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Still no cracks in the foundation

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Next week will be a quiet week on the data front, giving markets and economists time to digest a full week of tier-one releases. Housing starts, industrial production, and the Conference Board's Leading Index round out the calendar—with housing and production telling very different stories about the state of the US economy.

First up: housing starts and building permits will give us an indication of whether the US housing market slog continues—which we expect will be the case. Both 30-year fixed and 5-year adjustable mortgage rates rose between Q1 and Q2, and mortgage loan applications have trended lower as a result. Building permit issuance has softened alongside housing demand, and since permits lead starts, we expect limited growth prospects for housing starts in the coming months. The housing sector remains sidelined by rates, and next week's data is unlikely to change that narrative.

On the other end of the spectrum, industrial production is expected to ramp up materially (+0.5% m/m) after the ISM manufacturing production index posted an outsized expansion—its highest reading in nearly five years. Tariffs have done little to hamper production even as input cost pressures materialize. The July CPI data showed that Section 232 tariffs are increasing motor vehicle parts and equipment prices, with spillovers into motor vehicle maintenance and repair. And prices for computers, peripherals, and smartphones have risen after PPI for electronic components skyrocketed since the beginning of the year. But these cost pressures have not translated into meaningful demand destruction—despite a decline in July, real retail sales have still risen notably (~2%) from the beginning of the year and production continues to expand.

On the tariff front, the backdrop remains largely status quo. Section 338 tariffs on Canada are planned to take effect on August 19th but won't meaningfully alter the landscape—by our count, they add roughly 0.3 percentage points to the average tariff rate, as the 50% levy affects only about 0.5% of total global imports. And the recently introduced Section 301 tariffs replacing Section 122 should, if anything, leave tariffs on balance lower rather than higher. Core goods inflation appears to be resurfacing in July, but with consumer demand intact and production accelerating, we expect the Conference Board's Leading Economic Index will continue to point to expansion.

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