MORNING BRIEFING
September 6, 2022

Back To The Old Normal?

Check out the accompanying chart collection.

Executive Summary: Fed Chair Powell has put the kibosh on financial markets' wishful thinking that the Fed will start easing monetary policy next year. How will the Fed—and investors—know when it has achieved optimal tightening, with monetary policy restrictive enough to tame inflation but not enough to touch off a recession? "Immaculate disinflation" has proven elusive in the past, but we think it's possible today. A federal funds rate of 3.00%-4.00% might be the sweet spot, harkening back to the "Old Normal" before the 2008 financial crisis. … Also: Indicators suggest the broad economy is growing this quarter, though certain sectors aren't. … And: Dr. Ed reviews "Candy" (+ + +).

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US Economy I: Interesting Times For Interest Rates. Before Fed Chair Jerome Powell's Jackson Hole *speech* on Friday, August 26, Melissa and I expected that the Fed would raise the federal funds rate by 75 bps at the September 21 meeting of the FOMC. We also thought that the Fed might then pause for a few months to assess whether monetary policy is restrictive enough to bring inflation down while avoiding a recession.

Other Fed watchers ventured further during the weeks before Powell's August 26 speech and after his *press conference* on July 27: There was lots of chatter that the Fed would finish its tightening this year and would pivot early next year by lowering interest rates. Accordingly, the S&P 500 rallied 9.8% from July 26 (the day before the presser) through August 16. The 10-year US Treasury bond yield remained flat around 2.80% over this period. The 2-year Treasury note rose a bit from 3.05% to 3.24%. However, we could not find anything in Powell's July presser that would lead to that wishful conclusion by the nattering nabobs of positivism (to paraphrase former Vice President Spiro Agnew).

In his presser, Powell made it clear that he would no longer provide forward guidance about monetary policy. Then he proceeded to provide some of it by saying that if the financial markets wanted guidance, it was right there in the FOMC's June *Summary of Economic Projections* (SEP). He elaborated as follows:

“I think the Committee broadly feels that we need to get policy to at least … a moderately restrictive level. And maybe the best data point for that would be what we wrote down in our SEP at the … June meeting. So I think the median [federal funds rate] for the end of this year … would’ve been between 3¼ and 3½ [percent]. And, then, people wrote down 50 basis points higher than that for 2023. So … even though that’s now six weeks old … that’s the most recent reading. Of course, we’ll update that reading at the … September meeting in eight weeks. So that’s how we’re thinking about it.”

In his short speech at Jackson Hole, Powell not only reiterated that indirect guidance but also buried the notion that the Fed might lower interest rates next year. He said, “Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy.” He then reminded us all once again that “the June SEP showed the median federal funds rate running slightly below 4 percent through the end of 2023.”

In his speech, Powell recalled that “the successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were the norm until the spring of last year. Our aim is to avoid that outcome by acting with resolve now.”

This raises the question: How will the FOMC recognize when the federal funds rate is restrictive enough to bring inflation down? They should be looking for clues in yield-curve spreads. The yield-curve spread between the 10-year US Treasury and the federal funds rate is one of the 10 components of the Index of Leading Economic Indicators (*Fig. 1*). It narrowed by 85 bps to 31 bps on July 28, just after the Fed hiked the federal funds rate by 75 bps. Another hike of that magnitude would put the spread just below zero. The yield-curve spread between the 10-year and 2-year has been below zero since July 8. It was -28 bps on Friday, suggesting that a federal funds rate of 3.25%-3.50% would be restrictive if the bond yield remains around 3.00%.

In the good old days of the Old Normal (the period following the Great Inflation of the 1970s and before the Great Financial Crisis of 2008), the US economy had no problems growing when the federal funds rate and the 10-year US Treasury bond yield were around 3.00%-4.00% (*Fig. 2*).

What if that happens again? Wouldn’t it be swell if the Fed truly normalized monetary policy and we found that the economy can do just fine with a federal funds rate of 3.00%-4.00%? It has happened before, and it can happen again.

US Economy II: Immaculate Disinflation? Of course, a return to the Old Normal requires that inflation shows more signs of moderating and does so without the economy falling into a significant recession. Is immaculate disinflation possible? History shows that inflation rarely falls on its own without a recession (*Fig. 3*).

But we don't think history necessarily has to repeat itself (despite how often it rhymes). While the inflation rate tends to peak before recessions, the yield-curve spread tends to turn negative at about the same time as recessions, signaling that monetary policy is getting restrictive enough to trigger a financial crisis—which usually has taken the form of a widespread credit crunch and recession (*Fig. 4*).

What seems to be different this time (so far) is that the credit system is less vulnerable to a credit crunch than it was in the past. The result is what we now have: a rolling recession hitting different sectors of the economy at different times; we expect it to bring inflation down without precipitating an economy-wide downturn. In his July 27 presser, Powell said that the Fed might succeed in going down that path. In his August 26 speech, he suggested that it was less likely than he had thought only a month previously.

Now, consider the following related developments:

(1) We think that the headline CPI and PCED inflation rates did peak at 9.1% and 6.8% during June (*Fig. 5*). Excluding food and energy prices, the core CPI peaked at 6.5% during March, and the core PCED inflation rate peaked at 5.3% during February (*Fig. 6*).

(2) Food in the CPI rose 10.9% y/y during July, the highest since May 1979 (*Fig. 7*). The S&P GSCI index for agricultural and livestock commodities is down 17.6% since it peaked on May 17 through Friday's close (*Fig. 8*).

(3) The pump price of a gallon of gasoline fell 13.6% from the last week of July through the last week of August, using the four-week moving average of the price (*Fig. 9*). Americans have responded to recent high prices by reducing their consumption of gasoline by 654,000 barrels a day compared to a year ago (*Fig. 10*).

(4) The wholesale price of used cars fell 3.6% m/m during August, suggesting that the CPI for used cars fell last month (*Fig. 11*).

(5) Lots of other CPI components have shown signs of moderating over the past couple of months, including appliances, clothing, furniture, airfares, lodging away from home, and car rentals.

Rent stands out as the one major component of the CPI that is likely to remain troublesome. Nevertheless, the markets should welcome August's CPI when it is released on September 13.

US Economy III: Getting A Lead On Leading Indicators. There's no recession in the latest estimate of the Atlanta Fed's *GDPNow* model. On September 1, Q3's real GDP was running at 2.6% (saar). That was up from 1.6% on August 26. That was also before Friday's employment report. The latest estimate shows that real personal consumption expenditures and gross private domestic investment are growing at annual rates of 3.1% and -3.5% during Q3, up from the previous estimates of 2.0% and -5.4%.

We are projecting 1.5% growth for the current quarter's real GDP. Let's drill down to some of the key recently released components of the Coincident Economic Indicators (CEI) and the Leading Economic Indicators (LEI) to see what's growing and what's not doing so:

(1) *Consumer income and spending*. Payroll employment is one of the four components of the CEI. It rose 0.2% during August (*Fig. 12*). That's a solid increase. However, the average weekly hours of all employees in the private sector fell 0.3% last month (*Fig. 13*).

The product of these two variables is aggregate hours worked per week, which was flat during August (*Fig. 14*). We multiply this product by average hourly earnings, which rose 0.3% during August, to derive our Earned Income Proxy (EIP) for private wages and salaries in personal income (*Fig. 15*). It rose just 0.3% during August, which might show a weaker gain after adjusting for inflation, though August's CPI (to be reported on September 13) might be flat or even slightly negative, as discussed above.

We aren't sure why the GDPNow model showed a faster pace of consumer spending in the latest estimate. August's motor vehicle sales, released on Friday, were little changed from July's, at 13.4 million (saar) (*Fig. 16*). The sales slump is certainly almost all about the shortage of parts constraining assemblies rather than weak demand. However, a slump is a slump, so we conclude that a recession is rolling through the auto industry.

By the way, the expectations component of the Consumer Optimism Index (which averages the Consumer Sentiment Index and the Consumer Confidence Index) edged up from 56.5 during July to 66.6 during August. That's still quite depressed. This is yet another component of the LEI.

(2) *Residential investment.* A recession is clearly rolling through the housing industry. Residential investment in real GDP fell 16.2% (saar) during Q2. Interestingly, that was mostly attributable to a 40.5% drop in real estate brokers' commissions and an 11.4% decline in spending on home improvements (*Fig. 17*).

The plunge in single-family housing starts during the past five months through July will weigh on Q3's real residential investment (*Fig. 18*). Multi-family housing starts are likely to remain elevated, but with neither a positive nor negative contribution to real GDP (*Fig. 19*).

Building permits is a component of the LEI (*Fig. 20*). Data through July show continued weakness in single-family permits and resilience in multi-family permits.

(3) *Nonresidential investment.* While residential investment is experiencing a recession, the outlook for construction spending on nonresidential structures and public infrastructure remains mostly positive (*Fig. 21*). In the former, construction put in place is at or near recent record highs for commercial, health care, and manufacturing structures. Relatively weak is construction put in place for amusement & recreation, communication, lodging, power, and transportation.

In the public sector, construction is booming for sewage & waste disposal, water supply, and health care. Relatively weak is public spending on education, transportation, and power.

(4) *Production.* Aggregate weekly hours in manufacturing was flat during August (*Fig. 22*). That suggests industrial production was relatively weak last month, which was confirmed by Friday's M-PMI report. The M-PMI's new orders index, which is in the LEI, edged up in August. Industrial production is one of the four components of the CEI.

Movie. "Candy" (+ + +) (*link*) is a TV mini-series docudrama about Candy Montgomery, a 1980s housewife and mother. She had it all, including a loving husband with a good job at Texas Instruments, two well behaved children, a nice house in a Texas suburb, and plenty of friends. But one day, something snapped, and she crossed a moral line. In many ways, this mini-series is like a typical crime show such as *Dateline* on NBC. The differences are the compelling and quirky performance of Jessica Biel as Candy and the suspenseful editing.

Calendars

US: Tues: ISM NM-PMI 55.5; S&P Global C-PMI & NM-PMI 45.0/44.3. **Wed:** Trade Balance -$70.5b; MBA Mortgage Applications; Beige Book; Brainard; Mester. (Bloomberg estimates)

Global: Tues: Germany Factory Orders -0.2%; Australia GDP 1.2%q/q/3.8%y/y; China Trade Balance ¥93.0b; China Exports & Imports 13.0% & 1.8% y/y; RBA Interest Rate Decision 2.35%; Mauderer**. Wed:** Eurozone GDP 0.6%q/q/3.9%y/y; Germany GDP 0.1%q.q/1.8%y/y; Germany Industrial Production -0.2%; Italy Retail Sales; UK Halifax Price Index; Canada Trade Balance $3.5b; Japan GDP 0.7%q/q/2.9%y/y; Japan Leading & Coincident Indicators; BOE MPC Treasury Committee Hearings; BOC Rate Statement; Fernandez-Bollo; Jochnick; Bailey; Mann; Pill; Tenreyro; Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 3.4% last week as the index dropped nearer back into a bear market again at 19.2% below its record high on December 27. The US MSCI ranked 27th of the 48 global stock markets that we follow in a week when just six countries rose in US dollar terms. The AC World ex-US index fell 3.3% for its biggest drop in 11 weeks and slipped further into a bear market to end the week at 24.4% below its June 15, 2021 record high. All regions fell last week, but EMU dropped just 1.3%, followed by BIC (-2.4%), EM Latin America (-3.0), and EAFE (-3.1). EM Eastern Europe (-4.3) was the worst performing region last week, followed by EMEA (-3.9) and EM Asia (-3.3). Sri Lanka was the best-performing country last week with a gain of 3.5%, followed by Chile (2.6), Indonesia (1.9), Turkey (1.0), and Germany (1.0). Among the 22 countries that underperformed the AC World ex-US MSCI last week, the 8.7% decline for Colombia was the biggest, followed by Greece (-7.2) and South Africa (-6.5). In August, the US MSCI fell 4.1% for its fourth drop in five months. The US MSCI ranked 31/48 in August and slightly underperformed the 3.5% decline for the AC World ex-US index as 15 of the 48 countries moved higher. Turkey was the best performer, with a gain of 22.7%, followed by Pakistan (18.8), Sri Lanka (18.4), and Argentina (11.0). The worst-performing countries in

August: Poland (-13.8), the Netherlands (-10.5), Sweden (-10.0), Austria (-9.3), and the Czech Republic (-9.1). BIC was the best-performing region in August with a gain of 1.4%, ahead of EM Asia (0.2), EMEA (0.2), EM Latin America (0.0), and the AC World ex-US (-3.5). EM Eastern Europe (-10.7) was August's worst-performing region, followed by EMU (-6.4) and EAFE (-5.0). The US MSCI's ytd ranking dropped one place w/w to 25/49. After lagging for much of year through July, the US MSCI's ytd decline of 18.7% remains less than the AC World ex-US's 21.0% drop. EM Latin America is up 1.5% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-85.8), EMEA (-33.5), EMU (-27.9), EAFE (-21.9), BIC (-21.9), and EM Asia (-21.7). The best country performers so far in 2022: Chile (27.6), Jordan (20.2), Turkey (19.2), Brazil (6.8), and Indonesia (6.0). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-62.0), Poland (-45.0), Hungary (-42.1), Austria (-41.1), and Egypt (-39.4).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved lower for a third straight week. LargeCap fell 3.3%, more than the drops for MidCap (-4.3%) and SmallCap (-5.2). They're remain out of bear market territory, but dropped deeper into a correction. LargeCap finished the week at 17.7% below its record high on January 3. MidCap is 15.8% below its record high on November 16, while SmallCap is 17.1% below its November 8 record high. All 33 sectors moved lower for the week compared to four rising a week earlier. LargeCap Utilities was the best performer, albeit with a decline of 1.6%, followed by LargeCap Health Care (-1.8), MidCap Utilities (-2.2), LargeCap Communication Services (-2.4), and LargeCap Consumer Staples (-2.4). SmallCap Materials (-7.0) was the biggest underperformer last week, followed by MidCap Materials (-6.8), MidCap Tech (-6.3), SmallCap Tech (-6.2), and SmallCap Consumer Discretionary (-6.2). During August, MidCap fell 2.6%, less than the declines for LargeCap (-3.5) and SmallCap (-3.6). Just five of the 33 sectors rose in August, down from all 33 rising in July. August's best performers: LargeCap Energy (3.1), MidCap Consumer Staples (2.5), MidCap Energy (2.5), SmallCap Materials (2.4), and LargeCap Utilities (0.8). August's biggest laggards: MidCap Real Estate (-6.8), SmallCap Health Care (-6.3), SmallCap Tech (-6.0), SmallCap Real Estate (-6.0), and LargeCap Real Estate (-5.4). In terms of 2022's ytd performance, LargeCap's 17.7% decline continues to trail those of MidCap (-15.8) and SmallCap (-17.1). Four of the 33 sectors are positive so far in 2022, down from five a week earlier. Energy continues to dominate the top performers: LargeCap Energy (44.0), SmallCap Energy (40.6), MidCap Energy (38.9), LargeCap Utilities (3.7), and MidCap Utilities (-0.6). The biggest ytd laggards: LargeCap Communication Services (-31.6), SmallCap Consumer Discretionary (-28.8), SmallCap Real Estate (-27.2), MidCap Consumer Discretionary (-24.3), and LargeCap Consumer Discretionary (-24.2).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors fell last week, but six outperformed the composite index's 3.3% decline. That compares to a 4.0% decline for the S&P 500 a week earlier, when one sector rose and seven outperformed the index. Utilities was the top performer, albeit with a decline of 1.6%, followed by Health Care (-1.8%), Communication Services (-2.4), Consumer Staples (-2.4), Financials (-2.5), and Consumer Discretionary (-2.7). The two worst performers, both with 5.0% declines, were Materials and Tech, followed by Real Estate (-3.9), Industrials (-3.6), and Energy (-3.3). After soaring 9.1% in July for its best monthly performance since November 2020 and its best July since 1939, the S&P 500 dropped 4.2% in its worst August performance since 2015. Just two of the 11 sectors moved higher during August and seven outperformed the broader index. That compares to all 11 rising and four beating the S&P 500's 9.1% gain in July. The leading sectors in August: Energy (2.2), Utilities (0.1), Consumer Staples (-1.9), Financials (-2.2), Industrials (-3.1), Materials (-3.7), and Communication Services (-4.2). August's laggards: Tech (-6.3), Health Care (-5.9), Real Estate (-5.7), and Consumer Discretionary (-4.7). The S&P 500 is down 17.7% so far in 2022 with six sectors ahead of the index and just two in positive territory. The best performers in 2022 to date: Energy (44.0), Utilities (3.7), Consumer Staples (-6.3), Health Care (-11.6), Industrials (-13.2), and Financials (-16.1). The ytd laggards: Communication Services (-31.6), Consumer Discretionary (-24.2), Tech (-24.0), Real Estate (-20.5), and Materials (-18.1).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 3.3% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed below its 50-dma for the first time in seven weeks, and closed below its 200-dma for the 28th time in 30 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 fifth time in 18 weeks, as the index dropped to 2.3% below its rising 50-dma from 1.4% above a week earlier and a 23-month high of 8.7% above its rising 50-dma the week in early August. 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 8.2% below its falling 200-dma, down from 5.5% below a week earlier and an 18-week high of 0.8% below in early August. 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 an 18th straight week and at a slightly faster pace.

S&P 500 Sectors Technical Indicators (*link*): Energy and Utilities are the only S&P 500 sectors now trading above their 50-dmas, down sharply from nine sectors above a week earlier and from all 11 sectors above in the prior two weeks. Utilities marked its sixth straight week above its 50-dma and Utilities its fourth. Five of the 11 sectors had a rising 50-dma, down sharply from all 11 sectors a week earlier. Looking at the more stable longer-term 200-dmas, only two sectors were trading above, unchanged from a week earlier. Energy was above for a 50th straight week and Utilities for a sixth week. 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

Employment (*link*): Payroll employment rose slightly more than forecast in August, but there was a noticeable downward revision to June payrolls, while July's gain was little changed from its preliminary estimate. Employment rose 315,000 (vs 298,000 estimate), slowing from July's 526,000 (first reported at 528,000) gain; a big downward revision to June payrolls (to 293,000 from 398,000) made for a net loss of 107,000 over the two-month period. Private payrolls climbed 308,000 last month, the weakest performance since December 2020, while revisions to July (477,000 to from 471,000) and June (346,000 from 404,000) showed a net loss of 52,000. Total payroll employment has recovered 22.2 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 240,000. Jobs gains in service-providing industries increased 263,000 in August, slowing from July's 411,000, while goods-producing jobs rose 45,000, down from July's 66,000. Industries posting the largest gains during August were professional & business services (68,000), health care (48,000), retail trade (44,000), leisure & hospitality (31,000), and manufacturing (22,000)—though the increase in leisure & hospitality is one-third the gain posted the first seven months of this year. *Here's a list of the industries that are above their February 2020 pre-pandemic levels:* professional & business services (+1.0 million), transportation & warehousing (+748,200), retail trade (+259,500), information services (+129,000), financial activities (+111,000), nondurable goods manufacturing (+89,000), construction (+84,000), education (+25,200), and wholesale trade (3,400). *Here's a list of the industries that are below their February 2020 pre-pandemic levels:* durable goods manufacturing (-22,000), health care (-36,600), social assistance (-42,500), mining & logging (-45,000), and leisure & hospitality (-1.2 million).

Wages (*link*): Average hourly earnings for all workers in August increased 0.3%, following gains of 0.5% and 0.4% the prior two months, with the yearly rate holding at 5.2% again last month—having eased from March's recent high of 5.6%. August's rate was below the July inflation-rate gains of 8.5% and 6.3% in the CPI and PCED measures, respectively. Private industry wages over the three months through August increased 4.8% (saar), on par with its 5.2% yearly rate, with the three-month rate for goods-producing (2.7%, saar & 4.4% y/y) industries below its yearly average and nearly identical for service-providing (5.3 & 5.4). *Service-providing industries showing three-month rates below their yearly rates:* utilities (-0.6 & 4.7), transportation & warehousing (0.0 & 5.8), professional & business services' (3.5 & 5.6), retail trade (3.5 & 4.7), and leisure & hospitality (7.4 & 8.6). *Service-providing industries showing three-month rates above their yearly rates:* information services (10.5 & 6.0), other services (6.7 & 2.5), financial activities (6.7 & 4.2), education & health services (6.5 & 5.9), and wholesale trade (5.1 & 4.0). *Goods-producing industries:* The three-month rates are below their yearly rates for durable goods manufacturing (0.7 & 3.7), nondurable goods manufacturing (3.1 & 3.5), and construction (3.5 & 5.3), while above for natural resources (12.2 & 4.7).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 27th increase in the past 28 months—up 0.3% in August and 30.7% over the period—to yet another new record high. August's increase in the EIP was roughly a third of the average monthly gain of 0.8% over the prior 17 months. In August, average hourly earnings advanced 0.3%, with aggregate weekly hours flat. Over the past 12 months, our EIP was up 9.4%—with aggregate weekly hours up 4.2% and average hourly earnings up 5.2%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): August's unemployment rate jumped to 3.7% after falling back down to its pre-pandemic low of 3.5% in July—which was the lowest rate since 1969, as 786,000 entered the labor force last month. Meanwhile, the participation rate in August climbed back up to March's 62.4%—which was the highest since March 2020—from 62.1% in July; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. *By race:* The unemployment rate rose among all races, though the rate for Hispanics posted the largest move up, climbing to 4.5% after dropping to a record low of 3.9% in July, followed by the rate for African Americans, which climbed for the second month to 6.4% after falling to 5.8% in June—not far from its record low of 5.4% recorded during August and September 2019. The rate for Asians climbed to 2.8% in August after sinking to 2.6% in July, which was back near its pre-pandemic readings and not far from its record low of 2.1% recorded in mid-2019, while the rate for Whites ticked up to 3.2% after falling to 3.1% in July, which was just a tick above its record low of 3.0% just before the pandemic hit. *By education:* The rate for those with less than a high school degree continued to climb, from a record low of 4.3% in February to 6.2% in August, which was the highest since the 6.3% rate at the start of this year, while the rate for those with a high school degree and some college jumped to 4.2% from 3.6% in July and June. The rate for those with some college ticked up to 2.9% last month after falling from 3.4% in May to 2.8% in July, which was just a few ticks above its record low of 2.4% during fall 2000, while the rate for those with a college degree and higher slipped to 1.9%—the lowest since February 2020.

Construction Spending (*link*): A sharp drop in single-family home expenditures sent construction spending south again in July. Total construction spending fell for the second month in July by 0.4% m/m and 0.9% over the period, following an eight-month surge of 9.9% to a new record high. Private construction spending fell for the second month since reaching a new record high in May, sinking 1.5% over the period, while public construction spending rose for the sixth month this year for a ytd gain of 3.1%. Within private construction spending, residential investment declined for the second month by 2.6%, after not posting a decline since May 2020—soaring 59.9% over the 24-month period from then through May of this year to a new record high. The recent two-month drop was driven by a 6.4% plunge in single-family construction spending from its record high, while multi-family construction remained in a volatile flat trend just below last May's record high. Meanwhile, home improvement spending hasn't posted a decline since September 2020, soaring 53.2% over the 22-month period to a new record high. Private nonresidential spending rose for the fifth time this year, by 0.4% in July and 1.7% ytd, to its highest level since March 2020.

Auto Sales (*link*): Auto sales in August were little changed at 13.4mu (saar)—averaging that pace the past three months, after slumping from 15.2mu in January to 12.9mu during May. Sales averaged 15.1mu for all of last year—with last year's sales reaching a high of 18.5mu and a low of 12.4mu. Domestic light-truck sales are hovering around 8.0mu the past three months after falling from 9.4mu at the start of the year to 7.9mu in May; these sales were at 11.0mu last April. Meanwhile, domestic car sales continue to remain around 2.0mu, holding at that level in August—not far from the 1.4mu record low during the pandemic. Sales of imports are showing signs of life, climbing to 3.3mu (saar) in August after falling from 3.8mu in January to 3.0mu in May.

Global Economic Indicators

Global Manufacturing PMIs (*link*): Global manufacturing activity in August sank to a 26-month low, as manufacturing output fell back into contractionary territory—with production falling across consumer, intermediate, and investment goods sectors. The JP Morgan Global M-PMI fell for the sixth time this year, from 54.3 in December to 50.3 by August, as only 14 of the 29 countries covered by the survey in August showed an expansion. Here's how August M-PMIs ranked by country/region from highest to lowest: India (56.2), Australia (53.8), Thailand (53.7), Netherlands (52.6), Colombia (52.4), Kazakhstan (52.0), Brazil (51.9), Russia (51.7), Indonesia (51.7), US (51.5), Japan (51.5), Ireland (51.1), France (50.6), WORLD (50.3), Malaysia (50.3), Spain (49.9), EUROZONE (49.6), China (49.5), Germany (49.1), Austria (48.8), Greece (48.8), Canada (48.7), Mexico (48.5), Italy (48.0), South Korea (47.6), Turkey (47.4), UK (47.3), Czech Republic (46.8), Myanmar (46.5), Taiwan (42.7), and Poland (40.9). On the inflation front, the report notes that the rate of input price inflation eased further last month to the lowest since the end of 2020—though remain elevated, with reports of supply-chain difficulties, raw material shortages, and elevated prices for key inputs such as energy and electronics. Average output costs increased at the slowest pace in 18 months.

US Manufacturing PMI (*link*): ISM's M-PMI showed manufacturing activity held steady in August, expanding for the 27th month in a row, while a continued easing in price pressures suggests that inflation has likely peaked. The M-PMI was unchanged at 52.8 in August as bottlenecks eased; it peaked at 63.7 last March. August saw new orders (to 51.3 from 48.0) expand after contracting the prior two months, though the production (50.4 from 53.5) measure moved closer to contractionary territory. There are signs that supply constraints are easing as the supplier deliveries measure continued to retreat from last May's 78.8 to 55.1 in August—the lowest since January 2020. After holding below the breakeven point of 50.0 for three months, the employment gauge jumped to a five-month high of 54.2 in August. The inventories measure remains in a volatile flat trend, falling to 53.1 in August after rising from 51.6 in April to 57.3 in July. ISM's prices-paid measure eased in August for the fifth month, to a 26-month low of 52.5 from 87.1 in March; it was at 92.1 in mid-2021—which was the fastest since the summer of 1979.

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