MORNING BRIEFING
November 8, 2021

Transitory or Persistent?

Check out the accompanying chart collection.

(1) Distracting from the message. (2) Powell defines “transitory.” It’s not “persistent.” (3) Powell may be transitory. (4) End of federal jobless benefits seems to have boosted employment. (5) Our Earned Income Proxy at new high again. (6) More full-time jobs, less long-term unemployment. (7) Lower-wage workers beating inflation, while higher-wage workers are not. (8) Supply disruptions and labor shortages depressed productivity and boosted unit labor costs during Q3. (9) The case for the Roaring 2020s. (10) Labor shortages are chronic because they are in DNA of population. (11) Movie review: “Finch” (+).

Bulletin Board. I discuss my new book *In Praise of Profits!* in a *Barron’s* op-ed this week titled “All Americans—Not Just the Wealthy—Are Better Off Than Ever.” You may download a complimentary copy of the book here and see excerpts here. Please review it on Amazon if you have the time and inclination.

Our Monday morning 11 a.m. webinars are a big hit. You will receive the invitation to them an hour before showtime. You can watch reruns here.

The Fed: More Word Games. In his November 3 press conference, following the latest meeting of the FOMC, Fed Chair Jerome Powell used the word “transitory” six times when he discussed this year’s surge in the inflation rate. Nevertheless, he acknowledged that using the word might not actually help to convey the Fed’s message: “[I]t’s become a word that’s attracted a lot of attention that maybe is distracting from our message, which we want to be as clear as possible.”

Powell also attempted, rather laboriously, to explain what the FOMC means by word: “[F]or us, what transitory has meant is that if something is transitory, it will not leave behind it permanently or very persistently higher inflation.” He added, “[W]e’re trying to explain what we mean and also acknowledging more uncertainty about transitory.”

Is that clear? Inflation is transitory, but uncertainly so.

Additionally, Powell used forms of a word that’s the antithesis of “transitory”—i.e., "persistent"—11 times in the presser, when discussing the risk that inflation might not be so transitory after all. He attributed this risk to supply-chain disruptions: "We see shortages and bottlenecks persisting into next year, well into next year. We see higher inflation persisting, and we have to be in [a] position to address that risk … should it create a threat of more persistent, longer-term inflation, and that's what we think our policy is doing now. It's putting us in a position to be able to address the range of plausible outcomes."

Is that clear? Higher inflation is likely to persist, but not for long because the Fed is on it!

The policy referred to is the FOMC's decision to start tapering its $120 billion in monthly bond purchases by $15 billion per month so that these purchases will end by June of next year. Then the Fed can start raising interest rates if necessary to bring inflation down. In other words, the Fed will continue to fill the punch bowl with liquidity, but at a slower pace through mid-2022 until further notice.

The two-year US Treasury note yield recently peaked at 0.51% on November 1 and fell to 0.39% on Friday, November 5 (*Fig. 1*). The 12-month federal funds rate futures edged down to 0.36% on Friday. The 10-year US Treasury bond yield recently peaked at 1.70% on October 21 and fell to 1.45% on Friday (*Fig. 2*). This all suggests that the fixed-income markets are still expecting that the Fed will increase the federal funds rate by 25bps once or maybe twice during the second half of next year.

So despite his strained and often obtuse or conflicting verbiage, Powell is doing a good job of communicating the Fed's intentions. So far, the fixed-income markets haven't been betting against him by assuming that the Fed is behind the inflation curve, possibly necessitating raising interest rates sooner than expected and/or by more than Powell currently is signaling.

Nevertheless, Melissa and I still expect that Powell will be transitory, i.e., he probably won't be reappointed by President Joe Biden. Will his tolerance of higher inflation persist at the Fed if he is gone? Perhaps so, and then some: We expect that he will be replaced by a more progressive Fed chair such as Lael Brainard. We expect that the Fed will be even more "woke" next year than it has been under Powell over the past two years. If so, then we wouldn't be surprised to see the FOMC lift the Fed's inflation target from 2% to 3% next year.

US Labor Market I: Employment & Income. Last week brought more good news about the US labor market, which continues to recover. It seems to have been doing so faster after the supplemental federal unemployment benefit was terminated on September 6.

Weekly initial unemployment claims dropped below 300,000 during the October 9 week for the first time since the March 14, 2020 week (*Fig. 3*). They've remained under this pre-pandemic level through the week of October 30, when they were down to 269,000. Payroll employment rose 531,000 during October, after getting revised higher by 118,000 to 312,000 in September and by 117,000 to 483,000 in August. The private sector's payrolls rose 604,000 to 126.4 million during October, the highest since March 2020 though still 3.3 million below their record high during February 2020 (*Fig. 4*).

Here are some of the other upbeat developments in Friday's employment report:

(1) *Earned Income Proxy at record high.* Our Earned Income Proxy (EIP) for wages and salaries in the private sector jumped 1.5% m/m during September, auguring well for the month's personal income (*Fig. 5*). It is up 9.6% y/y through September. The problem is that the PCE deflator is up 4.4% y/y through September. Inflation has been offsetting some of the nominal income gains. As a result, our inflation-adjusted EIP was up a still solid 5.0% y/y through September (*Fig. 6*).

(2) *Full-time employment expanding.* Payroll employment measures the number of jobs, while household employment measures the number of workers with either a full-time job or one or more part-time jobs. Over the past 12 months through October, the former is up 5.8 million, while the latter is up 4.4 million. The number of full-time workers increased 4.7 million to 128.3 million, the highest reading since March 2020 but still 3.2 million below the record high during October 2019 (*Fig. 7*).

(3) *Unemployment rate falling.* The unemployment rate fell to 4.6% during October, the lowest since March 2020 (*Fig. 8*). The "short-term" unemployment rate for workers without a job for less than 27 weeks was 3.2%, little changed from September's 3.1% which was the lowest since February 2020, and down sharply from last year's peak of 14.1%. Interestingly, the "long-term" unemployment rate for workers without a job for 27 weeks or more peaked at 2.6% during February through April of this year and fell to 1.4% during October. This also lends credibility to the notion that the end of supplemental federal unemployment benefits at the start of September provided an incentive for more workers to find jobs.

(4) *Lower-wage workers beating higher-wage ones.* Debbie and I have figured out a simple way to calculate the average wage of higher-wage workers. We use the Bureau of Labor Statistics' data series, provided in its employment report, on both total average hourly

earnings (AHE) and the AHE for production and nonsupervisory workers (a proxy for lower-wage workers), who account for about 80% of total private payrolls. The higher-wage series rose 3.1% y/y to $51.70 during October, while the lower-wage series rose 5.8% to $26.30 (*Fig. 9* and *Fig. 10*). The gains of lower-wage workers have been exceeding price inflation in recent months, while price inflation has outpaced the wage gains of higher-wage workers. Upper-income households are in a better position to deal with higher inflation, especially since they've accumulated lots of savings since the start of the pandemic.

US Labor Market II: Productivity & Hourly Compensation. Some bad news last week was that economic growth in the nonfarm business sector slowed dramatically during Q3 to 1.7% (saar) as hours worked jumped by 7.0%, resulting in a big 5.0% drop in productivity (*Fig. 11*). Unit labor costs in the nonfarm business sector increased at an annual rate of 8.3%, reflecting a 2.9% increase in hourly compensation and 5.0% decrease in productivity (*Fig. 12*). This is the lowest rate of quarterly productivity growth since Q2-1981, when the measure decreased 5.1%.

Is the decade of the "Roaring 2020s" over already? Was it the mouse that roared? Here is why we don't think so:

(1) *Supply and demand disruptions.* While hours worked rose significantly during Q3, there were widespread reports of labor shortages. Key parts have also been in short supply. These supply-chain disruptions probably disrupted productivity significantly. On the demand side, these disruptions have stymied consumers from buying certain goods, especially motor vehicles. Debbie, Jackie, and I expect that the productivity growth rebound, which started in late 2015, will turn into a productivity growth boom over the rest of the Roaring 2020s.

(2) *Productivity growth trending higher.* We continue to monitor the 20-quarter percent change at an annual rate in nonfarm business productivity (*Fig. 13*). As a result of the setback during Q3, it edged down to 1.6% from a recent peak of 2.0% during Q2. It is still well above the most recent trough reading of 0.5% during Q4-2015.

(3) *Population growth slowing.* The labor shortage problem isn't going away. It is literally in the DNA of the population. The 60-month percent change at an annual rate in the civilian population was down to just 0.4% through December (*Fig. 14*). The working-age civilian population (16 years and older) has been growing a bit more quickly because seniors are living longer, but it was down to 0.6% through October.

(4) *Chronic labor force shortages.* The underlying growth rate in the working-age civilian population determines the underlying growth potential of the civilian labor force (*Fig. 15*). The 60-month percent change at an annual rate of the latter was just 0.2% through October. The Baby Boomers are retiring at a faster pace now that the eldest in this cohort turned 75 years old this year. Young new entrants into the labor force are barely replacing them.

So in addition to a significant slowdown in the working-age population in recent years, there has also been a significant drop in the labor force participation rate (*Fig. 16*).

The labor shortage is not transitory. It's not even persistent. It's permanent for the foreseeable future! More and more businesses are realizing this and responding by increasing their capital spending, particularly on technology, to boost the manual and mental productivity of the available labor force. That should allow wages to rise faster than prices, averting a 1970s-style wage-price spiral. As we've previously observed, productivity growth collapsed during the 1970s. It is likely to boom during the 2020s. So although higher inflation may be persistent for now, it isn't likely to be permanent.

Is that clearer than Powell's take on inflation?

Movie. "Finch" (+) (*link*) is a post-apocalyptic sci-fi comedy starring Tom Hanks in a movie similar to "Cast Away" (2000), in which Hanks is stranded on a deserted island in the Pacific. His only companion is "Mr. Wilson," a volleyball that he talks to in order to keep sane. In this movie, Hanks is one of the few survivors of a solar flare that destroys the ozone layer and turns Earth into a wasteland. His companions are a rescue dog named "Goodyear" and two robots, named "Duey" and "Jeff." The star of the show is Jeff, who looks like a skeletal version of C-3PO in "Star Wars" and is very funny. I am hoping for a sequel starring Jeff and Goodyear in a buddy road-trip movie. Hanks won't be needed in that film.

Calendars

US: Mon: Loan Officer Survey. **Tues:** Headline & Core PPI 0.6%m/m/8.6%y/y & 0.5%m/m/6.8%y/y, NFIB Small Business Optimism, WASDE Report, Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Investor Confidence 15,5, Japan Leading & Coincident

Indicators, Japan Current Account ¥1.06t, Australia Business Confidence. **Tues:** Germany ZEW Economic Sentiment 20.0, Germany Trade Balance €13.5b, China New Loans, China CPI & PPI 1.4%/12.0% y/y, Australia Westpac Consumer Sentiment. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index turned in its fifth straight weekly rise last week, gaining 1.9% and ending the week at a record high. The US MSCI ranked 20th of the 49 global stock markets that we follow in a week when 36 of the 49 countries rose in US dollar terms. The AC World ex-US index performed worse, rising 1.1% to 2.4% below its June 15 record high, as nearly all regions rose. EMU was the best-performing region last week, with a gain of 2.3%, ahead of EM Latin America (2.2%) and EAFE (1.6). BRIC was the biggest underperformer with a decline of 0.8%, followed by EM Asia (-0.5), EM Eastern Europe (0.7), and EMEA (0.8). Chile was the best-performing country last week, with a gain of 7.5%, followed by Argentina (6.6), the Czech Republic (6.1), Austria (4.7), and the Philippines (4.4). Portugal was the worst performer, with a decline of 2.8%, followed by Malaysia (-2.5), China (-2.2), Colombia (-2.2), and Peru (-1.9). EM Eastern Europe is now tied with EMEA as the top-performing regions ytd, each with gains of 29.1%, ahead of the United States (24.3), EMU (14.7), EAFE (10.5), and the AC World ex-US (7.5). The following regions are lagging the AC World ex-US: EM Latin America (-12.1), BRIC (-7.6), and EM Asia (-4.8). The top-performing countries ytd: Argentina (43.4), the Czech Republic (40.8), Austria (40.1), the Netherlands (33.5), and Russia (31.8). The biggest laggards of 2021 so far: Brazil (-22.5), Peru (-20.7), Pakistan (-20.6), Turkey (-19.2), and China (-17.1).

S&P 1500/500/400/600 Performance (*link*): LargeCap rose 2.0% last week and registered its fifth straight weekly gain, but SmallCap led the way as it soared 6.5% for its biggest gain since mid-April and was also ahead of MidCap (4.0%). All three indexes ended the week at a record high and SmallCap was at a record for the first time since early June. Thirty-one of the 33 sectors were higher for the week, compared to 15 sectors rising a week earlier. SmallCap Industrials was the best performer of the week, with a gain of 8.4%, ahead of SmallCap Consumer Discretionary (8.3), SmallCap Tech (8.0), SmallCap Communication Services (7.0), SmallCap Consumer Staples (6.8), and MidCap Consumer Discretionary (6.8). LargeCap Health Care was the worst performer, with a decline of 0.7%, followed by LargeCap Financials (-0.6), LargeCap Utilities (0.4), MidCap Communication Services (0.6), and LargeCap Real Estate (0.8). SmallCap pulled further ahead in the 2021 derby to a gain of 31.0% ytd, ahead of MidCap (25.9) and LargeCap (25.1). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (93.2), MidCap Energy (73.4), LargeCap Energy (54.5), SmallCap Consumer Discretionary (46.4), and SmallCap Communication Services (38.3). The biggest laggards so far in 2021: MidCap Communication Services (3.0), LargeCap Utilities (7.0), MidCap Consumer Staples (8.9), LargeCap Consumer Staples (9.0), and MidCap Utilities (9.8).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 2.0% gain. That compares to a 1.3% rise for the S&P 500 a week earlier, when seven sectors rose and four outperformed the index. Consumer Discretionary was the best performer for a second straight week, with a gain of 5.0%, ahead of Tech (3.3%), Materials (3.2), and Consumer Staples (2.4). The worst performers this week: Health Care (-0.7), Financials (-0.6), Utilities (0.4), Real Estate (0.8), Energy (1.3), Communication Services (1.4), and Industrials (1.8). With respect to 2021's performance, the S&P 500 has risen 25.1% so far, with all 11 sectors higher ytd and six beating the broader index. Energy remains in the top spot as the leading sector with a gain of 54.5% ytd, followed by Financials (35.6), Real Estate (32.2), Tech (27.9), Consumer Discretionary (27.8), and Communication Services (25.7). This year's laggards to date, albeit with gains: Utilities (7.0), Consumer Staples (9.0), Health Care (17.0), Industrials (20.0), and Materials (21.0).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 2.0% 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 fourth week after two weeks below, and was above its 200-dma for a 71st straight week. The S&P 500's 50-dma moved higher for a fourth week after falling for two weeks for the first time since last October. The index improved to a 27-week high of 4.9% above its rising 50-dma from 3.2% 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 71st week last week, and improved to a nine-week high of 10.8% above its rising 200-dma from 9.1% 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*): All 11 S&P 500 sectors traded above their 50-dmas last week, up from ten a week earlier, as Communication Services moved back above after being below for six weeks. That compares to just two sectors above in early October and all 11 sectors above at the beginning of May. Eight sectors now have a rising 50-dma, up from seven a week earlier, as Consumer Staples turned higher w/w. That leaves Communication Services, Health Care, and Utilities as the only three sectors with a falling 50-dma. Looking at the more stable longer-term 200-dmas, all sectors were above for a third 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 34 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

Employment (*link*): Payroll employment was above expectations in October after falling short the prior two months—and there were big upward revisions to payrolls in both September and August. Payroll employment rose 531,000 (vs consensus estimate of 450,000) in October, while both September (to 312,000 from 194,000) and August (483,000 from 366,000) payrolls were revised higher for a net gain of 235,000. Total payroll employment has recovered 18.2 million jobs since bottoming last April, though is still 4.2 million below its pre-pandemic level. Private payrolls expanded 604,000 last month, with revisions to September (to 365,000 from 317,000) and August (504,000 from 332,000) boosting employment by 220,000. Service-providing jobs added 496,000 in October after slowing to a five-month low of 300,000 in September, while goods-producing jobs added 108,000—roughly triple the average monthly gain of 38,000 the first nine months of the year. Industries posting the largest gain last month were leisure & hospitality (164,000), professional & business services (100,000, including a 41,000 gain in temporary help services), manufacturing (60,000), transportation & warehousing (54,000), construction (44,000), health care (37,000), retail trade (35,000), other services (33,000), financial activities (21,000), and wholesale trade (14,000). Meanwhile, government employment fell 73,000 last month, led by declines of 43,400 and 21,500 in local and state government education employment, respectively. Here's a tally of industry performances from strongest to weakest since bottoming last April, and where they stand relative to last February's pre-pandemic levels: leisure & hospitality (+6.8 million & -1.4 million), retail trade (+2.2 million & -139,700), professional & business services (+2.2 million & -216,000, led by temporary-help services, +824,700 & -173,300), health care (+1.2 million & -459,500), manufacturing (+1.1 million & -270,000), construction (+963,000 & -150,000), transportation & warehousing (+723,500 & +148,900), social assistance (+513.800 & -187,600), education (+376,900 & -148,300), financial activities (+286,000 & +7,000), wholesale trade (+251,700 & -157.500), information services (+159,000 & -122,000), and mining & logging (+29,000 & -39,000). Here's the same exercise for both local (+88,200 & -369.500) and state (+17,300 & -204,700) government education jobs.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 17th increase in the past 18 months—up 0.5% in October and 21.9% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.9% over the past eight months. The average hourly earnings component of the EIP climbed 0.4% during October though only 3.0% during the 18 months through October—as large employment fluctuations since February 2020 had complicated the analysis of recent trends in average hourly earnings. Things are back on track, as average hourly earnings rose 4.9% y/y in October, up from 0.3% y/y in April. Meanwhile, aggregate weekly hours, the EIP's other component, advanced for the 16th time in 18 months, by 0.2% m/m and 18.4% over the period.

Unemployment (*link*): October's unemployment rate sank to a 19-month low, while the participation rate continued to move sideways. The unemployment rate dropped for the fourth successive month, from 5.9% in June to 4.5% last month, as the number of unemployed fell 255,000 and 2.1 million over the comparable periods to 7.4 million. The former was at 3.5% before the pandemic hit, while the latter was at 5.7 million. The participation rate remained at 61.6% last month—1.7ppts below its pre-pandemic reading. By race, unemployment rates continued to fall for Whites (to 4.0% from 4.5%) and Hispanics (5.9 from 6.4)—to their lowest readings since March and February 2020, respectively—while the rates for African Americans (7.9) and Asians (4.2) held at their September levels—which were the lowest since March 2020. By education, the rates for those with less than a high school degree (to 7.4 from 7.9) and with a high school degree (5.4 from 5.8) showed the biggest declines last month, while those with some college (4.4 from 4.5) or a bachelor's degree and higher (2.4 from 2.5) ticked slightly lower; rates for the first three were their lowest since March 2020, while the latter's was its lowest since February 2020.

Productivity & Unit Labor Costs (*link*): Nonfarm productivity fell last quarter, as supply shortages continued to impact output, causing a sharp acceleration in unit labor costs. Productivity contracted 5.0% (saar) during Q3 (the steepest decline since Q2-1981's -

5.1%), after rising 2.4% during Q2 and 4.3% during Q1. Real output (to 1.7% from 8.5%) growth slowed appreciably last quarter, while hours worked (7.0 from 5.9) picked up. Unit labor costs (to 8.3% from 1.1%) spiked as productivity growth plunged; hourly compensation (2.9 from 3.5) gains slowed last quarter and fell 3.5% adjusted for inflation. Productivity can be volatile. Over the past four quarters, nonfarm productivity fell 0.5% y/y, with output and hours worked rising 6.1% and 6.7%, respectively; unit labor costs climbed 4.8% y/y, with hourly comp up 4.3%. We track the five-year growth rate of productivity, and we expect it to continue to trend higher despite Q3's decline. The five-year rate was 1.6% during Q3, basically tripling since Q4-2015's 0.5%. It had increased to 2.0% during Q2 of this year.

Merchandise Trade (*link*): The real merchandise trade deficit widened to a record $111.0 billion in September after narrowing from a then-near-record $105.0 billion deficit during June to a $99.8 billion deficit in July—with trade being a major drag on Q3 GDP growth. Real exports fell 4.9% in September after advancing 1.7% during the two months through August and declining 2.7% during the two months through June, while real imports increased 1.0% in September, matching August's gain. Real exports and imports are up 0.8% and 9.9% y/y, respectively, slowing from recent peak rates of 34.6% and 26.7%, respectively, during May. Real exports of consumer goods (nonfood) excluding autos climbed for the fourth time in five months, by 3.9% m/m and 16.7% over the period, to another new record high, while exports of industrial supplies & materials tumbled 10.5% in September after reaching a new record high in August. Meanwhile, real exports of foods, feeds & beverages (0.4%) edged up in September for only the second time this year—for a 28.0% ytd plunge—while real exports of automotive vehicles & parts are down 17.9% over the comparable nine-month period. Real exports of capital good ex autos held in a flat trend around recent highs earlier this year, but has plunged 5.7% during the five months through September. Looking at imports, real imports of capital goods ex autos continued to reach new record highs in September, while real imports of industrial supplies & materials remain on a volatile uptrend, soaring 18.2% since its recent low last September. Real imports of automotive vehicles & parts are down 23.5% ytd (reflecting supply shortages), while real imports of consumer goods (nonfood) excluding autos was little changed in September and has dropped 6.0% since reaching a record high in March.

Global Economic Indicators

Global Composite PMIs (*link*): Global demand accelerated again in October, as the service sector continued to strengthen while inflation remained elevated. The C-PMI climbed to 54.5 last month after falling from 58.5 in May to a seven-month low of 52.5 in August. The NM-PMI improved for the second month to 55.6 after easing steadily from 59.6 in May to 52.8 by August, while the M-PMI (54.6) remains stuck around recent lows the past couple of months, down from May's peak of 56.0. The C-PMI for the advanced economies saw activity pick up for the first time in five months, climbing to 55.2, after slowing steadily from 61.2 in May to 53.8 by September, while the C-PMI for emerging economies improved for the second month in October to 52.8 after contracting in August (49.3) for the first time since last June; it peaked at 54.9 in November. The report notes that growth accelerated in the US, UK, India, Kazakhstan, and China (though only slightly), while growth eased in the Eurozone and Brazil. Meanwhile, both Australia and Japan moved from contraction to expansion in October, while Russia fell back into contractionary territory. On the inflation front, shortages of raw materials and labor, coupled with longer lead times, has triggered the fastest rise in input prices in 13 years, with record, or near record, cost inflation posted across the six sub-sectors covered by the survey. This has led to the fastest rise in average output charges in the series history.

Eurozone Retail Sales (*link*): Eurozone retail sales unexpectedly declined in September as German retail sales (-2.5%) posted the biggest decline among the Eurozone members. Meanwhile, of the top four Eurozone economies, the remaining three—France (0.9%), Spain (0.5), and Italy (0.3)—were all in the plus column in September. Total sales fell for the second time in three months, since reaching a new record high in June, down 0.3%m/m and 1.6% over the period, with a 1.5% drop in non-food products (excluding automotive fuel) accounting for September's decline. The two remaining main components were in the plus column in September: Sales of automotive fuels advanced for the fourth time in five months, by 1.1% m/m and 12.4% over the period, to within 1.7% of its pre-pandemic level. Meanwhile, spending on food, drinks, and tobacco rose for the first time in six months, by 0.7% in September following a five-month plunge of 4.3%. On a year-over-year basis, total retail sales rose 2.5% y/y, with automotive fuel up 4.4%, nonfood products (ex fuel) up 3.7%, and food drinks & tobacco showing little change, up 0.5%. Among the top four Eurozone economies, sales in France and Italy rose 5.9% and 4.1% y/y, respectively, while German sales fell 1.1% and Spain's (-0.1%) was flat.

Germany Manufacturing Orders (*link*): The economy ministry noted that orders data over the past several months have been distorted by uncommonly large orders for goods, such as planes and ships, pushing the headline number up sharply during June and July. German factory orders climbed 1.3% in September, driven by a big jump in orders from outside the Eurozone, after plunging 8.8% in August and rising 9.8% during the two months ending July. Orders from outside the Eurozone jumped 14.9% in September, while orders from inside the Eurozone slumped 7.3%—with the former up 15.9% ytd and the latter up 1.6%. Domestic orders sank for the third month, by 5.9% in September and 15.6% over the period, and are down 3.6% ytd. “All in all, orders in manufacturing were at a high level and exceeded their pre-crisis level of the fourth quarter of 2019 by roughly 13% in the third quarter,” the ministry said. Here’s a look at movements in domestic orders, along with orders from inside and outside the Eurozone for the main industry groupings in September and this year to date: capital goods (-10.4%, -13.7%, +25.8% m/m & -4.5%, +8.6%, +24.5% ytd), intermediate goods (-0.7, -9.6, -7.4 & -2.1, -4.0, -1.3), consumer durable goods (-18.4, -3.8, -6.8 & -25.3, -10.3, +8.2), and consumer nondurable goods (-1.1, -4.1, +10.9 & +2.6, -8.5, 0.0).

Germany Industrial Production (*link*): Germany’s production fell in September for the seventh time this year, as supply disruptions continued to depress output. The headline number, which includes construction, contracted 1.1% in September and 7.0% ytd, while production excluding construction fell 1.4% and 6.6% over the comparable periods. Production is 9.5% below pre-pandemic levels. Capital goods production fell for the fourth time in five months, by 2.8% m/m and 11.0% over the period, while intermediate goods output sank for the fourth successive month by 4.9%. Meanwhile, consumer durable goods production dropped 2.0% in September and 8.7% the past two months, while nondurable goods output has been volatile around recent highs.

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