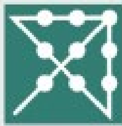

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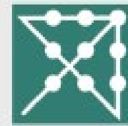

MORNING BRIEFING
August 29, 2022

Powell's Latest Pivot Won't Be His Last

Check out the accompanying chart collection.

Executive Summary: Keeping track of whether Fed Chair Powell is dovish or hawkish is making us dizzy. His latest clues—dropped at last week's Jackson Hole conference—reversed the dovish impression he'd left in July that caused stocks to rally. So stocks pivoted southward last week. … We anticipate Powell's next pivot and potentially encouraging inflation news. … Might BEA's upcoming H1 GDP revisions reveal that the economy grew after all, making the "technical recession" illusory? We wouldn't be surprised. We project 1.5% GDP growth during H2 and 2.5% next year. … Also: Q2 data on S&P 500 revenues and profits show new record highs for both. … And: Dr. Ed reviews "Blackbird."

YRI Monday Webcast. Join Dr. Ed's live Q&A webinar on Mondays at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays of the Monday webinars are available *here*.

The Fed: Powell Channels Volcker. In my book *Fed Watching for Fun & Profit*, Chapter 8 is titled "Jerome Powell: The Pragmatic Pivoter." Our current Fed chair continues to pivot since I published that book in early 2020.

Back on August 27, 2020, Powell pivoted by turning very dovish in his *speech* at the Fed's annual Jackson Hole conference when he announced that the Fed's revised *Statement on the Longer-Run Goals and Monetary Policy Strategy* prioritized "maximum employment" as "a broad-based and inclusive goal." He pivoted again late last year and early this year when he morphed from a dove to a hawk because inflation turned out to be more persistent than he and his colleagues on the FOMC had expected.

Powell seemed to be pivoting back toward a more dovish stance at the end of last month. Stock prices rallied following his July 27 *press conference* after he said that the federal funds rate was now at "neutral." He said so right after the FOMC had voted to raise it by 75bps to a range of 2.25%-2.50%. Stock and bond market investors concluded that the Fed was getting closer to a restrictive level of the federal funds rate, implying that the Fed's monetary tightening cycle might end sooner rather than later and at a lower terminal rate.

Indeed, many Fed watchers (including us) concluded that the Fed might hike one more time

at the September 21 FOMC meeting and then pause for a while. Some even chattered about the Fed possibly lowering interest rates in early 2023; that was a very optimistic and unrealistic interpretation of Powell's comment that "[a]s the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation."

Reflecting the optimism, the S&P 500—which had closed at 3921.05 the day before Powell's July 27 presser—rallied 9.8% to a recent high of 4305.20 on August 16, putting it up 17.4% from the June 16 low of 3666.77.

After Powell's *speech* at Jackson Hole on Friday, the S&P 500 got crushed, closing down 3.4% for the day at 4057.66. That put it 10.7% above the June 16 low, but down 15.4% from the record high on January 3 (*Fig. 1*). The index failed to rise above its 200-day moving average (dma) early this past week and finished the week just 1.2% above its 50-dma.

Melissa and I sent you a *QuickTakes* on Friday morning after Powell's short speech at Jackson Hole. We noted that it was hawkish from start to finish, leaving no room for an optimistic spin, unlike his presser. In effect, Powell had pivoted once again, but toward an even more hawkish stance! Consider the following:

(1) *Forget about rate cuts.* Powell immediately demolished any expectations of rate cuts by saying, "Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance." He reiterated: "Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy." He reminded all of us that the FOMC's latest *Summary of Economic Projections* "showed the median federal funds rate running slightly below 4 percent through the end of 2023."

(2) *Forget about a pause.* This time, Powell did not opine on whether the federal funds rate is at neutral currently. Instead, he said, "In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause."

(3) *Forget about a painless path*. In his presser, Powell talked about a narrowing "path" for the Fed to restore price stability without causing a recession. In his speech on Friday, he acknowledged that the path ahead is likely to be painful:

"Reducing inflation is likely to require a sustained period of below-trend growth. Moreover,

there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."
(4) *Favoring frontloading.* In addition, Powell sided with St. Louis Fed President James Bullard, who recently advocated frontloading rate hikes. Powell said: "History shows that the employment costs of bringing down inflation are likely to increase with delay, as high inflation becomes more entrenched in wage and price setting. ... Our aim is to avoid that outcome by acting with resolve now."

(5) *Channeling Volcker.* Just to make sure we all got the message, Powell said, "As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, 'Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations.'" Powell is apparently channeling his inner Volcker.

Powell concluded: "We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation expectations anchored. We will keep at it until we are confident the job is done."

(6) *Anticipating his next pivot.* It's conceivable that Powell and his colleagues will be emboldened to hike the federal funds rate by a full percentage point (to 3.25%-3.50%) at the September 21 meeting of the FOMC rather than by a measly 75bps given his hawkishness.

The 2-year US Treasury note yield tends to be a leading indicator of the federal funds rate (*Fig. 2*). It rose to 3.37% on Friday. At the same time, the yield-curve spread between the 10-year and 2-year Treasuries remained solidly negative at -29bps. Negative yield-curve spreads have a history of signaling that tighter monetary policies tend to cause financial crises that turn into credit crunches, which cause recessions.

In his speech, Powell failed to acknowledge that the Fed's rate increases during the first seven months of this year combined with a strong dollar and now with a ramping up of QT2 starting in September might already be working to slow the economy and to moderate inflation. So he may soon regret having pivoted toward a more hawkish stance at Jackson Hole, which soon may force him to pivot yet again toward a more dovish one.

(7) *Data dependent.* In his presser, Powell mentioned the word "data" 16 times in the

context of their importance in determining the course of monetary policy. He observed that while the latest batch has been mixed, “our economy continues to show strong underlying momentum.” He also noted: “Our decision at the September meeting will depend on the totality of the incoming data and the evolving outlook.”
Before that next meeting, August’s national M-PMI and NM-PMI (compiled by the Institute for Supply Management) will be released on September 1 and 6, respectively. As we discussed in a recent *QuickTakes*, they are likely to be weak, as suggested by the flash estimates provided by S&P Global (*Fig. 3* and *Fig. 4*). The four available regional business surveys conducted by the Fed’s district banks during August likewise suggest that the M-PMI composite index and its new orders sub-index will be weak, with readings below 50.0 (*Fig. 5*).

August’s employment report will be released on September 2. It is likely to confirm that payroll employment remains strong. However, there hasn’t been much growth in either the household measure of employment or in the civilian labor force so far this year (*Fig. 6*). August’s wage inflation data will be included in the employment report, and it is likely to remain elevated.

Perhaps the most important data release next month will be August’s CPI report on September 13. It might very well show that price inflation is abating faster than widely expected. Durable goods inflation in the CPI has dropped sharply from a peak of 18.7% y/y during February to 7.9% during July (*Fig. 7*). We think it will fall to zero by the end of this year. The price of gasoline soared during the first six months of this year, inflating the CPI for nondurable goods (*Fig. 8*). It fell sharply during July and continued to do so through the August 22 week.

(8) *Complimentary download.* You can download a free copy of Dr. Ed’s *Fed Watching for Fun & Profit* here.

US Economy I: The Great Discrepancy. Debbie and I expect that when the Bureau of Economic Analysis (BEA) gets around to its next “benchmark” revision of real GDP, it will be revised up. We won’t be surprised if the so-called “technical recession” during the first half of this year turns out to be a figment of the preliminary estimates. Consider the following:

(1) *Nominal values.* There has been an unprecedented widening divergence between gross domestic income (GDI) and gross domestic product (GDP) (*Fig. 9* and *Fig.10*). In current dollars, it has widened from below zero during Q3-2020 to $1.0 trillion, or 3.9% of nominal GDP, during Q2-2022.

(2) *Real values.* On an inflation-adjusted basis, GDI was also 3.9% higher than GDP during Q2 (*Fig. 11*). That's the widest discrepancy on record since 1948! Here are the annualized growth rates for real GDI versus real GDP for Q1 (1.8%, -1.6%) and Q2 (1.4, -0.6).
(3) *Income = spending.* GDI is the total income received by all sectors of the economy. It includes the sum of all wages, profits, and taxes, minus subsidies. Since all income is derived from production, the GDI of a country should exactly equal its GDP. That's in theory. In practice, the two indicators don't always match because the government can't measure the economy perfectly. However, they've never diverged by so much for so long. GDI tends to be a more accurate measure because the BEA has more timely and comprehensive data on the components of national income.

(4) *Next revision.* The BEA will release results from the 2022 annual update of the National Income and Product Accounts (NIPA) on September 29, 2022. This update will present revised statistics for GDP, GDP by Industry, and GDI that cover the Q1-2017 through Q1-2022.

(5) *Our forecast.* Real GDP dropped by only 1.6% during Q1 and 0.6% during Q2—and both are seasonally adjusted annual rates (saar). It won't take significant upward revisions to move the GDP growth needle above zero for either or both. The Atlanta Fed's *GDPNow* model estimated that Q3's real GDP is tracking at 1.6%.

We are currently projecting that real GDP will increase at a 1.5% annual rate during H2-2022 and at a 2.5% rate during 2023.

US Economy II: Lots Of Profits. Joe reports that Q2 data are now available for S&P 500 revenues and operating earnings per share. Both rose to new record highs, with the former up 12.1% y/y and the latter up 9.5% y/y (*Fig. 12*, *Fig. 13*, and *Fig. 14*). The profit margin remained near recent record highs at 13.4% (*Fig. 15*). On balance, the S&P 500 companies have been able to offset rapidly rising costs by rapidly raising their prices.

Last week, the BEA reported Q2 data for profits in the NIPA. There was lots of good news:

(1) After-tax book profits rose to a record $3.0 trillion (*Fig. 16*). S&P 500 reported net income, which tends to account for about half of NIPA profits, remained basically unchanged in Q2 on an aggregate basis in record-high territory.

(2) The NIPA measure of the corporate profit margin rose to a record 12.1% during Q2,

while the S&P 500 margin remained in record-high territory at 13.4% (*Fig. 17*).

(3) NIPA's corporate profits from current production adjusts book profits (which is based on the historical cost basis used in profits tax accounting) for inventory withdrawals and depreciation to the current-cost measures used in GDP. On this basis, after-tax profits also rose to a new record high ($2.6 trillion, saar), as did dividends ($1.5 trillion) and undistributed profits ($1.1 trillion) (*Fig. 18*). The bottom line is that corporate cash flow rose to a record $3.4 trillion during Q2 (*Fig. 19*).

Movie. "Blackbird" (+ +) (*link*) is a disturbing TV series docudrama about Larry Hall, a serial killer who is in prison but might be set free on appeal because the evidence used to incarcerate him wasn't sufficiently compelling. So the FBI cuts a deal with another prisoner to befriend Hall and get him to provide incriminating details about his murder spree. The acting is top-notch; Paul Walter Hauser does a great job of playing creepy Larry.

Calendars

US: Mon: Dallas Fed Manufacturing Index; Brainard. **Tues:** Consumer Confidence Index 97.5; JOLTS 11.0m; S&P/CS HPI Composite 20 Index 1.0%m/m/19.4%y/y; API Weekly Crude Oil Inventories; Williams. (Bloomberg estimates)

Global: Mon: Japan Unemployment Rate & Jobs/Applications Ratio 2.6%/1.27; Japan Leading & Coincident Indexes; Lane. **Tues:** Eurozone Business & Consumer Survey 97.7; Germany CPI 0.4%m/m/7.8%y/y; Germany Import Price Index 1.0%m/m/29.9%y/y; Spain CPI; Spain Retail Sales; Japan Industrial Production -0.5%; Japan Retail Sales 1.9% y/y; China C-PMI & M-PMI 52.3/49.2; Nakagawa.(Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index tumbled 4.0% last week for its biggest decline in ten weeks as the index dropped deeper into a correction and ended the week at 16.3% below its record high on December 27. The US MSCI ranked 45th of the 48 global stock markets that we follow in a week when 14 countries rose in US dollar terms. The AC World ex-US index fell 1.2% and slipped further into a bear market to end the week

at 21.9% below its June 15, 2021 record high. Most regions fell last week, but EM Latin America shined with a gain of 2.5%, followed by BIC (1.8%), EM Asia (0.3), and EMEA (-0.6). EM Eastern Europe (-3.8) was the worst performing region last week, followed by EMU (-3.6) and EAFE (-1.9). Chile was the best-performing country last week with a gain of 10.0%, followed by Argentina (9.8), Turkey (3.8), and Brazil (3.4). Among the 24 countries that underperformed the AC World ex-US MSCI last week, the 4.6% declines for Germany and Poland were the biggest, followed by Sweden (-4.2) and the US (-4.0). The US MSCI's ytd ranking dropped one place w/w to 24/49. After lagging for much of year through July, the US MSCI's ytd decline of 15.8% is remains less than the AC World ex-US's 18.3% drop. EM Latin America is up 4.7% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-85.2), EMEA (-30.8), EMU (-27.0), BIC (-20.0), EAFE (-19.4), and EM Asia (-19.0). The best country performers so far in 2022: Chile (24.3), Jordan (22.3), Turkey (18.1), Brazil (10.6), and Argentina (6.4). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-63.3), Poland (-42.1), Hungary (-41.5), Austria (-38.8), and Egypt (-36.0).

S&P 500/400/600 Performance (*link*): All three of these indexes posted their biggest declines in 10 weeks. LargeCap fell 4.0%, more than the drops for MidCap (-3.0%) and SmallCap (-3.4). All three of these indexes are out of a bear market, but remain in a correction. LargeCap finished the week at 15.4% below its record high on January 3. MidCap is 14.1% below its record high on November 16, while SmallCap is 16.4% below its November 8 record high. Four of the 33 sectors moved higher for the week, down from seven rising a week earlier and all 33 sectors rising the week before that. LargeCap Energy was the best performer with a gain of 4.3%, followed by SmallCap Energy (4.2), MidCap Energy (3.0), and MidCap Materials (0.5). LargeCap Tech (-5.6) was the biggest underperformer last week, followed by LargeCap Communication Services (-4.8), LargeCap Consumer Discretionary (-4.7), and SmallCap Consumer Discretionary (-4.7). In terms of 2022's ytd performance, LargeCap's 14.9% decline continues to trail MidCap (-12.0) and SmallCap (-12.6). Five of the 33 sectors are positive so far in 2022, down from six a week earlier. Energy continues to dominate the top performers: LargeCap Energy (48.9), SmallCap Energy (47.3), MidCap Energy (43.5), LargeCap Utilities (5.4), and MidCap Utilities (1.4). The biggest ytd laggards: LargeCap Communication Services (-29.9), SmallCap Consumer Discretionary (-24.1), SmallCap Real Estate (-23.9), LargeCap Consumer Discretionary (-22.1), and MidCap Consumer Discretionary (-20.8).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, but seven outperformed the composite index's 4.0% decline. That compares

to a 1.2% decline for the S&P 500 a week earlier, when three sectors rose and five outperformed the index. Energy was the top performer with a gain of 4.3%, followed by Materials (-1.3%), Utilities (-2.6), Consumer Staples (-3.3), Industrials (-3.4), Financials (-3.6), and Real Estate (-3.8). The worst performers were Tech (-5.6), Communication Services (-4.8), Consumer Discretionary (-4.7), and Health Care (-4.3). The S&P 500 is down 14.9% so far in 2022 with seven sectors ahead of the index, and just two in positive territory. The best performers in 2022 to date: Energy (48.9), Utilities (5.4), Consumer Staples (-4.0), Health Care (-9.9), Industrials (-10.0), Materials (-13.8), and Financials (-14.0). The ytd laggards: Communication Services (-29.9), Consumer Discretionary (-22.1), Tech (-20.0), and Real Estate (-17.2).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 4.0% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed above its 50-dma for a sixth straight week after 14 weeks below, but closed below its 200-dma for the 27th time in 29 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved higher for just the fourth time in 17 weeks as the index fell sharply to 1.5% above its rising 50-dma from 6.7% a week earlier and a 23-month high of 8.7% above its rising 50-dma the week before that. That's still above its 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; 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 closed Friday at 5.5% below its falling 200-dma, down sharply from 1.8% below a week earlier and an 18-week high of 0.8% below the week before that. It remains well above its 26-month low of 17.1% below its falling 200-dma in mid-June. The latest reading is down sharply from 10.8% above its rising 200-dma in early November. That compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—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. The 200-dma declined for a 17th straight week and at a faster pace.

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, down from all 11 sectors above in the prior two weeks. That's still a big turnaround from the two weeks before the end of June when all 11 sectors were below. Health Care fell below its 50-dma for the first time in nine weeks and Communication Services for the first time in five weeks. Consumer Discretionary, Consumer

Staples, and Tech each marked their seventh straight week above. All 11 sectors had a rising 50-dma, up from nine sectors in the previous two weeks and is a marked improvement from just three the week before that. Looking at the more stable longer-term 200-dmas, only two sectors were trading above, down from five sectors a week earlier. Energy was above for a 49th straight week and Utilities for a fifth week. Falling below their 200-dma in the latest week were Consumer Staples, Health Care, and Industrials. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Three sectors have a rising 200-dma, unchanged from a week earlier. Consumer Staples, Energy, and Utilities are the only sectors in the rising 200-dma club.

US Economic Indicators

Personal Consumption Deflator (*link*): July's PCED slipped 0.1% (the first monthly decline since April 2020), following gains of 1.0% and 0.6% the prior two months, while core prices ticked up only 0.1%, slowing from June's 0.6% and the average monthly gain of 0.4% during the first half of the year. The yearly rate is in a volatile flat trend, easing to 6.3% in July after accelerating from 6.3% in April and May to 6.8% in June—which was the highest reading since January 1982; it was at 4.2% a year ago. The yearly core rate slowed to 4.6% in July, down from February's 5.3%—which was the highest since spring 1983. On a three-month annualized basis, the core rate slowed to 4.2% (saar) in July after accelerating from 3.8% in April to 5.1% in June. The three-month rate for durable goods slowed to 3.0% (saar), after accelerating from -1.1% in April to 4.2% during June, while the three-month rate for core nondurable goods prices accelerated 4.1% (saar) during July, from 1.6% and 0.3% during June and May. Meanwhile, services prices ex energy slowed during the three months through July, climbing 4.2% (saar), after the measure accelerated the prior three months from 4.0% in March to 5.5% in June. The three-month annual rate for consumer durable (3.0%, saar & 5.6% y/y) goods prices was below its yearly rate, while consumer core nondurable's (4.1 & 3.6) was above, and the rate for core services (4.2%) matched its yearly rate. *PCED components for which three-month rates lag yearly rates:* lodging away from home (-21.8 & 0.3), household appliances (-13.8 & 5.0), sports & recreational vehicles (-2.6 & 3.3), prescription drugs (1.0 & 2.8), furniture & home furnishings (2.2 & 12.4), professional & other services (5.4 & 7.6), tobacco (6.7 & 7.7), new motor vehicles (9.5 & 10.5), motor vehicles & parts (8.6 & 12.6), transportation services (8.9 & 9.5), airfares (14.5 & 18.7), and gasoline & other energy products (25.4 & 45.8). *PCED components for which three-month rates exceed yearly rates:* food & nonalcoholic beverages purchased for off-

premise consumption (15.7 from 13.5), personal care products (8.7 & 5.3), tenant rent (8.5 & 6.3), owner-occupied rent (7.8 & 5.8), used motor vehicles (7.0 & 4.7), recreation services (6.8 & 5.3), hospitals (6.2 & 3.3), clothing & footwear (5.2 & 4.9), alcoholic beverages purchased for off-premise consumptions (4.8 & 3.2), education services (3.6 & 2.3), physician services (1.0 & 0.2), and video audio & information processing (0.7 & -2.9).

Consumer Sentiment Index (*link*): Consumer sentiment improved in August from July, as well as from its mid-month readings, as an easing in inflation boosted expectations—with gains in sentiment seen across age, education, income, region, and political affiliation. Sentiment among lower-income consumers posted the largest increase, exceeding sentiment among higher-income consumers—the former usually lags the latter by over 15 points. The one-year inflation rate dropped from 5.4% during March and April (which was the highest expected rate since the early 1980s) eased to a low for this year of 4.8%. The five-year rate (2.9%) held just below 3.0% again this month—remaining within its narrow range of 2.9% to 3.1% the past 14 months. The consumer sentiment index climbed for the second month in August to 58.2—above its mid-month reading of 55.1—after sliding five of the first six months of this year from 70.6 in December to a record-low 50.0 by June. Expectations climbed 10.7 points in August to 58.0 (vs 54.9 preliminary) after plummeting six of the prior seven months by 21.0 points to 47.3—which was the lowest reading since spring 1980. The present situation component continued to improve this month from June's record low of 53.8, climbing to 58.6—consideraby above its mid-month reading of 55.5.

Regional M-PMIs (*link*): Four Fed districts (New York, Philadelphia, Richmond, and Kansas City) have reported on manufacturing activity for August and show the manufacturing sector fell back into contractionary territory, sinking to -7.5 (weakest since May 2020) from 3.0 in July and -0.4 in June, which was the first negative reading since the pandemic. Manufacturing activity in both the New York (to -31.3 from 11.1) and Richmond (-8.0 from 0.0) areas returned to negative territory. Meanwhile, manufacturing activity in the Philadelphia (6.2 from -12.3) area moved from contraction to expansion, while Kansas City's (3.0 from 13.0) slowed to a near standstill. New orders (-17.7 from -7.7) have been in a freefall since climbing to 13.9 in March, with billings in New York (-29.6 from 6.2) factories posting the weakest month since the pandemic, while new orders in both the Richmond (-20.0 from -10.0) and Kansas City (-16.0 from -2.0) regions contracted at a rapid rate, while Philadelphia's (-5.1 from -24.8) declined at a slower pace. Employment (13.1 from 15.6) slowed a bit but continued its solid readings, as factories in the Philadelphia (24.1 from 19.4) and Richmond (11.0 from 8.0) regions hired at a faster pace, while the rate of growth in both the New York (7.4 from 18.0) and Kansas City (10.0 from 17.0) factories continued to slow.

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for August from the New York, Philadelphia, Richmond, and Kansas City regions, and all are showing a noticeable easing of inflationary pressures. (Note: The New York, Philadelphia, and Kansas City 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.) Prices-paid indexes, in the New York region eased further from April's record-high 86.4, falling to a 19-month low of 55.5 this month, while Philadelphia's slowed from a cyclical high of 84.6 in April (which wasn't far from its record high of 91.1 in the 1970s) to a 20-month low of 43.6 in August, and Kansas City to 38.0 from its record high of 88.0 last May. Meanwhile, Richmond's (124.7 from 124.9) gauge was virtually unchanged, down from its record high of 150.1 in May. As for prices-received indexes, New York's (32.7) was little changed from July's 16-month low of 31.3, down from its record high of 56.1 in March, while the Philadelphia measure slowed to an 18-month low of 23.3 from November's 62.9 peak, and Kansas City's eased to 25.0 from its record high of 57.0 during both this April and last August. Richmond's (93.1 from 89.2) accelerated a bit, though remained below its record high of 103.1 in June.

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): The business climate index declined in August for the third consecutive month, though the decline this month was minimal, edging down only 0.2 point. The index dropped 4.7 points (to 88.5 from 93.2) over the three-month period to its lowest reading since June 2020; it was as high as 101.3 during June 2021. Current conditions remain in a volatile flat trend, though at the bottom of the range, slipping 2.2 points the past three months to 97.5—not far from recent highs. Meanwhile, the expectations measure fell to the lowest level since April 2020, plunging 18.4 points since its recent peak of 98.7 in February, though August's decline (-0.1 point) barely registered. Sentiment in the service sector improved a bit to 1.3 after dropping from 11.0 to 1.0 in July, as current conditions (30.6 from 29.9) were somewhat better, while expectation were unchanged at -24.2—the lowest since the height of the pandemic. Tourism picked up a bit, though the hospitality segment expects a big deterioration in its business. The manufacturing sector saw its business climate index this month remain at July's -0.6, which was a return to contractionary territory after two months of expansion. August's current conditions (to 18.3 from 20.3) measure drifted lower, though remained at a relatively high level, while the expectations (-29.2 from -30.6) measure was slightly less pessimistic, though still deep in contractionary territory. Meanwhile, sentiment in the trade sector

continued to plummet, sinking to -25.8 (the lowest since May 2020). It was at more than a three-year high of 17.8 last June. The report notes that fewer and fewer companies are reporting a positive business situation, with the current conditions component plunging from 31.6 last July to 3.2 this August, while the expectations component tumbled from 5.5 last June to -50.6 this month. The business climate index for construction (to -14.5 from -16.2) improved a bit, but remains entrenched in negative territory, with expectations (-38.2 from 40.0) only slightly less negative and current conditions (12.6 from 11.0) slightly more positive.

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