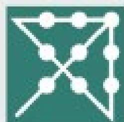
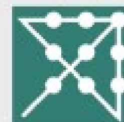
 Yardeni Research 

MORNING BRIEFING
September 2, 2021

Financials, China & Carbon

Check out the accompanying chart collection.

(1) Financials take the lead ytd in 2021's homestretch. (2) Reversal of loan-loss reserves offsets low interest rates and slack loan growth. (3) Could Financials be signaling higher interest rates ahead? (4) China's Xi continues to meddle. (5) This time, gamers, online algorithm users, and famous actors face new rules. (6) Chinese services economy, hurt by Covid resurgence, contracts in August. (7) Watching Chinese property giant's $88 billion of distressed debt. (8) Examining ways to recycle captured carbon. (9) The CO2 for Coca-Cola's bottled water comes out of thin air.

Financials: Ahead of the Pack. As we enter September, the S&P 500's second-best-performing sector on a year-to-date basis is a bit counterintuitive. It's not Energy, supported by the rebound in the price of crude oil. Nor is it the high-growth Technology sector. Despite a 10-year Treasury bond yield hovering around 1.3%, Financials is near the front of the pack (*Fig. 1*).

Here's the performance derby for the S&P 500 and its 11 sectors ytd through Tuesday's close: Real Estate (30.7%), Financials (29.9), Communication Services (29.3), Energy (26.6), Information Technology (21.6), S&P 500 (20.4), Health Care (18.9), Materials (17.7), Industrials (17.6), Consumer Discretionary (12.7), Utilities (8.7), and Consumer Staples (7.4) (*Fig. 2*).

The Financials sector's performance is broad based, with almost all of the sector's industries returning more than the S&P 500's ytd return of 20.4%: Investment Banking & Brokerage (49.4%), Consumer Finance (46.9), Asset Management & Custody Banks (33.9), Diversified Banks (30.8), Regional Banks (27.3), Insurance Brokers (26.9), Financial Exchanges & Data (21.9), and Reinsurance (13.2) (*Fig. 3*). The outperformance of Financials is notable for some of the following reasons:

(1) *Rates remain low.* Despite the strong rebound in the US economy, interest rates have remained surprisingly low. In addition, the spread between the 10-year Treasury bond yield and the federal funds rate, at 118bps, is up from 92bps in late January but largely unchanged from last year despite indications that the Federal Reserve will reduce the amount of Treasury bonds it purchases this year (*Fig. 4* and *Fig. 5*).

(2) *Lending remains soft.* With capital markets wide open and balance sheets flush, companies haven't needed to turn to the banks for funding. Banks' commercial and industrial (C&I) loans have declined from their peak of $3.1 trillion during the May 6, 2020 week to $2.4 trillion as of the August 18 week (*Fig. 6*). C&I loans are down 13.5% y/y despite the strong economic rebound over the past four quarters (*Fig. 7*).

(3) *Unwinding reserves.* Banks took large loan-loss reserves early in 2020 in anticipation of loan losses that never arrived thanks to all the financial support the government gave to individuals and businesses. As banks have unwound those reserves, earnings have benefitted. But investors and analysts usually look past those non-cash gains.

Analysts are forecasting that the Financials sector earnings will grow 57.2% this year only to fall 6.6% in 2022 (*Fig. 8*). The sector's revenues—up 3.9% this year and 3.1% in 2022—are probably more reflective of the sector's underlying performance (*Fig. 9*). Perhaps Financials stocks reflect investors' expectations that earnings will improve over the next year because higher interest rates are in our future.

China: Xi Knows Best. *Father Knows Best* is a TV show that ran from 1954-60 about the Andersons, an ideal American middle-class family. Robert Young played the wise, unflappable father who never yelled but disciplined by dispensing wisdom to his three kids. Jane Wyatt was his perfect wife.

In recent weeks, China's President Xi Jinping has been dispensing new rules about how Chinese individuals and companies should behave, restricting video game playing by teens, prohibiting celebrity fan clubs, and requiring tech companies to register their algorithms with the government—and that's just this week. In weeks past, the Chinese government has squashed private tutoring companies, coerced tech companies into making huge charitable donations, and prohibited the IPO of Ant Financial Group, among other moves. Father Xi is not so subtly putting his imprint on Chinese business and culture.

Perhaps Xi could use a lesson in US history. The placid 1950s and early 1960s depicted in *Father Knows Best* were followed by an era of raucous rebellion in the late 1960s and 1970s among the kids who had watched the Andersons. Xi undoubtedly has more control over China's citizens than any US president would dare to dream of. But we'd be surprised if all these new restrictions, reaching deep into the crevices of Chinese daily life and business, don't provoke a backlash at some point.

The velocity of the rule-issuing torrent might imply that Xi aims to divert attention away from

something else. The economy is slowing, the country's largest real estate developer Evergrande appears to be on the brink of bankruptcy, and Covid-19 has returned to China's shores. Here's Jackie's latest on Xi's new rules and the developments he might be hoping to distract us from noticing:

(1) *Limits on video games.* Earlier this week, China barred minors from playing video games on Monday through Thursday, allowing play only from 8 p.m. to 9 p.m. on Friday through Sunday. The state will enforce these rules by requiring that all online videogames connect to an "anti-addiction" system run by the National Press and Publication Administration. To access games, users must register with their real names and government identification documents, an August 31 *WSJ* *article* explained. Tencent Holdings has the technology to automatically kick players off games after a certain time period and facial recognition to confirm users' identities.

The move didn't come as a complete surprise, as Chinese state media previously has called video games "opium for the mind" and blamed them for "societal ills including distracting young people from school and family responsibilities." It described the government's new rules as protecting the physical and mental health of minors.

Some disgruntled teens were brave enough to comment online. "This group of grandfathers and uncles who make these rules and regulations, have you ever played games? Do you understand that the best age for e-sports players is in their teens?" said one comment on China's Weibo, according to an August 31 Reuters *article*. "Sexual consent at 14, at 16 you can go out to work, but you have to be 18 to play games. This is really a joke."

But at least one Chinese parent supported the effort. Li Tong, a hotel manager in Beijing with a 14-year-old daughter, told Reuters: "My daughter is glued to her phone after dinner every day for one to two hours, and it's difficult for me or her mother to stop her. … We told her it's bad for her eyes and it's a waste of her time, but she won't listen." Now he can take her phone and blame Xi.

(2) *Cleaning up algos and entertainment.* The Cyberspace Administration of China (CAC) is increasing its control over tech algorithms—and starlets. It has proposed new rules to regulate algorithms used by online companies—including those for recommendations, content aggregation, and search rankings—as part of "Beijing's efforts to redirect people's attention to online content that the state deems fit for broad public consumption," an August 27 *South China Morning Post* *article* reported.

Under the rules, consumers can request that an Internet company stop offering personalized recommendations. Internet companies that influence public opinion must register their algorithms with regulators, some undergoing a "security assessment." Algos must not be used to "encourage indulgence and excessive spending," and they must "actively spread positive energy." Algos can't allow platforms to offer different prices to different users based on an assessment of a consumer's willingness to pay.

The CAC also prohibited excessive content about celebrities, online fan clubs, and app alerts about celebrity gossip, violence, and vulgar content. China's NetEase, Weibo, and Tencent Holdings have removed celebrity ranking lists from their platforms, and NetEase limited the purchases of digital albums to one per user.

Some celebrities' online presences—particularly those that have broken the law or received large pay packages—are being erased. "Zhao Wei, one of China's most prominent actresses, saw her presence mostly scrubbed from the country's internet overnight," an August 30 CNN *article* reported. Her Weibo fan page was shut down, and "movies and television shows she starred in—some going as far back as two decades ago—were taken off streaming platforms, with her name also removed from the cast lists." CNN didn't know why Zhao was targeted, but it noted that Xi has pledged to redistribute wealth, and celebrities with large paychecks may be targets.

Additionally, last weekend, China's Communist Party deemed celebrity culture "toxic" and accused it of "advocating wrong values" in Chinese youth. "If not guided and changed, it'll have a huge destructive impact on the future life of young people and social morality."

(3) *Ignore the data behind the curtain.* China's nonmanufacturing purchasing managers index (PMI), which includes the construction and services sector, fell to 47.5 in August, down from 53.3 in July. The data came in below forecasts that called for continued expansion, signaling contraction for the first time since Covid-19 closures damaged the economy in February 2020.

The country's manufacturing PMI fell to 50.1, just barely remaining in growth territory, but lower than the 50.4 registered in July (*Fig. 10*). Also, two PMI components—-new orders and new export orders—were below 50.

An August 31 *WSJ* *article* attributed the drop in services activity to the spread of Covid-19's Delta variant. Identified in China on July 20, Delta already has infected more than 1,200 people in half of the country's provinces. Millions of residents were placed under lockdown,

while citizens were tested and traced and domestic travel was restricted. Daily infections have fallen sharply, from north of 100 in August to 20-30 in recent days, so perhaps the economic data will improve again.

(4) *Shaky giant.* China Evergrande Group is China's second-largest real estate developer; it also produces electric cars, holds an equity stake in a football club, and sells insurance and bottled water. The company is facing a liquidity crisis that could mean it defaults on $88 billion of debt—42% of which comes due within the next year.

As China's largest junk bond issuer, Evergrande borrowed both in domestic and offshore markets, and its bonds are distressed, trading below 40 cents on the dollar. It borrowed from more than 128 banks and more than 121 non-banking institutions, including many in China's shadow banking market, a July 27 Reuters *primer* explained.

Work stopped on some of Evergrande's real estate projects after the company delayed payments to suppliers and contractors, an August 31 *WSJ* *article* reported. It's likely Xi would prefer we focus on online gaming restrictions instead of the ramifications of Evergrande's potential $88 billion default.

Disruptive Technologies: Finding Uses for Captured Carbon. In the August 19 *Morning Briefing*, we discussed how companies were capturing carbon from the air, from tailpipes, and from factories' flues in a race to prevent Earth from overheating. The technology to purify the air certainly exists, but it's expensive.

Part of the solution may involve selling the collected CO2 for use in other products. The revenue from sales would help offset the cost of CO2 collection. Companies pay for CO2 to make drinks bubbly, to increase the growth of plants in greenhouses, and to make fuel, toothpaste, and plastics.

Recycling CO2 is referred to as carbon capture and utilization (CCU). Under optimistic estimates, CCU could generate revenue of more than $800 billion by 2030 and reduce CO2 emissions by up to 15%, according to an August 25 *ScienceDaily* *article*.

Climeworks has a giant plant that takes CO2 out of the air, but just one of its 30 ventilators costs $220,000 and requires lots of electricity to run, an August 31 *WSJ* *video* notes. To offset costs, Climeworks sells recycled CO2 to Coca-Cola, which uses the gas to make its bottled water bubbly. In the future, Coke hopes to use the recycled CO2 in its other drinks as well. Coke uses Climeworks' recycled CO2 even though it is "significantly" more

expensive than getting new CO_2 from traditional sources. Nonetheless, Coke is using the recycled CO_2 to lower its carbon footprint and expects the cost to come down over time.

Scientists at the University of Michigan studied which products made using recycled CO_2 would be the most beneficial to the climate, according to the *ScienceDaily* article noted above. The study compared 20 ways recycled CO_2 could be used in making concrete, chemicals, and minerals to identify which ones produced a net benefit to the environment—i.e., the emissions avoided by using recycled CO_2 were greater than those that would have been generated by capturing CO_2.

Net benefits were produced by two methods that used CO_2 to mix concrete, one method that produced formic acid through hydrogenation of carbon dioxide, and one method that made carbon monoxide from methane. Formic acid is a preservative and antibacterial agent in livestock feed and is used to tan leather and dye textiles. Carbon monoxide is used in synthetic chemical manufacturing, metallurgy, and other industrial processes.

"Our rankings will help prioritize R&D strategies toward products with the greatest climate benefit while avoiding pathways that incur a significant climate burden and that offer little hope for improvement," said Dwarak Ravikumar, lead author of the study.

There are critics of Climeworks' methods of capturing carbon and even capturing carbon at all. Some say that it's much more efficient to capture CO_2 from an industrial plant's chimney, where the concentration of CO_2 is denser than it is in the air that Climeworks pumps through its systems. Others note that it's better for the environment to use renewable power sources to generate electricity than fossil fuels that produce CO_2 and then require expending additional energy to recapture it.

Our guess is that it's going to take many different methods of reducing CO_2 in our atmosphere to limit climate change. In time, we'll be capturing CO_2 from flues of concrete factories, using solar panels on homes, extracting CO_2 from the air, and employing many other methods of CCU before the problem ameliorates.

Calendars

US: Thurs: Productivity & Unit Labor Costs 2.4%/1.0%, Advance Trade Balance -$71.0b, Initial & Continuous Jobless Claims 345k/2.78m, Factory Orders 0.4%, Natural Gas

Storage. **Fri:** Nonfarm Payrolls Total, Private, and Manufacturing 750k/700k/28k, Average Hourly Earnings 0.3%m/m/4.0%y/y, Average Weekly Hours 34.8, Unemployment Rate 5.2%, NM-PMI 61.6, Baker-Hughes Rig Count. (Bloomberg estimates)

Global: **Thurs:** Canada Trade Balance $1.4b, Australia Retail Sales. **Fri:** Eurozone Retail Sales 0.1%m/m/4.8%y/y, Eurozone, Germany, and France C-PMIs 59.5/60.6/55.9, Eurozone, Germany, France, Italy, and Spain NM-PMIs 59.7/61.5/56.4/58.5/61.5, UK C-PMI & NM-PMI 55.3/55.5. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) sank further below 3.00 this week, falling for the third week to 2.45 after a three-week gain from 3.18 to 3.55. It was at 4.00 seven weeks ago, which was the highest since late January 2018. Bearish sentiment has been moving higher in recent weeks, after fluctuating in a very narrow band for several months. It climbed to 21.3% this week—the highest since early October 2020—following two weeks at 18.5%; it was at 15.9% three weeks ago. Bullish sentiment advanced to 52.1% this week, after a two-week decline of 6.4ppts (to 50.0% from 56.4%). In the meantime, the correction count fell to 26.6% after rising from 27.7% to 31.5% over the prior two-week period. The AAII Ratio increased to 54.5% last week after falling from 54.0% to 48.6% the previous week, as bullish sentiment rose from 33.2% to 39.6% and bearish sentiment fell from 35.1% to 33.0%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady last week at a record high of 13.2%. Since the end of April, it has exceeded its prior record high of 12.4% in September 2018. It's now up 2.9ppts 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 0.1ppt w/w to 9.1%. 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 17.3%, but 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 15.0% in 2021 (up 0.2ppt w/w) and 6.7% (unchanged w/w) in 2022 compared to the 2.1% decline reported in 2020. They expect earnings gains of 46.0% in 2021 (up 0.3ppts w/w) and 9.0% in 2022 (down 0.1ppt w/w) compared to a 13.3% decline in 2020. Analysts expect the profit margin to rise 2.7ppts y/y in 2021 to 12.9% (unchanged w/w) from 10.2% in 2020 and to improve 0.3ppt y/y to 13.2% in 2022 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.4pt w/w to 21.3 from a 14-week low of 20.9. That compares to 23.1 in early September 2020, 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 rose 0.05pt w/w to a new record high of 2.80. 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 ten of the 11 S&P 500 sectors and forward earnings rise for eight sectors. Forward revenues ticked down w/w for Communication Services, and forward earnings was down for Communication Services, Energy, and Health Care. Six sectors are at or near record highs in both forward revenues and earnings: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Information Technology, and Materials. Energy and Real Estate still have both measures below record highs. Industrials' forward revenues is poised to make a new high, but forward earnings is lagging. 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 Utilities now. Real Estate finally turned the corner several weeks ago. 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 (24.8%, record high), Financials (19.3, down from its 19.8 record high in early August), Communication Services (16.7, record high), Real Estate (16.6, down from 17.0), Utilities (14.4, down from its 14.8 record high in early May), Materials (13.3, record high), S&P 500 (13.2, record high), Health Care (11.0, down from 11.2), Industrials (10.1, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, 7.7), Consumer Discretionary (7.9, down from 8.3), and Energy (7.4, 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 17.8% and 51.1%, respectively, since then to new record highs. The forward profit margin has risen 3.1ppts to a record high of 13.2%, exceeding its prior record high of 12.4% in late 2018. During the latest week, all 11 sectors posted gains or remained steady at 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: Energy (forward revenues up 27.6%, forward earnings up 1,554.1%), Materials (27.2, 91.9), Information Technology (24.2, 41.7), Communication Services (23.9, 54.6), Industrials (21.3, 66.6), S&P 500 (17.8, 51.1), Financials (17.1, 67.8), Health Care (13.9, 25.4), Consumer Discretionary (12.9, 90.4), Consumer Staples (10.6, 17.8), Real Estate (9.0, 26.9), and Utilities (0.3, 4.1).

US Economic Indicators

ADP Employment (*link*): "Our data, which represents all workers on a company's payroll, has highlighted a downshift in the labor market recovery. We have seen a decline in new hires, following significant job growth from the first half of the year," said Nela Richardson, chief economist, ADP. "Despite the slowdown, job gains are approaching 4 million this year, yet still 7 million jobs short of pre-COVID-19 levels." Private payroll employment rose 374,000 in August, following July's downwardly revised 326,000 (from 330,000)—less than half Q2's average monthly gain of 748,300. Service providers remain the engine of employment growth, though the Delta variant has created some uncertainty for this sector. Service-sector jobs' growth has slowed recently, with payrolls up by just 329,000 and 311,000 in August and July, respectively—considerably below Q2's average monthly gain of 669,700. Goods-producing companies added 45,000 to payrolls in August, up from 15,000 in July—below Q2's average monthly pace of 78,300. Year to date, total payrolls are up 3.84 million, with service-providing and goods-producing jobs up 3.46 million and 380,000, 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 (+1.7 million, +5.3 million, -2.4 million), trade transportation & utilities (+491,000, +2.1 million, -990,000), health care & social assistance (+479,000, +1.7 million, -395,000), administrative & support services (+227,000, +833,000, -715,000), other services (+225,000,+954,000, -321,000), construction (+176,000, +908,000 & -45,000), professional & technical services (+174,000, +401,000, -132,000), manufacturing (+162,000, +878,000, -424,000), education (+122,000, +314,000, -135,000), financial activities (+71,000, +178,000, -87,000), natural resources & mining (+42,000,

24,000, -28,000), management of companies & enterprises (+8,000, -13,000, -95,000), and information services (-3,000, -36,000, -299,000). Here's the same exercise by company size: medium (+1.4 million, +3.8 million, -1.1 million), large (+1.3 million, +5.1 million, -4.2 million), and small (+1.2 million, +4.6 million, -726,000) businesses.

Construction Spending (*link*): Total construction spending rose to a new record high in July, led by a boom in private residential construction. Total construction spending has posted only one decline since bottoming in June 2020, rising 0.3% in July and 9.3% over the period, with private construction spending up 0.3% and 15.0% over the comparable periods. Meanwhile, public construction investment rose 0.7% in July, its first increase this year, with spending down 5.4% year to date. Within private construction, residential investment was up 0.5% m/m and 30.9% since bottoming last June, to a new record high, while nonresidential investment remains in a slump, falling 0.2% in July and 13.1% since peaking in January 2020. The rebound in residential construction has been widespread. Here's a look at the components compared to June 2020's bottom: single-family (53.5% y/y), multi-family (19.3), and home-improvement spending (9.1), with single-family investment at a new cyclical high and multi-family and home-improvement within a fraction of new record highs.

Global Economic Indicators

Global Manufacturing PMIs (*link*): "PMI eases to six-month low as supply chain issues constrain output growth," was the headline of August's report. The JP Morgan M-PMI eased for the third month, to 54.1, though was not far from May's 11-year high of 56.0. The index is up 14.5 points since bottoming at 39.6 last April. The M-PMI for the advanced economies, at 58.3, eased a bit in August, but remains around its recent high of 59.8 posted in both July and May. The M-PMI for the emerging economies fell for the eighth time in nine months from 53.9 in November to 49.6 by August—its first reading in contractionary territory since June 2020. Geographically, 21 out of the 31 nations for which August data were available saw operating conditions expand—with readings in 24 of the 31 lower than in July. Manufacturing sectors continued to expand in many of the largest economies covered, including the US, Japan, UK, France, India, South Korea, and Brazil. Meanwhile, activity contracted in 10 countries last month, including China, Russia, and Mexico. Here's a country ranking of August M-PMIs from highest to lowest: Netherlands (65.8), Ireland (62.8), Germany (62.6), Austria (61.8), EUROZONE (61.4), US (61.1), Czech Republic (61.0), Italy (60.9), UK (60.3), Spain (59.5), Greece (59.3), Taiwan (58.5), France (57.5), Canada (57.2),

Poland (56.0), WORLD (54.1), Turkey (54.1), Brazil (53.6), Colombia (53.2), Japan (52.7), India (52.3), Australia (52.0), South Korea (51.2), Kazakhstan (49.2), China (49.2), Thailand (48.3), Mexico (47.1), Russia (46.5), Philippines (46.4), Indonesia (43.7), Malaysia (43.4), Vietnam (40.2), and Myanmar (36.5).

US Manufacturing PMIs (*link*): Manufacturing activity in August remained robust according to both M-PMI measures, though both remained below recent highs. Meanwhile, price pressures eased in the ISM survey, but accelerated to new highs in IHS Markit's. ISM's M-PMI edged up to 59.9 in August after falling from 61.2 to 59.5 over the prior two-month period; it was at 64.7 in March—which was its best reading since 1983. Both the new orders (to 66.7 from 64.9) and production (60.0 from 58.4) measures moved higher last month—moving back toward their March highs of 68.0 and 68.1, respectively, which were the strongest since 2004. Meanwhile, the employment gauge continues to bounce around the breakeven point of 50.0, slipping to 49.0 in August after rising from 49.9 to 52.9 in July. The supplier deliveries component of the M-PMI moved down for the third month to 69.5 in August from 78.8 in May—which was the highest since the mid-1970s; the measure continues to reflect the difficulties suppliers are experiencing due to Covid-19 impacts. The inventories (to 54.2 from 48.0) gauge moved from contraction to expansion, posting its best pace since November 2018. ISM's price index slowed for the second month to 79.4 from 92.1 in June—which was the fastest since summer 1979. In the meantime, IHS Markit's M-PMI (to 61.1 from 63.4) shows manufacturing activity continued to expand in August at a rapid rate, though below July's pace, which was the strongest in the 14-year history of this series. According to the report, new orders continued to expand at a respectable rate as client demand rose markedly last month, though has eased a bit from recent highs. Output continues to expand, but remains hampered by capacity constraints and material shortages. Meanwhile, the persistent supply shortages and delays continue to put upward pressure on costs, which rose at a record-breaking rate again in August.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102

Copyright (c) Yardeni Research, Inc. Please read complete copyright and hedge clause.