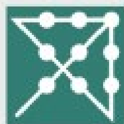

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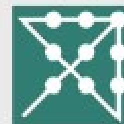

MORNING BRIEFING
October 3, 2022

On Volcker 2.0, Recession & Inflation

Check out the accompanying chart collection.

Executive Summary: The latest economic indicators suggest that the economy is doing better than expected—supported by consumer spending but dragged down by the housing recession—but also that inflation remains too high. That alignment increases the odds of more Fed tightening than previously expected, a higher terminal fed funds rate, and a Fed-induced hard landing. A hard landing isn't currently our economic forecast—we see the growth recession continuing through year-end. But fears of a Fed-induced hard landing are increasing bearishness in both bond and stock markets. We are assessing whether our forecasts for both S&P 500 earnings and valuation might be too optimistic. … Also: Dr. Ed reviews "Blonde" (+).

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*.

Strategy: The Volcker 2.0 Question. On Friday, the S&P 500 fell below the June 16 low of 3666 to a new low of 3585. It is down 25.2% since January 3 of this year. Over this period, the index's forward P/E fell from 21.5 to 15.1, the lowest since late March 2020. Last week's batch of economic indicators suggests that economic growth is better than widely expected, while inflation is worse—as discussed below.

This has increased the odds that inflation will remain persistent and that the Fed will persist with "Volcker 2.0," i.e., raising interest rates until they cause a recession to bring inflation down as former Fed chair Paul Volcker did during the late 1970s.

Indeed, on Friday, Fed Vice Chair Lael Brainard reiterated the hawkish party line that Fed officials have espoused since Fed Chair Jerome Powell's hawkish *speech* at Jackson Hole on August 26. She did so in a *speech* titled "Global Financial Stability Considerations for Monetary Policy in a High-Inflation Environment." She said: "Monetary policy will need to be restrictive for some time to have confidence that inflation is moving back to target. For these reasons, we are committed to avoiding pulling back prematurely."

Bearishness about the outlook for both bonds and stocks is mounting rapidly. There's more chatter that the terminal rate of the federal funds rate during the current monetary tightening

cycle will be closer to 5.00% than to 4.00%. Brainard corroborated those concerns, saying: "In the United States, the Federal Reserve has increased the federal funds rate target range by 300 basis points in the past seven months—a rapid pace by historical standards—and the Federal Open Market Committee's most recent Summary of Economic Projections indicates additional increases through the end of this year and into next year." She also noted that starting last month, QT2 is now on pace to reduce the Fed's balance sheet by $95 billion per month.

The 2-year versus 10-year yield curve remains inverted, but that doesn't mean that the 10-year yield can't continue to rise above 4.00% if the 2-year jumps closer to 5.00% in anticipation of this as the terminal federal funds rate.

In the stock market, the Q3 earnings reporting season is about to start. There have already been a few significant negative preannouncements and news items from Ford, FedEx, Nike, Apple, and Micron. This increases the odds that there is more downside risk for both our earnings and valuation forecasts. We are still expecting S&P 500 forward earnings to flatten around the current level of $235 per share, however, and the forward P/E to hold at 15.0.

Nevertheless, the bearish opera ain't necessarily over until the Fed lady sings a happier tune.

US Economy I: The Great Recession Question. There was no recession during Q3, according to the latest estimate of the Atlanta Fed's *GDPNow* tracking model. In fact, its estimate of Q3's real GDP growth increased from 0.3% (saar) on September 27 to 1.6% on September 28 to 2.4% on Friday, following the release of August's personal income data that morning.

The Bureau of Economic Analysis will release its preliminary estimate of Q3's real GDP growth on October 27, just a few days before Halloween. It's not likely to be too spooky given the latest GDPNow tracking estimate. However, there is still a bunch of economic indicators coming out before then that will be fed into the Atlanta Fed's tracking model.

The latest upward revision was attributable to upward revisions in personal consumption expenditures (from 0.4% to 1.0%) and capital equipment spending (from 0.9% to 4.6%). The weakest component of Q3's real GDP remains residential investment (still down 25.5%). A recession is clearly rolling through the housing industry.

Of course, the main driver of our economy is consumer spending, which accounted for 68%

of nominal GDP during Q2. Let's have a closer look at Friday's Personal Income & Consumption report to assess how consumers are faring:

(1) *Income & taxes.* Nominal personal income rose 3.9% y/y to a record high through August (excluding the Covid-related volatility) (*Fig. 1*). However, the personal consumption expenditures deflator rose 6.2% over the same period (*Fig. 2*). So real personal income fell 2.3%. Inflation has been eroding the purchasing power of consumers.

Also weighing on purchasing power have been federal, state, and local government taxes, which have been boosted by inflated nominal incomes (*Fig. 3*). Nominal and real current personal taxes in personal income are up 20.1% and 13.0%, respectively, over the past 12 months through August.

As a result, nominal disposable personal income continues to rise along with hourly wages and payroll employment to new highs. However, on an inflation-adjusted basis, it fell 4.5% y/y through August (*Fig. 4*).

(2) *Consumption.* Nevertheless, consumer spending is still growing. It was up 8.2% y/y through August in current dollars and 1.8% on an inflation-adjusted basis (*Fig. 5*). In real terms, consumer spending is down 0.4% y/y for goods and up 3.0% for services.

Consumers went on a buying binge for goods after the lockdown recession of 2020, while their spending on services was limited by ongoing capacity restrictions in many services industries. As businesses reopened, consumers pivoted toward buying services since much of their pent-up demand for goods had been satisfied.

(3) *Saving & government transfers.* During 2020 and the first half of 2021, personal saving soared because consumers couldn't spend much during the lockdowns and were limited in what they could spend on services after the lockdown restrictions were eased. They also received three rounds of pandemic support payments from the government, which boosted both personal consumption and saving (*Fig. 6*). Over the past 31 months (from February 2020 through August this year), personal saving totaled $2.2 trillion, well above the comparable amount through January 2020, i.e., just before the pandemic spread (*Fig. 7*). We estimate that at least $1.0 trillion in excess saving has been accumulated since the start of the pandemic.

That's allowed consumers on balance to reduce their monthly saving in recent months to the slowest pace in 13 years, thus boosting their purchasing power. Interestingly, personal

saving per household peaked at a record high $28,075 (using the 12-month average of saar data) during March 2021 and fell to $8,625 during August of this year to the lowest since June 2017, before the pandemic (*Fig. 8*).

(4) *California.* By the way, starting next month, eligible California residents will receive "inflation relief" tax-refund payments totaling $9.5 billion—a plan approved owing to the state's 2022-23 state budget surplus. Payments ranging from $200 to $1,050 will hit the bank accounts of more than 20 million Californians over the next few months. (See the September 15 Patch *article*, "CA Giving Away $9.5B Next Month: What To Know.")

(5) *Answer to the recession question*. On balance, Debbie and I conclude that the economy has been in a growth recession since the start of this year that should continue through H2-2022. We are hearing more chatter about a hard-landing recession in 2023. That outlook is supported by the decline in the Index of Leading Economic Indicators over the past six months. However, that's not our view, currently.

The risk of a hard landing has certainly increased since the Fed turned more hawkish this summer. If we turn more pessimistic about the economic outlook, then we will most likely forecast that the growth recession will continue through H1-2023.

US Economy II: The Great Inflation Question. Inflation probably peaked during H1-2022, but it remained elevated after the peak, according to August's PCED released on Friday in the Personal Income & Consumption report. On a y/y basis, the headline PCED inflation rate edged down from 6.4% in July to 6.2% in August, while the core rate ticked up from 4.7% to 4.9%. The headline rate peaked at 7.0% during June of this year, while the core rate peaked at 5.4% during February and March.

Let's have a closer look at the latest inflation readings:

(1) *Nondurable goods* accounts for 21.5% of the PCED. Food and energy account for 55.4% of this category. Weakening global economic activity continues to weigh on oil prices. In the US, consumers have reduced their gasoline usage by about 1 million barrels per day in recent weeks compared to the same time last year (*Fig. 9*). The price of gasoline has been falling since early July and continued to fall in September (*Fig. 10*).

While energy price inflation seems to be peaking, the same cannot be said of food price inflation in the PCED (*Fig. 11*). Then again, grain and livestock commodity price inflation peaked during June (*Fig. 12*).

(2) *Durable goods* accounts for 12.6% of the PCED. Of the three major components of consumer prices, the most peakish looking chart is for durable goods inflation (*Fig. 13*). All the major subcomponents are showing easing inflationary pressures, especially used car & truck prices and household appliances. Retailers are reporting bloated inventories of goods, requiring them to cut the prices of both the durable and nondurable goods they carry. The housing recession is depressing the demand for housing-related goods.

(3) *Services* accounts for 65.9% of the PCED. Since the start of this year, we'd been expecting that durable goods inflation would come down almost as rapidly as it went up. We also had expected that the rent component would become an increasingly significant inflation issue for the consumer price measures.

Sure enough, the rent of primary residence and owners' equivalent rent components of the PCED rose 6.7% y/y and 6.3% through August (*Fig. 14*). A year ago, those inflation rates were 2.1% and 2.5%. The comparable three-month annualized increases were even more alarming at 8.9% and 8.2% as of August. The rent is still too d@mn high, though the Zillow Rent Index certainly looks peakish, having dropped from a recent high of 17.2% y/y during February to 12.3% in August.

Also contributing more to recent consumer inflation readings have been health insurance (up 24.3% in the CPI, but 1.3% in PCED) and electricity (up 15.8% in both) (*Fig. 15* and *Fig. 16*).

(4) *Answer to the inflation question.* We were disappointed by August's PCED report. We still think that inflation has peaked; but it's not dropping as rapidly as we had anticipated.

We'd been expecting that by now enough progress would have been made in bringing down the consumer inflation rates excluding rent that Fed officials could at least pause their rate hiking—with rent excluded because it's a weird component of both the CPI and PCED, as we've previously discussed.

Movie. "Blonde" (+) (*link*) is a very painful movie to watch about Marilyn Monroe's often painful life. It isn't really a docudrama since quite a bit of it isn't historically accurate. It's been at the top of Netflix's movie chart but has been widely criticized as "sexist" and "cruel" even though it received a 14-minute standing ovation at the Venice Film Festival. It's worth seeing just for the remarkable performance of Ana de Armas as Marilyn. However, she had to cry during almost every scene. The film in many ways is an American tragedy about an iconic personality.

Calendars

US: Mon: ISM M-PMI & Price Index 52.2/51.9; Construction Spending -0.3%; Williams. **Tues:** Job Openings 10.65m; Factory Orders 0.3%; Total Vehicle Sales; API Weekly Crude Oil Inventories; Williams; Mester. (Bloomberg estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 48.5/48.3/47.8/47.5/49.2; Eurogroup Meetings; RBA Interest Rate Decision 2.85%; Mann. **Tues:** Eurozone PPI 5.0%m/m/43.2%y/y; Spain Unemployment Rate; Australia Retail Sales 0.6%; Enria; Beerman. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index dropped 2.8% last week as the index made a new bear market low and finished the week at 26.1% below its record high on December 27. The US MSCI ranked 29th of the 48 global stock markets that we follow in a week when just 12 countries rose in US dollar terms. The AC World ex-US index fell 2.1% and ended the week at 31.3% below its June 15, 2021 record high as all regions fell last week. EMU was the best performer, albeit with a drop of 0.1%, followed by EAFE (-1.6%) and EMEA (-1.7). EM Eastern Europe (-5.9) was the worst performing region last week, followed by EM Asia (-3.7), EM Latin America (-3.2), and BIC (-2.6). Pakistan was the best-performing country last week with a gain of 8.1%, followed by Sweden (2.2), Peru (2.1), and Finland (1.6). Among the 23 countries that underperformed the AC World ex-US MSCI last week, the Philippines had the biggest decline, of 9.1%, followed by Morocco (-6.9), Korea (-6.8), Poland (-6.5), and Taiwan (-5.7). In September, the US MSCI tumbled 9.4% for its fifth drop in six months. The US MSCI ranked 26/48 in September and slightly outperformed the 10.3% decline for the AC World ex-US index as just one of the 48 countries moved higher. Sri Lanka was the best performer, with a gain of 0.4%, followed by Mexico (-0.5), Indonesia (-0.7), Argentina (-1.3), and Peru (-2.2). The worst-performing countries in September: Norway (-19.2), Korea (-18.5), the Philippines (-17.7), Taiwan (-16.0), and Hungary (-15.5). EM Latin America was the best-performing region in September, albeit with a drop of 3.4%, ahead of EMEA (7.6), EMU (-8.8), EAFE (-9.7), and the AC World ex-US (-10.3). EM Eastern Europe (-13.8) was September's worst-performing region, followed by EM Asia (-13.4), and BIC (-11.3). The US MSCI's ytd ranking dropped

one place to 24/49. After lagging for much of year through July, the US MSCI's ytd decline of 25.7% remains less than the AC World ex-US's 28.3% drop. EM Latin America is now down 3.5% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-87.6), EMEA (-37.7), EMU (-34.5), EM Asia (-30.2), BIC (-29.3), and EAFE (-28.9). The best country performers so far in 2022: Jordan (16.1), Turkey (13.1), Chile (10.3), Indonesia (5.1), and Brazil (1.9). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-62.3), Poland (-52.1), Hungary (-51.4), Austria (-45.5), and the Netherlands (-41.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved lower for the sixth time in seven weeks. LargeCap fell 2.9%, worse than the declines for SmallCap (-1.5%) and MidCap (-1.6). LargeCap and MidCap marked their second week back in a bear market and SmallCap its third. LargeCap finished the week at 25.2% below its record high on January 3, MidCap at 24.3% below its record high on November 16, and SmallCap 27.4% below its November 8 record high. Twenty-eight of the 33 sectors moved lower for the week, a slight improvement from the prior two weeks when all 33 sectors moved lower. SmallCap Energy was the best performer with a gain of 6.2%, followed by LargeCap Energy (1.8), MidCap Energy (1.8), SmallCap Health Care (1.0), and MidCap Health Care (0.3). LargeCap Utilities (-8.8) was the biggest underperformer last week, followed by MidCap Utilities (-7.5), SmallCap Utilities (-6.2), SmallCap Real Estate (-4.9), and LargeCap Tech (-4.2). During September, LargeCap fell 9.3%, less than the declines for MidCap (-9.4) and SmallCap (-10.1). All 33 sectors fell in September compared to five rising in August. September's best performers, albeit with declines: LargeCap Health Care (-2.7), MidCap Financials (-4.9), SmallCap Health Care (-6.6), MidCap Industrials (-7.2), and SmallCap Utilities (-7.4). September's biggest laggards: SmallCap Real Estate (-14.9), MidCap Materials (-14.4), SmallCap Energy (-14.4), LargeCap Real Estate (-13.6), and SmallCap Communication Services (-13.5). In terms of 2022's ytd performance, LargeCap's 17.7% decline continues to trail those of MidCap (-15.8) and SmallCap (-17.1). In terms of 2022's ytd performance, LargeCap's 24.8% decline continues to trail MidCap (-22.5) and SmallCap (-24.0). Three of the 33 sectors are positive so far in 2022, down from four a week earlier. Energy continues to dominate the top performers: LargeCap Energy (30.7), MidCap Energy (21.6), SmallCap Energy (21.4), LargeCap Utilities (-8.6), and MidCap Consumer Staples (-11.5). The biggest ytd laggards: LargeCap Communication Services (-39.4), SmallCap Real Estate (-37.2), SmallCap Consumer Discretionary (-35.5), SmallCap Communication Services (-32.9), and LargeCap Tech (-31.9).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 S&P 500 sectors fell last week, and six outperformed the composite index's 2.9% decline. That compares to a

4.6% decline for the S&P 500 a week earlier, when all 11 sectors fell and six outperformed the index. Energy was the top performer with a gain of 1.8%, followed by Materials (-0.7%), Health Care (-1.4), Industrials (-2.4), Consumer Discretionary (-2.4), and Financials (-2.4). Utilities was the worst performer with a decline of 8.8%, followed by Tech (-4.2), Consumer Staples (-4.0), Real Estate (-3.9), and Communication Services (-3.0). After dropping 4.2% in its worst August performance since 2015, the S&P 500 tumbled 9.3% in September in its worst month since March 2020 and its worst September in 13 years. All 11 sectors moved lower during September, and four outperformed the broader index. That compares to two rising and seven beating the S&P 500's 4.2% decline in August. The leading sectors in September, albeit with declines: Health Care (-2.7), Financials (-7.9), Consumer Discretionary (-8.1), and Consumer Staples (-8.3). September's laggards: Real Estate (-13.6), Communication Services (-12.2), Tech (-12.0), Utilities (-11.5), Industrials (-10.6), Energy (-9.7), and Materials (-9.6). The S&P 500 is down 24.8% so far in 2022 with six sectors ahead of the index and just one in positive territory. The best performers in 2022 to date: Energy (30.7), Utilities (-8.6), Consumer Staples (-13.5), Health Care (-14.1), Industrials (-21.7), and Financials (-22.4). The ytd laggards: Communication Services (-39.4), Tech (-31.9), Real Estate (-30.4), Consumer Discretionary (-30.3), and Materials (-24.9).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.9% last week and continued to weaken considerably relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index was below its 50-dma for a third week after rising for a week before that for the first time in seven weeks. It closed below its 200-dma for the 32nd time in 35 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower for the 16th time in 22 weeks as the index dropped to a 15-week low of 10.6% below its falling 50-dma from 8.6% below 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 price index closed Friday at a 14-week low of 14.5% below its falling 200-dma, down from 12.5% below a week earlier and an 18-week high of 0.8% below in early August. It remains 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 22nd straight week and at its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): All 11 S&P 500 sectors are trading below their 50-dmas, unchanged from a week earlier. In the prior week, Utilities fell below for the first time in nine weeks and Energy for the first time in seven. Energy is the only sector with a rising 50-dma, down from three sectors a week earlier, as Consumer Discretionary and Utilities turned down w/w. Looking at the more stable longer-term 200-dmas, all 11 sectors were below every day last week in the longest negative streak since the four weeks surrounding the Great Financial Crisis in early 2009. The last addition this time around, Utilities, fell below its 200-dma for the first time in 10 weeks. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Energy is the only sector with a rising 200-dma now, as Utilities turned down in the latest week.

US Economic Indicators

Personal Consumption Deflator (*link*): August's PCED rose 0.3% after slipping 0.1% in July—which was the first monthly decline since April 2020—following gains of 1.0% and 0.6% the prior two months. Meanwhile, core prices jumped 0.6% after showing no change in July and matching June's 0.6% advance. The yearly headline rate slowed for the second month, to 6.2% in August, after increasing from 6.4% in April to 7.0% by June—which was the highest reading since the end of 1981; it was at 4.5% a year ago. The yearly core rate ticked up to 4.9% after slowing from 5.3% in June to 4.2% in July; the rate was at 5.4% in February and March—which was the highest since spring 1983. *On a three-month annualized basis*, the core rate increased 5.0% in August after easing from 5.2% in June to 4.7% in August. The three-month rate for durable goods picked up a bit to 3.9% (saar) in August after slowing from 5.1% in June to 3.5% in July, while the three-month rate for core nondurable goods prices accelerated for the third month from 0.1% in May to 4.7% (saar) during August. Meanwhile, services prices ex energy climbed 4.7% (saar) during the three months through August after easing from 5.4% in June to 4.0% in July. The three-month annual rate for consumer durable goods (3.9%, saar & 5.3% y/y) prices was below its yearly rate, while consumer core nondurable's (4.7 & 4.1) was above; the three-month rate for core services (4.8 & 4.6) nearly matched its yearly rate for the second month. *PCED components for which three-month rates lag yearly rates*: gasoline & other energy products

(-34.0% & 27.7%), lodging away from home (-25.5 & 4.5), household appliances (-12.5 & 2.4), prescription drugs (3.0 & 3.2), clothing & footwear (3.8 & 5.4), airfares (3.9 & 22.4), recreation services (4.0 & 4.8), used motor vehicles (4.7 & 7.7), motor vehicles & parts (4.8 & 12.4), professional & other services (4.9 & 7.7), tobacco (7.8 & 8.8), new motor vehicles (9.0 & 10.0), furniture & home furnishings (9.8 & 11.7)), transportation services (10.8 & 12.1), food & nonalcoholic beverages purchased for off-premise consumption (13.3 from 13.9). *PCED components for which three-month rates exceed yearly rates*: personal care products (13.2 & 6.2), tenant rent (8.9 & 6.7), owner-occupied rent (8.2 & 6.3), alcoholic beverages purchased for off-premise consumptions (6.1 & 3.4), education services (4.5 & 2.6), hospitals (3.9 & 3.0), sports & recreational vehicles (3.0 & 1.8), physician services (1.4 & 0.4), and video audio & information processing (1.2 & -3.3).

Consumer Sentiment Index (*link*): Consumer sentiment confirmed its preliminary estimate, which showed little change in September. After dropping to a record low of 50.0 in June, the consumer sentiment index increased for the third month by a total of 8.6 points to 58.6 in September—with August accounting for 78% of the move up. Expectations was the main driver of sentiment during the past three months, rising 10.5 points to 58.0 last month—with August accounting for the entire rise. Meanwhile, the present situation measure is up 5.9 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 recent peak of 5.4% in March and April to 4.7% in September, while the five-year expected inflation rate eased to 2.7%, falling below the 2.9%-3.1% range for the first time since last July. According to the report, “Inflation expectations are likely to remain relatively unstable in the months ahead as consumer uncertainty over these expectations remained high and is unlikely to wane in the face of continued global pressures on inflation.”

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): The Economic Sentiment Indexes (ESI) for both the EU and Eurozone continued to slide in September, falling to their lowest levels since November 2020. The EU’s ESI (-3.5 points to 92.6) is down 23.9 points since its recent peak of 116.5 in October, while the Eurozone’s (-3.6 to 93.7) is 24.1 points lower than its 117.8 peak last October. ESIs dropped in all six of the largest EU economies, with Germany (-4.8 points to 92.2) posting the largest decline, followed by the Netherlands (-3.7 to 90.6), Italy (-3.7 to 96.0), France (-3.2 to 96.8), Poland (-2.4 to 88.2), and Spain (-1.0 to 96.7). For the overall EU at the sector level, consumer confidence plummeted 3.5 points in

August and 25.7 points since its June 2021 peak to a record low of -29.9—with all of its component contributing to the slide last month. Industrial confidence decreased for the eighth month since reaching a record high of 12.9 in December, plunging to -1.4 in September—the first reading below zero since January 2021. Services confidence has been sliding since its recent peak of 17.5 last October, declining to a 17-month low of 5.1 this September on widespread weakness. Construction confidence dropped 1.4 points in September after holding steady in August; it's down 9.1 points ytd to an 18-month low of -0.6. Retail trade confidence fell 1.8 points to an 18-month low of -7.7.

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for September is expected to accelerate to yet another new record high of 10.0% y/y, according to its flash estimate, up from 9.1% in August and 6.6ppts above last September's 3.4%. For perspective, the rate was as low as at -0.3% at the end of 2020. Looking at the main components, once again energy is forecast to record the largest gain, accelerating 40.8% y/y, after slowing from 42.0% in June to 38.6% by August; the rate was at a record high of 44.3% in March. The rate for food, alcohol & tobacco is predicted to soar to a record-high 11.8% in September—accelerating steadily from June 2021's 0.5%—while the rate for non-energy industrial goods is forecast to reach a new record high of 5.6%. The services rate is expected to pick up to 4.3% y/y—the highest since the start of 1994. Of the top four Eurozone economies, only Germany's (10.9% y/y) rate is forecast to be above the Eurozone's rate of 10.0%, accelerating to a new record high. Meanwhile, rates in Italy (9.5), Spain (9.3), and France (6.2) are predicted to be below the Eurozone's expected rate of 10.0%, with Italy's rate reaching a new record high. Rates in Spain and France have eased from their July record highs of 10.7% and 6.8%, respectively.

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