duration or not?” – **Keep it simple: Words either matter or they don’t. If the factors mentioned above are driving the conversation around the FOMC in determining whether to recalibrate policy rates, then the odds of a September rate hike are well above 50 percent.**

For Chairman Warsh, he has a choice. He can pivot now and explain the rationale to shift. This would allow him to get out in front of the FOMC; the committee is already moving in a hawkish direction. Or he can do what he has been doing, which is being very circumspect around his own views or leaning into an AI-driven productivity boom that has very little basis in the data. In this case, we will continue to see what we’ve been seeing – the information void is filled with guidance from the rest of the FOMC.

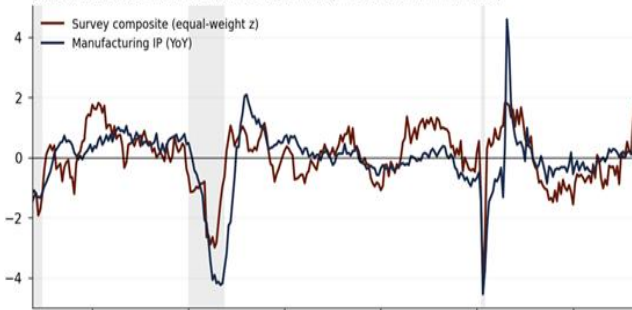
Solid factory surveys, but don’t get carried away

Manufacturing production has not been nearly as strong as manufacturing surveys have been. The good news is that factory activity is climbing, the bad news is that much of the enthusiasm captured by regional surveys appears to be nominal rather than real.

Over the last year, manufacturing production has advanced 1.1 percent. The growth so far this year has been somewhat stronger, up roughly four percent at an annual rate though the recent momentum has been somewhat softer. Manufacturing output is up 1.6 percent AR over the last three months. Historically, even a four percent rate of production growth is consistent with real GDP growth of 3.3 percent.

The three-survey average is a vibes boom

(fixed 2000-base z-scores, COVID 2020Q1–2020Q4 excluded from moments)



Regional PMIs are a good read on other PMIs; however, they have not been an especially useful read on production. As a recent Richmond Fed [paper](#) concluded, “None of the regional Fed manufacturing indexes significantly improve or weaken the forecasting performance of industrial production growth compared to a baseline model.”

ISM Manufacturing PMI, relative RMSFE (<1 = survey helps):

Survey	2021–23 (paper’s window)	2023–25
Philadelphia	0.86*	1.34* (worse)
Kansas City	1.28	1.44* (worse)
Dallas	0.95	1.17
Richmond	1.07	1.02
New York	1.04	1.07

We update the results and present the findings in the nearby table. When the root mean squared forecast error (RMSFE) is lower than 1, the regional survey improves forecasting accuracy of industrial production. When it is above 1, the opposite is true. If anything, the forecast utility has gotten worse over the last few years.

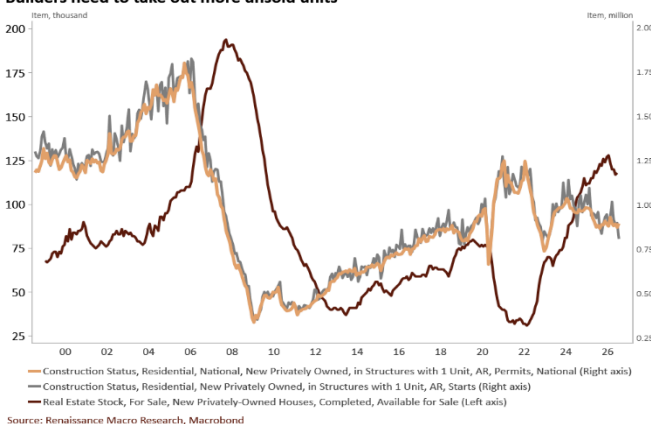
In short, I'm not disputing that manufacturing activity is improving, but I'd resist the idea that the pace of growth represents some sort of breakaway economic momentum. That's true in the surveys, which are all strongly correlated with each other. That's less true of the actual production data itself.

Housing still in the basement

Housing is in a funk, and I expect residential investment to continue eating away at GDP growth. The good news is that housing is a much smaller share of US GDP than it was a few years ago. The bad news is that the problem gets a little worse before it gets meaningfully better. Housing does not really work with mortgage rates above 6.5 percent.

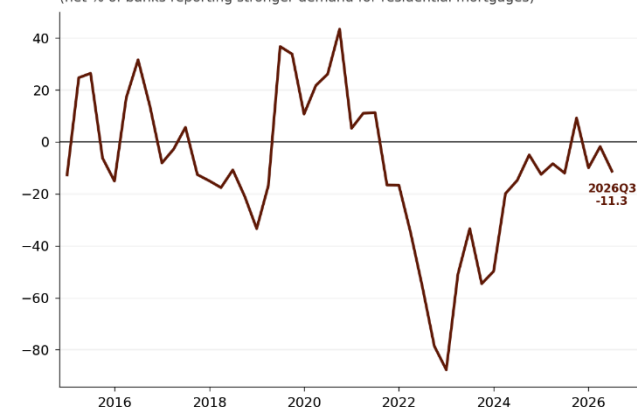
Residential investment depends on three things: (1) construction, (2) sales, and (3) renovation spending. Construction represents almost one-half of residential investment, sales (brokers' commissions) are 15 percent and home improvement spending accounts for most of what's left. When looking at each of these three factors, it feels too soon to be a housing market growth bull.

Builders need to take out more unsold units



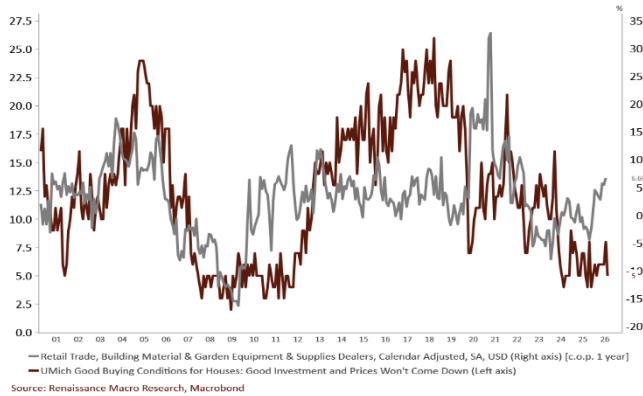
- Construction: Homebuilders continue to sit on an elevated level of completed unsold units for sale. There is no need to build when inventories are still piled up. Single-family starts are still running below the level of completions, which implies continued declines in units under construction.

Mortgage demand has been negative for three straight quarters
(net % of banks reporting stronger demand for residential mortgages)



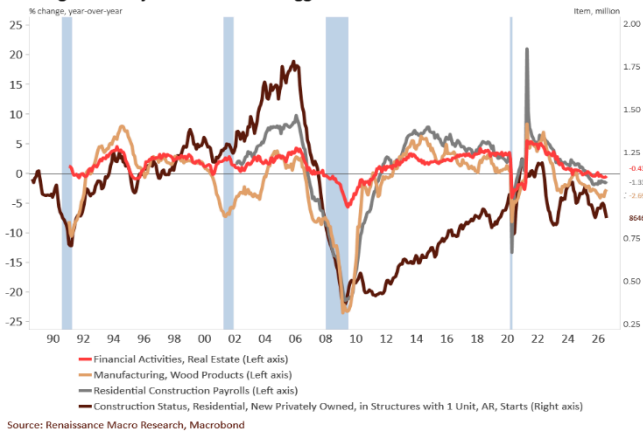
- Sales: Existing home sales remain pinned to the floor while there is nothing of consequence going on in new home sales. Our nearby figure shows the latest data from SLOOS; the net percentage of banks reporting stronger demand for residential mortgages has been negative for the last three quarters. That's consistent with a modest decline in new home sales.

What's the point of renovating?



- Renovations: Consumers might be making small home upgrades, but there isn't much indication that large projects are going on given elevated household borrowing rates. Available home equity revolving credit is up about three percent against last year. But, more broadly, consumers don't see housing as a great investment so what's the reason to put money into the home in any meaningful sense?

Housing sensitive jobs sectors look sluggish



Housing is not going to improve so long as rates remain elevated. Rates are likely to remain elevated so long as the AI boom continues on. So, for housing to work, it will likely require something else to break. In the meantime, there is good reason to expect housing related employment to shrink.

Rise in yields is about growth? I don't know

Many have pointed out that the rise in longer-term interest rates is fine because it is mostly responding to stronger domestic growth conditions. I am not so sure.

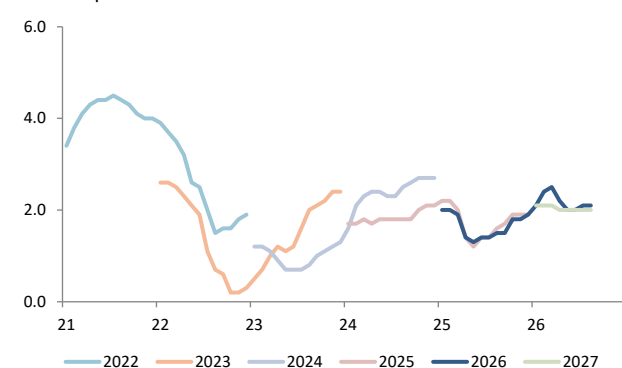
Our nearby figure shows the evolution of BlueChip Consensus Economic Forecasts to August 2026. Where's the boom?

A hallmark of a growth upturn, especially one that is driven by stronger productivity, is a period of upside surprises that gets the consensus to revise their growth expectations. We don't see that. Instead, growth expectations for both this year and next remain about the same as they've ever been, 2.1 percent. Yes, data surprise measures have improved, but most of that has been in survey-based measures of economic activity – like PMIs. Employment, retail sales, and housing data have been weaker, on net, over the last month.

Indeed, since the end of June, the ACM 10 Year Term Premium has increased by 35 basis points, fully accounting for the rise in 10Y yields over this period. That likely speaks to something other than domestic growth conditions as the main driver of longer-term rates.

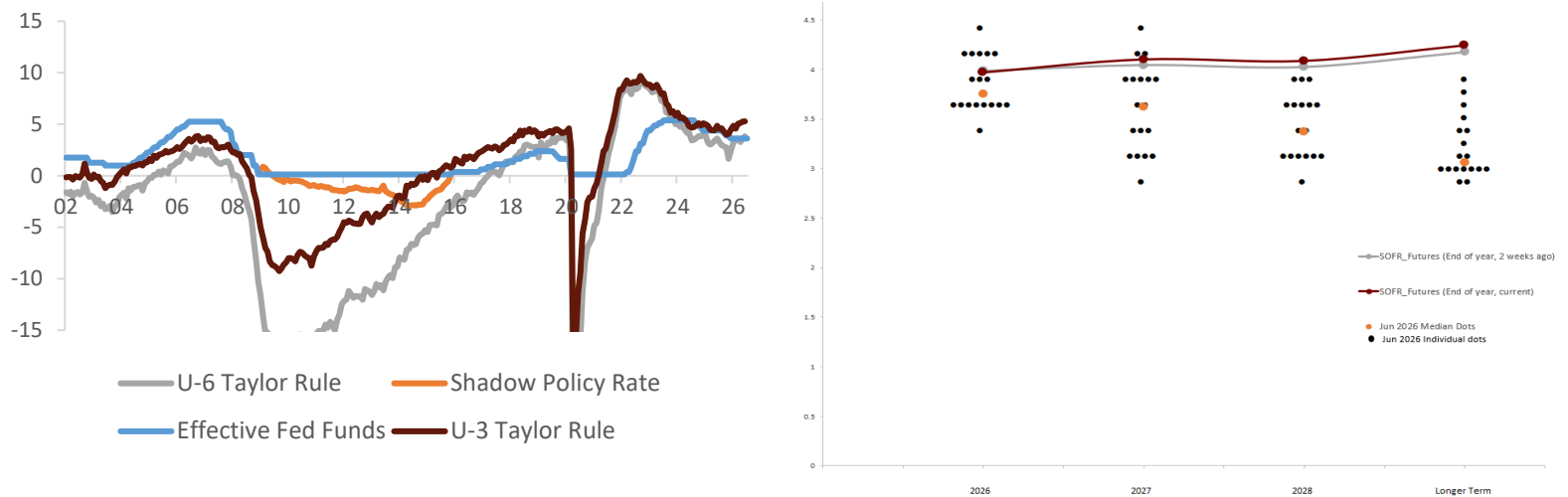
Where is the growth boom?

BlueChip Consensus GDP Growth Forecast

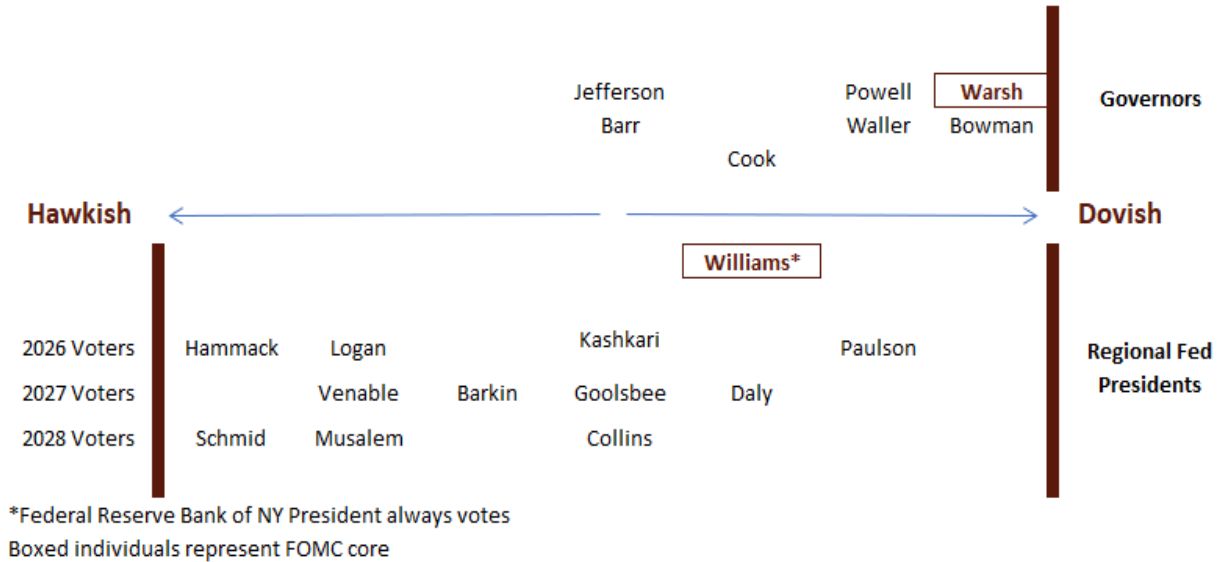


Source: Renaissance Macro Research, Haver Analytics

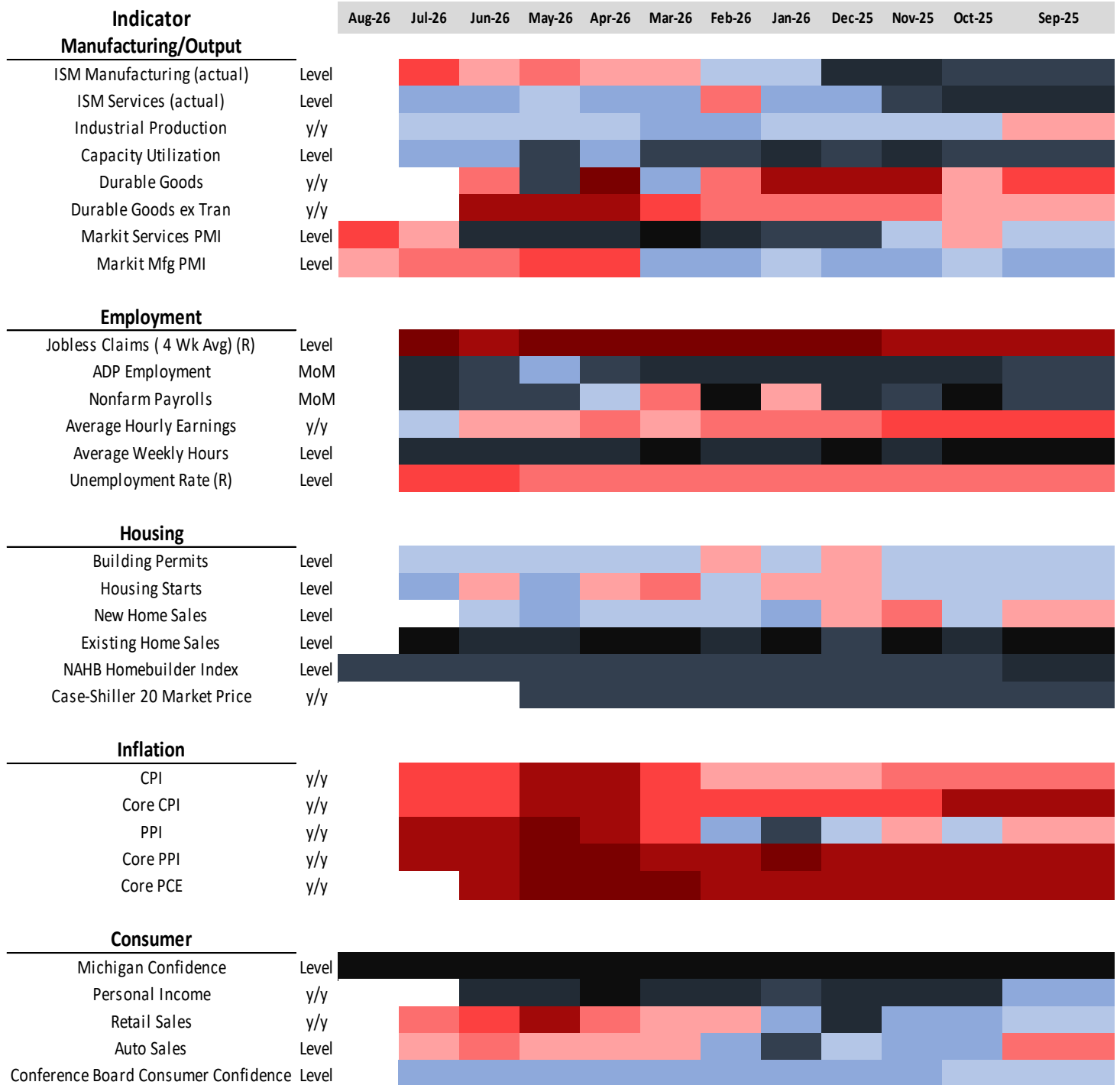
Monetary metrics



Hawks and Doves



FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2	2.0-2.3	2.0-2.4	2.0-2.3	1.8-2.0
March projection	2.4	2.3	2.1	2	2.2-2.5	2.0-2.4	2.0-2.3	1.8-2.0
Unemployment rate	4.3	4.3	4.2	4.2	4.3-4.4	4.2-4.5	4.1-4.3	4.0-4.3
March projection	4.4	4.3	4.2	4.2	4.3-4.5	4.2-4.4	4.0-4.4	4.0-4.3
PCE inflation	3.6	2.3	2	2	3.5-3.7	2.2-2.5	2.0-2.1	2
March projection	2.7	2.2	2	2	2.6-3.1	2.0-2.3	2	2
Core PCE inflation ⁴	3.3	2.5	2.1		3.2-3.5	2.3-2.6	2.0-2.2	
March projection	2.7	2.2	2		2.5-2.8	2.0-2.4	2	
Projected policy path								
Fed funds rate	3.8	3.6	3.4	3.1	3.6-4.1	3.1-3.9	3.1-3.6	3.0-3.5
March projection	3.4	3.1	3.1	3.1	3.1-3.6	2.9-3.6	2.9-3.6	2.9-3.5

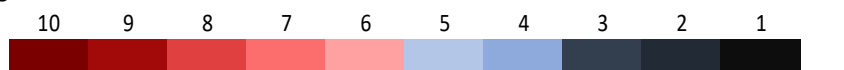


Notes

R - Reverse Formatting

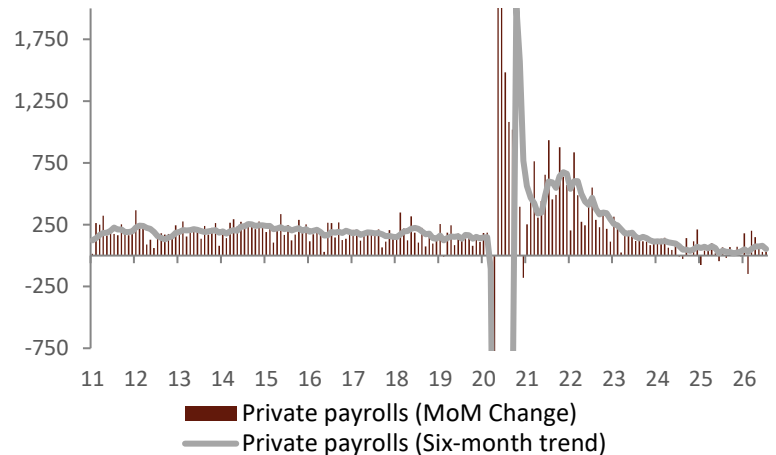
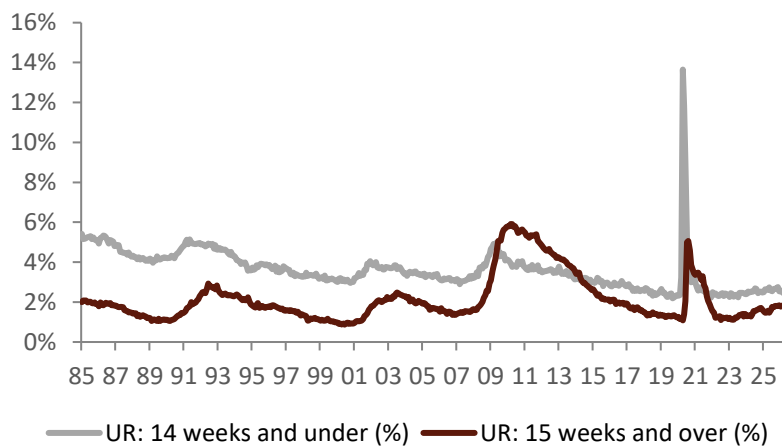
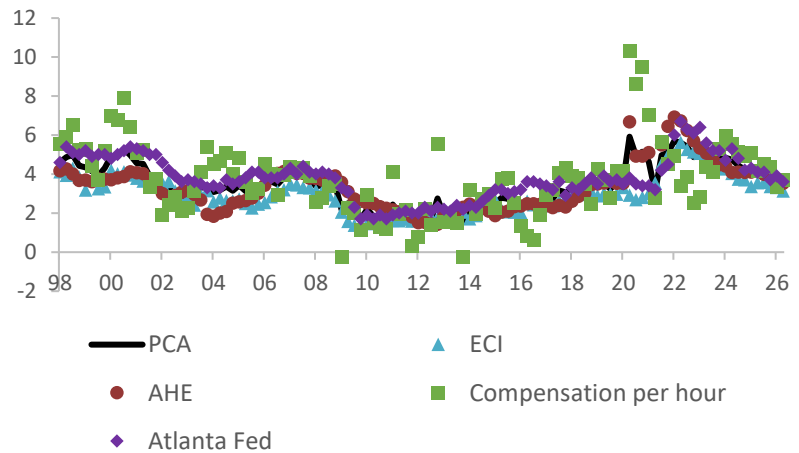
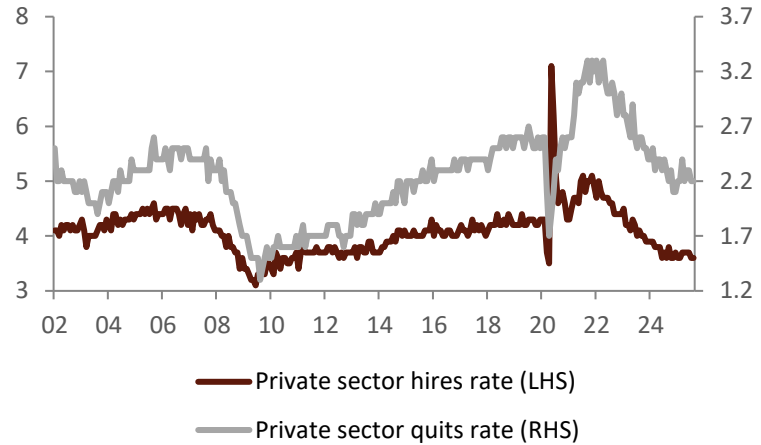
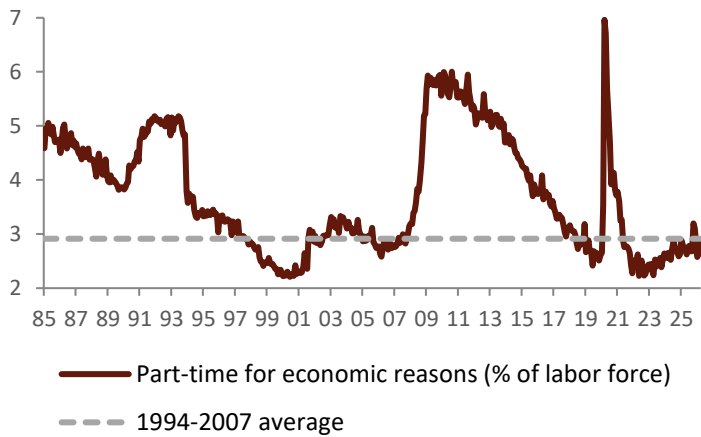
Deciles are based on expanding window since 2001

Highest decile

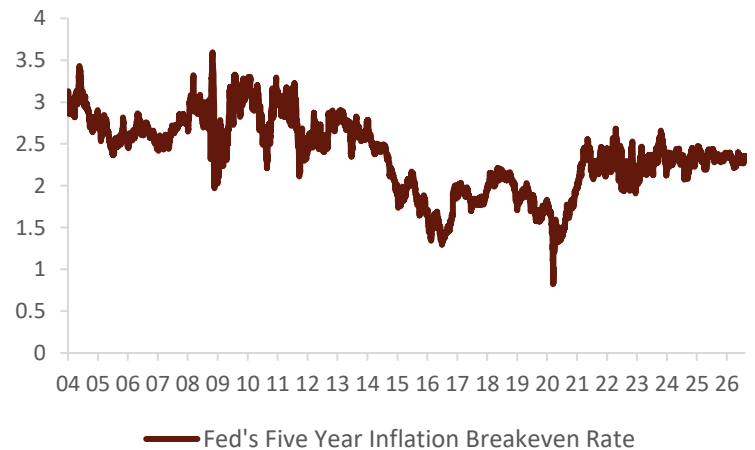
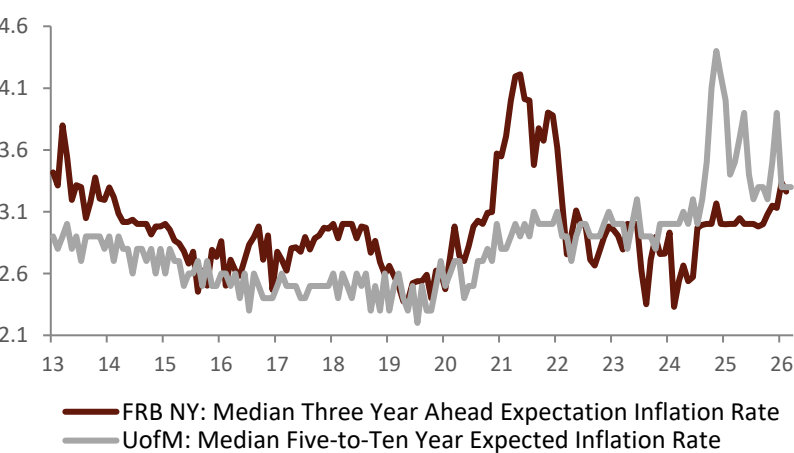
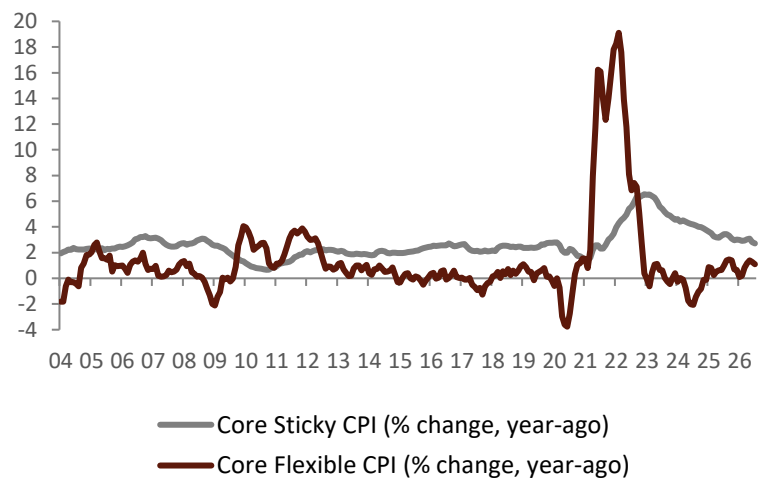
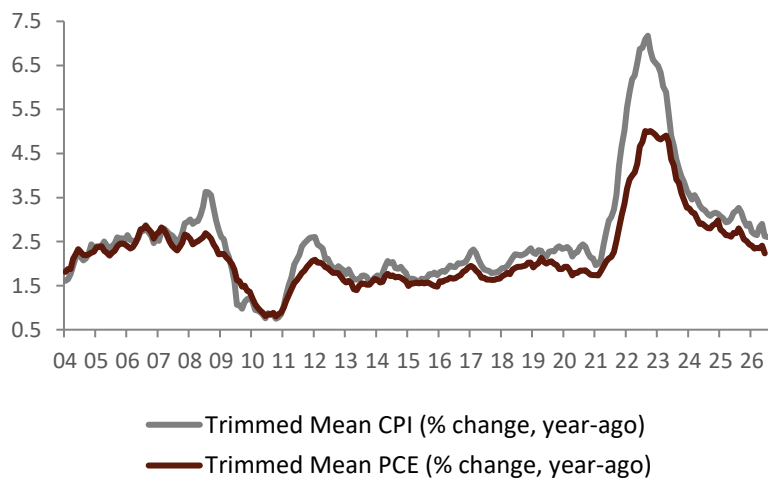
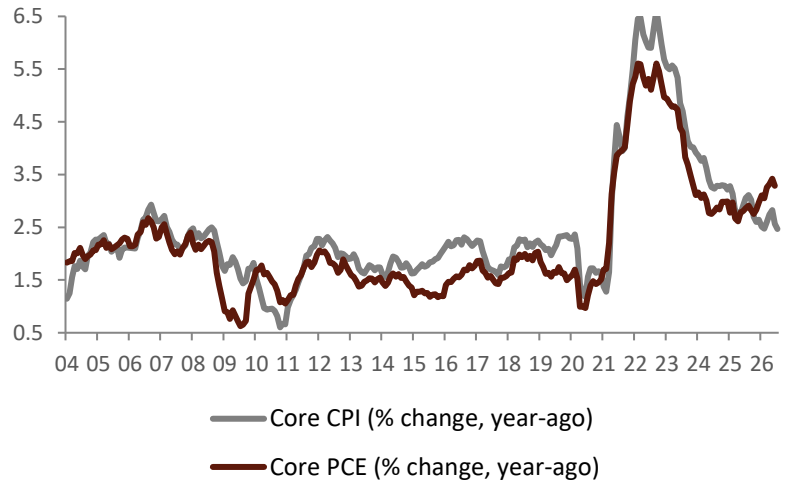
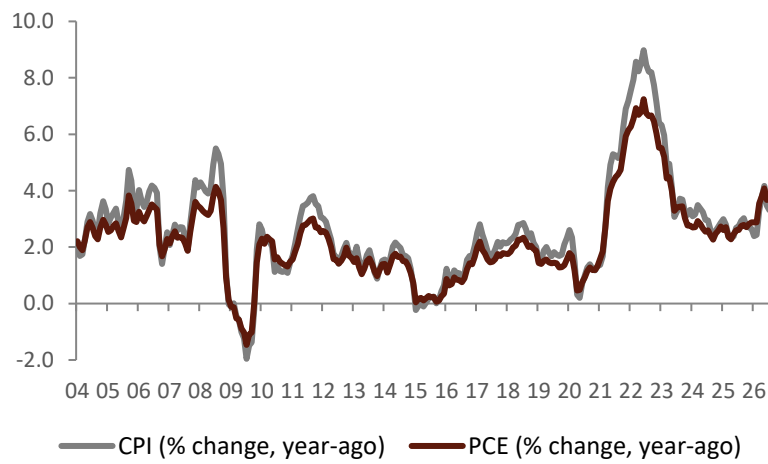


Lowest decile

Labor market indicators



Inflation indicators



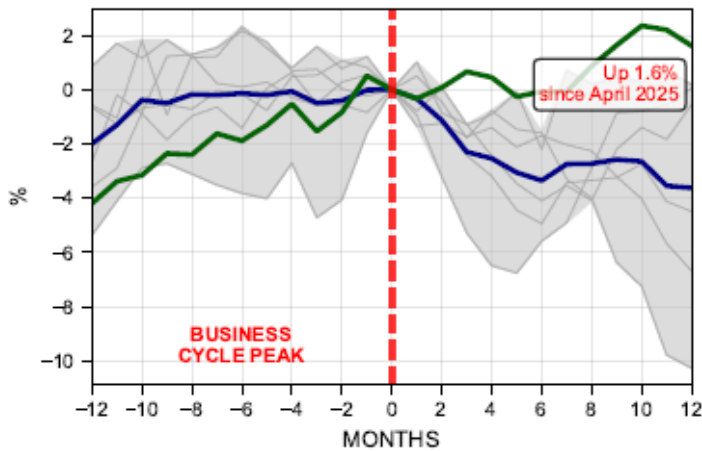
US Inflation Heatmap (6-Month Annualized)



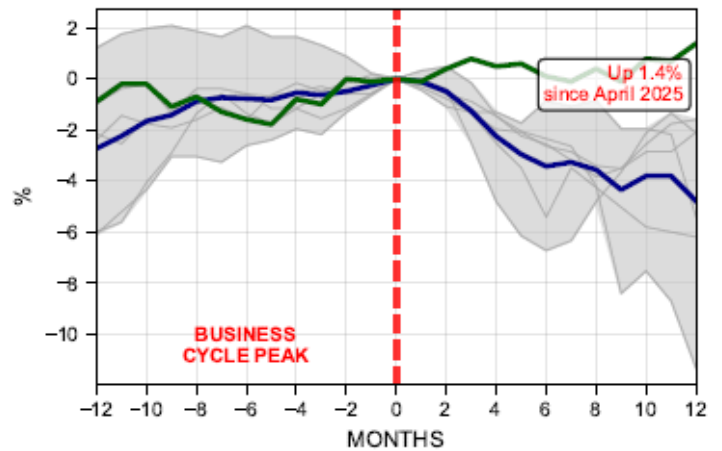
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: July 2026.

NBER RECESSION INDICATORS DASHBOARD

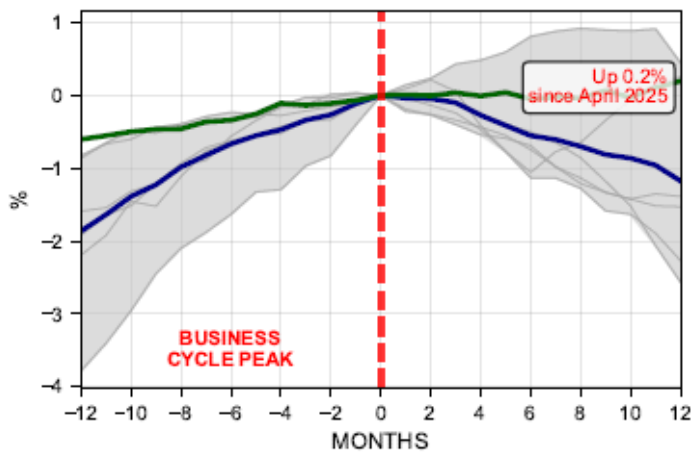
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



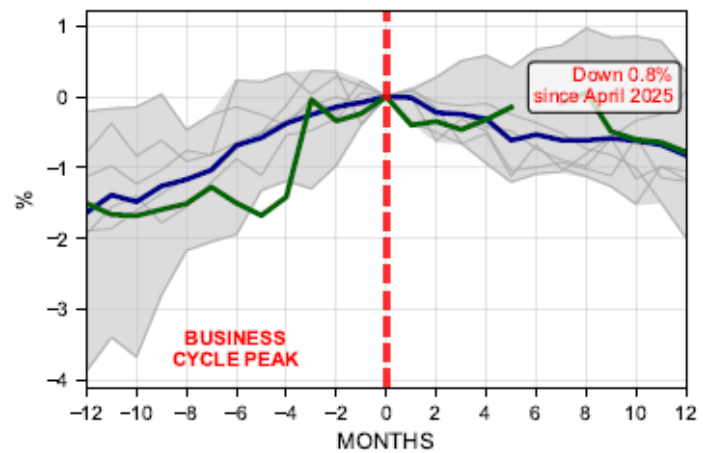
INDUSTRIAL PRODUCTION



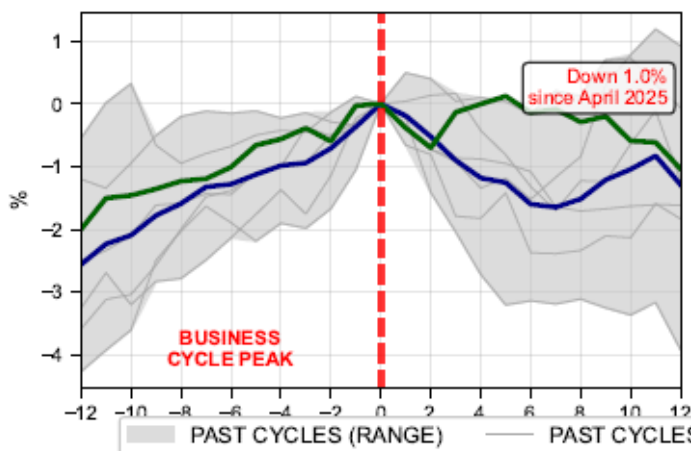
US NONFARM PAYROLLS



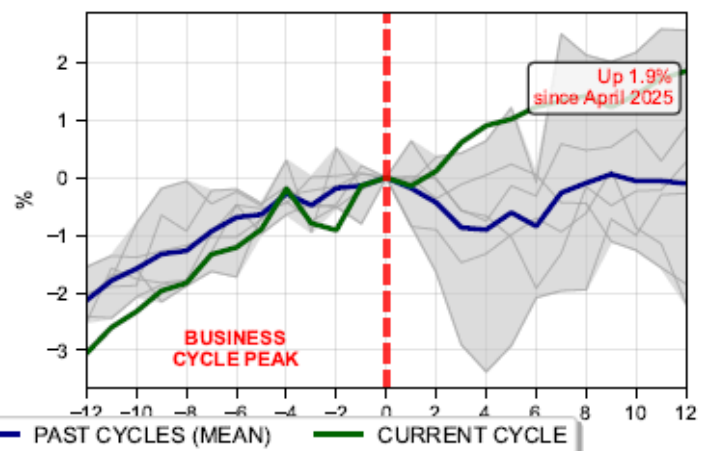
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



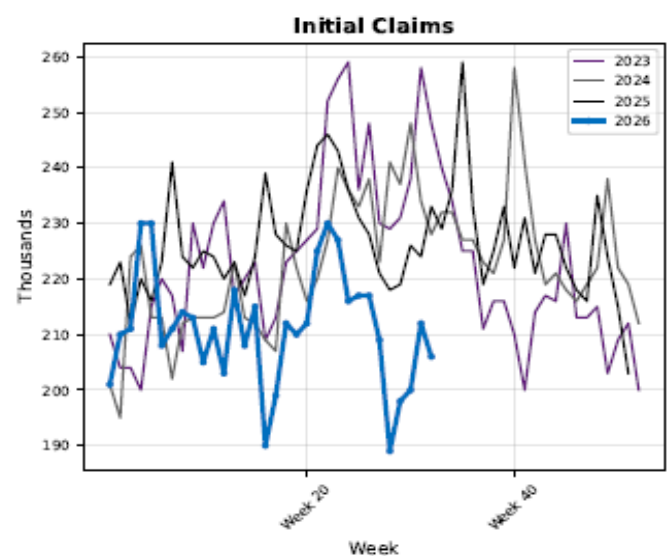
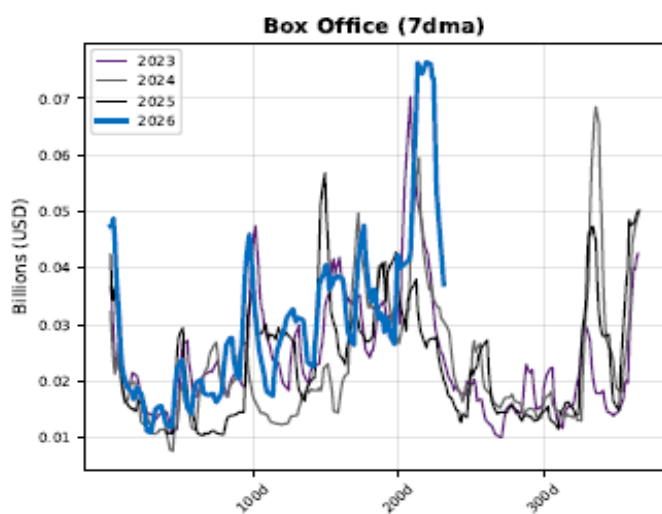
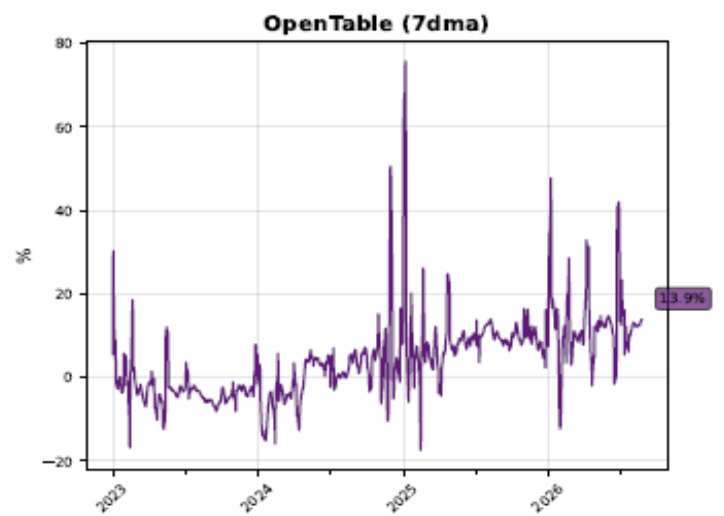
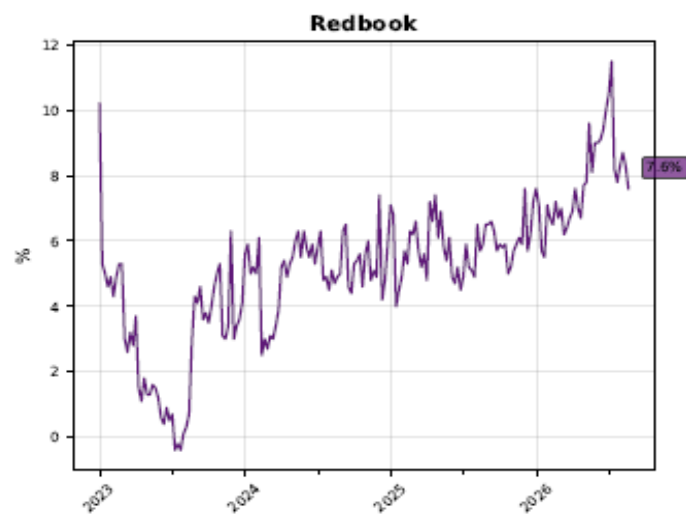
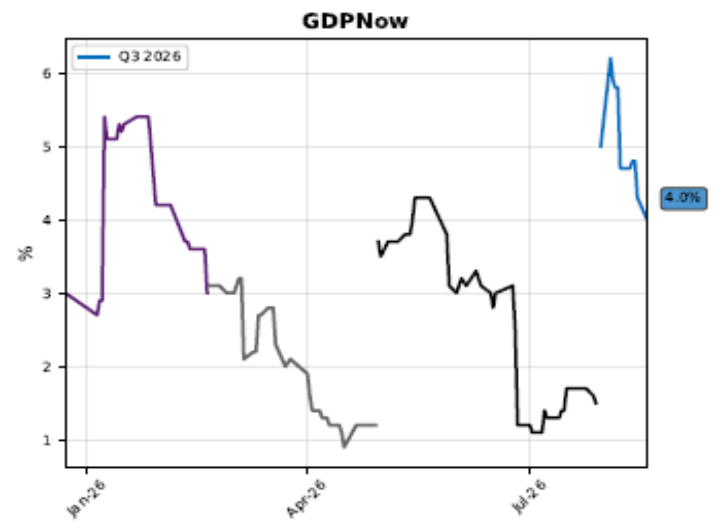
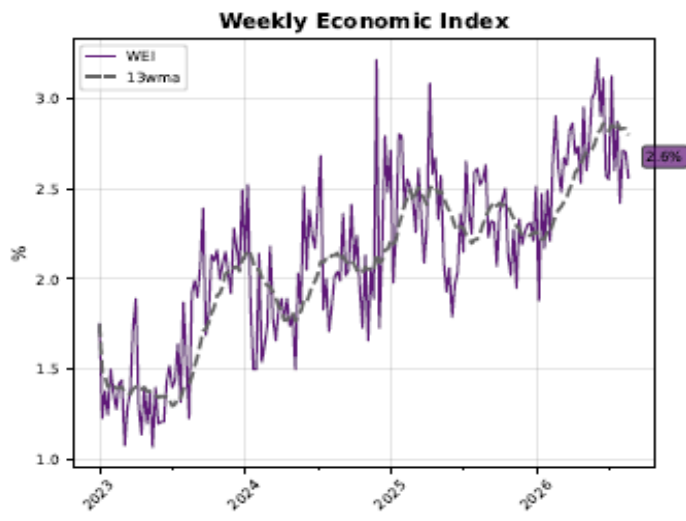
REAL PCE



PAST CYCLES (RANGE) — PAST CYCLES — PAST CYCLES (MEAN) — CURRENT CYCLE

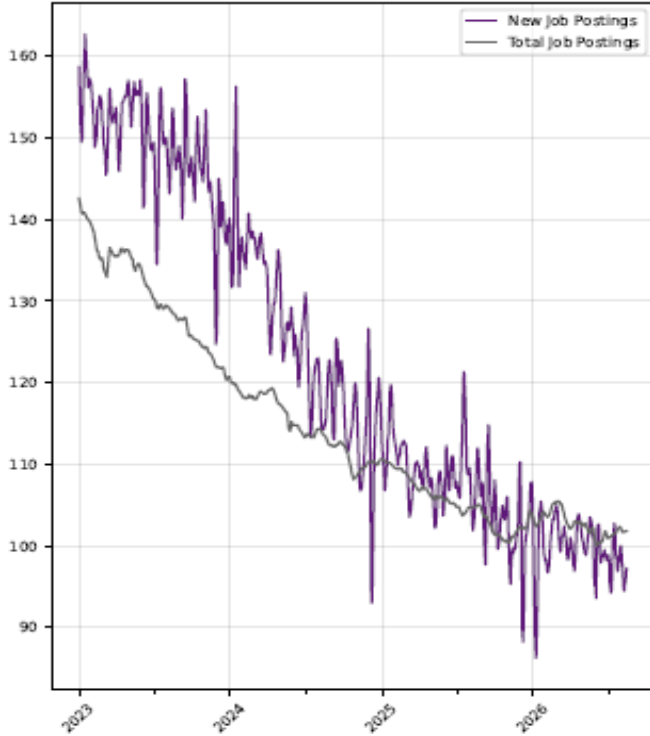
Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard

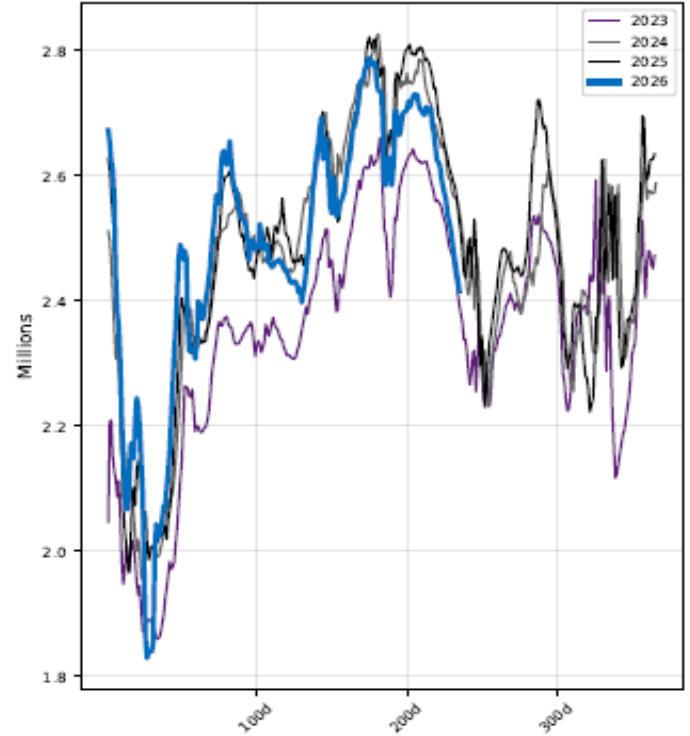


High Frequency Economic Dashboard

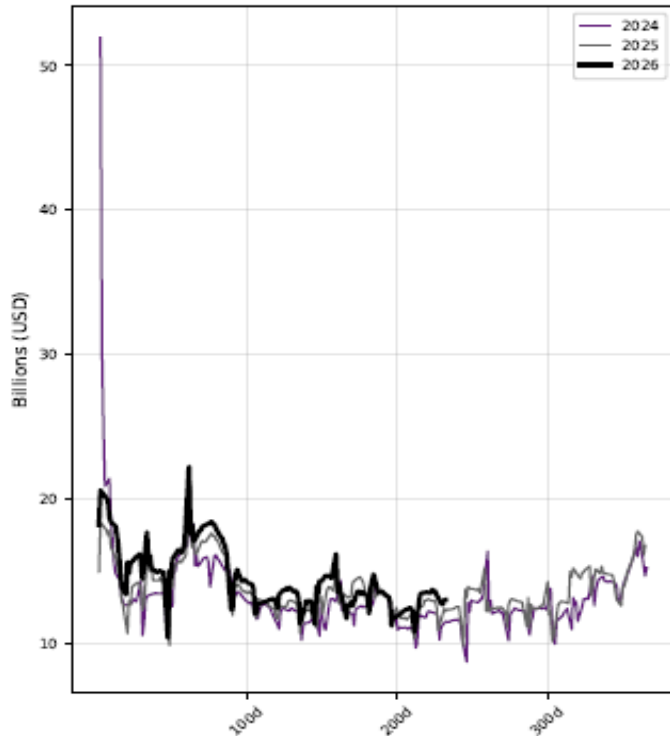
Indeed Job Postings



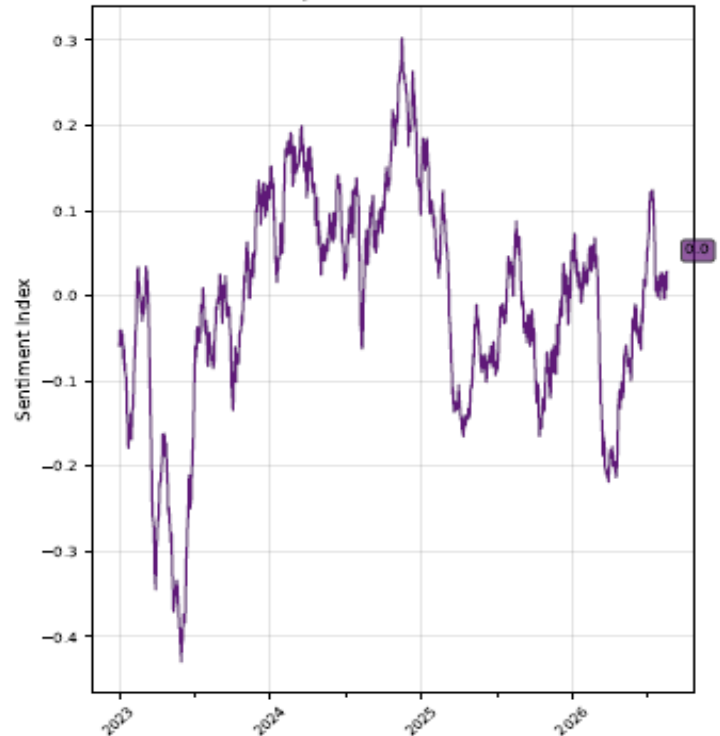
Air Travel



Withheld Income Taxes (10dma)



Daily News Sentiment



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