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Turning Point

A Resilient Economy Showing Clear Signs of Internal Tension

#35

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Executive Overview

Jobless claims hit a 57-year low, consumer sentiment jumped 9.9%, and broad activity neared trend growth in June, even as housing permits fell and gas prices threaten sentiment's rebound.

Four US economic releases between July 17 and July 23, 2026 point toward an economy running closer to its historical trend than recent months suggested, though the data carries real internal tension.

Initial jobless claims fell to 187,000 for the week ended July 18, the lowest level since 1969, a beat of nearly 25,000 against consensus that complicates the case for near-term Federal Reserve rate cuts ahead of the July 28-29 FOMC meeting.

Housing data was mixed: starts jumped 19.0% in June to 1,427,000 units, concentrated in the volatile multi-family category, while building permits, the more reliable forward indicator, fell 3.0% to 1,367,000 units.

Consumer sentiment rebounded 9.9% to 54.4 in July, its best reading since February, though most survey responses were collected before gasoline prices rose again following the July 7 resumption of US strikes against Iran.

The Chicago Fed's National Activity Index rose to -0.02 in June, its closest approach to trend growth in four months. Together, the data shows a labor market tighter than expected, a housing sector capitalizing on the present while pulling back on future commitments, and a consumer whose improved mood was measured before the shock most likely to reverse it.

Jobless Claims Hit Lowest Since 1969

Initial jobless claims fell to 187,000 for the week ended July 18, the lowest level in 57 years

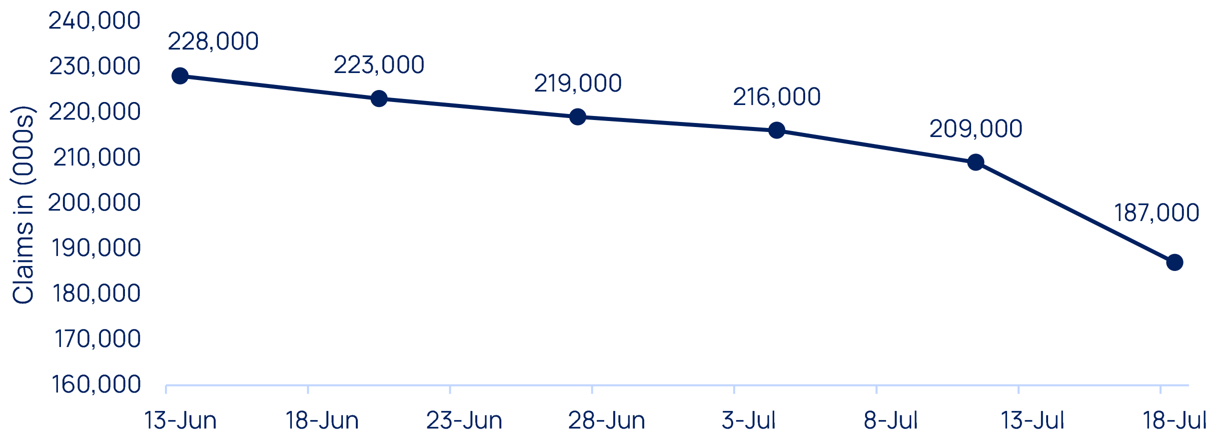
The initial jobless claims fell to 187,000 for the week ended July 18, 2026, a decline of 22,000 from the prior week's revised 209,000. The reading was well below economists' expectations and marked the lowest weekly claims level since November 1969, highlighting steady state of the U.S. labor market despite restrictive monetary policy.

Initial jobless claims remain an important factor because they measure the pace of new layoffs rather than hiring activity. While weekly data can be affected by seasonal factors, particularly summer auto plant shutdowns and education-sector employment adjustments, the magnitude of this decline is difficult to attribute solely to statistical noise.

For policymakers ahead of the July 28–29 Federal Open Market Committee meeting, such an exceptionally low claims reading reinforces the view that labor market conditions remain historically tight. A labor market characterized by limited layoffs supports household income, consumer spending, and credit quality.

Reducing the urgency for immediate policy easing. For investment banking, private equity, capital markets, and corporate strategy, sustained labor market resilience strengthens the earnings outlook but also reinforces expectations that financing conditions could remain restrictive until broader signs of economic cooling emerge.

Figure 1: **U.S. Initial Jobless Claims**



Source: U.S. Department of Labor

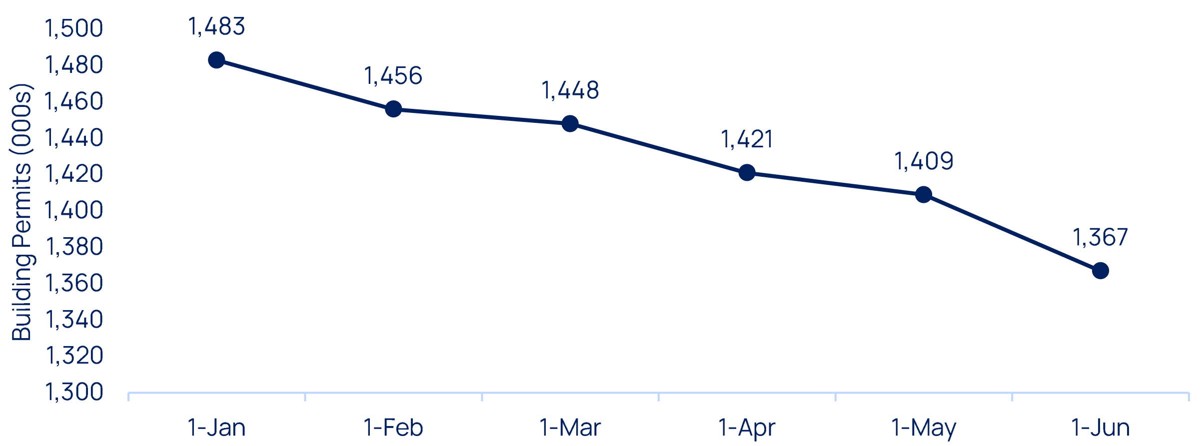
Construction Signals Diverge Sharply

June housing starts jumped 19.0% while building permits, the more forward-looking measure, fell 3.0%

The privately owned housing starts increased 19.0% MoM in June to a seasonally adjusted annual rate of 1,427,000 units, representing the strongest monthly increase in more than three years. However, the forward-looking signal was less encouraging. Building permits, which measure future construction intentions, declined 3.0% to an annual rate of 1,367,000 units. The divergence between starts and permits provides an important insight into the housing cycle. Housing starts capture projects already initiated, while permits reflect builders' confidence in future demand and financing conditions.

June's surge in construction activity was driven primarily by a sharp rebound in the multi-family segment, which is historically more volatile and susceptible to month-to-month swings. In contrast, single-family construction, which better reflects underlying residential demand, remained comparatively stable.

Figure 2: **U.S. Building Permits Trend**



Source: U.S. Census Bureau

Elevated mortgage rates, persistent affordability challenges, and construction cost pressures continue to limit builders' willingness to commit to new projects despite stronger near-term activity. With the median price of a new U.S. home remaining above USD 440,000, affordability remains a structural headwind. For capital markets and investment banking weaker permit activity suggests residential investment may remain uneven through the second half of 2026, with implications for homebuilders, building materials suppliers, mortgage originators, and regional banking activity.

Sentiment Rebounds on Cheaper Gas

Consumer sentiment jumped 9.9% to 54.4 in July, the highest reading since February, beating every forecast

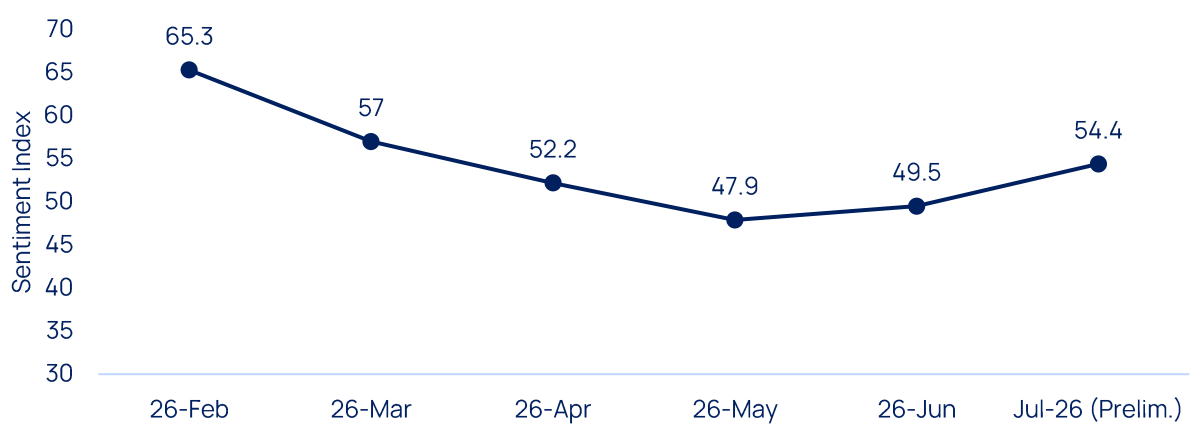
The Consumer Sentiment Index increased to 54.4 in July from 49.5 in June, exceeding the market consensus of 51.0 and marking a second consecutive monthly improvement. The 9.9% monthly gain reflected stronger confidence across all five survey components.

The Current Economic Conditions Index rose to 54.9, while the Consumer Expectations Index increased to 54.0, indicating improving views of both current conditions and the near-term economic outlook. Lower gasoline prices during much of the survey period contributed to one-year inflation expectations declining to 4.2% from 4.6% in June.

However, sentiment remains 11.8% below its level one year ago, highlighting that elevated borrowing costs and broader economic uncertainty continue to influence consumer behavior. More than 70% of survey responses were collected before renewed geopolitical tensions in the Middle East pushed energy prices higher.

For investment banking, private equity, capital markets, and corporate strategy, improving consumer confidence supports spending resilience and earnings stability, but sustained demand will depend on continued progress in inflation, real income and stable labor market conditions.

Figure 3: University of Michigan Consumer Sentiment Index



Source: University of Michigan

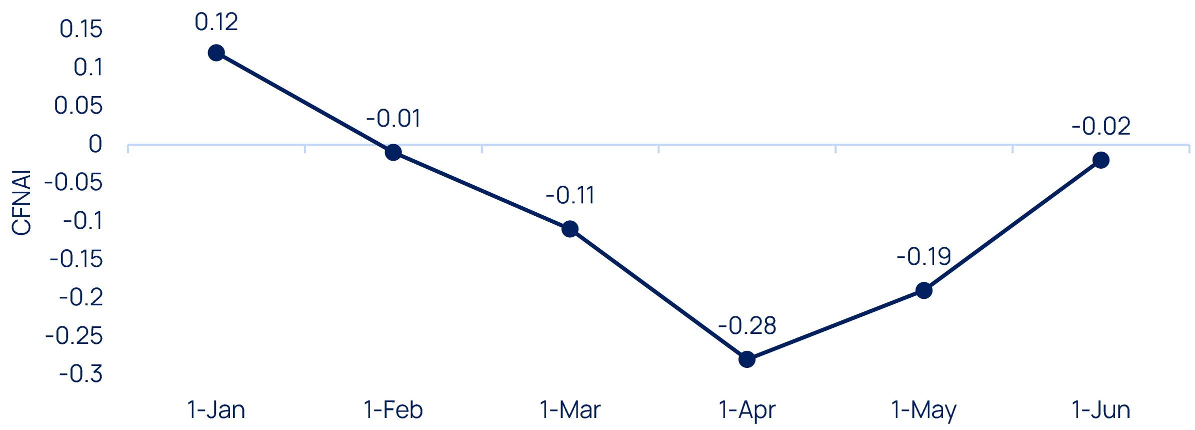
Broad Activity Nears Historical Trend

The Chicago Fed's National Activity Index rose to -0.02 in June, its best reading in four months

The National Activity Index (CFNAI) improved to -0.02 in June 2026 from -0.19 in May, indicating that overall U.S. economic activity moved closer to its long-term historical growth trend. The index combines 85 monthly economic indicators spanning production, employment, personal consumption, housing, sales, orders, and inventories into a single measure of economic momentum. A reading of zero represents trend growth, making June's result the strongest since February 2026.

Production-related indicators and the personal consumption and housing category continued to make negative contributions, reflecting ongoing weakness in manufacturing output and residential investment. In contrast, the sales, orders, and inventories category turned positive for the first time in several months, indicating firmer business demand and improving inventory management.

Figure 4: Chicago Fed National Activity Index



Source: Federal Reserve Bank of Chicago

June's movement toward trend growth aligns with recent improvements in labor market conditions and consumer sentiment, suggesting that economic activity remains resilient despite restrictive financial conditions. For investment banking, private equity, capital markets, and corporate strategy, the index reinforces expectations of a gradual economic expansion rather than an abrupt slowdown, supporting disciplined investment decisions while maintaining focus on sector specific opportunities and downside risks.

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RCK ANALYTICS

Website: www.rckanalytics.com

Email: info@rckanalytics.com

Phone: +91 9145339262

M-109, City Avenue Corporate Park, Wakad,
Mumbai-Bangalore Highway, Pune, India – 411 057