MORNING BRIEFING
September 8, 2020

What If …?

Check out the accompanying chart collection.

(1) The tale of the whale. (2) Hard times for SoftBank, today's LTCM? (3) The meltup of the 1990s followed LTCM's meltdown. (4) What if everything goes right? (5) A happier and healthier tale. (6) Monster rebound in real GDP during Q3 unfolding. (7) De-urbanization is great for home and auto sales. (8) Productivity making a comeback. (9) Now for a brief consideration of what if everything goes wrong. (10) W and K economic scenarios. (11) The Fed is on the side of the bulls, which could be too much of a good thing. (12) Movie review: "The Morning Show" (+ + +)

What If …?: MAMU & the Whale. What if the stock market's tech-led meltup in recent weeks and the tech-led mini-meltdown at the end of last week were caused by SoftBank? Joe and I have been rooting for a consolidation rather than a continuation of the meltup. So we are in the "healthy correction" camp if there is more downside to go this week. There's still plenty of cash on the sidelines, as we discussed last week, to take advantage of any selloff and limit the downside in the stock market. For now, we are sticking with our year-end 2020 and 2021 targets of 3500 and 3800 for the S&P 500.

Before we revisit the alternative bullish and bearish scenarios, let's review the latest tale of the whale. Consider the following:

(1) On Friday, the *FT* reported that "SoftBank is the 'Nasdaq whale' that has bought billions of dollars' worth of US equity derivatives in a move that stoked the fevered rally in big tech stocks before a sharp pullback on Thursday." The strategy has focused on options related to individual US tech stocks.

(2) On Friday, *Barron's* Ben Levisohn reported: "Call option activity in the Nasdaq's most popular stocks—the FAANG stocks plus Microsoft and Tesla—peaked at about 13 million contracts on Aug 21. That's up almost 300% from a month ago. About 4.5 million call option contracts traded hands Thursday, down 65% from the recent high."

Here is the performance derby for the relevant stock market indexes: the Magnificent 6 FAANGM (Facebook, Amazon, Apple, Netflix, Google's parent Alphabet, and Microsoft) stocks (74.6% since March 23, 46.9% ytd, -7.4% Thursday and Friday), Nasdaq (64.9, 26.1, -6.2), S&P 500 (52.8, 5.9, -4.3), and S&P 500 ex-FAANGM (46.3, -3.7, -3.1) (*Fig. 1* and *Fig. 2*).

(3) On Sunday, the *FT* reported that SoftBank was still sitting on unrealized trading gains of $4 billion after giving up some of the gains on its tech bets at the end of last week. The question is whether the selling pressure will continue this week if SoftBank is forced to continue to unwind its long positions in tech stocks.

An even more important question is whether the recent meltup has already morphed into a meltdown comparable to what happened when Long-Term Capital Management blew up in September 1998. A repeat of that scenario could actually set the stage for a repeat of the monster MAMU (Mother of All Meltups) back then. Recall that the Nasdaq fell 29.5% from July 20, 1998 through October 8 of that year (*Fig. 3*). It was back at a record high by November 27, then proceeded to soar 255.8% through March 10, 2000 (*Fig. 4*).

What If …?: The Bullish Scenario. What if a vaccine is ready for widespread distribution by the end of this year or early next year? What if death rates fall as medical professionals continue to learn more about the best available treatment protocols to speed up the pace of recovering from COVID-19? What if faster tests for the virus become widely available in coming months?

If we make lots of progress on the health front in the world war against the virus, then we may continue to make progress on the economic front as well. What if the V-shaped recovery continues to be V-shaped? What if productivity is starting a significant secular rebound? What if the labor market recovers as dramatically as it cratered when governments imposed lockdown restrictions?

If the economic news continues to improve significantly during September and October, that should benefit President Donald Trump in his bid to win a second term come November 3. What if Donald Trump is reelected for another four-year term and the Republicans continue to have a majority in the Senate, but not in the House?

What if all of these questions turn out to be rhetorical ones, implying that the outcomes will be bullish? Well then, the outcomes will be bullish. Now consider the following related observations that support staying optimistic on the prospects for the US economy and bullish on the stock market:

(1) *Real GDP.* It certainly has been a V-shaped recovery so far. Real GDP fell 5.0% (saar) during Q1 and 31.7% during Q2. Real GDP is down 10.2% from its record high during Q4-2019 (*Fig. 5*). However, the recession lasted just two months, with the Index of Coincident Economic Indicators (CEI), a good monthly proxy for real GDP, having peaked at a record high during February, falling 13.7% through April (*Fig. 6*).

Virtually all of the key monthly US economic indicators bottomed during April. The CEI is up 6.7% since April through July. That's still 7.9% below the February peak. However, retail sales rose to a record high during July (*Fig. 7*). Durable goods orders rebounded 38.0% from April through July, and is running at only 4.3% below its pace at the start of this year (*Fig. 8*).

On September 3, the latest reading from the Atlanta Fed's GDPNow model showed that the available economic indicators are tracking a Q3 growth rate of 29.6%. That's a heck of a rebound! A few weeks ago, we raised our Q3 real GDP estimate from 15% to 20%. We may have to raise it again.

(2) *Plenty of stimulus.* Debbie and I are not convinced that another round of fiscal stimulus is necessary to keep the economy on a V-shaped trajectory over the rest of this year. Payroll employment has rebounded 10.6 million since bottoming during April through August. Aggregate weekly hours has jumped 10.9% from April through August (*Fig. 9*). Our Earned Income Proxy for wages and salaries in personal income is up 8.9% over the same period (*Fig. 10*).

While both employment and wages and salaries have a ways to go to regain all that they lost since the start of the year, consumers are still sitting on lots of cash, as evidenced by personal saving, which was $3.2 trillion (saar) during July (*Fig. 11*). That's down from the record high of $6.4 trillion during April, when consumers were stymied from shopping because of the lockdowns. However, it is still well above where it was at the start of this year, around $1.1 trillion. Consumers also have room to charge more on their credit cards after reducing their revolving credit balances by $111.0 billion from February through June (*Fig. 12*).

Monetary policy remains very stimulative, as evidenced by the meltup in stock prices and the boom in housing activity. The market capitalization of the Wilshire 5000 increased $12.5 trillion since March 23 through the end of last week (*Fig. 13*). With mortgage rates near record lows, the average of the Housing Market Index (compiled by the National Association of Builders) and the Pending Home Sales Index (compiled by the National Association of Realtors) rose from a low of 64.5 during April to 133.1 during July, the highest readings since July 2005 (*Fig. 14*).

(3) *Auto sales.* We've recently been writing about the beneficiaries of de-urbanization. The housing industry is a clear winner as long as the houses are in the suburbs or rural areas. Also profiting from the ongoing need to keep our distance from one another are the companies that allow us to work remotely, to shop online, to get educated, and to be entertained from home. They provide their goods and services over the Internet and through the cloud.

My wife and I have been car shopping lately near our home in Long Island. The salespeople all told us that their inventories are low because auto factories were shut in April by the lockdowns. At the same time, demand is very strong. One explanation is that instead of vacationing overseas this summer, many Americans went on road trips around the country and wanted to do so in newer and bigger vehicles. We were also told that some of the recent surge in demand is from households that are buying a second car for commuting rather than be exposed to public transportation.

Sure enough, the data confirm that US motor vehicle sales accelerated from only 8.7 million units (saar) during April to 15.2 million units during August (*Fig. 15*). Leading the way has been sales of domestic light trucks, which are only 7.7% below January's pace. It's interesting to note that retail sales of motor vehicles and parts dealers rose to a record high in June, and remained near that level in July (*Fig. 16*). A similar surge in motor vehicles and parts new orders accounts for 66% of the increase in new orders for durable goods since April.

All of the above auto-related developments explain the remarkable recovery in gasoline usage (*Fig. 17*). Since bottoming at 5.3mbd during the April 24 week, it has rebounded to 8.9mbd during the August 28 week. That's only 0.8mbd below where it was last year at this time!

(4) *Productivity.* One of the biggest positive surprises resulting from the Great Virus Crisis (GVC) might be a secular rebound in productivity growth. The extraordinary drop in real GDP during Q2 coincided with an even faster drop in employment, resulting in a 10.1% (saar) jump in productivity during the quarter, the best reading since Q1-1971 (*Fig. 18*). We wouldn't be surprised if the GVC ushers in a period of better productivity growth.

It will be interesting to see how the government's bean counters will account for the productivity of possibly millions of workers who continue to work from home either full-time or part-time. The problem is that commuting to work has never been counted as time on the job, while working a longer day at home will be counted. That doesn't make much sense to us at Yardeni Research, since we have operated virtually since our founding in 2007. Exchanging our commutes for working longer hours from home has been great for our productivity and our lifestyles.

What If …?: The Bearish Scenario. What if the V-shaped recession morphs into a double-dip W-shaped economic pattern? That could happen if the pandemic worsens during the fall and winter. It could also happen if Washington fails to provide another round of stimulus checks as another wave of bankruptcies among services companies leads to another wave of layoffs. Airlines, restaurants, hotels, and public transportation all are especially vulnerable to more distress if their revenues don't return closer to normal within the next 6-12 months. The result could also be a K-shaped recovery, where the haves continue to do well while the have-nots continue to suffer. That might not cause another recession, but it could cause a growth recession, with real GDP growth stalling around zero.

A double-dip, W-shaped recession or a K-shaped stalling of economic growth combined with more SoftBank-related shocks could mark the September 2 record high of the S&P 500 as the top for the rest of this year, or at least through the November 3 election. If the presidential election result is bitterly contested, that could drive the stock market lower after November 3. If the Democrats win the White House and both congressional chambers, stocks could remain under pressure on expectations of a radical regime change in economic and regulatory policies.

What if inflation makes a surprising comeback? That would be a big surprise if it were to happen over the next 12-18 months. For it to do so would probably require a surprisingly strong continuation of the V-shaped recovery resulting from all the stimulus provided by fiscal and monetary policy so far this year. Home prices are already rising at a faster pace as a result of de-urbanization. The same can be said for used car prices. On the other hand, rent inflation is going down.

In any event, the Fed remains committed to maintaining ultra-easy credit conditions for the foreseeable future even if inflation finally and sustainably rises a bit above the Fed's 2.0%

inflation target. That could fuel a resumption of the meltup in stock prices, which could set the stage for a meltdown down the road.

To paraphrase Bette Davis in the movie “All About Eve” (1950): “Fasten your seatbelts, it’s going to be a bumpy *ride*.”

Movie. “The Morning Show” (+ + +) (*link*) is a fast-paced television series produced by Apple TV+ starring Jennifer Aniston and Reese Witherspoon as co-anchors on *The Morning Show*, a popular breakfast news program broadcast from Manhattan on the UBA network. The two are brought together after the co-host, played by Steve Carell, is fired as a result of a sexual misconduct scandal. It’s obviously reminiscent of the scandal that hit NBC’s *Today* show. The series has a very good cast, with lots of great acting and dialogue.

CALENDARS

US: **Tues:** NFIB Small Business Optimism Index, Consumer Credit $13.5b. **Wed:** Job Openings 6.0m, MBA Mortgage Applications. (DailyFX estimates)

Global: **Tues:** Eurozone GDP -12.1%q/q/-15.0%y/y, China CPI & PPI 2.4%/-2.0% y/y. **Wed:** Japan Machine Orders 1.9%m/m/-18.3%y/y, BOC Rate Decision 0.25%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index drop 2.4% for its biggest decline in ten weeks. The index ranked 21st of the 49 global stock markets we follow in a week when just five of the 49 countries rose in US dollar terms, and the AC World ex-US index moved 2.1% lower as just one region rose. The US MSCI index was out of a correction for a tenth week after slipping back the week before that for the first time in five weeks. EM Latin America was the best-performing region last week, with a gain of 0.6%, followed by EM Asia (-2.0%) and EAFE (-2.1). EM Eastern Europe (-4.5) was the biggest underperformer, followed by EMU (-2.6), EMEA (-2.2), and BRIC (-2.2). Brazil and Colombia were the best-performing countries last week, with gains of 1.9%, followed by Morocco (1.3), Jordan (0.5), and Peru (0.2). Among the 32 countries that underperformed the AC World ex-US MSCI last week, Israel fared the worst, with a decline of 7.0%, followed by Poland (-6.2), South Africa (-5.4), and Ireland (-5.0). In August, the US MSCI rose 7.3% for its fifth straight monthly gain and its biggest since rising 13.0% in April. The US MSCI ranked 7/49 in August as the AC World ex-US index underperformed with a gain of 4.1%. Thirty-eight of the 49 countries and all but one region moved higher in August. Sri Lanka was the best performer, with a gain of 17.3%, followed by Egypt (8.4), Finland (8.4), Hong Kong (7.6), and Japan (7.6). The worst-performing countries in August: Chile (-9.8), Brazil (-9.0), Turkey (-8.4), Malaysia (-3.7), and Thailand (-2.7). The outperforming regions: EAFE (4.9) and EMU (4.6). EM Latin America was August's worst-performing region, with a decline of 6.4%, followed by EM Eastern Europe (0.8), EMEA (2.3), EM Asia (3.1), and BRIC (3.6). The US MSCI's ytd ranking remained steady at 6/49 as its ytd gain slipped to 7.4% from 10.1% a week earlier. It's way ahead of the 6.2% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd with a gain of 7.2%, followed by BRIC (3.0). The worst-performing regions ytd: EM Latin America (-31.1), EM Eastern Europe (-26.3), EMEA (-20.0), EAFE (-8.2), and EMU (-8.1). The best country performers ytd: Denmark (18.5), China (16.6), Taiwan (10.3), New Zealand (9.9), and Finland (7.8). The worst-performing countries so far in 2020: Colombia (-40.3), Greece (-36.5), Brazil (-33.7), Hungary (-31.3), and Turkey (-31.2).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week, posting simultaneous declines for the first time in ten weeks as just two of the 33 sectors advanced. SmallCap dropped 2.2% for the week, slightly better than the declines for LargeCap (2.3%) and MidCap (-2.5). LargeCap slipped to 4.3% below its record high on 9/2 but has been out of a bear market for 21 weeks and out of a correction for ten straight weeks. MidCap was out of a correction for a sixth week, but barely so, as it dropped to 9.9% below its record high on 1/16. SmallCap was out of a bear market for a fifth week but remained in a correction as it weakened to 8.8% below its 8/29/18 record. Just two sectors rose last week, down sharply from 30 rising a week earlier. Fourteen sectors are now out of a correction, but none ended the week at a record high. LargeCap Materials was the best performer last week, with a gain of 0.8%, ahead of LargeCap Utilities (0.4), MidCap Financials (-0.1), and SmallCap Real Estate (-0.1). MidCap Energy was the biggest underperformer last week, with a drop of 7.1%, followed by MidCap Tech (-5.7), SmallCap Tech (-5.2), SmallCap Energy (-4.6), and LargeCap Energy (-4.5). All of the indexes rose for a fifth straight month in August. LargeCap's 7.0% gain was ahead of SmallCap's (3.9) and MidCap's (3.4). Twenty-five of the 33 sectors rose in August, compared to 29 rising in July. August's best performers: LargeCap Tech (11.8), LargeCap Consumer Discretionary (9.4), LargeCap Communication Services (9.1), SmallCap Consumer Discretionary (8.5), and LargeCap Industrials (8.2). August's biggest laggards: SmallCap Communication Services (-4.0), LargeCap Utilities (-3.1), SmallCap Utilities (-2.7), LargeCap Energy (-2.1), and MidCap Utilities (-1.8). LargeCap is the only index that's risen for the year so far, with a gain of 6.1%, ahead of MidCap (-8.0) and SmallCap (-12.7). Twelve of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (28.8), LargeCap Consumer Discretionary (23.7), LargeCap Communication Services (12.6), MidCap Consumer Staples (8.8), and MidCap Health Care (7.7). The biggest laggards of 2020 to date: SmallCap Energy (-53.2), MidCap Energy (-46.0), LargeCap Energy (-43.0), SmallCap Financials (-27.5), and MidCap Real Estate (-24.4).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 S&P 500 sectors rose last week, but seven outperformed the composite index's 2.3% decline. That compares to a 3.3% gain for the S&P 500 a week earlier, when ten sectors rose and only three outperformed the index. Materials' 0.8% gain made it the best performer for the week, ahead of Utilities (0.4%), Financials (-0.4), Consumer Staples (-0.5), Real Estate (-0.9), Industrials (-1.2), and Health Care (-2.1). Energy was the week's biggest underperformer with a decline of 4.5%, followed by Tech (-4.2), Consumer Discretionary (-2.5), and Communication Services (-2.5). The S&P 500 rose 7.0% in August for its fifth straight monthly gain and its best five-month performance since October 1938. Eight of the 11 sectors moved higher in August, and four beat the broader index. That compares to ten rising in July, when six beat the S&P 500's 5.5% gain. The leading sectors in August: Tech (11.8), Consumer Discretionary (9.4), Communication Services (9.1), and Industrials (8.3). August's laggards: Utilities (-3.1), Energy (-2.1), Real Estate (-0.1), Health Care (2.5), Financials (4.1), Materials (4.2), and Consumer Staples (4.6). The S&P 500 is now up 6.1% so far in 2020, with three sectors ahead of the index and six in positive territory. The leading sectors ytd: Information Technology (28.8), Consumer Discretionary (23.7), and Communication Services (12.6). The laggards of 2020 so far: Energy (-43.0), Financials (-18.0), Utilities (-8.7), Real Estate (-6.6), Industrials (-4.6), Health Care (3.5), Consumer Staples (3.6), and Materials (4.9).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 3.6% for its first decline in five weeks and its biggest drop since late April. It's now down 21.9% from its recent high on 1/6 and still in a severe bear market at 30.9% below its four-year high on 10/3/18. Lean Hogs was the best performer last week, with a gain of 11.5%, followed by Coffee (6.1%), Soybeans (1.8), and Copper (0.7). GasOil was the biggest decliner for the week, with a drop of 7.7%, followed by Crude Oil (-7.4), Heating Oil (-7.2), and Brent Crude (-6.9). August saw 20 of the 24 commodities climb as the S&P GSCI Commodities index rose 5.4% in its fifth straight monthly gain. That compares to 22 rising in July, when the S&P GSCI Commodities index rose 4.4%. August's best performers were Natural Gas (46.2), Silver (18.1), Corn (13.2), Nickel (11.6), and Cocoa (10.6). August's laggards: Feeder Cattle (-3.8), Live Cattle (-2.4), Heating Oil (-0.5), and Gold (-0.4). Ten of the 24 commodities that we follow are higher so far in 2020, up from eight a week earlier. The best ytd performers: Silver (49.1), Gold (27.0), Natural Gas (18.2), Nickel (9.1), and Copper (8.9). The worst performers ytd: GasOil (-44.1), Heating Oil (-43.1), Brent Crude (-35.4), Crude Oil (-34.9), and Unleaded Gasoline (-30.9).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.3% last week and weakened relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for a 21st week after seven weeks below, and above its 200-dma for the 14th time in 15 weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. However, the index's 50-dma relative to its 200-dma improved for a 16th week after 12 declines and was in a Golden Cross (with 50-dmas higher than 200-dmas) for a ninth week after 15 weeks in a Death Cross. Before the 2020 meltdown, it had last been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to a six-month high of 6.7% above its 200-dma from 5.7% above in the prior week. It had been 9.9% below in mid-May, which was the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma rose for a 16th week after declining for 12 straight weeks. The price index weakened to 3.8% above its rising 50-dma from an 11-week high of 7.6% above its rising 50-dma a week earlier. The early June reading of 11.7% above its 50-dma had been the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. The 200-dma rose for a 16th week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a tenth week after falling below the week before that for the first time in five weeks. It had been above for 38 weeks through mid-February. It ended the week 10.8% above its rising 200-dma, down from 13.7% above a week earlier , which was the highest reading since February 2011. That's up from 26.6% below on 3/23—the lowest reading since March 2009 and down from a two-year high of 11.2% in mid-February. The current reading compares to a seven-year high of 13.5% above the index's rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma (on 10/10/08) and 39.6% below its 200-dma (11/20/08).

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier and leaving Utilities and Energy as the only sectors trading below their 50-dmas. That compares to all 11 sectors above in the three weeks around the start of June. Eight sectors traded above their 200-dmas, also unchanged from a week earlier. Energy, Financials, and Utilities are the only sectors trading below their 200-dmas. That compares to just one sector (Health Care) above its 200-dma in early April. Seven sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. The four sectors still in a Death Cross: Energy, Financials, Real Estate, and Utilities. At the prior low during February 2019, just two sectors (Real Estate and Utilities) were in the club. Energy has not been in a Golden Cross for 96 straight weeks, and its 50-dma fell for a sixth week after briefly rising the week before that. That leaves ten sectors with a rising 50-dma, unchanged from a week earlier. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Six sectors have rising 200-dmas, unchanged from a week earlier. Sectors with rising 200-dmas: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Materials, and Tech. Financials' 200-dma was down for a 27th week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Employment (*link*): Payroll employment rose for the fourth month in August, by a larger-than-expected 1.371 million, boosted by the hiring of 238,000 temporary census workers during the payroll employment report's reference week. There were slight downward revisions to both July (to 1.734 million from 1.763 million) and June (4.781 million vs 4.791 million) payrolls for a net loss of 39,000. Over the past four months through August, these payrolls surged at a record pace of 10.6 million to 140.9 million—11.6 million below February's pre-pandemic record high of 152.5 million. Private payrolls climbed 1.027 million (vs ADP's 428,000), following revised gains of 1.481 million (vs 1.462 million) and 4.729 million (vs 4.737 million), respectively, during July and June for a net gain of 11,000. These payrolls rose 10.5 million the past four months to 119.0 million—10.7 million below February's record high. (Both total and private payroll employment have recovered roughly half of their declines recorded during the two months through April.) Service-providing jobs have rebounded 9.2 million during the four months ending August, still 9.5 million below February's record high of 108.5 billion, while goods-producing jobs have climbed 1.3 million to within 1.2 million of their February peak of 21.2 million—though these industries weren't as hard hit as the service sector. Here's a tally of industry performances from strongest to weakest during the four months through August, and where they stand relative to February's pre-pandemic levels: Leisure & hospitality (4.18 million & -4.14 million), retail trade (1.73 million & -655,400), health care (862,200 & -715,400), professional & business services (821,000 & -1.48 million)—led by temporary-help services (420,000 & -471,900), construction (658,000 & -425,000), manufacturing (643,000 & -720,000), social assistance (249,200 & -443,200), education (212,400 & -298,500), transportation & warehousing (189,000 & -380,700), financial activities (88,000 & -191,000), wholesale trade (69,200 & -328,000), and information services (-27,000 & -312,000). Mining cut payrolls for the ninth time in ten months by a total of 114,500.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed 1.6% in August and 8.9% during the four months ending August, following a 12.4% decline during the two months through April to its lowest reading since mid-2017. The average hourly earnings component of the EIP edged up 0.4% in August, following a 0.1% uptick in July—after falling 2.4% during the two months ending June—though the recent declines in hourly earnings were more than offset by a rebound in aggregate weekly hours, the EIP's other component. Aggregate weekly hours rose for the fourth month, by 1.2% in August and 10.9% over the period, after plunging 15.2% in April. Compared to a year ago, the EIP contracted 2.5% y/y—narrowing from April's 8.9% drop—as the y/y decline in aggregate weekly hours slowed to 7.3% from 15.7% in April while average hourly earnings rose 4.7% y/y, slowing from 8.0% in April.

Unemployment (*link*): The unemployment rate fell for the fourth month in August to 8.4%; this followed a huge jump in prior months—from a 50-year low of 3.5% in February and 4.4% in March up to an unprecedented monthly rate of 14.7% in April. The number of unemployed fell by 9.5 million during the four months ending August to 13.6 million; prior to that, the number had soared by 17.3 million over the two months through April to a record-high 23.1 million, which well exceeded the previous record high of 15.4 million recorded in October 2009. The number of unemployed persons on temporary layoff fell to 6.2 million last month from 9.2 million in July and 18.1 million in April—a sign businesses are bringing back workers. Unemployment rates for both Whites (to 7.3% from 14.2% in April) and Hispanics (10.5 from 18.9) continued to fall in August from April's record highs. In the meantime, the rate for Asians (10.7% from 15.0% in May) was down from May's record high, while the rate for African Americans (13.0% from 16.8%) was down from May's cyclical high. These rates were at 3.1%, 4.4%, 2.5%, and 5.8%, respectively, in February. Here's a snapshot of August's unemployment rates by education level, all of which dropped from April record highs: less than a high school degree (to 12.6% from 21.2%), high school degree (9.8 from 17.3), some college (8.0 from 15.0), and a Bachelor's degree & higher (5.2 from 8.4). These rates had been at 5.7%, 3.6%, 3.0%, and 1.9%, respectively, in February, prior to pandemic lockdown effects.

The participation rate rose to 61.7%, up from 60.2% in April; August's rate was 1.7ppt below February's 63.4%.

Wages (*link*): Average hourly earnings climbed 0.4% in August after a 0.1% uptick in July; earnings had dropped 1.3% and 1.1% the prior two months (reflecting lower-paid workers, on temporary leave, returning to work). Their absence from the job market had pushed hourly earnings up 4.7% during April alone. The yearly rate held at 4.7% in August, easing significantly from April's record high of 8.0%. The yearly wage rate for service-providing industries (to 4.9% from 8.7% y/y in April) decelerated for the fourth month from April's record high, while the goods-producing industries' wage rate ticked up for the second moth to 3.6% y/y after slowing from a cyclical high of 5.0% in April to 3.3% in June. Within service-providing, the rate for utilities (4.8% y/y) remains on an accelerating trend, climbing to its highest level since the end of 2018, while rates for information services (3.0) and wholesale trade (2.8) turned lower. In the meantime, rates for retail trade (7.2% y/y) and transportation & warehousing (2.4) are beginning to show signs of accelerating. Stalled around recent highs are rates for financial activities (5.0% y/y) and education & health services (3.1), while rates for professional & business services (3.9) and leisure & hospitality (2.4) are hovering around recent lows.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs (*link*): The global economy expanded at its best pace in 17 months, with both the manufacturing and services PMIs moving further above the breakeven point of 50.0. The JP Morgan Global Composite Output Index (C-PMI) rebounded to 52.4 in August after a pandemic-related plunge from 52.1 at the start of the year to a record low of 26.2 in April. The Global NM-PMI rebounded 28.2 points (to 51.9 from 23.7 in April) over the four months through August, while the Global M-PMI climbed 12.2 points (51.8 from 39.6) over the comparable period. C-PMIs for both the emerging (52.9 from 34.6) and advanced (to 52.2 from 22.2 in April) economies moved further into expansionary territory last month. According to the report, C-PMI activity accelerated last month in the UK (59.1 from six-year high), Russia (57.3, 43-month high), China (55.1,two-month high), the US (54.6, 17-month high), and Brazil (53.9)—with the latter expanding for the first time since February. Meanwhile, the Eurozone's C-PMI (to 51.9 from 54.9) showed activity slowed from July's 25-month high. Contractions were recorded in Japan (45.2, six-month high) and India (46.0, five-month high), though are climbing toward 50.0. Meanwhile, the C-PMI (49.4) for Australia fell back below 50.0 after accelerating from 21.7 in April to 57.8 in July.

US Non-Manufacturing PMIs (*link*): The US service sector expanded in August at a slower, but still robust, pace according to the ISM measure, while it posted its best growth since March 2019 according to IHS Markit's. ISM's NM-PMI dipped to 56.9 in August after soaring from 41.8 in April to a 17-month high of 58.1 in July. The business activity and new orders components eased a bit, though remained at high levels last month—with the former remaining above 60.0. Business activity slipped to 62.4 after climbing steadily from 26.0 in April to 67.2 in July—which was the strongest since January 2004—while the new orders gauge fell to 56.8 from July's record high of 67.7; it was at 32.9 in April. Employment continued to contract, though at a slower pace, with its measure increasing from 30.0 in April to 47.9 last month. Meanwhile, the supplier deliveries component moved up for the first time since April, climbing to 60.5, after falling from a record high of 78.3 in April to 55.2 in July. (In the early months of the pandemic, this component moved higher due to supply-chain problems triggered by the coronavirus rather than from strengthening demand.) The IHS Markit NM-PMI continued to rebound from April's record low of 26.7, jumping to a 17-month high of 55.0 in August. According to the report, new orders grew at the quickest pace in over a year, resulting in firms increasing employment sharply to cope with greater pressure on capacity. Although business expectations ticked down slightly, firms remained optimistic on balance, with sentiment regarding the year ahead at its second highest since April 2019.

Eurozone Retail Sales (*link*): Retail sales in the Eurozone took a step back in July after erasing all of its pandemic-related losses in May and June. Sales slipped 1.3% in July following a 27.0% rebound during the two months ending June; they had plunged 21.2% from February through April. The components were mixed in July, with sales of non-food products (excluding fuel) falling 2.9% after a two-month surge of 54.9% to a new record high, while automotive fuel sales expanded for the third month by 4.3% m/m and 72.0% over the three months through July—still 10.9% below its pre-pandemic high. Sales of food, drink, and tobacco were flat in July after a 3.2% loss and a 2.8% gain the prior two months; these sales are within 6.2% of March's record high. Three of the top four Eurozone economies have reported sales for the month of July; France and Spain rebounded 52.2% and 39.0%, respectively, during the three months through July—France to a new record high and Spain to within 4.3% of its pre-pandemic high. Meanwhile, German sales fell 2.7% during the two months ending June, after jumping 13.2% in May to a new record high.

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