MORNING BRIEFING
July 19, 2021

Depersonalization-Derealization Disorder

Check out the accompanying chart collection.

(1) A distressing disorder about dealing with reality. (2) Pandemic of the unvaccinated. (3) Did Euro 2020 spread Delta? (4) UK opens up as Covid outlook turns "quite scary." (5) Plenty of stimulus left in M2 and order backlogs. (6) Restaurant sales at record high. (7) NY and Philly business surveys show inflationary boom continuing in July. (8) Fed is suppressing bond market's opinion. (9) S&P 500 Growth boosted by drop in bond yield. (10) Is China preparing an invasion of Taiwan and a preemptive nuclear attack on Japan?

YRI Podcast. In our latest video *podcast*, Dr. Ed discusses the main points of today's *Morning Briefing*.

Strategy: Unhinged. In Zoom calls, I am often asked by our accounts about how other accounts are seeing things. Based on my recent discussions with many of them, I've concluded that we are all suffering from DDD, or Depersonalization-Derealization Disorder. During normal times, only 1%-2% of the population shows any signs of the disorder.

The two main symptoms of DDD are depersonalization—which is feeling detached from your own body, thoughts, or feelings—and derealization, or feeling detached from your surroundings. Unlike with psychotic disorders, people with DDD know that they aren't experiencing reality. People with the condition realize that something is off, which usually causes them to feel distressed. DDD is a dissociative disorder in the *Diagnostic and Statistical Manual of Mental Disorders* (DSM-5).

In my professional opinion, most investors these days are suffering from this disorder. DDD is a natural response to the strange reality we face in so many ways as investors today. Something is not quite right about all of the following:

Pandemic: Another Wave. The pandemic has been very stressful for all of us since it was officially declared by the World Health Organization (WHO) on March 11, 2020. A huge source of relief late last year was that vaccines were developed in record time. A new source of stress is that variants of Covid-19 are also continuing to develop. Furthermore, the slow distribution of the available vaccines on a worldwide basis is buying time for variants to emerge and spread. The latest news is disconcerting:

(1) *Israel.* According to the July 17 *The Jerusalem Post*, Israeli Prime Minister Naftali Bennett said on Friday that the effectiveness of the Pfizer vaccine against the Delta variant is “weaker” than health officials hoped. Currently, around 60% of the Israeli patients in serious conditions were vaccinated. The percent of cases that turn critically ill is now 1.6%, compared to 4.0% at a similar stage in the third wave when there were no vaccines.

(2) *US.* Also on Friday, Rochelle Walensky, director of the Centers for Disease Control and Prevention (CDC), *said* the seven-day average of coronavirus infections soared nearly 70% in just one week, to about 26,300 cases a day. The seven-day average for hospitalizations has increased too, climbing about 36% from the previous seven-day period, she said. She described the problem as “a pandemic of the unvaccinated.”

Florida emerged as a national hot spot, accounting for 1 in 5 cases, over the past week. The Sunshine State, where only about 47% of the population is fully vaccinated, ranks 26th among the states in vaccinations, according to the CDC’s vaccine tracker. Four states were responsible for more than 40% of cases in the past week, health officials said. And 10% of counties have moved into “high transmission risk.” In Los Angeles County, an indoor mask mandate—applying to everyone, vaccinated or not—has been reimposed.

The Delta variant has become the dominant strain worldwide and is responsible for the majority of US cases, said Anthony Fauci, President Biden’s chief medical adviser and director of the National Institute of Allergy and Infectious Diseases. In some parts of the US, Fauci said, the Delta variant is responsible for more than 70% of cases.

(3) *Europe.* The month-long Euro 2020 soccer tournament, which ended on July 11, has been blamed for a surge in coronavirus cases as fans flocked to stadiums, bars, and spectator zones across Europe to watch the action while the pandemic was still raging. Germany’s interior minister called European soccer’s governing body UEFA “utterly irresponsible” for allowing big crowds at the tournament. The WHO said the mixing of crowds in Euro 2020 host cities, travel, and the easing of social restrictions has driven up the number of new cases by 10%.

(4) *UK.* The UK recorded more than 50,000 new coronavirus cases for the first time in six months Friday amid a warning from the British government’s top medical adviser that the number of people hospitalized with Covid-19 could hit “quite scary” levels within weeks. Yet

the UK government is relaxing most of its pandemic restrictions today, as more than two-thirds of the population has received full vaccinations. Prime Minister Boris Johnson is working to return society to normal and encourage the public to “learn to live with this virus.”

(5) *Indonesia.* The July 17 *NYT* *reported*: “Indonesia has become the new epicenter of the pandemic, surpassing India and Brazil to become the country with the world’s highest count of new infections. The surge is part of a wave across Southeast Asia, where vaccination rates are low but countries had until recently contained the virus relatively well. Vietnam, Malaysia, Myanmar and Thailand are also facing their largest outbreaks yet and have imposed new restrictions, including lockdowns and stay-at-home orders.”

(6) *Cases.* Melissa and I will be monitoring the available case-count data for some of the world’s most important economies (*Fig. 1*, *Fig. 2*, *Fig. 3*, *Fig. 4*, and *Fig. 5*). They’ve all made significant progress so far this year. But the headlines suggest that could change rapidly for the worse in coming weeks.

US Economy: Growing or Slowing? The US economy is clearly booming. We all know that it is bound to slow; the only things in question are when and by how much.

One of the big worries is that the September 6 termination of the federal unemployment benefits of $300 per month will slow the economy. According to a July 16 CNBC *article*, “The rapidly spreading delta variant of Covid-19 may be reason for Congress to extend federal unemployment benefits past their expiration in early September, according to some labor economists.” On the other hand, some economists argue that rather than extending the benefits, the government should push harder to increase vaccinations.

If the federal benefit is terminated on schedule, and if more people go back to work as a result, then economic growth shouldn’t be slowed by the termination of the federal jobless benefit.

Besides, there is still a huge pile of liquid assets in personal saving that was accumulated since the start of the pandemic. The 15-month change in M2 (from March 2020 through May 2021) is a $4.9 trillion increase to a record $20.4 trillion (*Fig. 6*). That’s up to the equivalent of 89% of nominal GDP (saar) from about 70% just before the pandemic.

Meanwhile, here are the latest readings on the economy:

(1) *GDPNow.* The Atlanta Fed’s *GDPNow* model estimate for real GDP growth (saar) in Q2-

2021 is 7.5% on Friday, July 16, down from 7.9% on July 9. Debbie and I expect it to slow to 3.0%-4.0% during the second half of this year; however, we won't be surprised if we are pleasantly surprised. Order backlogs remain significant, and inventories are depleted and need to be rebuilt. The reopening of the services economy is boosting demand for businesses that had been challenged by ongoing social-distancing restrictions until recently. Of course, another wave of the pandemic and restrictions could rapidly cause another reversal of fortune for them.

(2) *Retail sales.* US retail sales rose 0.6% m/m in June, beating expectations of a 0.3% decline. Excluding autos, sales jumped 1.3% in June. Sales have been driven in part by stimulus checks and the reopening of the economy. The latest data showed clothing and personal care products continued to experience sales growth (*Fig. 7*). Housing-related sales continued their recent decline (*Fig. 8*). Motor vehicles and parts dropped, as supply-chain issues continue to plague the sector.

The reopening of the economy, especially those businesses hit hardest by the absence of social activity during the pandemic, is helping to bolster sales. Consumers are beginning to shift more of their purchases toward services. For example, food service sales are now back above the pre-pandemic level (*Fig. 9*).

Online retail sales fell 2.3% m/m in May but rose 3.7% y/y (*Fig. 10*). They accounted for 38.6% of GAFO (i.e., the type of merchandise found in department stores) sales compared to 45.9% a year ago.

(3) *Business sales and S&P 500 revenues.* Business sales of goods by manufacturers and distributors includes retail sales. The series is available through May. It was up 28.7% y/y (*Fig. 11*). This growth rate closely tracks the yearly percent change in quarterly S&P 500 revenues, which was 11.7% during Q1. It might have been up at least twice as much during Q2. S&P 500 forward revenues rose to another record high during the July 8 week (*Fig. 12*).

(4) *Federal tax receipts.* One of the most remarkable recent development has been the narrowing of the 12-month federal budget deficit from a record of $4.1 trillion through March to $2.6 trillion through June (*Fig. 13*). The 12-month sum of federal government outlays has been falling in recent months, while revenues have been soaring, led by individual income tax receipts (*Fig. 14* and *Fig. 15*).

In June, 9.5 million workers were unemployed, or 3.8 million more than during February of last year, just before the WHO declared the pandemic. Yet the 12-month sum of federal individual income tax receipts was a record $2.2 trillion during June, $0.5 trillion more than during February of last year!

How can that be? Well, a small part of the explanation is that unemployment benefits are taxable. Beneficiaries have the option of withholding 10% of their jobless benefit to pay their taxes. However, federal government unemployment insurance receipts are small. The 12-month sum of this series rose only $9.8 billion since April 2020 to $49.7 billion during June of this year (*Fig. 16*).

The most obvious explanation for the strength in individual income tax receipts is that the 12-month sum includes two filing deadlines in July 2020 and May 2021. The norm is the April 15 deadline.

(5) *NY and Philly surveys.* Two of the five regional business surveys conducted by the Federal Reserve are available for July. They tend to be very good leading indicators for the remaining three as well as for the national M-PMI survey. Together, they suggest that the inflationary economic boom continued last month.

The general business index soared in New York to a record high, while it is down from recent highs in the Philly area (*Fig. 17*). New orders followed the same pattern. Employment remained strong in both surveys. Unfilled orders and delivery times eased a bit in both but remained elevated. Prices-paid and prices-received indexes mostly eased in both surveys but remained elevated too (*Fig. 18*).

Inflation: Coming or Going? Prices-paid and prices-received indexes are diffusion indexes. They are based on m/m comparisons. They are cyclical and trendless. So the recent downticks in these indexes for the NY and Philly regions indicate that pricing pressures didn't worsen in July compared to June. Consider the following related developments:

(1) *Small businesses.* On the other hand, the percentages of small businesses both raising their selling prices (47%) and planning to do so (44%) during June were the highest they've been since the early 1980s, i.e., at the tail end of the Great Inflation of the 1970s (*Fig. 19*).

(2) *PPI.* June's PPI and CPI reports were released last week. There were no signs of a peak in consumer price inflation. The headline rates for the PPI for personal consumption and the CPI were 6.4% y/y and 5.4% (*Fig. 20*). The comparable core inflation rates were both 4.5% (*Fig. 21*). (See our *Inflation Monitor III: Producer Prices*.)

(3) *Expectations.* On Thursday, US Treasury Secretary Janet Yellen seemed to be a wee bit less confident about the transitory nature of the spike in inflation in recent months. Last Thursday, in a CNBC *interview*, she said, “We will have several more months of rapid inflation.” She also said, “Measures of inflation expectations I think still look quite well contained over the medium term.”

Really? In June, the monthly survey of inflationary expectations conducted by the Federal Reserve Bank of New York showed the median one-year-ahead and three-years-ahead inflationary expectations at 4.8% and 3.6%, well above the Fed’s 2.0% medium-term target. (See our *Inflation Monitor IV: Expectations*.)

Beware: Cognitive dissonance can trigger DDD!

The Fed: Alternative Realities. Last Thursday, Federal Reserve Bank of St. Louis President James Bullard declared that the Fed has met its goal of achieving “substantial further progress” on both inflation and employment, urging his colleagues on the FOMC to move forward in reducing stimulus. “I think we are in a situation where we can taper,” he said during a Bloomberg Television *interview*. “We don’t want to jar markets or anything—but I think it is time to end these emergency measures.” He acknowledged, “We are not quite sure where this inflation process is going to go. We need some optionality on the upside with respect to possible inflation shocks.”

In congressional testimony on monetary policy during Wednesday and Thursday, Fed Chair Powell insisted that there’s no rush for the Fed to change course: “There’s still a lot of unemployed people out there. We think it’s important for monetary policy to remain accommodative, and supportive of economic activity, for now.” He said that the labor market “still has a long way to go.”

Powell reiterated his FAITH in BEABTI. “FAITH” stands for “flexible average inflation targeting hope.” Last year during August, Fed officials announced that they were aiming to overshoot their 2.0% inflation target because they had undershot it for so long. Their wish has come true in recent months.

“BEABTI” stands for the “base-effect-and-bottleneck theory of inflation.” That’s Powell’s interpretation of recent inflationary pressures. In his opinion, they mostly reflect rebounds in prices that were depressed a year ago by the lockdowns and temporary supply bottlenecks resulting from a surge in demand as the economy has reopened.

Are Bullard and Powell giving you a headache? That's probably a symptom of DDD.

Bonds: Stooping for Yield. During her CNBC interview last Thursday, Yellen said that the decline in the Treasury bond yield in recent weeks shows "the market expressing its views that inflation does remain under control." That's possible, though more likely is that bond investors' views aren't getting expressed but suppressed by the market-distorting effects of the Fed's intervention.

The bond market has been rigged by QE4ever bond purchases of $120 billion per month by the Fed since the end of last year. The bullish impact on the bond market has been amplified by the resulting surge in demand deposits associated with the Fed's purchases. Banks have been forced to park these proceeds in bonds, since loan demand has been weak because corporations can raise lots of funds in the corporate bond market at record-low yields.

Bond investors are no longer reaching for yield. They are stooping for yield. They are doing that despite mounting inflationary pressures. They are exhibiting signs of DDD.

Equities: Pong Games. Should we overweight Growth or Value? The answer since the start of September 2020 was Value. That worked until March 8, when Growth started to outperform again (*Fig. 22*). What changed?

The Magnificent Five started to outperform again; they're the S&P 500's five stocks with the highest market capitalizations, i.e., Facebook, Amazon, Apple, Microsoft, and Google (*Fig. 23*). On Friday, their collective market-cap share of the S&P 500 was back up to 24.8%. That also means that S&P 500 LargeCaps have been outperforming S&P 400/600 SMidCaps and that the Stay Home investment style has outperformed the Go Global alternative.

The outperformance of the Mag-5 is impressive since Washington seems to be increasingly moving toward regulating these companies. Their relative attractiveness in recent weeks can be mostly attributed to the drop in the bond yield. The stock market may be drinking Powell's Kool-Aid and buying the notions that economic growth will soon slow significantly and inflation will soon moderate.

China: Ready To Nuke Japan. At least we don't have to worry about World War III. Then again, the July 14 issue of *Newsweek* included an *article* titled "China Officials Share Viral

Video Calling for Atomic Bombing of Japan." A video posted under an account run by the Baoji Municipal Committee of the Communist Party of China calls for Beijing to launch nuclear strikes on Japan if Tokyo intervenes in a Chinese invasion of democratic Taiwan.

The narrator in the video proposes a "Japan Exception Theory" that would see Tokyo exempt from China's "no first use" nuclear policy. The footage is filled with belligerent and nationalistic rhetoric, as well as threats of nuclear war against one of China's nearest neighbors.

Sounds like fake news, right? Well, the June 30 *Washington Post* *reported* that "China has begun construction of what independent experts say are more than 100 new silos for intercontinental ballistic missiles in a desert near the northwestern city of Yumen, a building spree that could signal a major expansion of Beijing's nuclear capabilities."

What's their rush? Could it be that the Chinese government and military have a strategic plan with a timetable to invade Taiwan sooner rather than later? You decide. This is all giving us a bad case of DDD.

Calendars

US: **Mon:** NAHB Housing Market Index 82. **Tues:** Housing Starts & Building Permits 1.597mu/1.700mu, API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: **Mon:** Japan Core CPI 0.2% y/y, German Buba Monthly Report, RBA Meeting Minutes**. Tues:** Japan Trade Balance ¥460b, BOJ Monetary Policy Meeting Minutes. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index fall 1.1% and end the week 1.4% below its record high on Monday. The US ranked 29th of the 49 global stock markets that we follow in a week when just 19 of the 49 countries rose in US dollar terms. The AC World ex-US index rose 0.1% as a few regions posted their first gains in three weeks. EM Latin America was the best-performing region last week with a gain of

2.7%, ahead of BRIC (2.0%) and EM Asia (2.0). EM Eastern Europe (-1.8) was the biggest underperformer, followed by EMU (-1.2), EMEA (-1.1), and EAFE (-0.5). Egypt was the best-performing countries last week with a gain of 4.7%, followed by Brazil (3.9), Korea (2.3), China (2.3), and Hong Kong (2.1). Greece was the worst performer with a decline of 4.1%, followed by Spain (-3.3), Chile (-3.0), Norway (-2.7), and Ireland (-2.6). The US remains the top-performing region so far in 2021 with a gain of 14.7%, ahead of EMEA (14.2), EM Eastern Europe (13.0), EMU (9.4), EAFE (7.2), and the AC-World ex-US (6.7). The following regions are lagging, albeit with gains: BRIC (0.6), EM Asia (2.4), and EM Latin America (5.2). The top-performing countries ytd: Jordan (30.1), the Netherlands (18.8), Austria (18.7), Taiwan (18.5), and Sweden (18.2). The biggest laggards of 2021 so far: Turkey (-21.5), Peru (-21.3), Colombia (-19.6), New Zealand (-14.9), and Indonesia (-13.3).

S&P 1500/500/400/600 Performance (*link*): LargeCap dropped 1.0% for its first decline in four weeks, but was the best performer of these three indexes for a third week. MidCap fell 3.3%, ahead of the 4.6% decline for SmallCap as both indexes moved lower for a third week. LargeCap ended the week 1.3% below its record high on Monday, while MidCap and SmallCap were 5.5% and 8.2% below their respective record highs on May 7 and June 8. Five of the 33 sectors were higher for the week, down from 15 rising a week earlier. LargeCap Utilities rose 2.6% for the best performance for the week, followed by SmallCap Utilities (1.8%), LargeCap Consumer Staples (1.2), MidCap Utilities (0.9), and LargeCap Real Estate (0.7). SmallCap Energy was the worst performer with a decline of 12.5%, followed by MidCap Energy (-8.9), LargeCap Energy (-7.7), SmallCap Consumer Discretionary (-6.1), and SmallCap Tech (-6.0). SmallCap continues to lead so far in 2021 with a gain of 16.0%, but barely so as LargeCap (15.2) moved ahead of MidCap (13.5). Thirty-two of the 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (55.2), MidCap Energy (37.7), SmallCap Consumer Discretionary (34.1), LargeCap Energy (28.8), and LargeCap Real Estate (26.8). The biggest laggards so far in 2021: MidCap Communication Services (-3.9), MidCap Tech (2.9), LargeCap Consumer Staples (5.4), LargeCap Utilities (5.6), and SmallCap Tech (7.4).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 1.0% last week and weakened relative to both its 50-day moving average (50-dma) and 200-day moving average (200-dma). It was above its 50-dma for a fourth week after dropping below a week earlier for the first time since February. It was above its 200-dma for a 55th straight week last week after being below for 13 weeks through late May of 2020. The S&P 500's 50-dma rose last week for a 36th straight week. The price index dropped to a three-week low of 2.0% above its rising 50-dma from a nine-week high of 3.4% and is up from an eight-month low of 0.4% below its rising 50-dma during mid-June. That's still down from its 19-week high of 5.8%

above during mid-April. The index mostly has been trading above its 50-dma since late April 2020; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 55th week but dropped to a four-week low of 10.6% above its rising 200-dma from 12.4% above a week earlier. It remains above its eight-month low of 9.2% during mid-June. That compares to 17.0% above in early December, which was the highest since November 2009 and up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Seven S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier and down from ten in early June. Industrials moved below for the first time in three weeks, and Utilities moved above for the first time in five weeks. Financials was below for a third week and Materials for a fifth week. That compares to all 11 sectors above at the beginning of May and just four above at the end of January. Five sectors have a falling 50-dma now, up from just one sector a week earlier; that matches mid-March's highest count since early November. The four sectors joining Utilities in that doghouse last week: Energy, Financials, Industrials, and Materials. Looking at the more stable longer-term 200-dmas, all 11 sectors traded above them for a 19th straight week, and all have had rising 200-dmas for a 18th straight week. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Retail Sales (*link*): Retail sales unexpectedly rose in June on broad-based gains that more than offset a drop in auto sales due to the chip shortage. Headline retail sales expanded 0.6% (vs an expected 0.3% decline) and is up 51.6% since last April, while core retail sales—which excludes autos, gasoline, building materials, and food—is up 1.1% and 31.3%, over the comparable periods. Both are recovering from May declines and are just marginally below their record highs posted in April and March, respectively. Of the 13 retail sales categories, nine increased in June, while four contracted—with food services & drinking places, clothing, and health & personal care retailers posting record sales last month. Worth mentioning, sales of motor vehicle, furniture & home furnishings, sporting goods, general merchandise, miscellaneous, and nonstore retailers were all not far from their record highs posted earlier this year. Here's a snapshot of the sales performances of the 13 categories during June, and versus last April's bottom: miscellaneous store retailers (3.4% m/m & 84.4%), electronics & appliance stores (3.3 & 133.7), clothing & accessories (2.6 & 811.3), gasoline stations (2.5 & 80.1), food services & drinking places (2.3 & 135.8), general merchandise (1.9 & 20.1), health & personal care (1.6 & 24.2), nonstore retailers (1.2 & 14.8), food & beverage stores (0.6 & 3.7), sporting goods & hobby stores (-1.7 & 149.8), building materials & garden equipment (-1.6 & 21.8), motor vehicles (-2.0 & 93.7), and furniture & home furnishings (-3.6 & 184.3).

Consumer Sentiment Index (*link*): Inflation concerns sent consumer sentiment south in mid-July, as the one-year expected inflation rate soared to 4.8%—the highest since August 2008. It was at 3.0% a year ago. The five-year expected inflation rate remains on an accelerating trend, rising to 2.9% this month after edging down from 3.0% to 2.8% last month; it was as low as 2.4% in October. The Consumer Sentiment Index (CSI) sank to a five-month low of 80.8 in mid-July after climbing from 82.9 to 85.5 in June. The present situation component of the CSI declined for the third month from 97.2 in April to an 11-month low of 84.5 this month, while the expectations component remains in a volatile flat trend, dropping to 78.4 after advancing from 78.8 to 83.5 in June. The headline CSI is 20.2 points below its pre-pandemic level, while the present situation and expectations components are 30.3 points and 13.7 points below. Inflation concerns have triggered a sharp pullback in buying conditions for big-ticket items—as "consumers' complaints about rising prices on homes, vehicles, and household durables" reached an all-time record high, according to Richard Curtin, the surveys chief economist. He also notes, however, that purchase rates have benefited from "record increases in accumulated savings and reserve funds." The big question: Will consumers keep a significant portion of their savings as a "precautionary hedge," or buy-in advance, before prices climb even higher?

Business Sales & Inventories (*link*): Nominal business sales in May was little changed around April's record high, while real business sales (reported with a lag) in April held around March's record high. Nominal business sales slipped 0.3% in May, after jumping 6.5% during the two months ending April from February's 1.6% shortfall. Real business sales has followed an up-and-down pattern so far this year, falling 0.5% in April, though has still managed a 3.7% ytd gain. Real sales of wholesalers continued to reach new record highs in April, while those of retailers were stalled just below March's record high. Meanwhile, real manufacturing sales slumped 4.8% during the three months through April. May's nominal inventories-to-sales ratio inched up to 1.26 from 1.25 in April—which was a tick above its record low of 1.24 posted in March 2011; it was at 1.73 last April. Meanwhile, the real inventories-to-sales ratio for April held at March's 1.30—which was only a tick above its record low of 1.29 in the early 1970s; it had soared to a record high of 1.66 last April from 1.43 in February.

Regional M-PMIs (*link*): Two Fed districts have now reported on manufacturing activity for July (New York and Philadelphia) and show the manufacturing sector expanded at a faster pace—with the New York region accelerating at a record rate. The composite index climbed to 32.5 this month after easing the prior two months from 38.3 to 24.1, as the New York (to 43.0 from 17.4) manufacturing sector grew at more than double June's pace, while growth in Philadelphia's (21.9 from 30.7) slowed—though remained robust. The new orders (to 25.1 from 19.3) measure saw an acceleration in billings, driven by a near record rate in orders growth in the New York (33.2 from 16.3) region; Philadelphia's (17.0 to 22.2) rate slowed, though was still strong. Meanwhile, factories added to payrolls at a record pace (to 24.9 from 21.5), virtually matching mid-2018's record rate of 25.1, with Philadelphia's (29.2 from 30.7) measure a tick away from its record high of 30.8 posted in April of this year, while New York (20.6 from 12.3) manufacturers hired at the fastest pace since June 2018. Looking at the inflation measures, the New York prices-paid gauge eased for the second month to 76.8 from May's record high of 83.5, while the prices-received (to 39.4 from 33.3) gauge accelerated to a new record high. Both Philadelphia's prices-paid (to 69.7 from 80.7) and prices-received (46.8 from 49.7) measures eased this month from their June readings, which were the highest since June 1979 and October 1980, respectively.

Industrial Production (*link*): Industrial production in June expanded for the 11th month since bottoming last April, climbing 0.4% m/m and 18.9% over the 14-month period, to within 1.2% of its pre-pandemic level. Manufacturing output edged down 0.1% last month, it's third decline this year, as manufacturers continue to struggle with supply chain problems, as a shortage of semiconductors triggered a 6.6% drop in June motor vehicle production. Despite these challenges, factory output is still up 23.3% since bottoming last April to within 0.8% of its pre-Covid level. Here's a snapshot of June production by market group (and their components) since last April and where they stand relative to their pre-Covid levels: business equipment (42.7% & -0.6%), led by transit equipment (250.8 & -4.9), followed by industrial equipment (26.9 & -1.0), and information processing equipment (11.1 & +4.8). The gain in consumer goods (18.8% & -0.2%) production was led by a surge in consumer durable goods (82.2 & -3.9) output, while nondurable goods (9.0 & +0.8) production was more subdued. That being said, consumer durable goods production has been contracting so far this year, falling 2.6% in June and 5.0% ytd.

Capacity Utilization (*link*): The headline capacity utilization rate continued to rebound from February's weather-related decline. The overall utilization rate climbed to 75.4% in June after falling from 75.0% in January to 72.7% in February. The rate is up 12.0ppts from last April's low and is currently 4.2ppts below its long-run average. Manufacturing's capacity utilization rate dipped to 75.3% in June after advancing from 72.7% in February to 75.4% by June—up 14.5ppts since last April; it remains below its long-term average. The operating rate for mining climbed for the fourth successive month, from 66.5% in February to 76.7% in June, while the utilities rate climbed from 71.6% in March to 74.5% last month, with both remaining below their long-term averages.

Import Prices (*link*): Import prices have heated up the past seven months, climbing 1.0% in June, and 8.7% over the period, with the yearly inflation rate at 11.2%—one of the fastest rates since 2011. Before turning positive this January (+1.0% y/y), the yearly rate was negative for 11 successive months. Petroleum prices were a big contributor once again, though June's 4.6% increase was slower than May's 5.4%; these prices were up 62.2% the past seven months and 87.7% y/y (slowing from May's peak of 137.2%). Meanwhile, nonpetroleum prices were up 0.7% m/m and 5.2% over the seven months through June, with the yearly rate accelerating 6.8%—the fastest since summer 2008. The rate for industrial supplies & materials imports (49.6% y/y) eased a bit from May's record rate of 55.4% after turning positive for the first time in a year in January. The rate for capital goods (1.4% y/y) remains just above 1.0%, up from November 2019's bottom of -2.0%. Rates for consumer goods ex autos (1.1% y/y) is moving further into positive territory, while the rate for autos (1.2) remains in a flat trend around 1.0%. Food prices (8.1% y/y) have accelerated sharply recently, posting its biggest yearly rate since October 2011; the rate had bounced around zero the past few years. Looking at import prices among our trading partners, China (3.1% y/y) imports posted the fastest rate on record, while the NICs (6.6% y/y) rate is stalled at its record rate. The rate for the EU (6.3% y/y) was little changed around May's near decade high of 6.6%. Meanwhile, the rate for Japan (1.8% y/y) slowed from May's 2.3%--which was its highest rate since November 2011; it had hovered around zero from early 2019 through the end of last year.

Global Economic Indicators

European Car Sales (*link*): New car registrations, a proxy for sales, advanced 10.4% y/y, considerably slower than prior months. Among the top four EU car markets, Germany (24.5% y/y) posted the largest yearly gain, followed by Spain (17.1) and Italy (12.6);

France's sales contracted 14.7% y/y. During the first half of 2021, sales were up 25.2% y/y from the comparable 2020 period, reaching almost 5.4 million units—still below H2-2019's pre-Covid volume by 1.5 million units. Here's the year-to-date ranking of the top four EU markets compared to the comparable period a year ago: Italy (51.4% y/y), Spain (34.4), France (28.9), and Germany (14.9).

Eurozone CPI (*link*): June's CPI headline rate slowed a bit to 1.9% y/y from May's 30-month high of 2.0%, while the core rate slowed from 1.0% to 0.9%. Looking at the main components, once again energy (to 12.6% from 13.1% y/y) posted the biggest gain, though eased for the first time since late last year. The services inflation rate slowed to 0.7% y/y in June—the slowest since the end of 2020, after accelerating in May for the first time in four months, from 0.9% to 1.1%. The rate for non-energy industrial goods accelerated for the third month, to 1.2%y/y, after easing from 1.5% in January to 0.3% in March. The price measure for food, alcohol & tobacco held at 0.5%, after slowing steadily from 1.5% in January to 0.5% by May. Of the top four Eurozone economies, rates for Spain (2.5% y/y) and Germany (2.1) were above the Eurozone headline rate of 1.9%, while Italy's (1.3) was below; the rate for France matched the overall rate.

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