MORNING BRIEFING
September 16, 2021

Travel, Evergrande & Hydrogen

Check out the accompanying chart collection.

(1) Travel stocks looking better if US Delta cases have peaked. (2) Waiting for the return of the US business traveler. (3) Watching Covid case counts in China and new gambling rules in Macau. (4) Covid took a bite out of China's August air travel and KFC sales. (5) Analysts' net earnings revisions turn positive for S&P 500 travel-related industries. (6) Why we're watching China's very leveraged, very troubled, very large property developer Evergrande. (7) Angry Chinese consumers at Evergrande's doorstep demand their money back. (8) Trucks and cars powered by hydrogen fuel cells give EVs a run for their money.

Consumer Discretionary: Travel Industry Fights Covid. The dog days of summer weren't kind to travel-related industries notwithstanding the continued US economic recovery. After rallying in early spring, the stocks of many travel companies were deflated over the ensuing months by Covid-19's Delta variant. While US consumers continued to travel, the anticipated return of the business traveler was pushed out—presumably by a quarter or two—as companies postponed a fall return to the office because of the spike in Covid cases. A number of airlines lowered their earnings forecasts, but analysts seem to be looking past Q3 and raising their estimates, especially now that US Covid cases appear to have topped out.

At its peak on April 6, the S&P 500 Airline industry stock price index was up 36.7% ytd, but most of those gains have disappeared, leaving the index up only 3.7% ytd through Tuesday's close (*Fig. 1*). Likewise, the S&P 500 Hotels, Resorts, & Cruise Lines stock price index was up 21.8% ytd at its peak on April 28, but that ytd gain has shrunk to 12.6% (*Fig. 2*). The S&P 500 Casinos & Gaming index was up 20.1% at its March 17 peak, and today it's in negative territory, down 4.5%, as of Tuesday's close (*Fig. 3*).

In recent days, the number of US Covid-19 cases appears to have peaked. The number of new positive Covid-19 cases, using a 10-day moving average, has fallen to 138,000, down from the recent peak of 164,000 on September 2 (*Fig. 4*). If US cases continue to recede, domestic players in the travel business should continue to benefit.

However, China quickly has become a problem for international travel players. The country's Covid outbreak is continuing to spread, and the country has warned that it's cracking down on gambling in Macau. Let's take a look at the divergent trends in US and Chinese travel:

(1) *US hotels booking up.* Retail demand for US hotel rooms has rebounded despite the onset of the Delta variant. Over Labor Day weekend, US hotel occupancy was nearly as high as during the comparable days of 2019, while room rates adjusted for inflation were 9% higher, according to STR data highlighted in a September 10 *report* by Calculated RISK.

While retail consumers appear comfortable staying at a hotel, business travel has yet to return to anywhere near pre-Covid levels. Marriott International's business from business travelers was down 40% over the summer compared to 2019 levels, and that's an improvement over down 60% in March, noted CFO Leeny Oberg at September 14 JPMorgan *conference*. Right direction, but still sharply negative.

(2) *Reading the Covid tea leaves.* The onset of new Covid cases in China should be keeping CEOs of travel-related companies awake at night. China was the first region to recover from the Covid outbreak in 2020, and its travel business had almost entirely recovered until this July, when Covid sickened airport staff in the eastern city of Nanjing. Covid proceeded to spread to more than half of the country's 31 provinces and to infect more than 1,200 people. Tens of millions of residents were placed under lockdown, and massive testing and tracing ensued.

On August 23, China reported no new locally transmitted symptomatic cases, and it was hoped that the outbreak was over—until cases started to pop up in Fujian earlier this month. New Covid-19 cases in the southeastern province have risen to 186 over the past week, with 51 recorded on Tuesday, a September 15 *South China Morning Post* *article* reported. Areas in affected cities are being locked down again.

(3) *Covid side effects in China.* China's small numbers of new Covid cases are having an outsized impact because the country's zero-tolerance policy often leads to localized lockdowns. Yum China Holdings—which operates KFC, Taco Bell, and Pizza Hut restaurants in China—warned investors that its Q3 adjusted operating profit would fall 50%-60% because of Covid-related restaurant closures. "At the peak of the outbreak in August 2021, more than 500 of our stores in 17 provinces were closed or offered only takeaway and deliver services," a September 14 Yum China *press release* stated. It continued: "[O]ur business recovery remains to be uneven and nonlinear, as regional outbreaks occur and corresponding public health measures are implemented. The company expects a recovery

of same-store sales to take time."

China's air passenger traffic tumbled 51.5% in August y/y, a September 14 Reuters *article* stated. At Marriott International, July business in China surpassed July 2019 levels by about 9%. But in August, revenue per available room in mainland China declined about 50% compared to 2019 levels because of Covid, Marriott CEO Anthony Capuano said at a September 9 Bank of America *conference*.

"You saw a pretty stringent lockdown put in place really in over 150 markets across China, and that obviously impeded the pace of recovery," said Capuano.

(4) *Analysts inch toward positivity.* We track analysts' net earnings revisions, i.e., the three-month moving average of the number of upward revisions in forward earnings less the number of downward ones, expressed as a percentage of total forward earnings estimates. (Forward earnings is the time-weighted average of analysts' earnings-per-share consensus estimates for this year and next.) After more than a year of negative net earnings revisions, they turned positive for the S&P 500 Hotels, Resort, & Cruise Lines industry in June. Net revisions were positive by 0.8% in June, 1.5% in July, and 9.9% in August (*Fig. 5*). Analysts' forward earnings per share estimate for the industry turned positive at the end of May and has soared 120.3% since the end of Q2. (*Fig. 6*).

The same pattern appears in the S&P 500 Airline industry, where analysts' net earnings revisions were negative for more than a year until July, when they turned positive at 1.8%, and August, 17.3% (*Fig. 7*). Analysts' consensus estimate for forward earnings turned positive at the beginning of August and is also on steep upward path (*Fig. 8*).

The pattern repeats yet again in the S&P 500 Casinos & Gaming industry; but here, it may reverse because of recent news out of Macau. Analysts' net earnings revisions had been negative for more than a year when they turned positive in June, at 3.2%, and remained so in July, 7.5%, and August, 0.2% (*Fig. 9*). Analysts' forward earnings per share for the industry turned positive in mid-May and has risen 61.4% since the end of Q2 (*Fig. 10*).

Recent news may reverse this positive trend. On Tuesday, Macau's government announced that it would start a 45-day public gaming consultation. Under review are "the number of licenses to be given, increased regulation and protecting employee welfare, as well as introducing government representatives to supervise day to day operations at the casinos," a September 15 Reuters *article* reported. Macau has tightened security of casinos recently, in part to reduce illicit capital flows from mainland China.

Macau’s casino operators are required to rebid for their casino licenses when they expire in June 2022. Shares of Las Vegas Sands and Wynn Resorts, which have large Macau operations, both fell more than 12% Tuesday on the news.

China: An Eye on Evergrande. Evergrande is a huge property developer in China, with more than $300 billion of debt outstanding, and it’s facing a liquidity crisis. In what’s never a good sign, the firm hired two restructuring shops—Houlihan Lokey (China) and Admiralty Harbour Capital—and retail investors in Evergrande’s wealth management products showed up at headquarters to demand their money back.

Some fear a Evergrande meltdown will have systemic risks on par with the impact Lehman Brothers’ demise had on the US stock market. While we don’t see the Chinese government saving Evergrande, we’d expect it will provide enough liquidity to make the company’s retail creditors whole. Or at least we hope so.

Here are some Evergrande basics, which will show why we keep writing about a property company on the other side of the world:

(1) *It’s huge.* Evergrande was until recently China’s second-largest property developer, with $110 billion in sales last year. It has $355 billion of assets across 1,300 developments, many located in China’s lower-tier cities, a July 27 Reuters *article* explained. In recent years, the company has branched into unrelated businesses including electric cars, football, insurance, and bottled water. And recently, the company has been trying to sell its businesses, apartments, and properties at deep discounts to avoid a cash crunch.

Evergrande has 200,000 employees and hires 3.8 million workers every year for project developments. Its shares have fallen more than 80% over the past year to 2.97 Hong Kong dollars on Tuesday, and some of its bonds trade at under 30 cents on the dollar.

(2) *It owes lots of money.* Evergrande is believed to have more than $300 billion of debt outstanding. Some is owed to bond investors and banks, some is owed to suppliers and individuals who put deposits down on unfinished apartments. And yet more debt is owed to retail investors who bought wealth management products from the developer.

The company’s liabilities are owed to more than 128 banks and more than 121 non-bank institutions. Evergrande is one of the largest bond issuers in emerging markets, with $20 billion of debt outstanding.

Evergrande has 800 residential buildings across China that are unfinished, leaving as many as 1.2 million people not knowing when or if they will be able to move into their new homes, a September 10 *NYT* *article* reported. According to an August 10 *NYT* *article*, one Evergrande homebuyer has been waiting four years for the apartment he has sunk well over $100,000 into—via downpayment and monthly mortgage payments—without signs of progress or communication from Evergrande; his only recourse is to sue the company.

Evergrande raised funds in the shadow banking market via trusts, wealth management products, and commercial paper. About 40 billion yuan, or roughly $6 billion, of the wealth management products have matured, and the company has not paid investors, a September 14 Bloomberg *article* reported. Last week, the company offered to return investors' money in instalments over a number of years or swap what was owed for Evergrande property or use the owed funds to reduce mortgage loans.

An Evergrande executive said that more than 70,000 people across China have bought the company's wealth management products. Many of the investors are Evergrande workers, because the company encouraged staff to purchase the investments, the Bloomberg article stated.

Several hundred of the people who are owed money marched on Evergrande's headquarters in Shenzhen on Sunday. One 31-year-old factory worker, who traveled more than 20 hours to join the protest, had purchased 800,000 yuan of Evergrande's wealth management product that mature in December, financing some of it with a loan. He was told the investment was "very safe because this is a Global 500 company."

(3) *Evergrande's woes gives other property companies' headaches.* S&P Global Ratings said that the bond market volatility resulting from Evergrande's troubles could hurt other developers' efforts to refinance their own debt. Rated developers were due to repay 480 billion yuan of onshore and offshore debt over the next 12 months.

"Privately-owned developers Guangzhou R&F Properties Co. and Xinyuan Real Estate Co., downgraded this month over concerns they will struggle to repay debts, have seen yields on their bonds surge above 30% in a sign of weakening access to market funding," a September 13 Reuters *article* reported.

Disruptive Technologies: Debating Batteries vs Hydrogen. Perhaps the most successful electric vehicle (EV) manufacturer to date, Elon Musk notoriously has said that hydrogen cars are “mind-bogglingly stupid.” Yet there are some very smart, very rich people betting that hydrogen will power our future. Andrew Forrest, founder of Australian mining company Fortescue Metals Group and Australia’s second-wealthiest man, is on the other side of the debate.

Forrest calls green hydrogen the answer to the climate crisis. His goal is to make 15 million tonnes of renewable green hydrogen by 2030, though skeptics note that hitting that goal would take two to three times as much electricity as Australia consumes today, noted an August 18 *article* in PV Magazine. It’s an outrageous pledge that frankly reminds us of something Musk might say. Here’s a quick look at the pros and cons of electric versus hydrogen and how companies are betting on the future:

(1) *Pros and cons.* One of the benefits of hydrogen fuel cells is the ready availability of hydrogen; most EV batteries require the mining of lithium and recycling of batteries.

Hydrogen powered vehicles can be refueled at a pump in 10 to 15 minutes, almost as fast as a gasoline powered vehicle. Fully recharging an EV can take an hour or more. And hydrogen vehicles can go further than EVs before refueling—500-600 miles per tank versus 300-500 miles per charge.

That said, battery powered EVs have advantages too. A hydrogen powered vehicle is more expensive to produce than an EV right now, though the cost should drop as the technology evolves and more vehicles are produced. Also, there are a growing number of electric-refueling stations and almost no hydrogen refueling stations. But then again, electric charging stations have proliferated rapidly, showing how quickly that problem might be resolved.

(2) *Some truck companies hedge their bets.* Because of the power and long range it offers, hydrogen is often considered a good alternative for powering for trucks, buses, and ships. That said, the technology is in its early stages of development, and most companies seem to be developing both battery and hydrogen fuel cell powered vehicles.

Hyundai Motor Group recently announced plans to develop hydrogen fuel cell versions of all its commercial vehicles by 2028, a September 7 CNBC *article* reported. The company plans to offer trucks powered by electric batteries and hydrogen fuel cells, believing that they will both have a similar price point by 2030.

Toyota plans to make fuel cells for heavy trucks in Kentucky by 2023, a September 13

Automotive News *article* reported. It's also working with Israeli startup REE Automotive to produce EVs. Likewise, GM plans to supply Navistar trucks with fuel cell systems next year, and it has a line of battery powered trucks.

BMW Group is developing hydrogen fuel cell cars and expanding its current EV offerings. The BMW iX5 Hydrogen will be available for demonstration and testing purposes at the end of next year. Jaguar Land Rover also has a foot in both camps, developing a hydrogen car and planning to sell only hydrogen and electric vehicles by 2025.

(3) *Not everyone's convinced.* MAN Truck and Bus, a subsidiary of Volkswagen Group, is planning to shift from building diesel trucks and busses to building EVs starting next year. The company opted to build electric powered trucks over hydrogen powered trucks because "cost parity with diesel can be achieved more quickly," MAN's CEO Dr. Andreas Tostmann said in an August 31 Electrek *article*.

And of course, Tesla remains wedded to the EV. Development of its Tesla Semi, which uses a battery, was announced in 2017, but production has been stymied by the limited availability of battery cells and supply-chain challenges, a July 26 Electrek *article* reported.

Calendars

US: Thurs: Retail Sales Total & Control Group -0.8%/-0.1%, Business Inventories 0.5%, Initial & Continuous Jobless Claims 328k/2.785m, Philadelphia Fed Manufacturing Index 19.0, Net Capital Flows, Natural Gas Storage. **Fri:** Consumer Sentiment Index 72.2, Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone Trade Balance, Canada Housing Starts 268k, Japan Core CPI -0.4% y/y, BOE FPC Meeting Minutes, Lagarde. **Fri:** Eurozone Headline & Core CPI 3.6%/1.6% y/y, UK Headline & Core Retail Sales 0.5%/0.8%, Mauderer. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) fell from 2.49 to 2.26

this week—the lowest since June 2020; it was at 4.00 nine weeks ago—which was the highest since late January 2018. Bullish sentiment fell from 52.6% to 50.0% this week, matching its reading in mid-August, which was the fewest bulls since May 2020, while bearish sentiment climbed from 21.1% to 22.1%, the most bears since early October 2020. The correction count rose to 27.9% after falling from 31.5% to 26.3% the prior two weeks. The AAII Ratio increased last week for the third week, from 48.6% to 58.8% over the period. Bullish sentiment slipped to 38.9% last week, after rising from 33.2% to 43.4% the previous two weeks, while bearish sentiment fell from 35.1% to 27.2% over the three-week period.

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 8.5%. 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 rose 0.1ppt to 15.0% 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 are not cutting their 2021 and 2022 forecasts for revenues and earnings growth and the profit margin. They expect revenues to rise 15.0% in 2021 (unchanged w/w) and 6.8% (up 0.1ppt w/w) in 2022 compared to the 2.1% decline reported in 2020. They expect earnings gains of 46.1% in 2021 (unchanged w/w) and 9.1% in 2022 (up 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 13.0% (up 0.1 ppt w/w) from 10.2% in 2020 and to improve 0.2ppt y/y to 13.2% in 2022 (unchanged w/w). The S&P 500's weekly reading of its forward P/E dropped 0.1pt w/w to 21.2, barely up from a 14-week low of 20.9 in mid-August. 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 dropped 0.01pt w/w to 2.80 from a record high of 2.81. 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 and forward earnings rise for all but Financials and Real Estate. Seven sectors are at or near record highs in their forward revenues, earnings, and profit margin: Communication Services, Consumer Discretionary, Consumer Staples, Health Care, Industrials, Information Technology, and Materials. Energy still has all measures below record highs. Financials, Real Estate, and Utilities have forward earnings at or near record highs, but their forward revenues and margins 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. Health Care's margin is expected to remain unchanged y/y in 2022, but three sectors are expected to see margins decline: Financials, Materials, and Real Estate. The forward profit margin was at record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Currently, seven 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 (24.9%, record high), Financials (19.2, down from its 19.8 record high in early August), Communication Services (16.7, record high), Real Estate (16.5, down from 17.0), Utilities (14.5, 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 (10.2, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, 7.7), Consumer Discretionary (8.0, down from 8.3), and Energy (7.6, 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 18.4% and 52.4%, 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 28.1%, forward earnings up 1,592.0), Materials (27.3, 92.1), Information Technology (25.1, 43.3), Communication Services (24.9, 56.2), Industrials (22.8, 70.8), S&P 500 (18.4, 52.4), Financials (17.5, 67.0), Health Care (14.1, 25.8), Consumer Discretionary (14.1, 94.3), Consumer Staples (11.0, 18.4), Real Estate (9.7, 27.0), and Utilities (0.4, 4.7).

US Economic Indicators

Industrial Production (*link*): Industrial production in August rose at half the rate of July as

Hurricane Ida slowed manufacturing output. Headline industrial production rose 0.4%, half of July's 0.8% increase, with manufacturing output edging up only 0.2% after an upwardly revised 1.6% (from 1.4%) gain in July. The Fed estimates that the hurricane subtracted 0.3% from August industrial production. Slowing factory production last month was a slowdown in motor vehicle production, which edged up only 0.1% last month, following a 9.5% jump in July, reflecting a seasonal quirk related to the cancellation of many typical July plant shutdowns, while semiconductor shortages continued to depress motor vehicle production. Year to date, headline and manufacturing output are up 3.4% and 3.0%, respectively, with the former 0.3% above its pre-pandemic level and the latter 1.0% higher. Here's a snapshot of August production by market group (and their components) since last April and where they stand relative to their pre-Covid levels: business equipment (49.3% & +3.9%), led by transit equipment (285.1 & +4.3), followed by industrial equipment (29.9 & +1.4) and information processing equipment (16.0 & +9.5). The gain in consumer goods (20.7 & +1.4) production was led by a surge in consumer durable goods (92.0 & +1.3), while nondurable goods (8.6 & +1.3) output was more subdued.

Capacity Utilization (*link*): The headline capacity utilization rate rose for the fourth consecutive month, from 74.8% in April to 76.4% in August—the highest since the end of 2019. The rate is up 13.0ppts from last April's low and is currently 3.2ppts below its long-run average. Meanwhile, manufacturing's capacity utilization rate ticked up from 76.6% to 76.7% in August, up 3.9ppts since its recent low of 72.8% this February—putting it 1.2ppt above its pre-pandemic percentage. The capacity utilization rate for utilities remained in a volatile flat trend, climbing to 75.6% in August after falling from 76.5% to 73.3% in July, while the rate for mining ticked down to 76.1% after climbing from a recent low of 66.4% in February to a 16-month high of 76.5%. The rates for manufacturing, utilities, and mining all remained below their long-run averages.

Regional M-PMI (*link*): The New York Fed has provided the first glimpse of manufacturing activity in September: Growth in the region accelerated sharply in September, heading back toward July's record-breaking pace. Meanwhile, inflationary pressures remain intense, with the prices-received measure reaching a new record high this month and the prices-paid gauge easing for the fourth month since reaching an all-time high in May, though remaining at an elevated level. The composite index rebounded 16.0 points this month to 34.3, erasing two-thirds of August's decline, putting September's reading within 8.7 points of July's record high of 43.0. New orders (to 33.7 from 14.8), shipments (26.9 from 4.4), and unfilled orders (20.9 from 15.0) all posted substantial gains, while delivery times (36.5 from 28.3) reached a record high. Both employment measures strengthened this month, with the number of employees (to 20.5 from 12.8) and hours worked (24.3 from 8.9) accelerating notably—the former not far from its record high of 23.9. September's prices-received measure reached a new record high of 47.8, while the prices-paid gauge slowed to 75.7—down from May's record high 83.5 though triple last September's 25.2. Looking ahead, companies remained optimistic that conditions will improve over the next six months, with the measure advancing for the second month, from 39.5 in July to a 15-month high of 48.4 this month. Both new orders (to 48.4 from 42.7) and shipments (54.7 from 45.9) improved this month, along with employment (40.3 from 38.5) and hours worked (8.7 from 2.7). Both the future prices-paid (to 61.7 from 66.4) and -received (51.3 from 52.2) indexes continued to ease—but remain at lofty levels not that far from their record highs of 75.3 and 57.6, respectively.

Import Prices (*link*): Import prices posted their first monthly decline in 10 months in August, as both petroleum and nonpetroleum prices fell during the month. Overall import prices dropped 0.3% last month, following a 0.4% gain in July and a 1.0% increase in June; import prices averaged monthly gains of 1.3% during the first half of this year. Import prices were up 9.0% y/y, slowing for the third month from May's 11.6%—which was one of the fastest rates since its record high of 21.4% in mid-2008. Before turning positive this January (+1.0% y/y), the yearly rate had declined for 11 successive months. Petroleum prices fell for the first time in 10 months, by 2.4%, following a nine-month surge of 70.5%. The yearly rate eased to 55.9% in August, well below May's record high 137.5% y/y. In the meantime, nonpetroleum import prices dipped 0.1% last month after an eight-month jump of 5.5%. These import prices are 5.9% above a year ago, a percentage point below July's 6.9%, which was the highest yearly rate since August 2008. The yearly rate for industrial supplies & materials imports has slowed for the third month in August, from a record-high 55.2% in May to 34.6% y/y last month; it had turned positive in January for the first time in a year. The rate for capital goods continues to trend higher, climbing steadily from -2.0% y/y in November 2019 to +1.9% this July and August—the highest yearly rate since summer 2008. Rates for consumer goods ex autos (1.0% y/y) appear to be plateauing around 1.0% y/y, while the rate for auto vehicles & parts (2.0) has moved out of its recent flat trend around 1.0%. Food prices (9.9% y/y) are accelerating sharply, posting its biggest yearly rate since October 2011 the past two months; the rate had bounced around zero the past few years. Looking at import prices among our trading partners, the rates for China (3.8% y/y) and the newly industrialized countries (7.3) are on steep accelerating trends, with the latter at a new record high. Meanwhile, the rate for Japan (2.5% y/y) accelerated at its fastest pace since October 2011, after hovering around zero from early 2019 through the end of last year.

Global Economic Indicators

Eurozone Industrial Production (*link*): Eurozone Industrial Production (link): Headline production in the Eurozone, which excludes construction, rose for the first time in three months, by 1.5%—back up at its pre-Covid level. Among the main industrial groupings, consumer nondurable goods (3.5%) posted the biggest monthly gain, its sixth this year, for a year-to-date jump of 10.2% to a new record high. Production of capital goods rebounded 2.7% in July, after falling four of the prior five months by 5.5%, to within 1.3% of its pre-Covid level. Production of consumer durable goods advanced for the fourth successive month, by 0.6% in July and 5.6% over the period, surpassing its pre-Covid level by 4.8%, while intermediate goods output hasn't posted a decline in five months, up 2.3% over the period—1.5% above its February 2020 level. Meanwhile, energy output fell for the third month, by 3.5%. Looking at the top four Eurozone economies, here's how they performed since bottoming last April and relative to their pre-pandemic levels: Italy (+78.7% & +1.4%), Spain (+48.6 & -0.9), France (+45.6 & -4.8), and Germany (+33.1 & -6.3). All four countries posted production gains in July, led by a 1.0% increase in Germany, followed by Italy (0.8%), France (0.3), and Spain (0.3).

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