RCK ANALYTICS

MACROMATRIX

Minutes Matter

Fed Turns Hawkish as Consumer Data Cracks

#39

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Executive Overview

Fed minutes revealed deeper hawkish sentiment than the 9-3 vote suggested, retail sales posted their steepest drop since 2025, Walmart missed on comparable sales, and housing starts hit a 2022 low.

Four releases between August 14 and August 20, 2026 revealed a Federal Reserve navigating a genuinely divided policy debate against a consumer and housing backdrop showing real strain.

Minutes from the Fed's July 28-29 meeting, released August 19, showed hawkish sentiment extending well beyond the three formal dissenters, with many participants saying a rate hike would likely be necessary if inflation didn't decline.

Retail sales fell 0.6% in July, the steepest drop since May 2025, and Walmart's August 20 earnings beat on revenue and EPS but missed on comparable sales, the weakest pace in over six years, sending shares down nearly 9%.

The Philadelphia Fed's manufacturing index hit a five-year high of 47.4 in August, with six-month expectations reaching their highest level since 1983, even as industrial production grew a modest 0.2% in July.

Housing starts fell 12.4% to their lowest pace since November 2022, while building permits rose 5.0%, a genuine divergence between current construction activity and future pipeline.

Together, the data shows a Fed weighing inflation risk against a consumer and housing sector both showing signs of a materially slower second half of 2026.

Fed Minutes Reveal Hawks

Fed minutes showed hawkish sentiment ran deeper than the 9-3 vote, with many favoring a rate hike

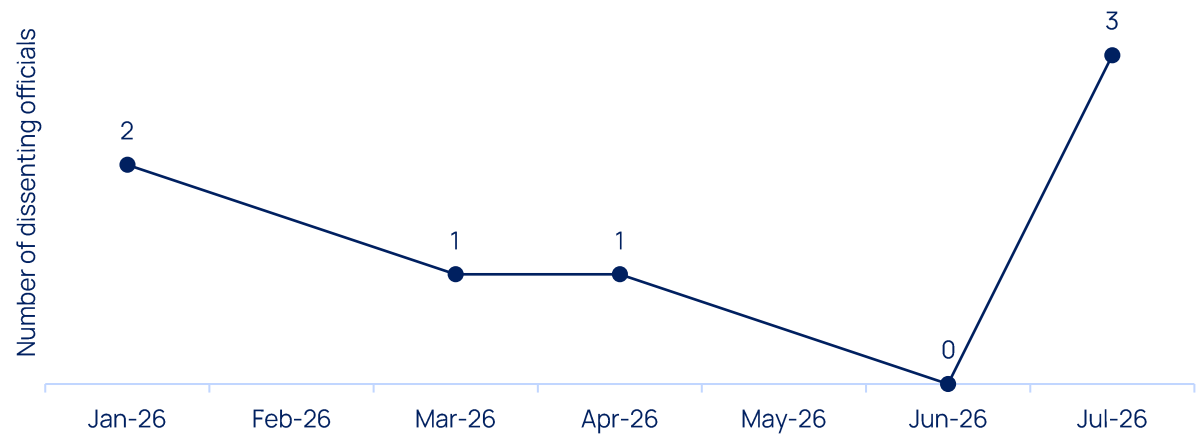
The Federal Reserve released the minutes of its July 28-29, 2026 meeting on August 19, 2026, revealing hawkish sentiment that extended well beyond the three officials who formally dissented. The minutes stated that many participants assessed a rate hike would likely be necessary if inflation did not decline, while some officials said current financial conditions might not be restrictive enough to return inflation to the 2% target.

Several participants noted that AI-related investment could have a broader effect on prices, and separately observed that tariff pass-through to consumer prices was now largely complete. Many participants also said a protracted conflict in the Middle East could push inflation higher.

The three formal dissenters, Cleveland Fed President Beth Hammack, Minneapolis Fed President Neel Kashkari, and Dallas Fed President Lorie Logan, each preferred a 25-basis-point increase at the meeting itself. Separately, the minutes recorded a discussion initiated by Fed Chairman Kevin Warsh about reducing the number of annual FOMC meetings from eight to six, spaced roughly every two months.

The Committee reached no decision and Warsh indicated the 2026 schedule would remain unchanged. Following the minutes, market-implied odds of a hold at the Federal Reserve's September 15-16, 2026 meeting rose to approximately 65%, up from roughly 50/50 in the weeks prior.

Figure 1: Formal FOMC dissenters by meeting



Source: Federal Reserve

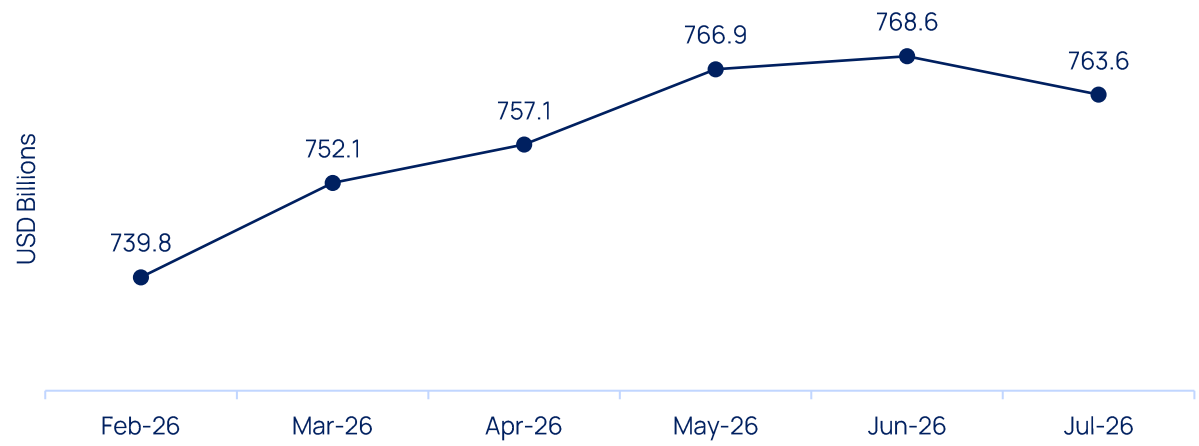
Consumer Spending Shows Cracks

Retail sales posted their steepest drop since 2025 as Walmart's comparable sales hit a six-year low

The U.S. Census Bureau reported on August 14, 2026 that retail and food services sales fell 0.6% in July to $763.6 billion, down from a revised 0.2% gain in June and the steepest monthly decline since May 2025. Sales excluding autos and gasoline fell 0.2%. Motor vehicle and parts dealers fell 1.8%, and nonstore retailers, which include online shopping, dropped 2.2%, partly reflecting Amazon's Prime Day sale shifting into June this year.

Six days later, on August 20, 2026, Walmart reported second-quarter fiscal 2027 results showing revenue of $187.9 billion, up 5.9% year-over-year and above the $186.9 billion consensus, with adjusted earnings per share of $0.81, beating the $0.74 estimate. However, U.S. comparable sales excluding fuel grew just 2.6%, the weakest pace in more than six years and below the 3.7% to 3.8% consensus range.

Figure 2: U.S. Retail & Food Services Sales



Source: U.S. Census Bureau

Walmart shares fell nearly 9% intraday despite the headline beat, as investors weighed the comparable-sales miss and full-year adjusted earnings-per-share guidance of $2.80 to $2.87, below the $2.90 consensus. Together, the two releases point to a consumer still spending in aggregate dollar terms but decelerating on a same-store, apples-to-apples basis.

Manufacturing Sentiment Hits Highs

Philly Fed's index reached a five-year high while six-month expectations hit their best reading since 1983

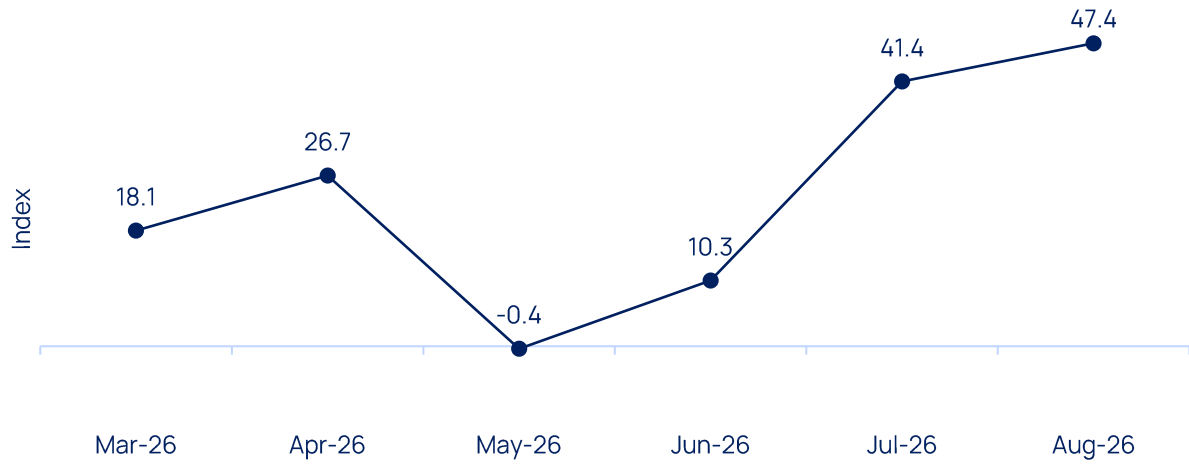
The Federal Reserve Bank of Philadelphia reported on August 20, 2026 that its Manufacturing Business Outlook Survey's general activity index rose to 47.4 in August from 41.4 in July, a five-year high that far exceeded the 24.1 consensus forecast. Nearly 57% of firms reported increases in activity.

The survey's six-month future general activity index jumped to 73.6, its highest reading since August 1983, though current new orders and shipments both moved lower, to 30.1 and 27.7 respectively, while the employment index rose sharply to 27.9 from 10.0. Both price indexes declined but remained elevated.

The Federal Reserve reported industrial production rose 0.2% MoM in July, matching June's pace, with business equipment output up 0.8%, driven by gains in information processing and industrial equipment production. Capacity utilization held at 76.3%, a rate 3.1 percentage points below its long-run average.

The two releases show current manufacturing conditions modestly expanding while regional business sentiment about the next six months has become sharply more optimistic, a divergence between present and forward expectations worth monitoring against the Federal Reserve's own inflation and rate-path commentary.

Figure 3: Philadelphia Fed General Activity Index



Source: Federal Reserve Bank of Philadelphia

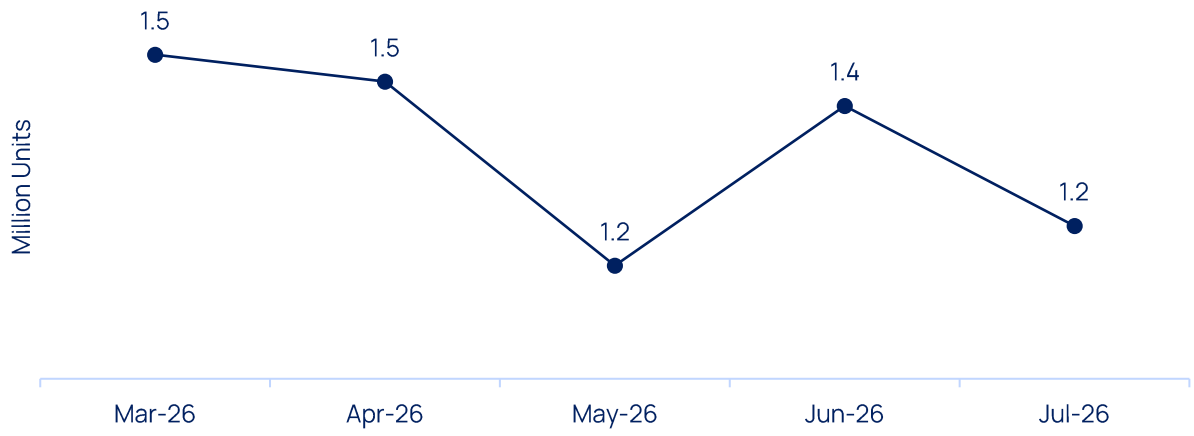
Housing Starts Diverge Sharply

Housing starts fell to a 2022 low while building permits rose, splitting current activity from future pipeline

The U.S. Census Bureau and Department of Housing and Urban Development reported on August 18, 2026 that privately-owned housing starts fell 12.4% in July to a seasonally adjusted annual rate of 1,239,000 units, well below the 1,345,000 consensus and down 13.5% from July 2025. Single-family starts fell 9.9% to 808,000, the lowest level since November 2022. Building permits, the more forward-looking measure, moved in the opposite direction, rising 5.0% to 1,443,000 units, 3.1% above the July 2025 rate, led by a 9.4% increase in multi-family permits and a more moderate 2.5% gain in single-family permits.

The decline in starts was broad-based geographically, falling 27.6% in the Midwest, 13.8% in the West, and 12.6% in the South, while the Northeast posted a 17.1% increase. The National Association of Realtors separately reported that contract signings for existing homes fell 2.3% in July to their lowest level since January.

Figure 4: U.S. Housing Starts



Source: U.S. Department of Housing and Urban Development

NAR Chief Economist Lawrence Yun attributed the pullback directly to mortgage rates reaching their highest levels of the year during the middle of summer, a constraint that continues to weigh on both new construction activity and existing-home transaction volume.

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