Yardeni Research

MORNING BRIEFING
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Semis, Travel & Digital Dollars

Check out the accompanying chart collection.

(1) Semiconductor shortages still plaguing auto companies. (2) Imbalance of semi supply and demand may drag into 2022. (3) SIA reports positive worldwide sales in June. (4) Semi companies forecast to grow earnings in 2022 even after a blowout 2021. (5) Delta puts everyone on high alert. (6) Drivers clogging the roads. (7) Hotel occupancy has recovered, but not fully. (8) Expect to use a digital yuan at the Winter Olympics. (9) EU and Japan already testing digital currency. (10) Fed still studying digital dollar.

Semiconductors: Shortages Continue. Investors keep looking for a sign that the semiconductor cycle has peaked—so far, for naught. The Semiconductor Industry Association's (SIA) report on June worldwide sales showed continued robust growth, while companies that make semiconductors describe Q2 demand levels that they're unable to meet with supply. Let's take a closer look:

(1) *Auto companies scrounging for semis.* Despite hopes that the semiconductor shortage would be resolved in 2H-2021, the tightness looks likely to continue at least through year-end. Stellantis NV reiterated on Tuesday that the semiconductor shortage would continue to hurt its production. Also on Tuesday, General Motors noted that the chip shortage will cause it to idle three North American factories that make its highly profitable large pickup trucks, an August 3 *WSJ* article reported.

The chip shortage has caused auto production to slow, leaving dealers with slim inventories. Domestic auto and light truck production has dropped to 8.7 million units (saar) in June from 10.4 million units at the start of 2021 (*Fig. 1*). The domestic auto inventory-to-sales ratio has fallen to 0.8 from a long-term average of 2.5 (*Fig. 2*).

(2) *Chip companies see tightness continuing.* NXP Semiconductors and ON Semiconductor both reiterated on Q2 earnings conference calls this week that strong demand is outpacing supply of semiconductors.

Product supply was a "challenge" in Q2, and it will remain so for the "foreseeable future," said NXP CEO Kurt Sievers in the August 3 *conference call*. "With customer demand outstripping current supply, a situation that we see across all our end markets, we are working diligently to secure additional supply to achieve a healthy balance of demand versus supply."

Sievers discussed the growing number of semiconductors in cars, particularly in electric vehicles (EVs), which have twice as many chips as conventional vehicles. Since just-in-time method inventory management has proved incompatible with semiconductors' three- to six-month manufacturing cycle, he believes customers want to hold additional inventory on hand but can't right now. There's no extra inventory available to hold.

NXP's Q2 revenue rose 43% y/y, its adjusted Q2 operating income jumped 121% y/y, and the company forecasts Q3 revenue will jump 26% y/y. It sells semis into the industrial, Internet of Things, auto, mobile, and communication infrastructure markets.

ON Semiconductor also posted a strong Q2, with revenue jumping 38% y/y and adjusted operating earnings soaring 449.4% to $275.8 million. Adjusted earnings per share of 63 cents beat analysts' consensus estimate of 49 cents, and the company's Q3 forecast was higher than analysts' forecasts. ON shares rallied 11.7% on Monday.

"The strong demand that we have seen over the last few quarters continues to outpace our ability to supply certain products, especially those manufactured by our foundry partners. Based on current booking trends and macroeconomic outlook, we expect that the demand will continue to outpace supply through the first half of next year," said ON CEO Hassane El-Khoury in the August 2 *conference call*.

El-Khoury also highlighted demand from the auto industry, noting the company's success supplying power management chips for EVs and chips used in safety features, such as image sensors and ultrasonic sensors. He added that sales into the cloud server market and the industrial automation space were strong, benefitting from machine vision and scanning applications.

While analysts were concerned that customers might be double ordering to ensure they received product, both CEOs claimed it wasn't occurring. Moody's Investors Service highlighted the risk that China's efforts to dominate the semiconductor market could lead to overcapacity in certain chips, an August 2 *South China Morning Post* (*SCMP*) *article* reported. The ratings agency compared the country's push to expand semiconductor manufacturing to the push it made to expand the manufacturing of solar photovoltaic equipment in the early 2010s. That effort led to overcapacity, price declines, drops in profit, and bankruptcies in the domestic solar market. It will certainly be an area to monitor.

(3) *Semi sales still robust.* Global semiconductor sales in June rose 29.2% y/y and 2.1% m/m using a three-month moving average, according to the SIA's latest *report*. June's m/m sales were broad based, rising in all geographic areas: Americas (5.4%), Japan (2.5), Europe (2.0), China (1.1), and Asia Pacific/All Other (1.0) (*Fig. 3*). The industry's strength is confirmed by the steady increase in production of semiconductor and other electronic components to new record highs this year (*Fig. 4*).

Analysts have sharply revised upward their expectation for S&P 500 Semiconductors revenue and earnings growth. The industry's revenues are expected to jump 18.9% this year and 8.6% in 2022. That's far higher than estimates at the start of 2021: 8.9% and 8.3% (*Fig. 5*). Likewise, earnings are forecast to climb 30.4% this year and 12.7% in 2021, compared to estimates of 14.6% and 15.5% as 2021 began (*Fig. 6*).

With the industry's factories running near full capacity, margins have improved sharply, nearly reattaining their peak of 32.2%, in 2018 (*Fig. 7*).

The S&P 500 Semiconductors stock price index has responded to the strong market for semiconductors, climbing 19.4% ytd through Tuesday's close and modestly outpacing the S&P 500's 17.8% gain (*Fig. 8*). The S&P 500 Semiconductor Equipment stock price index has climbed an even more impressive 39.1% ytd (*Fig. 9*). It's expected to grow earnings 54.5% this year and 15.9% in 2022 (*Fig. 10*).

Travel: Wary Optimism. There has been a nice rebound in all manner of travel as people crave vacations somewhere beyond their newly decorated backyards. Activity hasn't returned to 2019 levels, but it has certainly improved from the dark days of 2020. The arrival of the Delta variant of Covid-19 will test those gains, as it appears to be infecting and spread by both vaccinated and unvaccinated individuals. Here's a quick look at some recent Covid data and travel statistics as well as Q2 earnings reports from Marriott International and Royal Caribbean Group:

(1) *Delta proves challenging.* The Centers for Disease Control and Prevention (CDC) reports that three-quarters of the 469 people infected with Covid-19 during an outbreak in a Cape Cod town were fully vaccinated. Of those 346 vaccinated individuals infected, 274 had symptoms; but only four hospitalizations and no deaths were reported, according to a July 30 CNBC *article*. The Delta variant was present in 90% of specimens taken from 133 patients. The findings led the CDC to issue renewed recommendations to wear masks

indoors.

Since there were no deaths among the vaccinated, it's possible that the recovery in travel activity will continue now that we've all had a taste of post-Covid freedom. But as we saw in the first go-around, travel may be determined by rules imposed by local politicians. The New York International Auto Show, scheduled to start August 20, was canceled Wednesday. Organizers cited concerns about Delta and Mayor Bill de Blasio's mandated vaccinations for a range of indoor activities beginning August 16.

(2) *Travelers hitting the road and the skies.* As we can all tell by increased traffic on highways, individuals have returned to the roads. The amount of gasoline supplied in the US rose in July to 9.5 mbd based on a four-week moving average. That's just shy of 2019's level of 9.6 mbd (*Fig. 11*).

Air travel has also enjoyed a sharp rebound, but activity has not completely returned to pre-Covid levels. A total of 1.8 million people passed through TSA checkpoints on August 3, up sharply from the same day in 2020 when only 543,601 passengers passed through. This year's traffic, while improved, still remains noticeably below the 2.4 million passengers who flew on August 3, 2019, prior to the pandemic (*Fig. 12*).

(3) *Where are travelers staying?* Travelers must be staying with family and friends, because the number of guests at hotels has not completely recovered from 2020 lows. Marriott International reported that its worldwide occupancy rate climbed to 50.8% last quarter, up 32.8 percentage points from last year but still 24.1 percentage points below 2019 levels. Its total US occupancy topped 63% in June, held back by a slower recovery in business and group bookings. The hotel company also said that comparable systemwide revenue per available room rose 262.6% worldwide from a year earlier but remained 43.8% below 2019 levels, an August 3 *WSJ* *article* reported.

The number of people taking a cruise has also improved, but remains far from a full recovery. Royal Caribbean Group reported that it's operating 29 ships, representing 42% of its total capacity, and by year-end it hopes to have 80% of its capacity back in service. Management reported seeing "a modest impact on closer-in bookings" due to the Delta variant, but 2022 bookings remain strong. The company, which reported a larger-than-expected Q2 adjusted loss of $5.06 a share, didn't offer a Q3 earnings forecast beyond saying it expects to incur a net loss. Royal's shares have hit rough seas, falling from $96.98 in June to $74.49 as of Tuesday's close.

Disruptive Technologies: Digital Currency Developments. If countries hope to compete with cryptocurrencies, then they'll have to digitize their own currencies. So far, China appears to be the furthest ahead in developing a digital currency, while the Federal Reserve is taking its sweet time. Let's take a trip around the world to see what progress central bankers are making:

(1) *BOC: Testing underway.* Among the world's large nations, China appears to be the furthest along in developing a digital currency. The digital yuan is currently distributed only by state-owned banks, a July 8 Bloomberg *article* published by the SCMP reported. Trials are occurring in 10 cities, including Beijing, Chengdu, Shanghai, and Shenzhen. Over the past two years through June, 34.5 billion digital yuan ($5.3 billion) had been spent in 70.8 million transactions.

Next step: Foreigners visiting for the 2022 Winter Olympics will be able to test the digital yuan without having a local bank account. "During next year's Winter Olympics, self-service carts, vending machines and stores will be authorised to issue wearable payment devices such as gloves, badges and clothes that will allow easy use of the digital yuan," a July 16 *SCMP* *article* reported.

It looks like China will continue to tightly control its currency, even if it goes digital. The digital yuan cannot be used for cross-border payments, only domestic transactions, though the country has started "technical testing" with Hong Kong and is collaborating with Thailand and the United Arab Emirates. Before the digital yuan can be officially adopted, the People's Bank of China needs to revise its laws to give the digital yuan legal status and the digital yuan's impact on domestic monetary transmission and financial stability needs to be studied, the *SCMP* article noted.

The advent of the digital yuan threatens to replace the digital payment systems that most Chinese citizens use, Ant Group's Alipay and Tencent Holdings' WeChat Pay. Both companies are participating in testing the digital yuan, but China's banks were given a head start in the testing, a July 25 *WSJ* *article* reported.

(2) *Fed: A lot of talk.* The US Federal Reserve is studying the idea of a digital dollar to death. It's currently collecting public comments on the potential costs, benefits, and design of a digital dollar, with plans to publish a "discussion paper" in early September. In other words, a digital dollar is many years away from landing in your digital wallet.

Fed Governor Lael Brainard seems to understand the need to move faster. "The dollar is very dominant in international payments, and if you have the other major jurisdictions in the world with a digital currency, a CBDC (central bank digital currency) offering, and the U.S. doesn't have one, I just, I can't wrap my head around that," Brainard told the Aspen Institute Economic Strategy Group, according to a July 30 Reuters' *article*. "That just doesn't sound like a sustainable future to me."

If the US doesn't develop a digital dollar, cryptocurrencies called "stablecoins," some of which are pegged to a US dollar, could proliferate, she noted. That could be problematic because stablecoins aren't backed by banks or governments, which eliminates a level of safety enjoyed by the dollar. Stablecoin transactions typically occur outside of the financial system, which has regulators around the world concerned that they will lose control over regulating transactions. US, UK, and Japanese regulators all have called for greater regulation of stablecoins and other areas of decentralized finance.

(3) *BOJ: Testing started.* The Bank of Japan (BOJ) is in testing mode. In April, it began testing the technical feasibility of issuing, distributing, and redeeming a central bank digital currency. Tests will continue through March 2022. The BOJ also formed a committee of policymakers and lobbyists from the banking and finance sector to help with the project. However, the BOJ's formal stance is that it has no plans to issue a central bank digital currency.

(4) *ECB: Multi-year project begun.* The European Central Bank (ECB) has conducted experiments over the past year and found no major technical obstacles to using a digital euro's ledger, which could be centralized, distributed, or some combination of the two, a July 14 Reuters *article* reported. The central bank is now working on the design of the digital euro, defining the roles of banks and fintech companies, and talking with EU lawmakers about any changes needed to EU treaties. The investigation phase of the project should last two years, followed by three years of implementation, Reuters reported.

(5) *Bahamas: First to the finish line.* Last year, the Bahamas became the first country to issue a digital currency, the "sand dollar." A digital currency is easier for some Bahamian citizens to access than cash in a bank because the country is an archipelago. A digital currency should also be easier to access after a hurricane. In the wake of Hurricane Dorian in 2019, it took some banks more than a year to rebuild their physical branches.

"If you have a fully servicing electronic infrastructure for payments that everyone has access to, that's just as simple as restarting the communications link," said John Rolle, governor of the Bahamas Central Bank, in a July 19 Dow Jones Newswires *article*. The country is rolling out mobile wallets for citizens, introducing new financial providers, and addressing interoperability between different digital financial service providers.

"I've used [the digital sand dollar] in my central bank's cafeteria ... I've used it once to pay for groceries. I'm looking forward to using it even more to pay in cases where I don't need to use a credit card or a debit card," said Rolle. "It's going to substitute for those instances when the credit card or debit card is not an option. For some other Bahamians, it's going to be the first time that they moved from something other than cash." Hopefully, other nations' central bankers are watching.

Calendars

US: **Thurs:** Initial & Continuous Jobless Claims 384k/3.26m, Trade Balance -$74.1b, Challenger Job Cuts, Natural Gas Storage, Waller. **Fri:** Payroll Employment Total, Private, and Manufacturing 880k/750k/28k, Unemployment Rate 5.7%, Average Hourly Earnings 0.3%m/m/3.9%y/y, Consumer Credit $23.0b, Wholesale Inventories 0.8%, Baker-Hughes Rig Count. (Bloomberg estimates)

Global: **Thurs:** Germany Factory Orders 1.9%, France Industrial Production 0.6%, Japan Household Spending 2.1%m/m/0.1%y/y, BOE Interest Rate Decision 0.10%ECB Economic Bulletin, BOE Inflation Report, RBA Monetary Policy Statement, Lowe. **Fri:** Germany Industrial Production 0.5%, Italy Industrial Production 1.0%, Spain Industrial Production 13.5% y/y, Canada Employment Change & Unemployment Rate 177.5k/7.4%, Broadbent. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) increased for the second week this week, to 3.32, after falling from 4.00 (highest since late January 2018) to 3.18 two weeks ago. Bullish sentiment increased to 54.1% this week after falling the prior two weeks by 8.6ppts (to 52.6% from 61.2%), while the correction count fell to 29.6% this week after a two-week gain of 7.4ppts (to 30.9% from 23.5%). Bearish sentiment eased for the second week to 16.3% this week after climbing from 15.3% to 16.7% two weeks ago; it's been fluctuating in a rather narrow band compared to the wide swings in bullish sentiment and the correction count in recent months. The AAII Ratio increased to 60.0% last week after sliding the prior three weeks from 68.7% to 50.0%. Bullish sentiment rose to 36.2% after a three-week decline from 48.7% to 30.6%, while bearish sentiment fell to 24.1% last week after a three-week rise from 22.2% to 30.7%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin rose to a new record high of 13.1% last week from 13.0% a week earlier. Since the end of April, it has exceeded its prior record high of 12.4% in September 2018. It's now up 2.8ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings per share both rose w/w. They've both been making new record highs since the beginning of March and for the first time since February 2020. Since the Q2-2020 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.3ppt w/w to 9.4%. That's down from a record high of 9.6% at the end of May, and should continue to move lower due to base effects. Still, that's up from 0.2% during April 2020, which was the lowest reading since June 2009. Forward earnings growth remained steady w/w at 19.6%, and should also continue to move lower due to base effects. That's down from its 23.9% reading at the end of April, which had been its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. On a positive note, analysts continue to raise their 2021 forecasts for revenues and earnings growth and the profit margin. They now expect revenues to rise 14.0% in 2021 (up 1.3ppts w/w) and 6.6% (down 0.1ppt w/w) in 2022 compared to the 2.1% decline reported in 2020. They expect earnings gains of 43.8% in 2021 (up 3.0ppts w/w) and 9.5% in 2022 (down 0.9ppt w/w) compared to a 13.4% decline in 2020. Analysts expect the profit margin to rise 2.7ppts y/y in 2021 to 12.9% (up 0.2pts w/w) from 10.2% in 2020 and to improve 0.3ppt y/y to 13.2% in 2022 (up 0.1pt w/w). The S&P 500's weekly reading of its forward P/E ticked down 0.1pt w/w to 21.3. That compares to 23.1 in early September, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio ticked up 0.01pt w/w to 2.78, close to its 2.79 record high in mid-July. That compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for all 11 S&P 500 sectors. Forward earnings was higher for nine sectors. Six sectors have both their forward revenues and earnings at or near record highs: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Information Technology, and Materials. Energy, Industrials, and Real Estate still have both measures well below record highs. Financials and Utilities have forward earnings at or near record highs, but their forward revenues are lagging. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. For 2021, a y/y improvement is expected for all but two sectors: Real Estate and Utilities. The forward profit margin was at record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Currently, five sectors are at record highs. Here's how they rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (24.6%, a new record high this week), Financials (19.6, a new record high this week), Communication Services (16.5, a new record high this week), Real Estate (15.5, down from 17.0), Utilities (14.3, down from its 14.8 record high in early May), Materials (13.1, a new record high this week), S&P 500 (13.1, a new record high this week), Health Care (11.0, down from 11.2), Industrials (9.9, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, 7.7), Consumer Discretionary (7.8, down from 8.3), and Energy (7.2, down from 8.0).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough (*link*): The S&P 500's forward revenues and earnings as well as its implied forward profit margin bottomed at cyclical lows on May 28, 2020 after 14 weeks of Covid-19-related declines. Forward revenues and earnings have risen 16.1% and 48.1%, respectively, since then to new record highs. The forward profit margin has risen 3.0ppts to a record high of 13.1%, exceeding its prior record high of 12.4% in late 2018. During the latest week, all 11 sectors posted gains to new highs in either their forward revenues, earnings, or profit margin. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28, 2020: Materials (forward revenues up 24.7%, forward earnings up 85.7%), Energy (23.1, 1,450.1), Information Technology (22.5, 38.6), Communication Services (22.3, 51.0), Industrials (19.6, 60.9), S&P 500 (16.1, 48.1), Financials (15.8, 68.0), Health Care (12.3, 23.5), Consumer Discretionary (11.8, 86.3), Consumer Staples (9.1, 16.3), Real Estate (6.7, 16.1), and Utilities (-0.4, 2.9).

S&P 500 Q2 Earnings Season Monitor (*link*): With over 75% of the S&P 500 companies finished reporting revenues and earnings for Q2-2021, revenues are beating the consensus forecast by a record-high 4.5%, and earnings have exceeded estimates by 16.7%. At the same point during the Q1 season, revenues were 4.0% above forecast and earnings beat by 23.4% in large part due to reversals of loan loss reserves at the banks. The S&P 500's earnings surprise also appears to have weakened substantially q/q excluding the Financials. The S&P 500's Q2 earnings surprise excluding Financials is 14.8% compared to 19.9% during Q1. For the 377 companies that have reported Q2 earnings through mid-day Wednesday, the aggregate y/y revenue and earnings growth rates and the percentage of companies reporting a positive revenue and earnings surprise have improved significantly from their Q1 measures due to the low base a year earlier when the US economy was shut down due to Covid-19. The current sample of Q2 reporters so far has a record-high y/y revenue gain of 28.1% and an earnings gain of 121.9%, surpassed only by Q4-2010's 211.1% rise. A whopping 87% of the Q2 reporters so far has reported a positive earnings surprise, with 87% also beating revenues forecasts. Slightly fewer companies have reported positive y/y earnings growth in Q2 (89%) than positive y/y revenue growth (90). These figures will change less markedly as more Q2-2021 results are reported in the coming weeks. The y/y growth rates will more than likely mark the peak of the recovery from the Covid-19 shutdown.

US Economic Indicators

ADP Employment (*link*): "The labor market recovery continues to exhibit uneven progress, but progress nonetheless. July payroll data reports a marked slowdown from the second quarter pace in jobs growth," said Nela Richardson, chief economist at ADP. She went on to say, "Bottlenecks in hiring continue to hold back stronger gains, particularly in light of new COVID-19 concerns tied to viral variants. These barriers should ebb in coming months, with stronger monthly gains ahead as a result." Once again, service providers continued to provide most of the jobs gains, as they had been hit harder than goods producers during the pandemic. Here are the details: Private payroll employment continued to soar, but July's 330,000 gain was less than half its average monthly gain of 728,000 during Q2, with service-providing jobs (318,000) accounting for basically all of July's gain; goods-producing jobs were up only 12,000. Year to date, total payrolls are up 3.4 million, with service-providing and goods-producing advancing 3.1 million and 332,000, respectively, over the comparable period. Here's a tally of industry performances from strongest to weakest year to date, since bottoming last April, and where they stand relative to last February's levels: leisure & hospitality (+1.4 million, +5.0 million, -2.6 million), trade transportation & utilities (+468,000, +2.1 million, -1.0 million), health care & social assistance (+438,000, +1.6 million, -436,000), administrative & support services (+224,000, +830,000, -718,000), other services (+203,000,+932,000, -343,000), manufacturing (+153,000, +869,000, -433,000), professional & technical services (+152,000, +379,000, -154,000), construction (+146,000, +878,000 & -75,000), education (+98,000, +290,000, -159,000), financial activities (+56,000, +163,000, -102,000), natural resources & mining (+33,000, 15,000, -37,000), management of companies & enterprises (+10,000, -11,000, -93,000), and information services (-8,000, -41,000, -304,000). Here's the same exercise by company size: medium (+1.2 million, +3.6 million, -1.3 million), large (+1.1 million, +4.9 million, -4.4 million), and small (+1.1 million, +4.6 million, -821,000) businesses.

Auto Sales (***link***): Motor vehicle sales remained in reverse in July, sinking to a 12-month low of 14.7mu (saar) after accelerating from 16.1mu in February to 18.5mu in April—its best reading since the summer of 2005, when aggressive incentives boosted sales above 20.0mu. Domestic light truck sales slid for the third month to 8.5mu (saar) from 11.0mu in April—which was the highest since July 2005; these sales had plunged to 5.3mu last April. Meanwhile, domestic cars sales remained in a rut, falling for the third month from 2.8mu in April to 2.3mu (saar) last month. That's up from last April's record low of 1.4mu, though still below the 3.3mu at the beginning of 2020. In the meantime, sales of imports also fell for the third month to 4.0mu (saar); they had soared from 1.9mu last April to 4.7mu (saar) this April—the best sales pace since the late 1980s—led by a record 3.3mu in light truck sales! Light truck sales fell 0.6mu during the three months ending July to 2.7mu.

Global Economic Indicators

Global Composite PMIs (*link*): Global demand eased in July for the second month, though remains near May's 15-year high. The C-PMI fell from 58.5 in May to 55.7 by July—well above its long-term average of 53.4. The report notes that the US and Europe remain the bright spots, while growth in the Asian economies remains subdued. The service sector (to 56.3 from 57.5) outperformed the manufacturing sector (55.4 from 55.5) for the fourth successive month in July. The report notes that all six sub-sectors covered by the survey saw an expansion in output growth during July, with the three highest ranked all in the service sector (consumer services, business services, and financial services), while the three lowest ranked were in manufacturing (intermediate goods, consumer goods, and in last place investment goods). Geographically, C-PMIs show Germany (to 62.4 from 60.1), Spain (61.2 from 62.4), and the US (59.9 from 63.7) posted the strongest growth, while rates of expansion in Brazil (55.2 from 54.6), China (53.1 from 50.6), and Russia (51.7 from 55.0) were all below the global average of 55.7. Meanwhile, Australia (45.2 from 56.7), Japan (48.8 from 48.9), and India (to 49.2 from 43.1) all contracted last month—though the latter has moved up close to the breakeven point of 50.0.

US Non-Manufacturing PMIs (*link*): The US service sector continued to expand at a robust pace in July—with the ISM measure accelerating at a record rate and the IHS measure slightly slowing in growth. ISM's NM-PMI rebounded to a new record high of 64.1 last month after slipping from 64.0 in May to 60.1 in June; it was at a recent low of 55.3 in February.

The production (to 67.0 from 60.4) measure rebounded to within 2.4 points of March's record high 69.4, while the new orders (63.7 from 62.1) gauge was within 3.5 points of its March record high of 67.2. Both measures were above 60.0 for the fifth successive month. Meanwhile, the employment (to 53.8 from 49.3) gauge shows factories hiring again in July after a brief dip into contractionary territory in June. The supplier deliveries (to 72.0 from 68.5) measure remained around recent highs, reflecting the difficulties suppliers continue to experience due to the Covid-19 impact. In the meantime, price pressures remained intense, with the price index (to 82.3 from 79.5) accelerating toward its all-time high of 83.5 during September 2005. Switching to the IHS Markit NM-PMI measure, it eased for the second month from 70.4 in May to 59.9 in July—the slowest month since February—though still one of the strongest since data collection began in fall 2009. Q2's 66.5 was the best quarterly NM-PMI in survey history, as June's NM-PMI was the third best on record behind May's and April's. While July saw a softer increase in new business, activity remained strong, boosted by vaccinations and the relaxation of Covid-19 restrictions. Both foreign and domestic client demand was historically strong. As for inflation, input costs and output charges increased sharply, though have softened a bit from their May historical highs.

Eurozone Retail Sales (*link*): Eurozone retail sales advanced in June for the fourth time in five months, up 1.5% m/m and 10.4% over the period to another new record high—4.8% above its pre-pandemic level. Two of the three major components posted significant increases in June for the second month—non-food products excluding auto fuel (3.4%) and auto fuel (3.8). The same can be said of the five months through June, when the two categories climbed 21.6% and 15.4%, respectively, with the former jumping to a new record high. Meanwhile, spending on food, drinks & tobacco contracted for the fourth time in five months, by 1.5% m/m and 2.5% over the period. June data are available for the top four Eurozone economies and show sales in Germany increased for the fourth time in five months, by 4.2% in June and 15.4% over the period, while sales in France were up 1.2% and 3.5% over the comparable periods—both just short of new record highs. Sales in Italy also increased during four of the past five months, up 0.7% in June and 10.8% over the period. In Spain, retail sales climbed during three of the five months, by 0.5% in June and 6.3% over the five months through June.

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