



MORNING BRIEFING

September 7, 2021

Let's Get Real

Check out the accompanying [chart collection](#).

(1) Slower GDP growth ahead. (2) Pent-up demand for goods has been satisfied. (3) Inflation is eroding purchasing power. (4) Real consumer spending flat for the past four months. (5) Auto industry's lament: "Buddy, can you spare some chips?" (6) Priced out of the housing market. (7) Capital spending booming. (8) Plenty of room for restocking. (9) Covid still messing up the labor market. (10) Wages inflating. (11) Doves vs hawks on the FOMC. (12) Movie review: "A Private War" (+ + +).

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

US Economy: Real GDP Slowing. Debbie and I have been expecting that real GDP growth will slow to 3%-4% (saar) during the second half of this year from 6.3% and 6.6% during Q1 and Q2 ([Fig. 1](#)). Next year, we are predicting around 2.5% growth. Consider the following:

(1) *Less pent-up demand left.* We figure that consumers have satisfied lots of their pent-up demand for goods and then some. There may be more fiscal stimulus coming, but that will most likely be for \$550 billion of infrastructure spending (above the current base line) spread out over the next five to eight years. We are assuming that there won't be a fourth round of government relief checks to consumers. We aren't concerned about a "fiscal cliff" since the end of relief checks should continue to be offset by gains in employment and wages ([Fig. 2](#)).

Indeed, while August's 235,000 increase in payroll employment was disappointing, average hourly earnings (AHE) for all workers rose 0.6% m/m. That led our Earned Income Proxy for private-sector wages and salaries to increase 0.8% m/m to yet another record high ([Fig. 3](#)). The problem is that the recent surge in inflation has reduced the purchasing power of consumers' incomes ([Fig. 4](#)). Since the end of 2020 through July of this year, private wages and salaries are up 3.8% in current dollars and 0.7% in real dollars.

On an inflation-adjusted basis, consumer spending on goods rose well above trend last

spring through March of this year ([Fig. 5](#)). It has dropped 4.3% over the past four months through July. Inflation-adjusted spending on services remains below its pre-pandemic peak and is still trending higher. There's potential pent-up demand for services. But total real consumer spending has been flat for the past four months through July, though at a record high.

(2) *Missing parts for autos.* We are concerned about the shortage of parts, which has forced the auto industry to reduce production, resulting in depleted inventories and depressed sales ([Fig. 6](#), [Fig. 7](#), and [Fig. 8](#)). Indeed, motor vehicle sales dropped from a recent high of 18.5 million units (saar) during April to 13.1 million units during August, led by a big drop in domestic light truck sales. Also depressing auto sales are soaring new and used auto prices, up 6.5% y/y and 36.5% y/y during July, based on the PCED. The good news is that when the parts become available again, auto sales should give consumer spending a lift.

(3) *Inflating houses are depressing buyers.* Following the end of the lockdown recession last year, housing sales soared. However, the sales boom was tempered by record-low inventories of new and existing homes for sale. As a result, home prices soared to levels that have caused would-be first-time homebuyers to continue to rent.

If you own a home, the good news is that the median price of an existing single-family home rose 18.6% y/y during July to a record \$367,000 ([Fig. 9](#)). That's the bad news if you are a first-time homebuyer. The shortage of housing inventory and soaring prices have depressed not only housing sales but also housing-related retail sales ([Fig. 10](#)).

(4) *Capital spending booming.* Debbie and I expect that capital spending will remain robust at least through next year as companies scramble to deal with labor shortages by spending on capital goods that can augment the physical and mental productivity of their workforce. We are not surprised to see nondefense capital goods orders excluding aircraft continuing to soar in record-high territory ([Fig. 11](#)). During July, this series was 18.0% above its pre-pandemic reading during January 2020. Leading the way has been industrial machinery ([Fig. 12](#)). More spending on infrastructure should boost construction equipment orders. The reshoring of supply chains should continue to boost capital spending across the board.

(5) *Restocking depleted inventories.* Inventory investment was a major drag on real GDP growth during the first and second quarters of this year. Most of the decline in inventories occurred in manufacturing and retail autos ([Fig. 13](#)). The slowdown in consumer spending may actually be a welcome development, providing some slack for businesses to rebuild their inventories. Many of their managers must be moving away from just-in-time inventory

systems to just-in-case management until supply chains are brought closer to home.

(6) *Government spending.* Spending on goods and services by the federal, state, and local governments hasn't contributed much to real GDP growth since roughly 2010 ([Fig. 14](#)). Similarly, public construction put in place, in current dollars, has been relatively flat around \$300 billion (saar) since 2008 ([Fig. 15](#)). It has remained well below residential and nonresidential construction spending since 2013. It should get a significant lift if Congress enacts the \$550 billion infrastructure spending bill.

US Labor Market: Mixed Signals. August's employment report, released on Friday by the Bureau of Labor Statistics (BLS), was mostly on the disappointing side following better-than-expected reports for June and July. August's weakness was largely blamed on the Delta variant of the Covid-19 virus.

Indeed, the BLS reported that the number of persons "unable to work because their employer closed or lost business due to the pandemic" rose 400,000 m/m during August to 5.6 million. This would certainly explain why the number of unemployed workers remained high at 8.4 million last month. Debbie and I also suspect that seasonal factors have been distorted by the pandemic.

As noted above, there was some good news for workers on the wage side, which boosted our Earned Income Proxy. Consider the following:

(1) *Employment and unemployment.* While August's payroll employment gain was much weaker than expected, the household measure of employment rose 509,000, outpacing the 190,000 increase in the labor force. The result was a drop in the unemployment rate from 5.4% during July to 5.2% during August. The former measures the total number of full-time and part-time jobs, while the latter measures the number of people employed no matter how many jobs they have.

(2) *Wages.* The good news for workers was that their wages as measured by AHE rose 0.6% m/m and 4.3% y/y. AHE for production and nonsupervisory (P&NS) workers—who accounted for 81% of payrolls, excluding government jobs, during August—rose 0.5% m/m and 4.8% y/y. The bad news was that workers' real pay was eroded by a 4.2% y/y increase in the PCED inflation rate through July.

(3) *High and low wages.* Debbie and I can calculate AHE for higher-wage workers (\$51.50 per hour in August) using the BLS data for the AHE of all workers (\$30.70) and for P&NS

workers (\$26.00) ([Fig. 16](#)). On a y/y basis, they were up 3.5%, 4.3%, and 4.8%. Again, keep in mind that the PCED inflation measure was up 4.2% y/y in July.

A sign of the times: On Thursday, Walmart raised the pay for more than 565,000 store employees for the third time in the past year, putting the company's US average hourly wage at \$16.40.

(4) *Three-month inflation.* In an effort to reduce the pandemic lockdown's "base-effect" on inflation readings this year, we have been focusing on the latest three-month percent changes at seasonally adjusted annual rates (saar) rather than the y/y comparisons. So, through July, the PCED is up 5.9% over the past three months (saar) vs 4.2% y/y.

Now let's do the same for the AHEs of the major industries through August on a three-month basis: leisure & hospitality (16.8%), transportation & warehousing (12.5), professional & business services (6.3), natural resources (6.2), education & health services (5.8), retail trade (4.9), financial activities (4.2), manufacturing (4.2), utilities (4.2), wholesale trade (4.1), other services (4.0), construction (3.9), and information services (2.7).

And here are the similar comparisons for the AHEs of higher-wage workers (4.8%), all workers (5.5), and lower-wage P&NS workers (6.1) ([Fig. 17](#)). The hourly pay hikes for lower-wage workers, especially in leisure & hospitality and transportation & warehousing, are clearly outpacing the PCED inflation rate.

Monetary Policy: Powell's Dilemma. The FOMC meets on September 21 and 22. After the meeting, the FOMC will release its latest quarterly dot plot showing the projections of the federal funds rate by the committee's 18 participants. The number of them expecting to start hiking this rate next year rose from four at the March meeting to seven at the June meeting. Melissa and I expect to see that number increase to 10 at the next meeting.

At his next post-meeting press conference, Fed Chair Jerome Powell is likely to say that the committee is preparing a schedule for tapering the Fed's bond purchases but that the start date is still under discussion as a result of Friday's weaker-than-expected employment report for August. All eyes will be on September's employment report, which will be released on October 8. If it is strong, as we expect, then the FOMC should start tapering after the November 2-3 meeting.

The fact that the number of unemployed remained elevated at 8.4 million during August and included 5.6 million persons "unable to work because their employer closed or lost business

due to the pandemic”—up 400,000 m/m—will likely cause the FOMC’s doves to conclude that there is no rush to start tapering since the pandemic is still a big drag on employment.

The hawks are likely to counter that the latest wave of the pandemic may have crested during the summer and that the FOMC needs to move ahead with tapering so that the committee will be able to respond more quickly with rate hiking next year if inflation turns out to be less transitory than the doves have been predicting.

So what will the Fed do? Ask us again after the next employment report.

Movie. “A Private War” (+ + +) ([link](#)) is a 2018 biopic about Marie Colvin, who was an extraordinary American war correspondent for *The Sunday Times* of London. She wore an eyepatch after losing her left eye in 2001 when she was covering the civil war in Sri Lanka. Despite suffering from PTSD, she covered the conflicts in Iraq and Libya, interviewing Qadhafi before he was killed. In February 2012, she was interviewed on CNN from Homs, Syria, where she reported that Assad’s army was committing war crimes against civilians on a massive scale. Rosamund Pike’s performance as Marie is top notch.

Calendars

US: Tues: None. **Wed:** Job Openings 9.281m, Consumer Credit \$25.0b, MBA Mortgage Applications, API Crude Oil Inventories, Beige Book, Williams. (Bloomberg estimates)

Global: Tues: Eurozone GDP 2.0%q/q/13.6%y/y, Eurozone ZEW Economic Sentiment, Germany Industrial Production 0.7%, Germany ZEW Economic Sentiment 30.0, Japan Leading & Coincident Indicators, Japan GDP 0.4%q/q/1.6%y/y, RBA Interest Rate Decision, Saunders. **Wed:** China CPI & PPI 1.0%/9.0% y/y, BOC Interest Rate Decision 0.25%, Debelle. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.6% and end the week at a record high. The US ranked 38th of the 49 global stock markets that we follow in a week when 40 of the 49 countries rose in US dollar terms. The AC World ex-

US index outperformed with a gain of 1.3% to 1.1% below its 6/15 record high as nearly all regions rose. EM Eastern Europe was the best-performing region last week with a gain of 4.2%, ahead of EM Asia (4.0%), BRIC (3.9), and EMEA (2.5). EM Latin America was the biggest underperformer with a decline of 1.1%, followed by EMU (1.0) and EAFE (1.7). India was the best-performing country last week with a gain of 5.3%, followed by Japan (4.9), Poland (4.8), Portugal (4.7), and China (4.3). Pakistan was the worst performer with a decline of 2.9%, followed by Brazil (-2.4), Sri Lanka (-1.0), and Switzerland (-0.7). In August, the US MSCI rose 2.8% and ranked 27/49 as the AC World ex-US index underperformed with a gain of 1.7%. Thirty-eight of the 49 countries moved higher in August as all regions rose. Argentina was the best performer with a gain of 30.5%, followed by the Philippines (11.0), Thailand (10.9), India (10.9), and Colombia (10.5). The worst-performing countries in August: Pakistan (-4.9), Brazil (-3.1), Sri Lanka (-3.1), and Singapore (-2.4). EMEA rose 4.4% in August, ahead of EM Eastern Europe (4.3), EM Asia (2.5), BRIC (2.0), and EMU (2.0). EM Latin America was August's worst-performing region, albeit with a gain of 0.2%, followed by EAFE (1.5). EMEA is now the top-performing region ytd with a gain of 22.6%, ahead of EM Eastern Europe (22.4), the United States (20.4), EMU (14.8), EAFE (11.3), and the AC World ex-US (9.0). The following regions are lagging the AC World ex-US: BRIC (-3.4), EM Asia (-0.4), and EM Latin America (0.4). The top-performing countries ytd: Argentina (40.7), the Netherlands (34.7), Austria (32.5), the Czech Republic (31.8), and Hungary (28.8). The biggest laggards of 2021 so far: Peru (-27.2), Pakistan (-17.7), Colombia (-15.3), Sri Lanka (-13.3), and China (-12.4).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap rose 0.6% last week, ahead of the 0.2% and 0.4% declines for MidCap and SmallCap, respectively. LargeCap ended the week a hair below its record high on Thursday, while MidCap and SmallCap finished 0.5% and 3.1% below their respective record highs on September 2 and June 8. Twenty-one of the 33 sectors were higher for the week, down from 27 sectors rising a week earlier. LargeCap Real Estate rose 4.0% for the best performance of the week, followed by MidCap Health Care (3.4%), MidCap Real Estate (2.9), SmallCap Utilities (2.2), and MidCap Energy (2.0). SmallCap Consumer Discretionary was the worst performer with a decline of 2.8%, followed by LargeCap Financials (-2.5), MidCap Consumer Discretionary (-2.3), MidCap Financials (-2.0), and SmallCap Financials (-1.9). LargeCap rose 2.9% during August, ahead of SmallCap (1.9) and MidCap (1.8) as 30 of the 33 sectors rose. August's best performers: MidCap Communication Services (5.7), MidCap Financials (5.2), LargeCap Financials (5.0), LargeCap Communication Services (5.0), and SmallCap Tech (4.7). August's biggest decliners: SmallCap Energy (-4.3), LargeCap Energy (-2.9), SmallCap Communication Services (-0.2), and MidCap Health Care (0.1). SmallCap remains in the lead in the 2021 derby with a gain of 22.4% ytd, ahead of LargeCap (20.7), and MidCap (19.7). All 33

sectors are higher ytd, paced by these best sector performers: SmallCap Energy (51.9), MidCap Energy (48.6), SmallCap Consumer Discretionary (38.2), LargeCap Real Estate (33.5), and LargeCap Communication Services (29.2). The biggest laggards so far in 2021: MidCap Communication Services (4.7), MidCap Consumer Staples (6.4), LargeCap Consumer Staples (8.3), MidCap Tech (9.9), and LargeCap Utilities (10.1).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week and seven outperformed the composite index's 0.6% gain. That compares to a 1.5% gain for the S&P 500 a week earlier, when seven sectors rose and six outperformed the index. Real Estate rose 4.0% for the biggest gain of the week, ahead of Health Care (1.7%), Consumer Staples (1.5), Utilities (1.4), Consumer Discretionary (1.2), Communication Services (1.0), and Tech (0.9). The worst performers this week: Financials (-2.5), Energy (-1.4), Materials (-0.9), and Industrials (-0.4). The S&P 500 rose 2.9% in August as ten sectors moved higher and four beat the broader index. That compares to nine rising in July, when six beat the S&P 500's 2.3% gain. The leading sectors in August: Financials (5.0), Communication Services (5.0), Utilities (3.5), and Tech (3.4). August's market underperformers: Energy (-2.9), Industrials (0.9), Consumer Staples (1.3), Materials (1.7), Consumer Discretionary (2.0), Health Care (2.3), and Real Estate (2.7). With respect to 2021's performance, the S&P 500 has risen 20.7% so far, with all 11 sectors higher ytd and five beating the broader index. Real Estate is now the leading sector with a gain of 33.5% ytd, followed by Communication Services (29.2), Financials (28.8), Energy (27.2), and Tech (22.0). This year's laggards to date, albeit with gains: Consumer Staples (8.3), Utilities (10.1), Consumer Discretionary (12.6), Materials (17.3), Industrials (17.7), and Health Care (20.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 0.6% last week, but was little changed relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). It was above its 50-dma for an 11th week after dropping below for a week in mid-June for the first time since February. It was above its 200-dma for a 62nd 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 43rd straight week as the price index remained steady at 2.9% above its rising 50-dma. That compares to an eight-month low of 0.4% below its rising 50-dma during mid-June; the index is 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 62nd week last week, and edged up to 11.3% above its rising 200-dma from 11.2% a week

earlier. It had been at an 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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier. The sole laggard, Energy, was below for a ninth straight week. That compares to all 11 sectors above at the beginning of May and just four above at the end of January. Ten sectors have a rising 50-dma, also unchanged from a week earlier. Energy is the only sector remaining in the falling 50-dma doghouse. Looking at the more stable longer-term 200-dmas, all 11 sectors are above again. Several weeks earlier, Energy had ended a 23-week period when all 11 sectors had been above. However, all 11 sectors have had rising 200-dmas for 25 straight weeks. 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

Employment ([link](#)): August's employment gain was a big miss, coming in below the lowest estimate, as leisure & hospitality payrolls—which has been the biggest job engine recently—were flat. Payroll employment rose only 235,000, the lowest since the 233,000 posted at the start of the year; it had averaged monthly gains of 1.0 million the prior two months. Revisions, however, did boost July (to 1.053 million from 943,000) and June (962,000 from 938,000) payrolls by a total of 134,000. Total payroll employment has recovered 1.7 million jobs since bottoming last April, though is still 5.3 million below its pre-pandemic level. Private payrolls expanded 243,000, with revisions in July (to 798,000 from 703,000) and June (808,000 from 769,000) also adding a net 134,000. Service-providing jobs added only 203,000 to payrolls last month, a seven-month low, after adding 1.5 million during the two months through July, with leisure & hospitality contributing 812,000 over that period. These payrolls were at a standstill in August—likely impacted by the Delta variant. Goods-producing jobs climbed 40,000 last month, with manufacturing contributing 37,000; construction companies cut payrolls by 3,000. Industries posting the biggest gains last month were professional & business services (+74,000), transportation & warehousing (+53,000), private education (+40,000), and manufacturing (+37,000), while retail

employment (-29,000) posted the biggest decline since April 2020. Here's a tally of industry performances from strongest to weakest since bottoming last April, and where they stand relative to last February's pre-pandemic levels: leisure & hospitality (+6.5 million & -1.7 million), retail trade (+2.1 million & -284,900), professional & business services (+1.9 million & -468,000)—led by temporary-help services (+735,800 & -262,200), health care (+1.1 million & -513,400), manufacturing (+1.0 million & -378,000), construction (+881,000 & -232,000), transportation & warehousing (+596,500 & +21,900), social assistance (+468,400 & -233,000), education (+366,600 & -158,600), financial activities (+250,000 & -29,000), wholesale trade (+236,100 & -173,100), information services (+131,000 & -150,000), and mining & logging (+22,000 & -46,000). Here's the same exercise for both local (+238,100 & -219,600) and state (+35,900 & -186,100) government education jobs.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 15th increase in the past 16 months, up 0.8% in August and 19.8% over the period, to yet another new record high. The EIP has averaged monthly gains of 1.0% the past six months. The average hourly earnings component of the EIP climbed 0.6% during August though only 2.2% during the 16 months through August—as large employment fluctuations since February 2020 had complicated the analysis of recent trends in average hourly earnings. Things appear to be getting back on track, as average hourly earnings rose 4.3% y/y in August, up from 0.3% in April. Meanwhile, aggregate weekly hours, the EIP's other component, advanced for the 14th time in 16 months, by 0.2% m/m and 17.6% over the period.

Unemployment ([link](#)): August's unemployment rate sank to a 17-month low of 5.2%, as the number of unemployed fell by 318,000 to 8.4 million. Still, these are above their pre-pandemic readings of 3.5% and 5.7 million, respectively. The participation rate was unchanged at 61.7% last month. By race, unemployment rates for Asians (to 4.6% from 5.3%), Whites (4.5 from 4.8), and Hispanics (6.4 from 6.6) all fell to their lowest rates since March 2020, while the unemployment rate for African Americans (8.8 from 8.2) rose after falling to a 16-month low in July. By education, the rates for those with less than a high school degree (7.8 from 9.5), a high school degree (6.0 from 6.3), or a bachelor's degree or higher (2.8 from 3.1) all dropped to their lowest percentages since last March, while the rate for those with some college (5.1 from 5.0) ticked up last month after falling to a 16-month low in July.

Manufacturing Orders & Shipments ([link](#)): Factory orders in July advanced for the 14th time since bottoming last April, climbing to its highest level since July 2014. Billings advanced 0.4% in July and 40.4% during the 15 months through July. Factory shipments

followed the same script, rising 1.6% and 33.6% over the comparable periods to a new record high. Both motor vehicle orders and shipments are rising again, after contracting the first four months of the year by 13.8% and 14.3%, respectively. Excluding transportation, orders rose for the 14th month since bottoming last April, up 0.8%*m/m* and 28.9% over the period. Core capital goods orders and shipments continued to set new record highs in July. Nondefense capital goods orders ex aircraft (a proxy for future business investment) has increased every month but one since bottoming last April, rising 27.9% over the period. Core capital goods shipments (used in calculating GDP) kept climbing, advancing 0.9% in July and 25.3% since bottoming last April. Both machinery orders and shipments hit new record highs in July, driven by sharp gains in industrial machinery to new record highs.

Auto Sales ([link](#)): Motor vehicle sales remained in reverse in August as chip shortages continued to send auto sales south. Total sales sank to a 15-month low of 13.1mu (saar) last month, 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 20.7mu. Domestic light truck sales slid for the fourth month to 7.6mu (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 remain in a rut, falling for the fourth month from 2.8mu in April to at 2.0mu (saar) last month. That’s above last April’s record low of 1.5mu though still considerably below the 3.3mu at the beginning of 2020. Sales of imports likewise fell in August for the fourth month, to 3.5mu (saar). Prior to their four-months of decline, however, import sales had soared from 1.9mu in April 2020 to 4.7mu (saar) in April 2021—the best sales pace since the mid-1980s—led by a record 3.3mu in light truck sales! But light truck sales since have dropped, to 2.4mu by August.

Global Economic Indicators

Global Composite PMIs ([link](#)): Global demand eased again in August, as the global expansion slowed to a seven-month low, with growth decelerating across both the manufacturing and service sectors. According to the report, companies noted that “supply-chain disruptions (especially at manufacturers), Covid-19 issues, and signs of labor and skill shortages all impacted growth during the latest survey month.” The C-PMI fell for the third month, from 58.5 in May to 52.6 by August. The manufacturing sector (to 54.1 from 55.4) outperformed the service sector (52.9 from 56.3) for the first time since March, as the latter fell to a seven-month low. Regionally, China’s C-PMI dropped into contractionary territory for the first time since April 2020, and Russia’s did so for the first time since the end of last

year. Meanwhile, Australia's and Japan's C-PMIs fell further into contractionary territory. In the meantime, growth in the US and Europe weakened, with Italy being one of only two countries showing an acceleration in activity; Kazakhstan was the other. As for inflationary pressures, average input costs and output charges both continued to rise at substantial rates in August; that being said, however, both rates of rise eased for the fourth month.

US Non-Manufacturing PMIs ([link](#)): The US service sector continued to expand at a robust pace in August, according to ISM, with its measure holding near July's record pace. The IHS Markit measure, on the other hand, posted its slowest pace this year. ISM's NM-PMI slipped to 61.7 in August after climbing from 60.1 in June to a record high 64.1 in July. Both the new orders (to 63.2 from 63.7) and production (60.1 from 67.0) measures remained at elevated readings, while employment (53.7 from 53.8) expanded at a steady pace, after contracting in June. The supplier deliveries (to 69.6 from 72.0) 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, though the price index eased to 75.0 in August after accelerating to 83.0 in July—which wasn't far from its all-time high of 85.0 during July 2008. Switching to the IHS Markit NM-PMI measure, it fell for the third month, from 70.4 in May to an eight-month low of 55.1 by August. Firms continued to face headwinds from severe constraints on capacity, as backlogs of work increased markedly, according to the report—along with facing challenges of retaining employees and finding suitable candidates for current vacancies. Meanwhile, the report notes that firms' input costs and selling prices accelerated again in August—continuing the “steepest period of price growth yet recorded by the survey by a wide margin.”

Eurozone Retail Sales ([link](#)): Eurozone retail sales contracted 2.3% in July after expanding four of the prior five months by 10.7% to a new record high. July's reading is 2.6% above pre-pandemic levels. The three main components all fell in July, led by non-food products excluding auto fuels (-3.5%), followed by auto fuels (-1.6), and food, drinks & tobacco (-0.7). For the latter, it was the fourth consecutive decline, for a total loss of 4.1%, while July declines in auto fuels and non-food product ex auto fuels followed two-month gains of 11.9% and 11.0%, respectively—to a record high for non-food products ex auto fuels. July data are available for the top four Eurozone economies and show sales in Germany sank 5.1% after increasing four of the prior five months by 15.7% over the period, while sales in France slipped 0.7% following a two-month gain of 8.7%. Sales in Spain were virtually flat for the third successive month. Compared to a year ago, sales in France were up 7.8%, while sales for Germany (-0.3) and Spain (-0.1) were basically flat.

Germany Manufacturing Orders ([link](#)): German factory orders set a new record high again

in July as orders from outside the Eurozone soared. Billings jumped 3.4% in July, its 13th monthly gain since bottoming in April 2020. Driving orders this month was a whopping 15.7% jump in orders from outside the Eurozone, while billings from inside the Eurozone and domestic orders fell 4.1% and 2.5%, respectively. Domestic orders had soared 17.6% during the five months through June to a new record high—driven by a 30.1% in surge in capital goods orders. Here's a look at movements in July for domestic orders and orders from inside and outside the Eurozone for the main industry groupings: capital goods (-3.0%, -9.2%, 21.4%), intermediate goods (-4.1, 3.0, 3.3), consumer durable goods (-2.3, -12.4, 26.3), consumer nondurable goods (18.4, 6.5, 3.3). Overall, capital and consumer goods orders reached new record highs in July, while intermediate goods orders held near April's record high.

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