MORNING BRIEFING
September 19, 2022

On Blackouts & Liquidity

Check out the accompanying chart collection.

Executive Summary: Fed Chair Powell seems to be channeling his 1970s predecessor Paul Volcker—who masterfully tamed high inflation amid a severe recession. Today, we assess how August's CPI shocker may alter the FOMC's economic projections and policy decisions. … We expect Wednesday's FOMC meeting to bring a 100bps hike in the fed funds rate to 3.25%-3.50% and more hawkish projections of committee members, suggesting a terminal rate this tightening cycle of 4.25%-4.50%. … For the economy, we expect the current rolling recession to continue without turning into an official recession because there is ample liquidity to avert a credit crunch. And: Dr. Ed reviews "Five Days at Memorial" (+ + +).

Monetary Policy I: Blackout Period. The FOMC meets on Tuesday and Wednesday. On Wednesday at 2:00 pm, the committee will release its brief statement summarizing its monetary policy response to the latest developments in the economy. The committee will also release its quarterly update of the Summary of Economic Projections (SEP) detailing the "economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy."

Melissa and I often have referred to the Federal Open Market Committee as the "Federal Open Mouth Committee." Its members like to talk in public all too often, sharing their views about the economy and monetary policy. Fortunately, we get a break during the *blackout period* stretching from 10 days before to one day after FOMC meetings. The latest blackout period started September 10 and lasts through September 22.

In fact, the Fed chair gets to break the FOMC's silence with his/her press conference immediately after the committee's eight meetings per year. Fed Chair Jerome Powell has been the most publicly loquacious of all the Fed chairs. Whereas Ben Bernanke in April 2011 instituted the practice of holding press conferences following four of the eight FOMC meetings each year, Powell in 2019 increased the frequency to after every FOMC meeting. That's too often, in our opinion. But it does provide Fed watchers, such as yours truly, more to watch and comment on—such as the following observations:

(1) *Leaks.* Following the release of May's CPI shocker on Friday, June 10, we concluded that the FOMC was more likely to raise the federal funds rate by 75bps than by 50bps on June 15. Our expectation was confirmed on Monday, June 13, by a *WSJ* *article* by Nick Timiraos titled "Fed Likely to Consider 0.75-Percentage-Point Rate Rise This Week." Nick is the *Journal*'s ace Fed watcher. In the past, Fed chairs have often provided the financial markets with a heads-up by leaking their latest views to the *WSJ*—so there are ways around the blackout period. Sure enough, the federal funds rate was raised by 75bps on June 15 and again by 75bps at the July 27 FOMC meeting to a range of 2.25%-2.50%.

(2) *Projections.* August's higher-than-expected core CPI inflation rate was released on September 13, i.e., during the latest blackout period. Fed officials are probably beside themselves trying to refrain from commenting on this development, but they'll have to hold their tongues until Friday, September 23. However, Wednesday's SEP is likely to show that the FOMC's median projections for the federal funds rate in 2022, 2023, and 2024 have been raised since June's SEP. It is widely expected that the FOMC will vote to hike the federal funds rate by 75bps on Wednesday. We are expecting a 100bps hike to 3.25%-3.50%.

We keep track of the changes in the SEP in our *FOMC Economic Projections*. June's SEP showed a median of 3.4% for this year, which is likely to be raised. So is June's 3.8% for next year, most likely to 4.2%.

The question is whether a more hawkish SEP outlook for the federal funds rate will change the committee's outlook for the economy and inflation. The median projected change for real GDP was cut significantly in June to 1.7% during 2022 from 2.8% in March, and to 1.7% during 2023 from 2.2% in March. We doubt that committee members will lower their relatively low projections during June any further. On the other hand, we won't be surprised if they raise their consensus estimate of the headline PCED inflation rate for 2022 from 4.3% closer to 5.0%, as inflation continues to be more persistent and higher than they expected. Nevertheless, the committee might stick with next year's median projection of 2.7% for the headline PCED to signal that they will do whatever it takes to lower inflation.

(3) *Guidance.* At his July 27 press conference, Powell made 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 *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.”

(4) *Channeling Volcker.* In his short but effective *speech* at Jackson Hole on August 26, 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.”

Powell channeled his inner Volcker by saying: “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.’”

That wasn’t the first time that Powell has invoked the wisdom of Volcker. On April 21, in pre-recorded remarks at a special briefing of the Volcker Alliance and Penn Institute for Urban Research, Powell called former Fed boss Paul Volcker, who battled high inflation in the 1970s and 1980s, “the greatest economic public servant” of the era. Volcker raised interest rates to a record 20% in the 1980s in response to the nation’s double-digit inflation. Volcker had known that to save the economy, he needed to stay that controversial course and couldn’t be swayed by political opinion. Back then, we wrote: “Powell’s Volcker Moment may have arrived.”

Monetary Policy II: Terminal Federal Funds Rate. So where is the Fed going? And what are the implications for interest rates? As noted above, the FOMC will update its median projections for the federal funds rate in September’s SEP, which will be released on Wednesday. Powell’s guidance is that we should use that as the Fed’s guidance for the federal funds rate. We expect it will suggest that the terminal federal funds rate during the current monetary tightening cycle will be 4.25%-4.50%.

We can also turn to the financial markets for guidance on the direction of the federal funds rate. Consider the following:

(1) *New range.* The federal funds target range is currently 2.25%-2.50%. If the Fed hikes by 100bps, as we expect, the range will be 3.25%-3.50%, implying that the terminal rate would require the Fed to raise the federal funds rate by another 100bps to 4.25%-4.50%, either in one shot or incrementally. That scenario is likely to be the one shown by the forthcoming SEP (*Fig. 1*).

(2) *Futures.* Weekly data based on the average of daily federal funds rate futures currently show that the 3-month, 6-month, and 12-month futures rates were 3.75%, 4.33%, and 4.26% (*Fig. 2*). That's certainly consistent with the SEP's likely scenario.

(3) *Two-year yield.* Our favorite market indicator of the outlook for the federal funds rate is simply the two-year Treasury note yield. It tends to be a very good leading indicator for the federal funds rate when it is rising and a coincident indicator of the federal funds rate when it is falling (*Fig. 3* and *Fig. 4*). On Friday, this yield was 3.85%, little changed from Thursday's 3.87%—which was the highest since October 31, 2007—and up 364bps from a year ago. That's among the most aggressive hikes in the two-year yield since Volcker was the Fed chair.

(4) *Yield curve.* The yield-curve spread between the 10-year and two-year US Treasury securities has narrowed since the start of this year and turned negative over the past 11 weeks (*Fig. 5*). It has done so as the former rose faster than the latter. That implies that fixed-income investors are betting that the Fed's monetary tightening cycle is likely to end sooner rather than later because interest rates have been raised to levels that are likely to trigger a financial crisis, which could quickly morph into an economy-wide credit crunch and recession (*Fig. 6*).

(5) *High-yield corporate yield.* Notwithstanding the warning signal emitted by the yield-curve spread, there's no recession signal coming out of the high-yield bond market. The yield spread between the high-yield corporate composite and the 10-year US Treasury has widened from 279bps at the start of this year to 519bps on September 16 (*Fig. 7*). But that's a relatively modest widening compared with the widenings that occurred during the previous two recessions. By the way, this spread is highly correlated with the S&P 500's VIX, which also has remained remarkably subdued so far this year (*Fig. 8*).

Be warned: The yield spread between the high-yield corporate composite and the 10-year Treasury tends to be a coincident indicator of the business cycle, unlike the Treasury yield curve spread, which tends to be a coincident indicator. By the time the former signals a recession, we're usually in the thick of it.

(6) *Mortgage rates.* There is a distress signal emanating from the mortgage market. At the end of last week, the 30-year mortgage rate rose to 6.36%, the highest since November 2008, up 304bps since the start of this year (*Fig. 9*). Over that period, the 10-year Treasury yield rose 182bps, and the spread between the mortgage rate and the Treasury yield widened by 122bps to 291bps (*Fig. 10*). The rolling recession is already rolling through (and roiling) the housing market.

US Economy: Plenty Of Liquidity. As noted above, the yield-curve spread is signaling that a credit crisis is becoming more likely as the Fed continues to tighten. In the past, such crises quickly turned into economy-wide credit crunches and recessions. That's not our forecast. This time is different because the financial system in general and the banking system in particular are in much better shape than during previous tightening cycles. So we expect that the current rolling recession will continue through the end of this year without turning into an official recession. Consider the following:

(1) *Lots of excess saving.* Consumers saved a lot during the pandemic. That has allowed them to dip into those savings and to reduce their current rate of saving to boost their purchasing power. Over the past 24 months through July, they saved $1.9 trillion, or roughly twice as much as they saved on a comparable basis before the pandemic (*Fig. 11*). During July, the personal saving rate held at 5.0%, the lowest since August 2009.

(2) *Corporate debt refinanced.* Over the past 24 months through July, nonfinancial corporations raised $1.8 trillion (gross) in the corporate bond market (*Fig. 12*). Over the past eight quarters through Q2-2022, their net borrowing in the corporate bond market was $131 billion (*Fig. 13*). So they refinanced $1.7 trillion of their bond debt at or near record low interest rates!

(3) *Better capitalized financials.* During August, commercial banks in the US had a near record $2.2 trillion in capital, measured as assets minus liabilities, according to data provided by the Federal Reserve Board (*Fig. 14*). The ratio of this capital proxy to banks' loans and leases was 18.7% during August, up from 11.3% during November 2008 (*Fig. 15*). Banks are much better capitalized now than they were during the Great Financial Crisis (GFC).

(The Fed warns: "This balancing item is not intended as a measure of equity capital for use in capital adequacy analysis.")

Soaring loan losses caused the earnings of the S&P 500 Financials sector to crater during the Great Financial Crisis (*Fig. 16*). That forced them to slash their lending activities. That's not likely to happen this time. Indeed, loans and leases at the banks rose $1,156 billion y/y to a record high $11.6 trillion during the September 7 week.

(4) *Less leveraged real estate.* The Fed's quarterly *Financial Accounts of the United States* shows that during Q2-2022, household real estate was valued at a record $41.2 trillion with owners' equity at a record $29.0 trillion and home mortgages at a record $12.2 trillion (*Fig. 17*). Owners' equity accounted for 70.5% of the value of homes, the highest since Q4-1984, while mortgages accounted for 29.5% of home values, the lowest since Q4-1984 (*Fig. 18*).

We conclude that falling home prices certainly will reduce the net worth of households. But they aren't likely to trigger the credit calamity that occurred during the GFC.

(5) *Huge capital inflows.* Last (for now) but not least, money from overseas is pouring into the US capital markets, which foreign investors regard as a haven in a world that's increasingly unsafe for them. Their mantra is "TINAC: There is no alternative country!"

The US Treasury International Capital System (TICS) reported on Friday that private net capital inflows totaled $1.5 trillion over the past 12 months through July, near recent record inflows (*Fig. 19*). Over this same period, foreigners' net purchases of US bonds totaled $880.4 billion, while their net equity purchases were -$248.2 billion. The bond purchases included $634.5 billion in US Treasuries, $121.0 billion in agency bonds, and $125.0 in corporate bonds. (See our *Treasury International Capital System*.)

Movie. "Five Days at Memorial" (+ + +) (*link*) is a remarkable TV miniseries docudrama about the struggle of doctors, nurses, and staff at Memorial Hospital in New Orleans to care for their patients during Hurricane Katrina, when the facility was without power for five days with very little food or water in oppressive heat. It quickly turns into a life-and-death dilemma for several of the patients, especially once everyone is ordered to evacuate the hospital with several patients not able to do so. The situation raises lots of ethical questions that aren't easy to answer during such an emergency, especially when the government fails to do its number-one job of protecting its citizens. The cast is superb, and the story is all the more incredible because it's true.

Calendars

US: Mon: NAHB Housing Market Index 47. **Tues:** Housing Starts & Building Permits 1.445mu/1.610mu; API Weekly Crude Oil Stocks. (Bloomberg estimates)

Global: Mon: Japan Core CPI 2.7%; China FDI; RBA Meeting Minutes; Fernandez-Bollo; De Guindos; Enria; Buch; Balz. **Tues:** Eurozone Current Account €5.3b; Germany PPI 1.5%m/m/37.5%y/y; Canada CPI -0.1%m/m/7.3%y/y; Lagarde; McCaul; Beaudry; Bullock. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 4.8% last week as the index dropped back into a bear market again, finishing the week at 20.1% below its record high on December 27. The US MSCI ranked 43rd of the 48 global stock markets that we follow in a week when just five countries rose in US dollar terms. The AC World ex-US index fell 2.8% for the week, descending deeper into a bear market at 26.0% below its June 15, 2021 record high. Nearly all regions fell last week. EMEA gained 0.7%, followed by EM Eastern Europe (-2.0%), EMU (-2.5), and EAFE (-2.7). EM Latin America (-4.0) was the worst performing region last week, followed by BIC (-3.8) and EM Asia (-2.8). The Czech Republic was the best-performing country last week with a gain of 2.5%, followed by Sri Lanka (1.8), Morocco (0.6), Italy (0.3), and Jordan (0.1). Among the 20 countries that underperformed the AC World ex-US MSCI last week, the 7.2% decline for Chile was the biggest, followed by Denmark (-6.5), Turkey (-6.1), and South Africa (-5.8). The US MSCI's ytd ranking dropped four places to 25/49. After lagging for much of year through July, the US MSCI's ytd decline of 19.7% remains less than the AC World ex-US's 22.7% drop. EM Latin America is now down 0.3% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-85.9), EMEA (-34.1), EMU (-29.0), BIC (-24.5), EM Asia (-24.1), and EAFE (-23.4). The best country performers so far in 2022: Turkey (24.8), Chile (23.6), Jordan (18.3), Argentina (7.9), Indonesia (6.9), and Brazil (3.5). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-60.0), Poland (-45.2), Hungary (-44.7), Pakistan (-41.3), and Austria (-39.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved lower for the fourth time in five weeks. LargeCap fell 4.8%, worse than the declines for MidCap (-4.7%)

and SmallCap (-4.1). LargeCap and MidCap fell deeper into a correction, but SmallCap dropped back into a bear market. LargeCap finished the week at 19.2% below its record high on January 3. MidCap is 18.2% below its record high on November 16, while SmallCap is 21.9% below its November 8 record high. All 33 sectors moved lower for the week compared to all 33 rising a week earlier. SmallCap Utilities was the best performer, albeit with a decline of 0.5%, followed by SmallCap Financials (-1.5), MidCap Financials (-1.9), LargeCap Health Care (-2.4), and LargeCap Energy (-2.6). MidCap Materials (-10.4) was the biggest underperformer last week, followed by SmallCap Materials (-7.0), LargeCap Materials (-6.7), LargeCap Real Estate (-6.5), and LargeCap Communication Services (-6.4). In terms of 2022's ytd performance, LargeCap's 18.7% decline continues to trail MidCap's (-16.2) as SmallCap (-18.3) moved ahead of LargeCap in the latest week. Four of the 33 sectors are positive so far in 2022, down from eight a week earlier. Energy continues to dominate the top performers: LargeCap Energy (41.0), MidCap Energy (34.9), SmallCap Energy (32.8), LargeCap Utilities (3.4), and MidCap Utilities (-2.3). The biggest ytd laggards: LargeCap Communication Services (-34.2), SmallCap Consumer Discretionary (-30.0), SmallCap Real Estate (-28.0), SmallCap Communication Services (-26.7), and LargeCap Tech (-26.3).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors fell last week, and six outperformed the composite index's 4.8% gain. That compares to a 3.6% gain for the S&P 500 a week earlier, when all 11 sectors rose and six outperformed the index. Health Care was the top performer, albeit with a decline of 2.4%, followed by Energy (-2.6%), Financials (4.4), Consumer Staples (-3.6), Financials (-3.8), Utilities (-3.8), and Consumer Discretionary (-4.2). Materials was the worst performer with a decline of 6.7%, followed by Real Estate (-6.5), Communication Services (-6.4), Industrials (-6.4), and Tech (-6.1). The S&P 500 is down 18.7% 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 (41.0), Utilities (3.4), Consumer Staples (-8.0), Health Care (-9.9), Financials (-15.8), and Industrials (-16.0). The ytd laggards: Communication Services (-34.2), Tech (-26.3), Consumer Discretionary (-23.2), Real Estate (-22.6), and Materials (-19.8).

S&P 500 Technical Indicators (*link*): The S&P 500 tumbled 4.8% last week and weakened considerably relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed back below its 50-dma after rising above a week earlier for the first time in seven weeks. It closed below its 200-dma for the 30th time in 32 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower 14th time in 20 weeks as the index dropped to an 11-week low of 4.2% below its falling 50-dma from 0.8% above its rising 50-dma a week earlier. That compares to a 23-month high of 8.7% above its rising 50-dma the week in early August and a 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 index's 200-dma has declined now for a 20th straight week—falling last week at its fastest rate since March 2020. The price index closed Friday at an eight-week low of 8.7% below its falling 200-dma, down from 4.5% 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. For perspective, at its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Just two of the 11 S&P 500 sectors are trading above their 50-dmas as of last week, down sharply from eight sectors above a week earlier. Utilities marked its eighth straight week above its 50-dma and Energy its sixth. Five sectors had a rising 50-dma last week, 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 52nd straight week and Utilities for an eighth week. Just two sectors had a rising 200-dma last week, down from three from a week earlier, as Consumer Staples turned down and left Energy and Utilities as the members of the club. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma.

US Economic Indicators

Retail Sales (*link*): Retail sales unexpectedly rebounded in August, though July's move was revised from no change to a decline. August sales expanded 0.3%, led by motor vehicle sales, after contracting 0.4% in July, while real retail sales (deflated by the CPI) ticked up 0.2% after a three-month slide of 1.3%. Sales at gas stations dropped sharply for the second month, by a total of 6.4%, as gasoline prices tumbled 20% over the two-month period. Excluding gasoline, sales were up 0.8% during the month and 0.7% in real terms.

The control group—which excludes autos, gasoline, building materials, and food—was flat in August after climbing 6.6% during the first seven months of the year to a new record high. Of the 13 nominal retail sales categories, eight rose during August, while five fell. Here's a snapshot of the sales performances of the 13 categories during August as well as the performances versus a year ago: motor vehicles & parts (2.8% & 6.7%), miscellaneous store retailers (1.6 & 15.3), building materials & garden equipment & supplies (1.1 & 10.5), food services & drinking places (1.1 & 10.9), food & beverage stores (0.5 & 7.2), sporting goods & hobby stores (0.5 & 5.5), general merchandise stores (0.5 & 3.6), clothing & accessories stores (0.4 & 3.5), electronics & appliance stores (-0.1 & -5.7), health & personal care stores (-0.6 & 1.5), nonstore retailers (-0.7 & 11.2), furniture & home furnishings (-1.3 & -1.6), and gasoline stations (-4.2 & 29.3).

Business Sales & Inventories (*link*): Nominal business sales slumped in July after climbing to a new record high in June, while June real business sales (reported with a lag) continued to drift lower. Nominal business sales sank 0.9% in July after expanding 15 of the prior 16 months by 23.5%. Meanwhile, real business sales fell for the fourth time in five months, dropping 0.4% in June and 2.9% over the period—it was 3.5% below its record high posted during March 2021. Real sales for wholesalers were little changed in June after falling 4.0% from January's record high through May, while real sales for retailers has been on a downtrend since reaching a new record high in March 2021, falling 0.7% in June and 8.0% over the period. Meanwhile, real manufacturing sales dropped steadily during the first half of this year, down 0.6% in June and 3.6% ytd—and are 7.9% below its recent peak recorded during January 2021. In the meantime, the real inventories-to-sales ratio moved up to 1.49 in June from its recent low of 1.38 to its highest reading since June 2020. The nominal ratio moved up to a 17-month high of 1.32 in July, rising from a near-record low of 1.26 in October and November.

Consumer Sentiment Index (*link*): Consumer sentiment posted a small improvement in early September, with the report noting that after the marked improvement in sentiment in August, "consumers showed signs of uncertainty over the trajectory of the economy." After dropping to a record low of 50.0 in June, the consumer sentiment index increased for the third month by a total of 9.5 points to 59.5 in early September—with August accounting for 70% of the move up. Expectations was the main driver of sentiment during the past three months, rising 12.4 points to 59.9 in early September—with 10.7 points occurring in August. In contrast, the present situation is up only 5.1 points since dropping to a record low of 53.8 in June. Inflation expectations continued to ease, with the one-year expected inflation rate dropping from a peak of 5.4% in March and April to 4.6% in early September, while the five-year expected inflation rate eased to 2.8%, falling below the 2.9%-3.1% range for the first time since last July. However, the report warns that it's "unclear if these improvements will persist as consumers continued to exhibit uncertainty over the future trajectory of prices."

Regional M-PMI (*link*): Two Fed districts (New York and Philadelphia) have reported on manufacturing activity for September and show the manufacturing sector remained in contractionary territory, though the decline narrowed a bit, with the measure climbing to -5.7 from -12.5 in August. Manufacturing activity in the New York (to -1.5 from -31.1) region snapped back near expansionary territory in August after falling deep into contractionary territory in July, while manufacturing activity in the Philadelphia (-9.9 from 6.2) area moved back into negative territory after a brief move above zero in August. New orders (-7.0 from –17.4) contracted for the fourth month in September, though moved off recent lows, with billings in New York (3.7 from -29.6) factories returning to growth, though barely, while new orders in the Philadelphia (-17.6 from -5.1) region fell at a faster pace than in August. Employment (15.8 from 18.7) continued to climb this month, but the pace slowed for the third successive month, as factories in the Philadelphia (12.0 from 24.1) region hired at half August's pace, while New York's (9.7 from 7.4) pace held relatively steady. Turning to prices, the prices-paid index in the New York region eased further from April's record-high 86.4, slowing to a 21-month low of 39.6 this month, while Philadelphia's eased from a cyclical high of 84.6 in April (which wasn't far from its record high of 91.1 in the 1970s) to 29.8 in September, the lowest since December 2020. New York's prices-received measure slowed to a 19-month low of 23.6, down from its record high of 56.1 in March, while the Philadelphia measure picked up a bit to 29.6 after slowing to an 18-month low of 23.3 last month from November's 62.9 peak.

Industrial Production (*link*): Industrial output ticked down 0.2% in August after climbing 0.5% in July to a new record high, which was its only gain since April. Production increased only 0.2% during the four months through August after expanding 2.5% the first four months of this year. Manufacturing output increased 0.1% in August following a 0.6% gain, though lacks momentum, bouncing in a volatile flat trend just below April's recent peak. *By market group:* Business equipment production rebounded 1.3% during the two months through August, more than recovering from its brief setback in May and July; in August, it rose 4.1% ytd and 5.8% y/y to its highest level since March 2019. Industrial equipment output increased for the eighth time in 10 months, by 0.3% m/m and 6.9% over the period to its highest level since the start of 2015. Production of information & processing related equipment remained in a volatile flat trend around record highs in August—within 0.8% of last August's record high. Transit equipment output has fluctuated in a flat trend over the past 20 months, climbing back to the top of that range the past few months. Consumer durable goods production headed back toward April's record high, rebounding 2.1% during the two months through August after falling 4.0% during the two months through June, as home electronics production hit another new record high and auto-related output remained near its record high. Production of appliances & furniture rebounded 5.4% in August, but that followed a three-month dive of 17.6%. Consumer nondurable goods production fell for the fourth month, but was only 1.1% below its recent high during April, which was the highest since fall 2011.

Capacity Utilization (*link*): The headline capacity utilization rate continues to hover in a flat trend around recent highs, ticking down to 80.0% in August after climbing from 79.9% in June to 80.2% in July—averaging 79.8% ytd. August's rate was 0.4ppt above its long-run (1972-2021) average. The manufacturing utilization rate held steady at 79.2% in August, down from its recent high of 80.1%—which was the highest percentage since summer 2000—and was 1.4ppts above its long-run average. Meanwhile, the capacity utilization rate for mining ticked down to 88.1% after rising from 85.9% in April to 88.4% by July, which was the highest since mid-2019. The utilities rate fell for the second month, from 75.8% in June to 72.8% in August, remaining substantially below its long-run average. The capacity utilization rate for mining was nearly 2.0ppts above its long-term average.

Import Prices (*link*): Import prices fell in August for the second month as petroleum prices continued to decline. Import prices sank 1.0% last month and 2.5% the past two months—the biggest back-to-back drop since April 2020. Import prices' yearly rate eased to 7.8% from a recent high of 13.0% in March, as the yearly rate in fuel prices slowed to 49.7% y/y—the lowest since February 2021; it peaked at 130.1% last April. Nonpetroleum import prices declined for the fourth successive month, by 0.2% in August and 1.5% over the period, with the yearly rate falling to a 17-month low of 4.3% from a cyclical high of 8.1% in March. Yearly rates are slowing for the following import prices from their recent respective peak rates: industrial supplies—which includes fuels & lubricants—(to 21.7% from 55.2%), foods, feeds & beverages (4.6 from 15.7), and consumer goods ex autos (1.8 from 3.2). Meanwhile, the capital goods rate edged down for the third month to 3.3% y/y from a recent peak of 4.2% in May, while the rate for auto imports ticked down to 3.3% after accelerating 3.6% y/y in July—which was the highest rate since summer 2011.

Global Economic Indicators

Eurozone CPI (*link*): The headline CPI rate for August accelerated to yet another new record high of 9.1% y/y, up from 8.9% in July and 6.1ppts above last August's 3.0%. For perspective, the rate was as low as at -0.3% at the end of 2020. Looking at the main components, once again energy recorded the largest gain, though it eased for the second month to 38.6% y/y in August after accelerating from 37.5% in April to 42.0% in June; it was at a record high of 44.3% in March. The rate for food, alcohol & tobacco soared to a record-high 10.6% in August, having accelerated steadily from June 2021's 0.5%, while the rate for non-energy industrial goods picked up to a record-high 5.1%. The services rate accelerated 3.8% y/y—the highest since spring 1994. Of the top four Eurozone economies, only Spain's (10.5% y/y) rate is above the Eurozone's rate of 9.1%, easing a bit from July's record high of 10.7%. Meanwhile, rates Germany (8.8) and France (6.6) were below the Eurozone's rate of 9.1%, while Italy's (9.1) matched the Eurozone's rate. Rates in Italy and Germany both reached new record highs, while France's eased a bit from July's 6.8% record high.

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