MORNING BRIEFING
November 1, 2021

Greenwashing in Glasgow

Check out the accompanying chart collection.

(1) UN's 26th conference to nowhere. (2) Two important no-shows. (3) China's homegrown problems keep the country pumping CO2. (4) Putin is in no rush to help the world kick its fossil fuel addiction. (5) Chilly Siberians wouldn't mind a little global warming. (6) Four countries produce half of CO2 emissions. (7) King Coal rules Asian power producers. (8) A green version of whitewashing. (9) Coal and gas prices take a dip. (10) On the lookout for a wage-price spiral. (11) Supply disruptions hit auto component of GDP. (12) The inflation "tax" weighs on real personal income and consumer spending. (13) Movie review: "De Gaulle" (+ +).

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Climate & Energy I: Putin's Game. The UN's 26th Conference of Parties (COP26) in the Scottish city of Glasgow has been called humanity's "last best chance" to get devastating climate change under control. Held between October 31 and November 12, the gathering is the biggest climate conference since landmark talks in Paris in 2015 and is seen as a crucial step in setting worldwide emission targets to slow global warming.

Attending the summit are leaders of more than 120 countries. Not attending the do-or-die summit in person are Russian President Vladimir Putin and Chinese President Xi Jinping, who is expected to attend by video link.

Despite a global push for nations to zero out their greenhouse gas emissions by 2050, Russia has opted for a 2060 target, the same as China. The US has agreed to the 2050 goal. India has not yet made a pledge. Collectively, these four countries account for more than half of CO2 emissions.

Here is more on the two most significant no-shows at COP26:

(1) *Xi.* Ironically, President Xi may be a germophobe. While he attended the 2015 Paris summit in person, he has missed several high-profile global summits since the Covid-19

outbreak began in late 2019.

Xi is grappling with a crippling energy supply crunch at home, and his government is scrambling to get enough coal to avoid power outages during the coming winter. By not showing up in person, he is signaling that China isn't ready or willing to make any more commitments than he made late last year. The Chinese government has pledged to slash its carbon intensity—i.e., CO2 emissions per unit of GDP—starting in 2030 to become carbon neutral by 2060, and to halt its construction of coal power plants abroad.

(2) *Putin.* A Kremlin spokesman told reporters that "unfortunately, Putin will not fly to Glasgow," while stressing that climate change was "one of our foreign policy's most important priorities." Last week, Putin said that Russia, one of the world's biggest producers of oil and gas, was aiming for carbon neutrality by 2060.

The reason that Putin isn't in any rush to do something about climate change is obvious: Russia is heavily reliant on producing and selling "dirty" energy, i.e., oil, gas, and coal. It is the world's largest exporter of natural gas and supplies more than a third of the European Union's natural gas. Fossil fuel sales account for 36% of the country's budget, according to the Organization for Economic Co-operation and Development. Profits from fossil fuel sales flow into the country's sovereign wealth fund and pay for pensions. The revenues also support Russia's military. So for Russia, a global transition away from fossil fuels is tantamount to an existential threat.

An October 25 *Time* *article* observed: "Russia certainly wants to project an engaged partnership to the global community, but it has also spent the past year expanding its petrochemical production facilities, and it has launched a new pipeline project and transport network that will see it double coal and gas exports to China. When the price of natural gas skyrocketed in Europe in early October, Putin suggested that the energy crisis was linked to Europe's shift to renewable energy sources, and that a slower transition that focused on natural gas—Russian, of course—was the better option."

The article also observes that Russia is a "cold country." Keeping 140 million Russians warm during the winter with renewables rather than natural gas isn't a practical option. Besides, many Russians probably wouldn't mind a warmer climate in their neighborhood. Russia stands to be a big winner in the Arctic region as the ice melts and makes mining access easier. The region is rich in rare earth minerals, which makes it crucial to countries that are seeking secure sources of these resources. There might even be lots of oil and gas hidden beneath the region's Artic ice.

Climate & Energy II: Gassy Nations. *Worldometer* shows CO_2 emissions by country for 2016. That year, they totaled 35 billion tons. The four major emitters accounted for more than half of this pollution, as follows: China (29%), US (14), India (7), and Russia (5).

In all four of these countries, power generation accounted for nearly or just over half of their CO_2 emissions, as follows: China (41%), US (41), India (52), and Russia (52).

Climate & Energy III: King Coal. In 2020, more than 35% of the world's power came from coal, according to BP's *Statistical Review of World Energy*. Roughly 25% came from natural gas, 16% from hydro dams, 10% from nuclear, and 12% from renewables like solar and wind. Consider the following:

(1) *Asia.* An October 29 Reuters *article* is titled "COP26 aims to banish coal. Asia is building hundreds of power plants to burn it." It observes: "Many industrialised countries have been shutting down coal plants for years to reduce emissions. The United States alone has retired 301 plants since 2000. But in Asia, home to 60% of the world's population and about half of global manufacturing, coal's use is growing rather than shrinking as rapidly developing countries seek to meet booming demand for power. More than 90% of the 195 coal plants being built around the world are in Asia, according to data from GEM."

(2) *China.* The world's second-largest economy is its top miner and consumer of coal. China has more than 1,000 coal plants in operation currently and almost 240 planned or under construction. Together, these plants will emit 170 billion tons of carbon in their lifetimes—more than all global CO_2 emissions between 2016 and 2020, BP data show.

(3) *India.* Across India, 281 coal plants are operating, 28 are being built, and another 23 are in pre-construction phases. India's position—spelled out in a detailed document to be released at COP26—is that developed countries should do more than developing countries to tackle climate change. Accordingly, India will push for developed countries to aim for "net negative" levels of CO_2 emissions instead of the proposed "net zero," providing room for developed countries to emit at "net positive" levels.

India's top priority is to secure a strong financing deal allowing richer countries to meet their Paris Agreement commitments to provide $100 billion per year to help pay for climate adaptation and transfer clean technology in the developing world.

(4) *Greenwashing.* All of the above suggests that there will be a great deal of

"greenwashing" in Glasgow. The term refers to a PR process whereby an organization markets their goods or services as environmentally friendly when, in fact, they are not. In other words, "greenwashing" is the act of making false or misleading claims about the environmental benefits of a product, service, technology, etc.

(5) *Energy commodity prices.* The Chinese government's commitment to find enough coal to avert additional blackouts this winter has sent coal prices into a tailspin. The most traded thermal coal futures contract was down 27.6% last week, the biggest weekly decline since September 2016. It fell as much as 7.7% in Friday's night session and is down by more than 50% from its record high on October 19. It is still up around 80% this year.

Physical coal prices have not dropped at the same speed, however. The spot prices at the port of Guangzhou slumped by almost 20% last week but are still twice as high as the futures price.

At the end of last week, European gas prices plunged amid a report by *Reuters* that Russia President Vladimir Putin on Wednesday told the head of Kremlin-controlled energy giant Gazprom PJSC to start pumping natural gas into European gas storage once Russia finishes filling its stocks, which may happen by November 8.

US Inflation: On the Lookout for a Wage-Price Spiral. Tornado chasers chase tornadoes. Most of them do it for the thrill. A few are researching storms. Debbie and I are wage-price spiral chasers as economic researchers rather than as thrill seekers. There is mounting evidence that such a spiral is underway, though it is premature to characterize it as "hyperinflation," as has been suggested recently by the CEO of Twitter.

We still expect some gradual normalization of global supply chains, which will ease upward pricing pressures. We also expect that the acceleration of productivity growth will allow wages to go up, reflecting chronic labor shortages, without prices rising as greatly as they would absent the productivity factor.

In last Wednesday's *Morning Briefing*, we wrote: "We are also raising our inflation forecast. We expect the headline PCED to increase 4.5% this year and 3.5% next year. It was 4.3% y/y during August. We expect it will range between 4.0% and 5.0% through mid-2022. Then it should moderate to 3.0%-4.0% during the second half of next year. We won't be surprised if the FOMC decides to raise the Fed's inflation target from 2.0% to 3.0% next year."

Let's review the latest relevant inflation data, recognizing that an important piece of the puzzle will come out on Friday in October's Employment Report, namely average hourly earnings, the monthly measure of wages:

(1) *Small business owners feeling the heat.* There is a high correlation between the percent of small business owners (SBOs) planning to raise their average selling prices and the percent planning to raise worker compensation within the next three months (*Fig. 1*). Both series come from the monthly survey conducted by the National Federation of Independent Business. During September, both were at record highs, of 46% and 30%, respectively.

The percent of SBOs planning to raise worker compensation is a good monthly coincident indicator of the y/y growth rate of the quarterly Employment Cost Index, including wages, salaries, and benefits in private industry, which rose to 4.1% during Q3, the highest reading since Q4-2001 (*Fig. 2*).

The percent of SBOs with positions that they are unable to fill currently rose to a record 50.0% during the three months through September (*Fig. 3*). This series is a good leading indicator for the Atlanta Fed's wage growth tracker overall and for job switchers (*Fig. 4*).

(2) *Consumer prices.* The bad news is that the percent of SBOs raising their selling prices is a good indicator of the core PCED inflation rate on a y/y basis (*Fig. 5*). The good news is that the latter was 3.6% during September and during the past four months through September.

More bad news is that the headline PCED increased 4.4% y/y in September, the highest pace since January 1991 (*Fig. 6*). Food and energy prices rose 4.1% and 24.9% y/y (*Fig. 7*). More good news is that the three-month annualized percentage changes in both the headline and core PCED inflation rates were 4.3% and 3.3% during September, well below their early summer peaks of 6.7% for both (*Fig. 8*).

(3) *GDP deflators.* The headline and core GDP price deflators rose 4.6% and 4.0% y/y during Q3 (*Fig. 9*). They are the highest readings since Q1-1983 for the former and matching its record high during H1-1989 for the latter. Here are the comparable Q3 inflation readings for the various components of the GDP deflator: headline and core personal consumption expenditures (PCE) (4.3%, 3.6%); PCE durables, nondurables, and services (7.0, 4.8, 3.5); residential investment total, single-family, multi-family (12.0, 12.7, -0.3); nonresidential fixed investment total, equipment, intellectual property, and structures (1.5, 0.4, 0.8, 5.9); exports (17.2); and imports total and ex-petroleum (9.0, 5.5). (See our *GDP Deflators* chart book.)

GDP: A Whiff of Stagflation. Q3's real GDP rose just 2.0% (saar), down from 6.7% during Q2. Excluding the boost from less inventory liquidation during the quarter, real final sales of domestic product fell 0.1% (*Fig. 10*). This weakness was widely attributed to supply-chain disruptions. That's part of the story. The other part is that those disruptions contributed to the jump in consumer prices that offset personal income growth. The stagnation in real incomes explains why real consumer spending rose just 1.6% during Q3, down from 12.0% during Q2 (*Fig. 11*). Here are a few other observations about the latest GDP report:

(1) *Motor vehicles.* Supply disruptions certainly depressed real consumer spending on new motor vehicles, which fell 68.1% (saar) during the quarter (*Fig. 12*). As a result of parts shortages, retail auto inventories have declined for three quarters in a row. The domestic auto inventory-to-sales ratio plunged to a record-low 0.5 during September. Normally, the ratio tends to fluctuate around 2.5 (*Fig. 13*). The good news is that once the parts are available again, there will be lots of pent-up demand and plenty of room on the dealer lots for restocking.

(2) *Residential investment.* Supply-chain disruptions, labor shortages, high materials costs, and soaring home prices weighed on real residential investment during Q3. It fell 7.7% (saar).

(3) *Nonresidential investment.* Real capital spending edged up 1.8% (saar) during Q3, led by a 12.2% increase in intellectual property products that more than offset declines of 7.3% and 3.2% in structures and equipment (*Fig. 14*).

Equipment includes information processing (-5.8%, saar), industrial (11.2, to record high), transportation (-18.6), and other equipment (0.4). Intellectual property products include software (15.7, to record high), R&D (9.5), and entertainment/literary/artistic (10.9).

Altogether, spending on IT equipment, software, and R&D in Q3 real GDP rose 10.9% y/y to a record high, accounting for half of current-dollar capital spending (*Fig. 15* and *Fig. 16*).

(4) *Trade.* On an inflation-adjusted basis, US exports of goods and services has yet to fully recover from last year's drop, and it has been relatively flat since Q4-2020 (*Fig. 17*). On the other hand, real imports rose to a new record high during Q1 and continued to do so through Q3. The real trade deficit was a record $1.3 trillion (saar) during Q3 (*Fig. 18*). In other words, some of the monetary and fiscal stimulus provided by Washington has leaked abroad through the trade deficit, contributing to global supply-chain disruptions.

Movie. "De Gaulle" (+ +) (*link*) is a docudrama about the life and times of Charles de Gaulle just before and during World War II. He was a French army officer and statesman who led Free France against Nazi Germany in World War II. He chaired the Provisional Government of the French Republic from 1944 to 1946 in order to reestablish democracy in France. He served as the president of France from 1959 to 1969. Objecting to the French government's armistice with Germany, de Gaulle fled to England. He worked relatively well with Winston Churchill. In regular radio broadcasts over the BBC, he called on his countrymen to resist the Nazi occupation and to support the French resistance.

Calendars

US: Mon: ISM & IHS Markit M-PMI 60.5/59.2, ISM Price Index 78.5, Construction Spending 0.4%, Motor Vehicle Sales, Weekly Crude Oil Inventories. **Tues:** None. (Bloomberg estimates)

Global: Mon: Germany Retails 0.6%m/m/1.8%y/y, Japan M-PMI 54.0, RBA Interest Rate Decision 0.10%, BOJ Monetary Policy Statement. **Tues:** Eurozone, Germany, France, Italy, and Spain M-PMIs 58.5/58.2/53.5/59.7/58.2, Australia Unemployment & Participation Rates 3.9%/70.6%, China Caixin NM-PMI, Debelle. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index turned in its fourth straight weekly rise last week, gaining 1.2% and ending the week at a record high. The US MSCI ranked eighth of the 49 global stock markets that we follow in a week when 16 of the 49 countries rose in US dollar terms. The AC World ex-US index performed worse, falling 0.8% to 3.5% below its June 15 record high, as nearly all regions fell. EMU was the best-performing region last week, with a gain of 0.3%, ahead of EAFE (-0.1%). BRIC was the biggest underperformer with a decline of 3.3%, followed by EM Asia (-2.3), EM Eastern Europe (-1.6), EMEA (-1.2), and EM Latin America (-1.2). Egypt was the best-performing country last week, with a gain of 5.5%, followed by Pakistan (5.1), Sri Lanka (3.9), Argentina (3.4), and Belgium (2.3). Norway was the worst performer, with a decline of 5.4%, followed by China (-4.3), South Africa (-4.2), Peru (-3.6), and the Philippines (-3.2). In October, the

US MSCI rose 6.9% for its eighth gain in nine. The index ranked 7/49 as the AC World ex-US index underperformed with a gain of 2.3%. Thirty-eight of the 49 countries moved higher in October as most regions rose. EMU rose 3.8% in October, ahead of EM Eastern Europe (3.7), EMEA (3.2), and EAFE (2.4). EM Latin America was October's worst-performing region with a decline of 5.4%, followed by EM Asia (1.2) and BRIC (1.3). Egypt was the best performer with a gain of 15.2%, followed by Peru (13.4), Argentina (10.8), Pakistan (9.3), and Indonesia (8.3). The worst-performing countries in October: Brazil (-9.1), Chile (-7.5), Japan (-3.4), Korea (-2.3), and the Czech Republic (-1.0). EM Eastern Europe is still the top-performing region ytd, with a gain of 28.1%, ahead of EMEA (28.0), the United States (22.0), EMU (12.1), EAFE (8.8), and the AC World ex-US (6.3). The following regions are lagging the AC World ex-US: EM Latin America (-14.0), BRIC (-6.9), and EM Asia (-4.3). The top-performing countries ytd: Argentina (34.6), Austria (33.8), the Czech Republic (32.7), Russia (31.3), and the Netherlands (30.1). The biggest laggards of 2021 so far: Brazil (-23.9), Turkey (-22.4), Pakistan (-20.6), Peru (-19.1), and Chile (-15.6).

S&P 1500/500/400/600 Performance (*link*): LargeCap rose 1.3% last week and registered its fourth straight weekly gain, but MidCap (-0.1%) was down for the first time in four weeks and SmallCap (-0.3) dropped after six straight gains. LargeCap ended the week at a new record high. MidCap finished the week 0.6% below its October 25 record high and SmallCap remains 2.7% below its June 8 record. Fifteen of the 33 sectors were higher for the week, compared to 29 sectors rising a week earlier. LargeCap Consumer Discretionary was the best performer of the week, with a gain of 4.0%, ahead of MidCap Tech (2.8), LargeCap Communication Services (2.0), LargeCap Tech (2.0), and LargeCap Health Care (1.6). MidCap Energy was the worst performer, with a decline of 3.9%, followed by MidCap Financials (-2.5), SmallCap Energy (-2.4), SmallCap Financials (-1.6), and SmallCap Communication Services (-1.6). LargeCap rose 6.9% during October, ahead of the gains for MidCap (5.8) and SmallCap (3.4) as 32 of the 33 sectors rose. October's best performers: LargeCap Consumer Discretionary (10.9), LargeCap Energy (10.2), MidCap Tech (8.5), LargeCap Tech (8.1), and MidCap Industrials (7.9). October's biggest underperformers: SmallCap Communication Services (-1.3), SmallCap Health Care (0.1), MidCap Health Care (1.8), SmallCap Consumer Discretionary (2.2), and SmallCap Consumer Staples (2.3). SmallCap continues to lead in the 2021 derby with a gain of 23.0% ytd, but barely so as LargeCap (22.6) is close on its heels, having recently moved ahead of MidCap (21.1). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (84.9), MidCap Energy (69.9), LargeCap Energy (52.4), LargeCap Financials (36.4), and SmallCap Consumer Discretionary (35.1). The biggest laggards so far in 2021: MidCap Communication Services (2.3), MidCap Consumer Staples (5.2), LargeCap Consumer Staples (6.4), LargeCap Utilities (6.5), and SmallCap Health Care (7.8).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.3% gain. That compares to a 1.6% rise for the S&P 500 a week earlier, when ten sectors rose and five outperformed the index. Consumer Discretionary was the best performer, with a gain of 4.0%, ahead of Communication Services (2.0%), Tech (2.0), and Health Care (1.6). The worst performers this week: Financials (-0.9), Energy (-0.8), Utilities (-0.5), Industrials (-0.3), Consumer Staples (0.0), Real Estate (0.3), and Materials (0.3). The S&P 500 rose 6.9% in October as all 11 sectors moved higher and six beat the broader index. That compares to just one sector rising in September, when four beat the S&P 500's 4.8% decline. The leading sectors in October: Consumer Discretionary (10.9), Energy (10.2), Tech (8.1), Materials (7.6), Real Estate (7.5), and Financials (7.1). October's market underperformers: Communication Services (2.6), Consumer Staples (3.7), Utilities (4.7), Health Care (5.1), and Industrials (6.8). With respect to 2021's performance, the S&P 500 has risen 22.6% 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 52.4% ytd, followed by Financials (36.4), Real Estate (31.1), Communication Services (24.0), and Tech (23.8). This year's laggards to date, albeit with gains: Consumer Staples (6.4), Utilities (6.5), Materials (17.3), Health Care (17.8), Industrials (17.8), and Consumer Discretionary (21.7).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.3% 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 a third week after two weeks below, and was above its 200-dma for a 70th straight week. The S&P 500's 50-dma moved higher for a third week after falling for two weeks for the first time since last October. The index improved to 3.2% above its rising 50-dma from 2.2% above a week earlier and is up from an 11-month low of 2.0% below in early October. 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 70th week last week, and improved to 9.1% above its rising 200-dma from 8.2% above a week earlier and an 11-month low of 5.0% at the beginning of October. 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, up from nine a week earlier as Health Care moved back above. Communication Services is the only sector still below its 50-dma. That compares to just two sectors above in early October and all 11 sectors above at the beginning of May. Seven sectors now have a rising 50-dma, up from five a week earlier as Industrials and Materials turned higher w/w. That leaves Communication Services, Consumer Staples, Health Care, and Utilities as the only four sectors with a falling 50-dma. Looking at the more stable longer-term 200-dmas, all sectors were above for a second week, up from nine at the beginning of October when Materials and Utilities dropped out of the club for one week. All 11 sectors have had rising 200-dmas for 33 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

GDP (*link*): Real GDP expanded 2.0% (saar) last quarter, the slowest rate since the expansion began—and only one-third the growth rates of 6.7% and 6.3% recorded during Q2 and Q1, respectively. The less negative change in inventory investment (to -$77.7 billion from -$168.5 billion) during the quarter was the biggest positive contributor to real GDP growth. Final sales (-0.1%, saar) slowed to a standstill during Q3—after big gains of 8.1% and 9.1% the prior two quarters. A resurgence of Covid-19 slowed real consumer spending growth dramatically last quarter, to 1.6% (saar), following double-digit gains of 12.0% and 11.4% the prior two quarters, as new restrictions and delays in the reopening of establishments in some parts of the country impacted spending. Real nonresidential investment (1.8%, saar) also expanded at a dramatically slower pace last quarter, following average quarterly gains of 11.5% the prior three quarters, as companies continued to be impacted by supply and labor shortages. A double-digit gain in intellectual property products (12.2%, saar) last quarter—its fourth in as many quarters—helped to more than offset declines in spending on structures (-7.3) and equipment (-3.2). Real government spending (0.8%, saar) was in the plus column, but barely, as an increase in state & local government spending more than offset a decline in federal government expenditures. Net exports (-$1,312 billion from -$1,245 billion) was a big negative contributor to growth, swelling to yet another record deficit last quarter, as imports (6.1%, saar) posted another strong increase and exports (-2.5) fell. Real residential investment (-7.7%, saar) was also in the red, contracting sharply for the second quarter following a three-month surge.

Contributions to GDP Growth (*link*): Real Inventory was the biggest positive contributor to

Q3 real GDP growth, followed by consumer spending, with real nonresidential investment and real government spending modest contributors. Trade and real residential investment subtracted from growth last quarter: Here's a look at the contributions from highest to lowest: 1) Inventory investment (+2.07ppts) contributed to real GDP growth for the first time in three quarters—all nonfarm (+2.14). 2) Real consumer spending added only 1.09ppts to Q3 GDP—after contributing 7.92ppts and 7.44pts the prior two quarters. Services consumption (+3.40ppts) contributed positively to Q3 growth, while goods consumption (-2.32) contributed negatively—with durable goods consumption (-2.70) accounting for the decline. 3) Real nonresidential investment added 0.24ppt to Q3 real GDP, as a positive contribution from intellectual property products (+0.61ppt) more than offset negative contributions from structures (-0.19) and equipment (-0.18). 4) Government (+0.14ppt) spending was a small positive contributor to Q3 growth, with state & local (+0.46ppt) spending driving the gain. 5) Real residential investment (-0.38ppt) subtracted from growth for the second quarter, after contribution positively from Q3-2020 through Q1-2021. 6) Real net exports (-1.14ppt) was a drag on economic growth last quarter, with both imports (-0.87) and exports (-0.28) subtracting from growth.

Personal Income & Consumption (*link*): Personal income fell 1.0% in September, as this measure continues to be influenced by movements in government social benefits, while wages & salaries continued to head straight up to new record highs. Wages & salaries increased for the 17th month since bottoming last April, climbing 0.8% m/m and 18.9% over the period. Personal consumption expenditures in September posted its eighth increase this year, climbing 0.8% m/m and 11.6% ytd to a new record high, while real spending has increased 7.4% so far this year, also to a new record high. Real consumer spending was the second largest contributor to Q3 GDP growth, though its overall pace slowed appreciably last quarter. The rebound in consumer spending this year has lowered personal saving from a recent peak of $5.8 trillion this March to $1.3 trillion by September—the lowest level since the start of last year. The personal saving rate has dropped from 26.6% to 7.5% over the period, to its lowest percentage since December 2019.

Personal Consumption Deflator (*link*): September's PCED advanced 0.3%, matching August's gain, with core prices rising 0.2%—a slowdown from 0.3% the prior two months. The yearly headline rate was up 4.4% y/y, the highest since January 1991; it was at 1.4% a year ago. The core rate was at 3.6% y/y for the fourth successive month in September, more than double the 1.6% rate a year ago and the highest since mid-1991. Looking at the three-month percent changes, annualized, the core rate slowed to 3.3% (saar), down from its recent peak of 6.7% in June, with durable goods (to 5.8% from 19.7%) and services ex energy (3.1 from 4.9) gains all slowing from their recent respective peak rates. Looking at the three-month percent changes in core goods' prices through September, annualized, there has been a continued slowdown in prices versus their recent peak rates in the following categories—with some rates turning negative: used motor vehicles (to -4.3 from 116.2), clothing & footwear (-3.7 from 9.3), video, audio & information processing equipment (-1.7 from 5.3), new motor vehicles (17.2 from 21.3), and sports & recreational vehicles (6.0 from 15.0). Here's the list of prices that accelerated the past three months from their recent respective lows: motor vehicle parts (11.8 from 5.1) and furniture & home furnishings (10.8 from 6.5). Looking at the same three-month exercise for services, there is an acceleration in both owner-occupied (3.9 from 1.4) and tenant (3.7 from 1.2) rents from recent lows, while a recent acceleration in hospital services (3.1) pushed the overall health care (2.6) rate higher. Meanwhile, rates for food services & accommodations (5.1 from 11.9) and recreation services (4.0 from 7.0) have slowed sharply, while the rate for transportation services (to -9.5 from 24.1) turned negative—with airfares down 26.1% over the three-month period.

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) was little changed from the mid-October reading of 71.4. It continued to bounce around the lows of the pandemic driven by concerns about inflation and the government's economic policies. The CSI slumped from 72.8 to 71.7 last month, back near August's 70.3—which was the lowest since December 2011. Both the present situation (to 77.7 from 80.1) and expectations (67.9 from 68.1) components fell this month, down from recent highs of 97.2 and 83.5 during April and June, respectively. The expected inflation rate jumped to 4.8%—the highest since 2008—and it was "the first major spike in inflation uncertainty recorded outside a recession," noted Richard Curtin (the survey director). Declining living standards due to inflation were spontaneously mentioned by one of every five households—concentrated among older and poorer households.

Regional M-PMIs (*link*): All five Fed districts—New York, Philadelphia, Dallas, Richmond, and Kansas City—now have reported on manufacturing activity for October, and they show the manufacturing sector continued to expand at a steady pace. The composite index climbed to 20.3 in October from 17.7 in September and 16.9 in August—though it's slower than the pace during the five months through July, which averaged 29.0. The Kansas City (to 31.0 from 22.0) region saw manufacturing activity expand at a record pace during October, while growth in both the Dallas (to 14.6 from 4.6) and Richmond (12.0 from -3.0) regions accelerated—with the latter moving from contraction to expansion. Meanwhile, the Philadelphia (to 23.8 from 30.7) and New York (to 19.9 from 34.3) regions saw slower, though still elevated growth. New orders expanded at more than double the September pace, accelerating to 21.4 last month after slowing steadily from 25.6 in April to 9.4 in

September. Billings in the Philadelphia (to 30.8 from 15.9), Kansas City (27.0 from 7.0), Dallas (14.9 from 9.5), and Richmond (10.0 from -19.0) regions showed stronger growth—with Richmond's moving back into expansionary territory; New York's (24.3 from 33.7) order growth slowed, though beat both Dallas' and Richmond's. Job gains remained solid in October, with the employment (to 27.4 from 22.8) measure showing job growth holding around this rate for the seventh month—more than double last October's rate. Philadelphia (to 30.7 from 26.3), Dallas (28.3 from 26.3), Richmond (27.0 from 20.0), and Kansas City (34.0 from 21.0) factories showed an acceleration of growth—Kansas City's at a record rate—with all four hiring at a faster pace than New York's (17.1 from 20.5) factories.

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for October from the Philadelphia, New York, Richmond, Kansas City, and Dallas regions, and they all show inflationary pressures remain intense. The Philadelphia, New York, Kansas City, and Dallas measures are diffusion indexes, while Richmond's measures are average annualized inflation rates (which we multiply by 10 for easier comparison to the other regional measures). The average of the five shows the prices-paid overall (to 88.5 from 88.7) measure was little changed from September's record pace, with Kansas City's (87.0 from 80.0) measure reaching a new record high, while New York's (78.7 from 75.7) gauge moved back up toward its record high of 83.5 in May. Meanwhile, Dallas' (to 76.3 from 80.4) measure continues to bounce in a volatile flat trend just below June's record high of 80.8, while Richmond's (130.4 from 140.1) eased a bit from September's record pace. Philadelphia's (70.3 from 67.3) prices-paid measure remains on a decelerating trend since reaching a record high of 80.7 in June, despite October's uptick. The prices-received (to 57.1 from 55.2) measure is moving back up toward August's record-high 58.3, as Richmond (to 94.2 from 91.3) and Dallas (49.8 from 44.0) gauges both reached new record highs last month, while Philadelphia's (51.1 from 52.9) held near July's record high of 53.9. New York's prices-received (to 43.5 from 47.8) gauge eased from September's record high, while Kansas City's (47.0 from 40.0) accelerated though remains considerably below August's record-high 61.0.

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): The Economic Sentiment Index (ESI) for both the EU (+1.0 points to 117.6) and Eurozone (+0.8 point to 118.6) moved higher in October, climbing back toward their July record highs of 118.0 and 119.0, respectively. Five of the six largest EU economies moved higher last month: Spain (+2.5 points to 111.9), France (+2.1 to 113.3), Italy (+1.8 to 118.6), Poland (+1.5 to 106.6), and the Netherlands (+1.4 to 112.4), while Germany's (-0.5 to 117.5) ticked down from September's record high of 118.0. For the overall Eurozone, at the sector level, construction confidence advanced for the third month, by 4.9 points to 8.9, while industrial confidence (14.2) held around July's record high of 14.5. Service (18.2) and consumer (-4.8) confidence held around recent highs—with the former 7.0 points above its pre-pandemic level. Meanwhile, retail trade confidence (2.0) is down from its recent peak of 4.7 in June.

Eurozone GDP Flash Estimates (*link*): Real GDP improved during Q3 by a larger-than-expected 2.2% (saar), from 2.1% during Q2 and -0.3% during Q1, as pandemic-related restrictions were relaxed further. The Eurozone's Q3 reading is within half a percent of its pre-pandemic level—with France (-0.1%) virtually reversing its Covid-related decline. Looking at the four largest economies, France's (3.0%, saar) GDP posted the strongest growth (outpacing the overall Eurozone) last quarter, boosted by strong consumer spending and a reopening of some key sectors, followed by Italy's (2.6)—which was surprise on the upside. Meanwhile, Spain's (2.0) real GDP growth was weaker than the 2.7% expected increase, though was nearly double Q2's 1.1%. Germany (1.8) posted the slowest growth, as it continued to be challenged by supply bottlenecks; it remains 1.2% before its pre-pandemic level. While the Eurozone's Q3 GDP growth was a surprise on the upside, forecasts for Q4 represent a slowing of growth to a near standstill as the boost from the reopening of the economy subsides while supply-chain disruptions remain, continuing to hinder growth.

Eurozone CPI Flash Estimate (*link*): October's CPI headline rate is expected to accelerate for the fourth month, to 4.1% y/y—the highest since July 2008—after slowing from a then-30-month high of 2.0% in May to 1.9% in June. Looking at the main components, once again energy (23.5% y/y) is forecast to post the biggest gain—recording its largest year-over-year increase on record, while the services inflation rate is expected to pick up for the fourth successive month, from 0.7% in June (which was the slowest since the end of 2020) to 2.1% y/y in October. Meanwhile, the yearly rate for food, alcohol & tobacco is expected to be at 2.0% y/y for the third month, while the rate for non-energy industrial goods is forecast to slow for the second month to 2.1% y/y after accelerating from 0.7% in July to 2.6% in August—which was the highest rate since the mid-1990s. Of the top four Eurozone economies, rates for Spain (5.5% y/y) and Germany (4.6) are expected to be above the headline rate of 4.1%, while rates for Italy (3.1) and France (3.2) are expected to be below.

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