MORNING BRIEFING
October 18, 2021

Climate Central Planners

Check out the accompanying chart collection.

(1) Incompetent central planners. (2) Not ready for prime time: Renewables still unreliable and insufficient. (3) A Nobel idea. (4) Soaring natural gas prices crimping supply of energy-intensive metals. (5) Clumsy transition to renewables adding to inflationary pressures. (6) A surprising scenario: weaker Chinese economy, stronger metals prices, and firm dollar. (7) A chronology of China's energy crisis. (8) Xi's climate pledge to the UN. (9) Coal prices still soaring in China. (10) A very brief history of inflation during the 1970s. (11) A very brief history of the 2020s.

Strategy I: Changing the Climate. The evidence is rapidly mounting that our global Climate Central Planners (CCPs) are just as incompetent as most central planners have been in the past. They are rushing the transition from fossil fuels to renewable sources of energy. One problem is that renewable sources aren't reliable, whereas fossil fuels have been a very reliable source of energy (except when OPEC's central planners meddled in the oil market during the 1970s). Another problem is that renewable sources aren't expanding fast enough to offset the restrictive impact that the CCPs' policies are having on fossil fuel supplies.

Yale Professor Bill Nordhaus won the Nobel Prize in economics in 2018 for a very simple idea: The best way to get rid of fossil fuels is to raise their prices. The burning of fossil fuels and release of CO_2 and other greenhouse gas emissions create significant externalities. On their own, markets are not yet capable of correcting these externalities, according to the professor. The solution is to increase the cost of fossil fuels to reflect the cost of the CO_2 pollution they produce. But since markets don't put a price on externalities, CCPs must do everything they can to drive up the cost of fossil fuels, forcing us all to use renewable sources of energy.

Sounds good in theory. But in reality, renewables aren't ready for prime time. So instead of a smooth transition, the rush to eliminate fossil fuels is causing their prices to soar and disrupting the overall supply of energy.

But wait: The inflationary consequences of incompetent climate central planning aren't limited to fossil fuels. According to an October 14 *WSJ* article titled "Metals Prices Surge After Gas Crunch Crimps Output," higher energy prices are pushing up other commodity prices: “Metals prices surged to multiyear highs after smelters, facing soaring energy bills and pressure to cut their carbon emissions, curtailed production.”

In other words, inflationary pressures are mounting thanks to the CCPs’ poorly conceived and executed transition from dirty to clean energy. The CCPs never prepared their citizens for how expensive and disruptive to people’s lives their disruptive plans might be. The result may very well be a big populist backlash against what CCPs seek to accomplish.

Consider the following related developments:

(1) *Energy prices soaring.* The nearby futures price of a barrel of Brent crude oil rose to $84.86 at the end of last week. It is up 64% ytd (*Fig. 1*). The nearby futures price of natural gas in the US is up 113.0% over the same period. Also at the end of last week, the nearby futures price of a gallon of gasoline rose to $2.49, the highest since September 29, 2014 (*Fig. 2*).

During the October 8 week, US crude oilfield production remained 1.4mbd below its pre-pandemic record high of 13.0mbd notwithstanding the surge in energy prices (*Fig. 3*). During the October 15 week, the total oil and gas rig count was 31% below its pre-pandemic reading of 790 rigs (*Fig. 4*).

(2) *Metals prices soaring.* The metals component of the CRB raw industrials spot price index jumped to a record high at the end of last week (*Fig. 5*). It includes scrap copper, lead scrap, steel scrap, tin, and zinc. Leading the charge were the prices of zinc and tin (*Fig. 6* and *Fig. 7*). As a result, the broader CRB raw industrials spot price index also rose to a record high.

(3) *Dollar remaining firm.* In the past, there has been a strong inverse correlation between the broad-based S&P Goldman Sachs commodity index and the trade-weighted US dollar (*Fig. 8*). So far, it’s different this time. The dollar remains firm despite the recent jump in the commodity index, led by energy and metals prices.

(4) *The big surprise*. Debbie and I aren’t surprised by the strength of the dollar because we’ve expected that China’s mounting problems in the property market would benefit the greenback. But we also expected that these problems would weigh on China’s economic growth and be bearish for commodity prices. The outlook for China’s economic growth looks grimmer now as a result of the country’s energy crisis.

Now here is the BIG SURPRISE: In just the past couple of weeks, we all learned that commodity prices can continue to move higher even if China's economy slows. All it takes is for the disruptive energy policies of the global CCPs to cause shortages of fossil fuels, sending their prices to the moon. The resulting sky-high electricity costs and blackouts are depressing the production of other energy-intensive commodities and causing their prices to soar. We can blame Al, Klaus, Angela, Greta, Larry, George, Joe, and Jinping for this mess.

Strategy II: Braking China. China's central planners have a problem. The country is in the midst of a serious energy crisis. The demand for electricity has been booming as producers have been scrambling to fill export orders, especially from the US. Chinese exports rose 20% y/y during September to a new record high (*Fig. 9*).

China is the world's largest coal consumer, with 60% of the country's electricity generated by burning coal. Shortages of coal are disrupting electricity production.
Consider the following chronology:

(1) *Trade tensions with Australia.* Australia's ties with top trade partner China soured in 2018 when it became the first country to publicly ban China's Huawei from its 5G network and worsened after Canberra called for an inquiry into the origins of the coronavirus. During November 2020, China found coal imports from Australia failed to meet environmental standards. China's Foreign Ministry said reduced imports of Australian products like wine, coal, and sugar were the result of buyers' own decisions, after media reports stated that Beijing had warned importers to stop buying a range of Australian goods (*source*).

(2) *Xi makes a promise at UN*. China's President Xi Jinping announced in late 2020 at a UN summit on climate change that the country would cut its CO_2 emissions per unit of GDP, or carbon intensity, by more than 65% from 2005 levels by 2030. Xi also pledged sharp increases in renewable energy capacity at the summit. However, his carbon intensity targets have been the most closely followed guidelines for emissions reduction at the provincial government level. Local authorities have the responsibility of making sure the targets are reached (*source*).

(3) *Problems started in March in Inner Mongolia.* China's massive industrial base started experiencing intermittent jumps in power prices and usage curbs since at least March 2021. That's when provincial authorities in Inner Mongolia ordered some heavy industries, including an aluminium smelter, to curb use so that the province could meet its energy-use target for Q1 (*source*).

(4) *Problems spread in May to Guangdong.* In May 2021, manufacturers in Guangdong province, a major exporting powerhouse, encountered similar requests to curb consumption as a combination of hot weather and lower-than-usual hydropower generation strained the grid (*source*).

(5) *Power to the people, whatever it takes.* In late September, the China Electricity Council, which represents power suppliers, said that coal-fired power companies were now "expanding their procurement channels at any cost" in order to guarantee winter heat and electricity supplies (*source*). (On the other hand, the Chinese government announced earlier this month that it will introduce tougher punishments for regions that fail to meet targets aimed at cutting energy intensity and CO2 emissions.)

(6) *Flooded coal mines.* During October, flooding in a key coal-producing province worsened the supply outlook. Some 17 regions managed by State Grid in China have enforced power consumption cuts since September (*source*).

(7) *Coal prices still soaring.* The country's September PPI report, released last week, showed that coal prices rose 75% y/y (*Fig. 10*). Analysts are expecting electricity shortages and rationing to continue into early next year.

The energy crisis in China highlights the difficulty in cutting the global economy's dependency on fossil fuels as world leaders seek to boost efforts to tackle climate change at talks next month in Glasgow.

Strategy III: Roaring 2020s vs That '70s Show. So how do all these recent developments affect our outlook for the rest of the decade? We have previously discussed two alternative scenarios: the Roaring 2020s and the Great Inflation 2.0 (a.k.a. "That '70s Show.") In the October 6 *Morning Briefing*, we wrote: "We don't mean to suggest that this two-scenario paradigm means that only one scenario will get the entire decade right. The outcome may very well be some mix of the two. Or one might prevail through, let's say, the first half of the decade, while the other does so over the rest of the decade."

We also reiterated our subjective probabilities for the two scenarios. We assigned 65% to the Roaring 2020s and 35% to the Great Inflation 2.0. Consider the following:

(1) *Brief history of the 1970s.* The Great Inflation 1.0 of the 1970s offers the most relevant cautionary tale for current times, as inflationary pressures have been building during 2021. Just about everything that could go wrong on the inflation front did so in the 1970s.

President Richard Nixon closed the gold window on August 15, 1971. During the decade, the foreign-exchange value of the dollar plunged by 53% relative to the Deutsche mark, and the price of gold soared 1,402%. The CRB raw industrials spot price index, which was relatively flat during the 1950s and 1960s, jumped 165% during the decade because of the weaker dollar. A supply shock in late 1972 through early 1973 sent soybean prices soaring. As a result of the oil crises of 1973 and 1979, the price of a barrel of West Texas Intermediate crude oil rose 870% from $3.35 at the start of the decade to $32.50 by the end of the decade.

Cost-of-living adjustment clauses in labor union contracts caused these price shocks to be passed through into wages, resulting in an inflationary wage-price spiral. Nominal hourly compensation—which includes wages, salaries, and benefits—soared from a low of 3.5%, at an annual rate for the 20 quarters through Q2-1965, to a high of 11.4%, for the 20 quarters through Q1-1982.

Meanwhile, productivity growth, measured on a comparable basis, dropped from a peak of 4.6% through Q1-1966 to zero through Q3-1982 (*Fig. 11*). The 20-quarter annualized growth rate in unit labor costs (ULC), which is the ratio of nominal hourly compensation to productivity, soared from about zero per year during the first five years of the 1960s to over 10.0% during the late 1970s and early 1980s (*Fig. 12*). Since ULC is the key determinant of consumer price inflation as measured by the 20-quarter annualized percent change in the core PCE deflator, price inflation also soared from the mid-1960s through the early 1980s. (For more on the Great Inflation of the 1970s, see this *excerpt* from my 2018 book.)

(2) *Brief history of the 2020s*. Events of the past few weeks certainly are reminiscent of the 1970s, especially the mounting energy crises not only in China but also in Europe. Last week's PPI and CPI reports for September in the US show that inflation is proving to be less transitory and more persistent than had widely been expected. Fed officials have acknowledged that in their recent remarks about inflation, which have been focused less on the temporary "base effect" and more on the persistent and widespread supply-chain bottlenecks.

Nevertheless, while the energy crises in China and Europe might remain troublesome through the coming winter months, we expect the recent surge in fossil fuel prices will stimulate more supplies of coal, gas, and petroleum products. We don't see a repeat of the recessions induced by the two energy crises of the 1970s.

We also don't expect another wage-price spiral similar to the one that fueled the Great

Inflation of the 1970s. The main reason we believe that the 2020s will be different than the 1970s in that respect is our expectation that productivity growth will increase from 2.0% a year currently to 4.0% over the next few years, unlike during the 1970s when it dropped to zero.

Calendars

US: Mon: Headline & Manufacturing Industrial Production 0.2%/0.1%, Capacity Utilization 76.5%, NAHB Housing Market Index 76, Federal Budget Balance, TIC Net Transactions. **Tues:** Housing Starts & Building Permits 1.62mu/1.68mu, API Weekly Crude Oil Inventories Daly, Bostic. (Bloomberg estimates)

Global: Mon: Canada Housing Starts 255k, BOC Business Outlook, RBA Meeting Minutes. **Tues:** Japan Trade Balance -¥519.2b, Japan Exports & Imports 11.0%/34.4% y/y, PBOC Loan Prime Rate, Bailey. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index gain 2.0% for its biggest gain in 12 weeks. The index ended the week 1.5% below its record high on September 6, and ranked 31st of the 49 global stock markets that we follow in a week as 44 of the 49 countries rose in US dollar terms. The AC World ex-US index performed better, rising 2.4% to 3.4% below its September 15 record high, as all regions rose. EM Latin America was the best-performing region last week, with a gain of 3.3%, ahead of EMU (2.7%) and EAFE (2.4). EMEA was the biggest underperformer, albeit with a gain of 1.5%, followed by EM Eastern Europe (1.9), BRIC (2.1), and EM Asia (2.1). Argentina was the best-performing country last week, with a gain of 9.7%, followed by Peru (8.5), Egypt (6.2), Sweden (5.5), and the Philippines (5.4). Sri Lanka was the worst performer, with a decline of 5.3%, followed by Chile (-3.6), Turkey (-2.3), Greece (-0.5), and Hong Kong (-0.2). EM Eastern Europe is the top-performing region ytd, with a gain of 31.7%, ahead of EMEA (29.1), the United States (18.6), EMU (11.1), EAFE (8.2), and the AC World ex-US (6.5). The following regions are lagging the AC World ex-US: EM Latin America (-6.3), BRIC (-4.6), and EM Asia (-3.5). The top-performing countries ytd: the Czech Republic (40.3), Austria (37.9), Russia (34.8), Argentina (29.3), and India (29.0). The biggest laggards of

2021 so far: Pakistan (-27.1), Turkey (-24.5), Chile (-17.8), New Zealand (-15.0), and China (-14.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose last week, but SmallCap was up for a fifth week in a row compared to two straight gains for LargeCap and MidCap. MidCap's 2.2% rise was ahead of the gains for LargeCap (1.8%) and SmallCap (0.4). LargeCap ended the week 1.4% below its record high on September 2, while MidCap and SmallCap finished 0.9% and 3.6% below their respective record highs on September 2 and June 8. Twenty-seven of the 33 sectors were higher for the week, compared to 21 sectors rising a week earlier. MidCap Materials was the best performer of the week, with a gain of 3.8%, ahead of LargeCap Materials (3.6), LargeCap Consumer Discretionary (3.5), LargeCap Real Estate (3.5), and MidCap Tech (3.4). SmallCap Consumer Staples was the worst performer, with a decline of 1.3%, followed by SmallCap Health Care (-0.7), SmallCap Communication Services (-0.4), LargeCap Communication Services (-0.4), and SmallCap Financials (-0.3). SmallCap continues to lead in the 2021 derby with a gain of 21.9% ytd as MidCap (19.1) moved ahead of LargeCap (19.0). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (85.5), MidCap Energy (74.9), LargeCap Energy (51.8), SmallCap Consumer Discretionary (34.2), and LargeCap Financials (33.9). The biggest laggards so far in 2021: MidCap Communication Services (2.5), MidCap Consumer Staples (4.0), LargeCap Utilities (4.6), SmallCap Health Care (4.9), and LargeCap Consumer Staples (5.5).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 S&P 500 sectors rose last week, and five outperformed the composite index's 1.8% gain. That compares to a 0.8% rise for the S&P 500 a week earlier, when eight sectors rose and seven outperformed the index. Materials was the best performer, with a gain of 3.6%, ahead of Consumer Discretionary (3.5%), Real Estate (3.5), Tech (2.6), and Industrials (1.9). The worst performers this week: Communication Services (-0.4), Health Care (0.8), Energy (1.2), Consumer Staples (1.2), Financials (1.2), and Utilities (1.4). With respect to 2021's performance, the S&P 500 has risen 19.0% so far, with all 11 sectors higher ytd and five beating the broader index. Energy remains in the top spot as the leading sector with a gain of 51.8% ytd, followed by Financials (33.9), Real Estate (26.7), Communication Services (22.2), and Tech (19.5). This year's laggards to date, albeit with gains: Utilities (4.6), Consumer Staples (5.5), Health Care (12.7), Consumer Discretionary (15.4), Materials (15.9), and Industrials (16.1).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.8% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma).

The index closed above its 50-dma for the first time in three weeks, and was above its 200-dma for a 68th straight week. The S&P 500's 50-dma moved lower for a third week and for the first time since last October. The index improved to 0.7% above its falling 50-dma from 1.1% below a week earlier and an 11-month low of 2.0% below the week before that. The index had been mostly 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 68th week last week, and improved to 6.9% above its rising 200-dma from 5.4% above a week earlier and an 11-month low of 5.0% above the week before that. 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*): Six of the 11 S&P 500 sectors traded above their 50-dmas last week, up from three a week earlier. These five sectors remain below their 50-dma: Communication Services, Consumer Staples, Health Care, Real Estate, and Utilities. That compares to all 11 sectors above at the beginning of May. Consumer Staples and Tech's 50-dma also turned higher; they along with Consumer Discretionary, Energy, and Financials are the only five sectors with a rising 50-dma. Looking at the more stable longer-term 200-dmas, all sectors are above again, up from nine several weeks earlier when Materials and Utilities dropped out of the club for one week. All 11 sectors have had rising 200-dmas for 31 straight weeks. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Notably, Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Retail Sales (*link*): Retail sales rose 0.7% in September after rebounding 0.9% in August from July's 1.6% shortfall—to within a fraction of April's record high. Meanwhile, the control group—which excludes autos, gasoline, building materials, and food—advanced 0.8% in September and 3.5% the past two months to a new record high. Of the 13 retail sales categories, 11 increased in September, while two declined—health & personal care and electronics & appliance stores. Here's a snapshot of the sales performances of the 13 categories during September, versus last April's bottom and relative to their pre-Covid levels: sporting goods & hobby stores (3.7%, 146.0%, 37.1%), general merchandise stores (2.0, 26.1, 18.6), miscellaneous store retailers (1.8, 95.5, 22.9), gasoline stations (1.8, 94.7, 22.2), clothing & accessories stores (1.1, 822.0, 15.9), food & beverage stores (0.7, 6.6, 17.5), nonstore retailers (0.6, 16.5, 36.1), motor vehicles & parts dealers (0.5, 80.1, 16.4), food services & drinking places (0.3, 141.9, 9.3), furniture & home furnishing stores (0.2, 195.6, 17.6), building materials & garden equipment & supplies dealers (0.1, 21.5, 18.8), electronics & appliance stores (-0.9, 128.6, 9.2), and health & personal care stores (-1.4, 23.3, 10.1).

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) in mid-October continued to bounce around the lows of the pandemic with a significant decline in confidence in government economic policies joining the concerns of the Delta variant, supply-chain shortages, and inflation. The CSI slumped from 72.8 to 71.4 this month, back near August's 70.3—which was the lowest since December 2011. Both the present situation (to 77.9 from 80.1) and expectations (67.2 from 68.1) components fell this month, down from recent highs of 97.2 and 83.5 during April and June, respectively. Richard Curtin (the survey director) notes, "When asked about their confidence in economic policies, favorable evaluations fell to 19% in early October from Biden's honeymoon high of 31% in April, while unfavorable policy evaluations rose to 48% in early October from 32% in April. The decline in confidence in economic policies was recorded across all age, income, and education subgroups as well as among Democrats, Independents, and Republicans." Meanwhile, the one-year expected inflation rate jumped to 4.8%—the highest since August 2008, nearly double the expected rate of 2.5% at the end of last year. The five-year expected inflation rate has been bouncing between 2.8% and 3.0% the past six months and was at 2.8% this month.

Business Sales & Inventories (*link*): Nominal business sales in August was unchanged at its record high, while July real business sales (reported with a lag) remained stalled around March's record high, just 2.1% below. Nominal business sales was unchanged this month, posting only two declines so far this year, for a year-to-date gain of 11.7%. Meanwhile, real business sales have been more volatile, rising three months and falling four months, for a year-to-date increase of 1.8%; real sales ticked down 0.1% in July. Real sales for wholesalers reached a new record high in July, while real sales for retailers sank for the fourth month since reaching a record high in March, falling by 6.5%. Real manufacturing sales increased 1.2% during the two months through July after a four-month slump of 6.1%. The nominal inventories-to-sales ratio has fluctuated between 1.25 and 1.26 for the past six months, with August's ticking up to 1.26—just a couple of ticks above its record low of 1.24 posted in March 2011; it was at 1.73 last April. Meanwhile, the real inventories-to-sales ratio ticked down for the second month—to 1.38 in July from 1.40 in May—returning to its recent low of 1.38 in both March and April, which were the lowest readings since spring 2013.

Regional M-PMI (*link*): The New York Fed has provided the first glimpse of manufacturing activity in October and shows its measure continues to bounce around recent highs. Meanwhile, inflationary pressures remained intense, though have eased from their record highs. Growth slowed this month, though remains at a respectable level, with the composite index slumping to 19.8 after jumping from 18.3 to 34.3 in September; it was at a record-high 43.0 in July. Growth in new orders (to 24.3 from 33.7) remained at a robust pace, while shipments' (8.9 from 26.9) showed a noticeable slowing. The unfilled orders index was little changed at 18.5, while the delivery times index (to 38.0 from 36.5) climbed to a new record high—indicating significantly longer delivery times. Labor market measures pointed to ongoing growth in both employment (to 17.1 from 20.5) and the average workweek (15.3 from 24.3). Meanwhile, both the prices-paid (78.7) and prices-received (43.5) measures remained near their record highs of 83.5 and 47.8 during May and September, respectively. Looking ahead, firms remain optimistic. The future conditions index climbed for the fourth time in five months, from 36.6 in May to a 16-month high of 52.0 this month. Both the orders (to 51.0 from 48.4) and shipments (52.3 from 54.7) gauges posted strong readings, with the former the highest since last June and the latter little changed from September's reading—which was the highest since September 2004. Employment (to 37.1 from 40.3) is expected to grow at a strong pace. Both the future prices-paid (to 67.6 from 61.7) and -received (50.0 from 51.3) indexes remain at lofty levels—not that far from their record highs of 75.3 and 57.6, respectively.

Consumer Price Index (*link*): September's CPI advanced 0.4% after slowing steadily from 0.9% in June to 0.3% by August, while core prices ticked up 0.2% after slowing from 0.9% to 0.1% during the June-to-August period. The yearly rate for the headline CPI edged back up to its recent high of 5.4% y/y—continuing to outpace the gain in hourly average earnings (4.6%). The yearly core CPI rate was 4.0% y/y, down from its recent high of 4.5% during June. On a three-month-percent-change basis (annualized), the rates for both the headline (4.7%) and core (2.7) CPIs have slowed from their recent peaks of 9.3% and 10.2%, respectively, during June. Here's a look at yearly rates across the spectrum: Food (4.6% y/y) costs are accelerating at their fastest rate since the end of 2011, with the rate for food away from home (4.7) the highest since 2009 and the rate for food at home (4.5) at a 13-month high. Energy (24.8) costs are climbing close to May's 28.5%—which was the highest since 2008, with gasoline (42.1), fuel oil (42.6), natural gas (20.6), and electricity (5.2) costs all up dramatically, though the rate for fuel oil is looking toppy. Consumer durable goods (11.8) inflation rate has slowed from its recent peak of 14.6% during June, while the consumer nondurable goods (7.9) rate is the highest since September 2011. The rate for furniture & bedding (11.2) was at a record high, while the rate for new vehicles (8.7) accelerated at its fastest pace since 1980. Meanwhile, the rate for used cars & trucks (24.4) is eye-popping, though is down considerably from June's record rate of 45.2%, while apparel (3.4) prices are also down from recent highs. The yearly rate for medical care commodities (-1.6) has been negative since October 2020. Within services, owners' equivalent (2.9) and tenant-occupied (2.4) rents are beginning to accelerate, up from recent lows of 2.0% and 1.8%, respectively, while lodging away from home (17.5) isn't far from July's record-high 21.3%. Meanwhile, rates for hospitals' (3.3) and physicians' (3.8) services have eased a bit. The yearly rate for airfares has dropped precipitously, from 24.6% in June to 0.8% y/y in September; airfares fell 60.3% (saar) during the three months through September.

Producer Price Index (*link*): The producer price index for final demand continued to climb to new record highs—with yearly inflation rates at new highs for both headline (8.6% y/y) and core (6.8) final demand and rates for final demand goods (13.3) and final demand services (6.4) also in the record books. During September, final demand prices rose 0.5%, slowing from 0.7% and 1.0% the prior two months, with monthly increases for final demand goods (to 1.3% from 0.6% during June) accelerating over the period and final demand services (0.2 from 1.1) slowing. During September, 40% of the increase in final demand goods was energy-related, as gasoline prices rose 3.9%. Much of the increase in final demand services was also energy related, as two-thirds can be traced to margins for fuels & lubricants retailing. In the meantime, yearly rates for pipeline prices remain very high. The yearly rate for intermediate goods prices continued to accelerate, up 23.9% y/y in September, its highest since the mid-1970s, though the rate for crude prices has eased from April's 59.4% record high to 46.2% in September.

Import Prices (*link*): Import prices climbed 0.4% in September after posting its first monthly decline in 10 months in August (-0.3%), as petroleum prices rebounded 3.9% after falling 3.2% in August, while nonpetroleum prices ticked up 0.1% after ticking down 0.1% over the comparable periods. The rate for import prices ticked up to 9.2% y/y in September after slowing steadily from 11.6% in May—which was one of the fastest rates since its record high of 21.4% in mid-2008—to 8.9% by August. Petroleum prices were up 70.5% y/y last month, slowing from its recent high of 137.5% in April, while the rate for nonpetroleum prices slowed for the second month to 5.4% y/y after accelerating from -1.1% in April 2020 to 6.9% in June and July of this year. The yearly rate for industrial supplies & materials imports was down to 35.1% y/y last month from its recent peak of 55.2% in May; it had turned positive in January for the first time in a year. The rate for capital goods has been on an accelerating trend since bottoming at -2.0% y/y in November 2019, climbing to 1.9% in July and August of this year—and holding around that rate in September (1.8%). The rate for consumer goods ex autos (1.4% y/y) is the highest since mid-2012, while the rate for autos (2.0) is holding near August's 2.2%—which is the highest since April 2012. Food prices (10.1) are accelerating sharply, posting its biggest yearly rate since October 2011 last month; the rate had bounced around zero the past few years. Looking at import prices among our trading partners, the rate for the NICs (8.2) keeps reaching new highs, while the rate for China (3.9) is the highest since November 2011. Meanwhile, the rate for Japan (2.3) has accelerated from near zero the past couple of years.

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