MORNING BRIEFING
August 11, 2022

Health Care, Earnings & Uncle Sam

Check out the accompanying chart collection.

Executive Summary: Today, Jackie takes the pulse of the S&P 500 Health Care sector, examining the M&A activity that has spurred it to outperform the market ytd and what the Inflation Reduction Act will mean for drug makers. … Also: A look at the 2023 earnings growth prospects of various S&P 500 sectors and industries. … And: How the Inflation Reduction Act aims to buy a greener US. … Plus: What will the newly passed CHIPS and Science Act spend $280 billion on? Lots more than chips.

Health Care: Among The Best. The S&P 500 Health Care sector has been holding its own this year to date, despite the bear market from January 3 through June 16. The industry has benefitted from a healthy dose of M&A, with pharmaceutical companies strengthening their drug benches and tech companies eyeing the health care industry's inefficiencies and demand for cloud services.

Some health care companies have enjoyed the return to normalcy post-Covid, while others have been hurt by it. Now that Covid cases have receded, patients have resumed going to their annual doctor appointments and undergoing non-urgent medical procedures, but they've also stopped getting Covid vaccines and using related supplies.

Here's the share price performance derby for the S&P 500 and its sectors ytd through Tuesday's close: Energy (35.0%), Utilities (4.9), Consumer Staples (-3.9), Health Care (-6.9), Industrials (-9.6), S&P 500 (-13.5), Financials (-13.6), Real Estate (-14.5), Materials (-14.8), Information Technology (-17.4), Consumer Discretionary (-20.5), and Communication Services (-27.4) (*Fig. 1*).

The Health Care sector has been dragged down by one of its larger industries, Health Care Equipment, which has watched what was a high forward P/E multiple last year melt as interest rates rose this year. Here are how the S&P 500 Heath Care industries' share prices have performed ytd through Tuesday's close: Health Care Distributors (24.5%), Managed Health Care (6.8), Health Care Services (2.7), Biotechnology (-0.7), Pharmaceuticals (-1.0), Health Care Sector (-6.9), Health Care Facilities (-17.8), Life Sciences & Tools (-19.0), and Health Care Equipment (-20.3), Health Care Supplies (-45.6) (*Fig. 2*).

Let's take a look at some of the recent M&A activity driving health care stocks higher and the Inflation Reduction Act's future impact on drug manufacturers:

(1) *Giants jump in.* Amazon, CVS Health, and Oracle each have either announced or completed large health care acquisitions this year that are aimed at using technology to improve health care services.

CVS reportedly plans to bid for Signify Health, according to recent headlines. Signify is a home health care company that uses technology and data to help health plans, employers, and providers offer in-home care. With a market value of $5.2 billion, multiple bidders in addition to CVS are expected. The deal would help CVS offer primary care services at home and potentially in the real estate its drug stores already occupy.

CVS's urgency to expand into primary care may have increased after Amazon agreed in July to purchase 1Life Healthcare's subscription health services company One Medical for $3.9 billion. The company has 204 primary care clinics and thousands of caregivers who can provide services to Amazon's Prime members. That deal followed Amazon's $753 million acquisition of online pharmacy PillPack in 2018. Amazon also has developed a telehealth service, Amazon Care, which is a 24/7 texting, video, and in-person care service initially offered in 2019 just to Amazon employees and this year opened up to customers nationwide along with Amazon's network of walk-in clinics.

Oracle's $28.3 billion acquisition of Cerner, an electronic health records company, closed in June. Oracle intends to offer Cerner customers ways to access information in Oracle's cloud using a hands-free voice interface. The improved medical information systems will "lower the administrative workload burdening our medical professionals, improve patient privacy and outcomes, and lower overall healthcare costs," *stated* Chairman and CTO Larry Ellison.

The Oracle deal followed Microsoft's March $16 billion purchase of Nuance Communications. Nuance is an artificial intelligence company specializing in voice recognition and related software and services for health care and other industries. The acquisition will capitalize on Microsoft's cloud services.

CVS shares, which are essentially flat so far this year, reside in the S&P 500 Health Care Services industry, which is up 2.7% ytd (*Fig. 3*). Earnings estimates for the industry have been revised down sharply this year. Analysts' consensus earnings estimate for 2022 represented a 4.9% y/y gain when 2021 began, which since has fallen to a 2.5% decline (*Fig. 4*). Next year's earnings estimates have been cut also, but the growth implied remains in positive territory at 6.0%. Over the past 20 years, the industry's forward P/E has contracted from north of 20 to a recent 11.6 (*Fig. 5*).

(2) *Drug M&A happening too.* Acquisitions also have heated up in the pharmaceuticals industry, as large drug companies are looking to replace revenue from drugs going off patent and to expand their offerings. Amgen agreed earlier this month to buy ChemoCentryx for $3.7 billion. The company has a treatment for bone disease and potential treatments for inflammatory disorders and immune disorders. Amgen may be looking to offset declining sales of its arthritis drug Enbrel, which meant the company's total revenue increased by only 1% in Q2, an August 4 Reuters *article* reported.

Separately, Pfizer has agreed to pay $5.4 billion for Global Blood Therapeutics, which produces drugs to treat sickle-cell disease. The deal follows Pfizer's April agreement to buy ReViral, a privately held company that develops drugs for respiratory virus. And late last year, the company announced plans to buy Arena Pharmaceuticals for $6.7 billion. Arena's drug etrasimod is being studied for its use in treating ulcerative colitis, and Pfizer plans to

consider its use to treat other immune-inflammatory diseases as well, a December 13 *WSJ* *article* reported. Pfizer is well heeled enough to play offense thanks to the success of its Covid-19 vaccines.

ChemoCentryx and Global Blood Therapeutics are too small to be in the S&P 500 Biotechnology index, but they are in the iShares Biotechnology ETF, or the IBB, which has fallen 14.9% ytd. The ETF may have hit bottom on June 16, when it was down 30.7%, as it has rallied since. Conversely, the S&P 500 Biotechnology index is essentially flat so far this year (*Fig. 6*). After the industry's earnings rose 39.6% in 2021, they are expected to fall this year and next by -4.0% and -13.8% (*Fig. 7*). And the industry's forward P/E has fallen from north of 20 in 2013 and 2014 to a recent 12.4 (*Fig. 8*).

(3) *Drug bill better than feared.* The final version of the Inflation Reduction Act, which allows Medicare to negotiate a limited number of drug prices, wasn't as bad for the industry as earlier iterations of the legislation. In fiscal 2026, Medicare will be able to negotiate the prices of the 10 most used drugs covered under Part D, expanding to 15 Part D drugs in 2027. Newly approved drugs won't be subject to negotiation for nine to 13 years after their market introduction, an August 8 CNBC *article* reported.

It's unknown which drugs will be subject to negotiated prices, but last year the government spent $9.9 billion on blood-clotting treatment Eliquis, $5.4 billion to $5.7 billion on cancer treatment Revlimid (both produced by Bristol-Myers Squibb), and $4.7 billion on the blood clotting drug Xarelto (Johnson & Johnson).

The legislation also caps monthly costs for Medicare recipients' insulin at $35 a month starting next year. Also next year, drugmakers that raise prices faster than general inflation will have to pay the government in rebates.

With a ytd decline of just 1.0%, the S&P 500 Pharmaceuticals industry index actually has outperformed the broader market so far this year (*Fig. 9*). But its earnings prospects for next year aren't great: After climbing by 23.7% in 2021 and an estimated 15.8% in 2022, earnings are expected to drop by 3.0% in 2023 (*Fig. 10*). At 13.5, the industry's forward P/E suggests that investors aren't banking on much positivity.

Earnings: Flipping The Calendar To 2023. While analysts aren't optimistic about the S&P 500 Health Care sector's earnings for next year, they are quite enthusiastic about next year's earnings in other sectors. For estimates to materialize though, the consumer will need to keep spending, traveling, and doing all the things that will help other industries levered to economic growth pick up the pace of earnings growth from the current year's miserable clip.

Here are analysts' 2023 earnings estimates for the S&P 500 and its sectors: Consumer Discretionary (35.2%), Industrials (17.5), Financials (13.4), Communication Services (13.4), Information Technology (8.6), Utilities (7.8), S&P 500 (7.6), Consumer Staples (6.3), Real Estate (0.7), Health Care (-0.6), Materials (-8.3), and Energy (-12.7) (*Table 1*).

Analysts are counting on consumer spending and traveling remaining robust. In 2023, the S&P 500 Hotels industry's earnings are expected to bounce back from losses this year, rising 555.3%, as the S&P 500 Airlines' earnings increase an estimated 206.3%, also from

losses. Our return to watching the big screen is expected to help the Movies & Entertainment industry grow earnings 43.3% next year after an expected earnings gain of 1.0% this year. The S&P 500 Footwear, Apparel Retail, Apparel & Accessories, and Restaurants industries each are expected to grow earnings by roughly 12.7%-22.0% in 2023.

Given all the uncertainty in the world, it's not surprising that the S&P 500 Aerospace & Defense industry is expected to grow earnings by 35.7% in 2023. And after this year of monetary tightening, the S&P 500 Financials sector should see earnings grow nicely. Here are the earnings growth rates analysts expect in 2023 by industry: Reinsurance (26.9%), Property & Casualty Insurance (22.7), Multi-Line Insurance (21.4), Investment Banking & Brokerage (16.6), Regional Banks (15.7), Diversified Banks (13.9), Financial Exchanges & Data (12.2), Asset Management & Custody Banks (11.7), and Insurance Brokers (10.9).

At the other end of the spectrum, industries in the S&P 500 Energy sector will be hard pressed to exceed their 2022 earnings next year. The Oil & Gas Refining & Marketing industry is expected to see earnings fall 38.2%, followed by a drop in the earnings of Integrated Oil & Gas (-13.6%), and Oil & Gas Exploration & Production (-6.1).

The Energy sector's dim hopes of earnings growth combined with the 2023 earnings drops projected for Steel (-59.7%), Copper (-23.9), and Homebuilding (-13.7) underscore the message that all's not well in the economy, particularly not in the homebuilding industry.

Disruptive Technology I: Uncle Sam Goes Green. The Inflation Reduction Act really has more to do with the environment than it does inflation. A better name might have been "The Save the Planet Act" or "The Going Green Act." Senate Democrats *believe* the bill will help the US reduce carbon emissions 40% by 2030. We'll be interested to see if the government will be able to successfully oversee the spending of this labyrinthian bill.

Here are some of the green things that the act aims to encourage by offering funding or tax breaks:

(1) *Capturing carbon.* The Inflation Reduction Act extends an existing tax credit for carbon capture projects to those that begin construction prior to 2033. It also lowers the carbon capture thresholds required to qualify for the credit. The actual tax credit for capturing carbon spewed by a plant is increased to $85 per ton, up from the current $50 per ton.

The Act also includes a $180-per-ton tax credit for carbon that's captured directly from the air, not specifically related to an industrial plant per se. "Because most [direct air capture] technologies in today's market are early stage or experimental in nature, the additional increase in 45Q tax credits for DAC facilities is aimed at creating synthetic economics for these projects to allow them to receive additional capital to help develop DAC technologies at scale and eventually make DAC businesses widespread and profitable," a *paper* by law firm McDermott Will & Emery explained.

(2) *Reducing emissions.* The Inflation Reduction Act establishes several grant programs at the Environmental Protection Agency and other agencies to reduce emissions. A $6 billion Advanced Industrial Facilities Deployment Program is established to reduce emissions from industrial emitters, like chemical, steel, and cement plants. There is also $3 billion in grants

to reduce air pollution at ports by encouraging the purchase and use of zero-emission equipment and technology.

A Methane Emissions Reduction Program is established to reduce the leaks from the production and distribution of natural gas. And there's a $27 billion "clean energy technology accelerator to support deployment of technologies to reduce emissions, especially in disadvantaged communities."

(3) *EV buyers benefit.* Under the Inflation Reduction Act, low- to middle-income consumers can receive a $4,000 tax credit when purchasing a used electric vehicle (EV) and get up to $7,500 for a new EV. The Postal Service is given $3 billion to buy zero-emission vehicles as part of a larger $9 billion program that funds the federal purchase of American-made clean energy technologies. And there's $1 billion for clean heavy-duty vehicles, like busses and garbage trucks. Tax credits and grants also are established to develop and use clean fuels and clean commercial vehicles throughout the transportation sector.

(4) *Green manufacturers win.* The Act offers production tax credits valued at $30 billion to accelerate US manufacturing of solar panels, wind turbines, batteries, and the minerals used in making those items. It provides another $10 billion in investment tax credit to build manufacturing facilities that produce EVs, wind turbines, and solar panels. Auto manufacturers are given $2 billion in grants to retool existing plants to manufacture "clean vehicles." They can also receive $20 billion in loans to build new clean vehicle manufacturing plants in the US.

(5) *Energy efficiency at home.* The Act offers low-income consumers $9 billion in rebates to electrify home appliances and buy energy efficient appliances. It also offers 10 years of consumer tax credits to make homes energy efficient and run on "clean" energy, including heat pumps, solar, and electric HVAC and water heaters. The Act also establishes a $1 billion grant program to make affordable housing more energy efficient.

(6) *Green on the grid.* The Act provides $30 billion in grants and loans to states and electric utilities to accelerate the transition to "clean" electricity. It encourages the use of renewable energy sources and increasing energy storage. There are also tax credits to keep nuclear power plants running.

(7) *Green on the farm and in the lab.* More than $20 billion was earmarked to support "climate-smart" agriculture practices. There are also tax credits and grants to support the domestic production of biofuels and the related infrastructure. And finally, the National Laboratories in the Department of Energy will receive $2 billion to accelerate breakthrough energy research.

Disruptive Technology II: Uncle Sam Spending On Chips. In an unusually productive summer for Washington DC, the CHIPS and Science Act was signed into law this week. It provides $50 billion to fund the construction of new semiconductor chip manufacturing facilities, related R&D, and workforce development.

As if on cue, the importance of the Act was emphasized by Chinese war games going on uncomfortably close to Taiwan's shores. The new law had the desired effect of eliciting promises from manufacturers to build chips in the US of A: Micron will spend $40 billion to

build a memory chip plant, Qualcomm and Global Foundries will expand GlobalFoundries' upstate New York plant, and Intel earlier this year unveiled plans to spend $100 billion on a new chip complex in Ohio.

Ironically, these plans are being announced just as the semiconductor industry appears oversupplied. That said, the plants will take years to come online, and US security demands may make risking an oversupplied market unavoidable.

Like the sprawling Inflation Reduction Act, the $280 billion CHIPS Act doles out dollars like a drunken sailor. There's $170 billion for scientific research and development. Another $10 billion funds "regional innovation and technology hubs" across the US to bring together state and local governments, universities, labor unions, businesses, and community-based organizations to create regional partnerships to develop the technology, innovation, and manufacturing sectors.

Another $13 billion will be used to fund science, technology, engineering, and mathematics (STEM) education and workforce development from kindergarten through graduate schools. Additional funds will go to NASA with the goal of sending astronauts to Mars, sending the first woman of color to the Moon, and extending US participation in the International Space Station through 2030.

Calendars

US: Thurs: Headline & Core PPI 0.2%m/m/10.4%y/y & 0.4%m/m/7.6%y/y; Initial & Continuous Jobless Claims 263k/1.407m; Natural Gas Storage; IEA Monthly Report; OPEC Monthly Report. **Fri:** Consumer Sentiment Index, Current Conditions, and Expectations 52.5/59.0/48.4; Import & Export Price Indexes -1.0%/-1.1%; Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: China New Loans & Total Social Financing. **Fri:** Eurozone Industrial Production 0.2%m/m/0.8%y/y; France CPI; France Unemployment Rate 7.3%; Spain CPI -0.2%m/m/10.8%y/y; UK GDP -1.2%m/m/-0.2%q/q/2.8%y/y; UK NIESR Monthly GDP Tracker; UK Headline & Manufacturing Industrial Production -1.3%m/m/1.6%y/y & -1.8%m/m/0.9%y/y; UK Trade Balance –£22.3b. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The BBR advanced this week for the fifth week, from 0.76 to 1.60 over the period, to its highest reading since mid-January—as bulls now far outnumber bears. It was at 0.60 seven weeks ago, which was the lowest since the week of March 10, 2009's 0.56. The BBR had been bouncing around 1.00 since late February before its recent move up. Bullish sentiment rose this week for the fifth week by 13.9ppts (to 44.4% from 30.5%); it was at 26.5% seven weeks ago—which was the fewest bulls since early 2016. Meanwhile, bearish sentiment fell for the sixth time in seven weeks by 16.3ppts (27.8 from 44.1). The correction count reversed last week's gain, falling back down to 27.8% from 28.8%—trading in a narrow range between 27.1% and 31.0% the past nine weeks. In the meantime, the AAII Sentiment Survey (as of August 4) showed the percentage expecting stocks to rise over the next six months climbed to 30.6%—the highest

since 32.0% at the start of June; it was at 18.2% six weeks ago. Still, bullish sentiment remains below its historical average of 38.0% for the 37th straight week. The percentage expecting stocks will fall over the next six months dropped for the fourth week to 38.9%—the lowest since June 2—though bearish sentiment has been above its historical average of 30.5% for 36 out of the past 37 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady w/w at a 13-month low of 13.1% last week, down from its record high of 13.4% achieved intermittently from March to June. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 2.8ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings both were back at record highs after ticking down briefly in early February. Both have been making new highs since the beginning of March 2021; prior to that, they peaked just before Covid-19 in February 2020. Since the Q2-2021 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown period. Prior to this catch-up period, consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth tumbled 0.7ppt w/w to a 22-month low of 6.1%. That's down from a record high of 9.6% growth at the end of May 2021. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth was unchanged w/w at a 24-month low of 8.1%. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. So far this year, analysts' revisions to their forecasts for 2022 revenues have outpaced their revisions for 2022 earnings, so the imputed 2022 profit margin estimate that we calculate from those forecasts has ticked down 0.4ppt to 12.8%. They expect revenues to rise 12.0% (up 0.1ppt w/w) in 2022 and 3.9% in 2023 (down 0.1ppt w/w) compared to the 16.4% gain reported in 2021. They expect earnings gains of 9.7% in 2022 (down 0.4ppt w/w) and 7.6% in 2023 (down 0.1ppt w/w) compared to an earnings gain of 51.0% in 2021. Analysts expect the profit margin to drop 0.2ppt y/y to 12.8% in 2022 (unchanged w/w) compared to 13.0% in 2021 and to improve 0.4ppt y/y to 13.2% in 2023 (down 0.1ppt w/w). The S&P 500's weekly reading of its forward P/E rose 0.5pt w/w to a 13-week high of 17.7, up from a 26-month low of 15.8 seven weeks ago. That's down from an eight-month high of 21.7 at the end of 2021 and compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.07pt w/w to an eight-week high of 2.32, up from a 26-month low of 2.10 during June. That compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for ten of the 11 S&P 500 sectors, forward earnings gain for six sectors, and the forward profit margin move higher for five sectors. Energy, Real Estate, and Utilities are the only sectors with forward earnings at a record high now. Consumer Staples, Financials, and Health Care are the only sectors with forward revenues at a record high this week. Most of the other sectors are below recent record highs in their forward revenues, earnings, and profit margins. Energy still has forward revenues well below a record high, and Utilities' forward revenues and margin are lagging too. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. During 2021, all but the Utilities sector posted a y/y improvement. Seven sectors are now

expected to see margins decline y/y in 2022: Communication Services, Consumer Discretionary, Consumer Staples, Financials, Health Care, Information Technology, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.9%, down 0.1ppt w/w and from its 25.4% record high in early June), Financials (18.4, down from its 19.8 record high in August 2021), Real Estate (18.1, up 0.1ppt w/w and down from its 19.2 record high in 2016), Communication Services (15.4, down from its 17.0 record high in October), Utilities (13.9, down from its 14.8 record high in April 2021), Materials (12.8, down 0.1ppt w/w and from its 13.6 record high in early June), S&P 500 (13.1, down from its record high 13.4 achieved intermittently since March), Health Care (10.8, down 0.1ppt w/w and from its 11.5 record high in early March), Industrials (10.2, up 0.1ppt w/w and from its 10.5 record high in December 2019), Energy (12.1, up 0.2ppt w/w to a new record high), Consumer Discretionary (7.4, down from its 8.3 record high in 2018), and Consumer Staples (7.3, down from its 7.7 record high in June 2020).

S&P 500 Q2 Earnings Season Monitor (*link*): With 90% of S&P 500 companies finished reporting revenues and earnings for Q2-2021, the revenue and earnings surprises are historically strong but near their lowest levels since the pandemic recovery began. Revenues are beating the consensus forecast by 2.8%, and earnings have exceeded estimates by 6.1%. At the same point during the Q1 season, revenues were 2.7% above forecast and earnings beat by 7.5%. For the 450 companies that have reported Q2 earnings through mid-day Wednesday, the aggregate y/y revenue and earnings growth rates have slowed from their Q2-2021 to Q1-2022 readings. Collectively, the companies have a y/y revenue gain of 15.5% and an earnings gain of 11.3%. Just 69% of the Q2 reporters so far has reported a positive revenue surprise, and 77% has beaten earnings forecasts. Markedly fewer companies have reported positive y/y earnings growth in Q2 (60%) than positive y/y revenue growth (82%). These figures are bound to change as more Q2-2022 results are reported in the coming weeks, particularly from the struggling retailers. While we expect y/y growth rates to remain positive in Q2, we think revenue and earnings surprises will moderate q/q going ahead due to the slowing economy, rising inventories, and higher costs.

US Economic Indicators

Consumer Price Index (*link*): July's CPI was flat, after posting its biggest monthly gain since September 2005 in June (1.3%), while core prices rose 0.3%—half Q1's average monthly gain. The CPI yearly rate eased to 8.5% after accelerating to 9.1% in June—which was the highest rate since November 1981, while the core rate was unchanged at 5.9% after easing steadily from 6.5% in March (the highest since August 1982) to 5.9% in June. Food costs (10.9% y/y) accelerated at the fastest pace since May 1979, while energy costs (32.9) eased from June's 41.6%, which was the fastest pace since April 1980. Within foods, the rate for food at home (13.1) was the highest since March 1979, while food away from home was little changed at 7.6% from June's 7.7%—which was the highest since November 1981. As for energy, yearly rates eased virtually across the board. The rate for fuel oil slowed for the second month to 75.6% from May's record-high 106.7%, while the rate for gasoline prices eased to 44.0% y/y, down from June's 59.9% (fastest since March 1980), and natural gas prices increased 30.5% y/y, down from 38.4% in June (highest since October 2005). The one outlier was electricity costs, which accelerated 15.2% y/y—the highest since February 2006. Consumer durable goods inflation slowed for the fifth month,

from 18.7% in February (highest since early 1940s) to a 15-month low of 7.9% in July. The rate for new cars (11.7) eased for the third month from April's near record high of 14.2%, while the rate for used cars & trucks slowed sharply from 41.2% in February to 6.6% in July—the lowest since August 2020; it was at a record-high 45.2% during June 2021. The rate for apparel prices was little changed again in July at 5.1%, slowing from its recent peak of 6.8% in March—which was its fastest rate since the end of 1980. The rate for furniture & bedding (14.8) is down from February's record high of 17.1%, while the rate for major appliances slowed to 4.6%, the lowest since mid-2020 and down from its recent peak of 12.4% in March. The yearly rate for consumer nondurable goods slowed to 14.3% after shooting up to 16.2% in June, which was more than double June 2021's rate and the highest since the 1940s. Within services, owners' equivalent and tenant-occupied yearly rents accelerated 5.8% and 6.3%, respectively, in July—up from recent lows of 2.0% and 1.8%, respectively—with the former the highest since fall 1990 and the latter since April 1986; over the three months through July, they accelerated at annual rates of 7.8% and 8.5%. Meanwhile, the yearly rate for lodging away from home plummeted to 1.0% y/y, down from the record high of 25.1% posted in both February and March, as the three-month rate plunged 18.5% (saar). Meanwhile, the yearly rate for hospitals' (3.9) services has been moving in a relatively flat trend, while the physicians' (0.8) services rate is down sharply from last March's 5.3% peak. The yearly rate for airfares (27.7) eased for the second month from May's cyclical peak of 37.8%—as the three-month rate slowed to 7.4% (saar) in July from 124.3% in June and 190.9% in May.

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