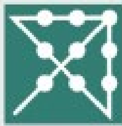

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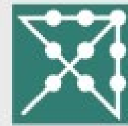

MORNING BRIEFING
October 10, 2022

Volcker 2.0 vs Bernanke 2.0?

Check out the accompanying chart collection.

Executive Summary: Our current Fed chief has recently turned to Paul Volcker's playbook to fight inflation. The risk is that he will trigger the kind of financial instability that occurred during Ben Bernanke's term as Fed chair. Powell and his colleagues seem hellbent on further rate hikes with no pause to assess the impacts of recent ones. One Fed governor recognizes the risks of doing so but agrees with the Fed's risky course. Another one is quite dismissive of financial stability concerns. But we see red flags in the weakness of the housing market, the negative wealth effect, and the strength of the dollar. … Also: The labor market remains robust, but wage inflation may be peaking. ... And: Dr. Ed reviews "Operation Mincemeat" (+ +).

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

The Fed I: Powell's Volcker 2.0 Pivot. I published my book *Fed Watching for Fun & Profit* in early 2020, near the middle of Fed Chair Jerome Powell's first term. The chapter on our current Fed chair is titled "Jerome Powell: Pragmatic Pivoter." He has continued to pivot since then.

Under Powell's leadership, the FOMC turned "woke" in 2020. The committee's August 2020 *Statement on Longer-Run Goals and Monetary Policy Strategy* broke with historical precedent by prioritizing "inclusive" maximum employment over its stated 2.0% inflation target. Also in that statement, the Fed embraced flexible average inflation targeting, indicating that it now would tolerate inflation overshoots to compensate for prior inflation shortfalls.

By maintaining ultra-easy monetary policies through the first few months of this year, the Fed succeeded in lowering the unemployment rate to a recent low of 3.5% during July. In addition, the ratio of job openings to unemployed workers rose to a record 2.0 during March. The result has been a significant increase in wage inflation, which has spiraled into price and rent inflation, thus eroding the purchasing power of all workers (*Fig. 1*). That has been the unintended consequence of the Fed's wokeness!

As inflation moved higher in 2021, Powell and his colleagues initially characterized it as "transitory." The rebound in inflation from H2-2021 through H1-2022 forced Powell to turn less woke and to refocus on bringing inflation down. In his congressional *testimony* on November 30, 2021, Powell pivoted by conceding that inflation isn't transitory but persistent.

The *minutes* of the FOMC's December 14-15, 2021 meeting were released on January 5. The word "transitory," which had previously described the Fed's outlook for inflation, was mentioned once: "As elevated inflation had persisted for longer than they had previously anticipated, members agreed that it was appropriate to remove the reference to 'transitory' factors affecting inflation in the post-meeting statement and instead note that supply and demand imbalances have continued to contribute to elevated inflation."

This year, Powell continued to pivot:

(1) *Powell before Jackson Hole.* The FOMC started hiking the federal funds rate by 25bps at the March 15-16 meeting of the committee. That was followed up with a 50bps hike at the May 3-4 meeting and 75bps at the June 14-15 meeting to a range of 1.50%-1.75%. At his July 27 *presser*, Powell was still a dovish hawk. He characterized the new range for the federal funds rate of 2.25%-2.50% (up 75bps) as "right in the range of what we think is neutral." Decisions on further rate hikes would be made "meeting by meeting." Yet he stated that "another unusually large increase could be appropriate" in September. (Sure enough, the Fed hiked again by 75bps to 3.00%-3.25% in late September.)

Yet at the July presser, Powell acknowledged that the rate hikes so far this year (as of late July) have been large and quick, so "it's likely that their full effect has not been felt by the economy. So there's probably some additional tightening, significant additional tightening, in the pipeline."

Powell said "we're not trying to have a recession. And we don't have to. We think there's a path for us to be able to bring inflation down while sustaining a strong labor market." He acknowledged that the path for doing so "has narrowed."

Nevertheless, the financial markets (rightly) concluded that the Fed might do another 75bps in early September and then (wrongly) concluded that the Fed might pause.

(2) *Powell at Jackson Hole.* Along the way, in his short, August 26 *speech* at Jackson Hole, Powell morphed into a "Volcker 2.0" hawk, seeming to channel his 1970s era predecessor Paul Volcker. He no longer talked about a painless path forward. Instead, he said that

restoring price stability will "bring some pain" and require higher interest rates, slower growth, and "softer labor market conditions."

Powell reiterated that another 75bps hike might be coming in early September and that the Fed wouldn't pause, though it might be "appropriate to slow the pace of increases." Indeed, he said that "with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause." On the contrary, 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."

Powell even mentioned Paul Volcker by name, saying that the former Fed chair once said that the Fed's job "must be to break the grip of inflationary expectations." Powell agreed, saying, "[W]e must keep at it until the job is done." By the way, Volcker's 2018 *autobiography* is titled "Keeping At It: The Quest for Sound Money and Good Government."

(3) *Powell after Jackson Hole.* At his September 21 *presser*, Powell mentioned the words "pain" or "painful" seven times. He did so in the context that bringing inflation down with tight monetary policy might cause a recession, but the pain will only be worse later if the Fed doesn't step on the monetary brakes now. His other remarks were uniformly just as hawkish.

Powell mentioned the word "restrictive" 12 times in that September presser, in the context that, at 3.00%-3.25%, the federal funds rate is "probably into the very lowest level of what might be restrictive." He warned that "there's a ways to go." He stated that the FOMC needs "to move our policy rate to a restrictive level that's restrictive enough to bring inflation down to 2%, where we have confidence of that." He said that once the federal funds rate is at a restrictive level, the FOMC will have "to keep it there for some time." Channeling Volcker again, Powell mentioned "keep" or "keep at it" in the context of staying the tightening course a total of six times at his presser.

Since Powell's September 21 presser, the other Fed officials on the FOMC all have turned into a chorus of Powell's Mini-Me disciples. They have been chanting the Fed's party line: Inflation is too high, and the Fed must continue to raise interest rates to bring it down.

(4) *Powell's terminal range.* Since his July presser, Powell has been saying that the Fed's forward guidance on the outlook for the federal funds rate can be found in the *Summary of Economic Projections* (SEP). At the September meeting of the FOMC, the committee's median federal funds rate forecast for 2023, according to the SEP, was raised to 4.60%

from 3.80% in July's SEP. This implies that the committee expects to raise the federal funds rate to a terminal range of 4.50%-4.75% next year, up from the current actual range of 3.00%-3.25%. (Two more 75bps rate hikes would get it there fast.) The latest SEP showed that for next year, three groups of six of the committee's participants projected a federal funds rate next year of 4.25%-4.50%, 4.50%-4.75%, and 4.75%-5.00%. One participant was at 3.75%-4.00%.

The Fed II: Powell's Bernanke 2.0 Risk. Powell & Co.'s embrace of Volcker 2.0 is raising the risk that they will trigger Bernanke 2.0, i.e., another Great Financial Crisis. Something is likely to break if they persist in raising interest rates willy-nilly without pausing to assess how the 300bps increase in the federal funds rate since March is affecting the economy and financial markets, including global capital and forex markets. Instead, they seem intent on a fourth consecutive 75bps hike in the federal funds rate to 3.75%-4.00% at the November 1-2 FOMC meeting. And still more after that, as we just discussed above.

Consider the following:

(1) *Housing market.* In our October 6 *QuickTakes*, we observed that monetary policy has already had an extremely restrictive impact on the mortgage market, pushing the housing market into a severe recession. Mortgage applications to purchase a home have been plummeting (*Fig. 2*). They are down 37% from the same week one year ago to the lowest since October 2015. New plus existing single-family home sales have been heading south fast (*Fig. 3*). They are down 17% y/y through August. Single-family housing starts are down 15% y/y.

(2) *Wealth effect.* Much of Americans' wealth resides in home equity and financial market portfolios, both of which have taken big hits this year. Under Powell, the median price of a single-family home (based on the 12-month average) soared 54% from $249,675 during February 2018 to $384,240 during August 2022 (*Fig. 4*). On a 24-month basis, the pace of appreciation of of the actual median price peaked at a record 44.9% during May (*Fig. 5*). That pace fell to 25.9% during August. This price undoubtedly is heading for a big fall in coming months.

There already has been a significant negative wealth effect in stock and bond portfolios so far in 2022. The iShares 20+Year Treasury Bond ETF is down a whopping 31.9% since the end of last year. The market capitalization of the S&P 1500 is down 24.4% from a record $44.2 trillion on January 3 to $33.4 trillion on Friday (*Fig. 6*).

(3) *The dollar.* The US dollar index (DXY) is up 17.2% since the start of this year. In a September 30 *speech* titled “Global Financial Stability Considerations for Monetary Policy in a High-Inflation Environment,” Fed Vice Chair Lael Brainard indicated that at least she is aware that the 300bps increase in the federal funds rate since March (“a rapid pace by historical standards”) could exacerbate “financial vulnerabilities.” She noted that emerging economies with depreciating currencies and “currency mismatches between their assets and liabilities” might be prone to financial instability.

Nevertheless, Brainard concluded her speech on a hawkish note: “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.”

The Fed III: Waller Weighs In. A similarly hawkish viewpoint was provided by Fed Governor Christopher Waller in a Thursday, October 6 *speech* titled “The Economic Outlook with a Look at the Housing Market.” He downplayed the risks of financial instability caused by the Fed’s tightening of monetary conditions, saying, “I’ve read some speculation recently that financial stability concerns could possibly lead the FOMC to slow rate increases or halt them earlier than expected. Let me be clear that this is not something I’m considering or believe to be a very likely development.” In fact, he concluded: “I believe we have tools in place to address any financial stability concerns and should not be looking to monetary policy for this purpose. The focus of monetary policy needs to be fighting inflation.”

Most of Waller’s speech focused on the impact of the housing market on the rent component of the inflation rate. He observed: “The combination of high monthly inflation and a large weight in measuring overall prices means that shelter inflation is a key driver of overall inflation.”

Waller predicted that even though mortgage rates have increased from less than 3% at the end of last year to nearly 7% recently, the housing market correction “could be fairly mild.” But he acknowledged that “I cannot dismiss the possibility of a much larger drop in demand and house prices before the market normalizes.”

US Economy: No Recession In The Labor Market. In his Jackson Hole speech, Powell observed: “The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers.” He elaborated on that theme at his September 21 presser:

“Despite the slowdown in growth, the labor market has remained extremely tight, with the

unemployment rate near a 50-year low, job vacancies near historical highs, and wage growth elevated. Job gains have been robust, with employment rising by an average of 378,000 jobs per month over the last three months. The labor market continues to be out of balance, with demand for workers substantially exceeding the supply of available workers. … FOMC participants expect supply and demand conditions in the labor market to come into better balance over time, easing the upward pressure on wages and prices."

In this past week's batch of labor market indicators, the only sign of weakness was the drop in job openings from a record high of 11.9 million during March to 10.1 million in August, but that still exceeded the number of unemployed workers by 4.1 million (*Fig. 7*). Initial unemployment claims remained very low at 219,000 during the October 1 week (*Fig. 8*).

September's employment report showed that our Earned Income Proxy (EIP) for private-sector wages and salaries in personal income rose 0.5% m/m, with aggregate weekly hours up 0.2% to a record high of 4.5 billion and average hourly earnings (AHE) up 0.3% (*Fig. 9* and *Fig. 10*).

Most of the purchasing power of that increase was eroded by price inflation. On a y/y basis, our EIP is up 8.7% through September, while the PCED was up 6.2% through August.

The AHE measure of wage inflation for all workers seems to be peaking, falling from a recent high of 5.6% during March to 5.0% in September (*Fig. 11*). It rose 4.4% at a three-month annualized rate through September (*Fig. 12*).

Movie. "Operation Mincemeat" (+ +) (*link*) is a very interesting film based on a book about a British operation during WWII to trick Nazi Germany into believing that the Allies would be invading Greece rather than Sicily. Winston Churchill signed off on the plan partly because it was so absurd that he thought it might work. Ian Fleming makes an appearance in the film as a British operative involved in the deception, which probably inspired him to write James Bond novels. The romantic sub-plot is a bit of a distraction from the compelling story about the successful espionage operations.

Calendars

US: Mon: IMF Meetings; Brainard; Evans. **Tues:** NFIB Small Business Optimism Index 91.2; Consumer Inflation Expectations; IMF Meetings; Mester; Harker. (Bloomberg

estimates)

Global: **Mon:** Eurozone Sentix Investor Confidence -34.7; UK BRC Retail Sales Monitor -0.4%; Australia NAB Business Survey; Nagel; Lane; Wuermeling. **Tues:** Italy Industrial Production 0.2%m/m/-0.4%y/y; UK Average Earnings Index Including & Excluding Bonus 5.9%5.3%; UK Employment Change 3M/3M -127k; UK Claimant Count Change 4.2k UK Unemployment Rate 3.6%; UK RICS House Price Balance; Japan Core Machinery Orders -2.3%m/m/12.6%y/y; Balz; Lane; Enria; Wuermeling; Cunliffe; Bailey. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.6% last week from the prior week's new bear market low. It's now 25.0% below its record high on December 27. The US MSCI ranked 24th of the 48 global stock markets that we follow in a week when just seven countries fell in US dollar terms. The AC World ex-US index rose 2.0% and ended the week at 29.9% below its June 15, 2021 record high as all regions rose simultaneously for the first time in eight weeks. EM Latin America was the best performer with a gain of 7.4%, followed by EMEA (3.4%) and Eastern Europe (2.4). EMU was the worst performing region last week, albeit with a gain of 1.2%, followed by EM Asia (1.8), EAFE (1.9), and BIC (2.0). Turkey was the best-performing country last week with a gain of 12.6%, followed by Brazil (10.0), Colombia (9.6), and Argentina (6.9). Among the 27 countries that underperformed the AC World ex-US MSCI last week, the 13.3% decline for Sri Lanka was the biggest, followed by Indonesia (-1.8), Sweden (-0.7), Switzerland (-0.5), and Chile (-0.2). The US MSCI's ytd ranking rose one place to 23/49. After lagging for much of year through July, the US MSCI's ytd decline of 24.5% is now less than the AC World ex-US's 26.8% drop. EM Latin America is now up 3.6% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-87.3), EMEA (-35.6), EMU (-33.7), EM Asia (-28.9), BIC (-27.9), and EAFE (-27.5). The best country performers so far in 2022: Turkey (27.4), Jordan (16.1), Brazil (12.2), Chile (10.1), Argentina (6.8), and Indonesia (3.2). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-67.4), Poland (-51.5), Hungary (-49.1), Austria (-43.6), and Sweden (-41.0).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved higher w/w for just the second time in eight weeks. MidCap rose 2.9%, ahead of the gains for SmallCap (2.7%) and LargeCap (1.5). However, LargeCap and MidCap marked their third week back

in a bear market and SmallCap its fourth. LargeCap finished the week at 24.1% below its record high on January 3; MidCap is 22.1% below its record high on November 16; and SmallCap is 25.4% below its November 8 record high. Twenty-four of the 33 sectors moved higher for the week, a big improvement from the prior three weeks when nearly all sectors moved lower. SmallCap Energy was the best performer with a gain of 15.7%, followed by LargeCap Energy (13.9), MidCap Energy (10.7), MidCap Materials (4.5), and MidCap Consumer Discretionary (4.3). LargeCap Real Estate (-4.2) was the biggest underperformer last week, followed by MidCap Real Estate (-2.8), LargeCap Utilities (-2.6), SmallCap Real Estate (-1.8), and MidCap Utilities (-1.7). In terms of 2022's ytd performance, LargeCap's 23.6% decline continues to trail those of MidCap (-20.2) and SmallCap (-22.0). Three of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: LargeCap Energy (48.8), SmallCap Energy (40.5), MidCap Energy (34.6), MidCap Consumer Staples (-10.2), and MidCap Financials (-10.6). The biggest ytd laggards: LargeCap Communication Services (-38.5), SmallCap Real Estate (-38.4), SmallCap Consumer Discretionary (-33.4), LargeCap Real Estate (-33.3), MidCap Real Estate (-33.0), SmallCap Communication Services (-32.0), and Consumer Discretionary (-31.1).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, and five outperformed the composite index's 1.5% gain. That compares to a 2.9% decline for the S&P 500 a week earlier, when 10 sectors fell and six outperformed the index. Energy was the top performer with a gain of 13.9%, followed by Industrials (2.9%), Materials (2.1), Financials (1.8), and Tech (1.6). Real Estate was the worst performer with a decline of 4.2%, followed by Utilities (-2.6), Consumer Discretionary (-1.1), Consumer Staples (-0.4), Health Care (1.3), and Communication Services (1.5). The S&P 500 is down 23.6% so far in 2022 with seven sectors ahead of the index and just one in positive territory. The best performers in 2022 to date: Energy (48.8), Utilities (-11.0), Health Care (-13.0), Consumer Staples (-13.9), Industrials (-19.5), Financials (-21.0), and Materials (-23.3). The ytd laggards: Communication Services (-38.5), Real Estate (-33.3), Consumer Discretionary (-31.1), and Tech (-30.8).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.5% last week and improved 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 fourth week after rising for a week before that for the first time in seven weeks. It closed below its 200-dma for the 33rd time in 36 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 17th time in 23 weeks as the index improved to 8.6% below its falling 50-dma from a 15-week low of 10.6% 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 12.7% below its falling 200-dma, up from a 14-week low of 14.5% below a week earlier and compared to 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 23rd straight week and at its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Ten of the 11 S&P 500 sectors are trading below their 50-dmas, up from all 11 sectors below in the prior two weeks. Energy moved back above its 50-dma in the latest week. Energy is the only sector with a rising 50-dma, unchanged from a week earlier. Looking at the more stable longer-term 200-dmas, Energy was the only sector above last week as the index recovered slightly from the longest negative streak since the four weeks surrounding the Great Financial Crisis in early 2009. 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 also the only sector with a rising 200-dma now.

US Economic Indicators

Employment (*link*): Payroll employment rose slightly more than forecast in September, while revisions showed a slight upward revision. Employment rose 263,000 (vs an estimated 253,000), slowing from August's unrevised gain of 315,000 and July's upwardly revised 537,000 (from 526,000) for a net gain of 11,000. Private payrolls climbed 288,000 last month, stronger than August's 275,000, which was the weakest performance since April 2021, while revisions to August (to 275,000 from 308,000) and July (448,000 from 477,000) showed a net loss of 62,000. Total payroll employment has recovered 22.5 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 514,000. Jobs gains

in service-providing industries increased 244,000 in September, on par with August's 240,000, while goods-producing jobs rose 44,000, up from August's 35,000. Industries posting the largest gains during September were professional & business services (83,000), health care (60,000), professional & business services (46,000), manufacturing (22,000), construction (19,000), and wholesale trade, while employment in financial activities and transportation & warehousing each fell 8,000. Showing little change last month were mining, retail trade, information services, other services, and government jobs. *Here's a list of the industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.1 million), transportation & warehousing (+733,900), retail trade (+244,200), information services (+140,000), construction (+95,000), nondurable goods manufacturing (+94,000), financial activities (+87,000), education (+57,600), health care (25,100), wholesale trade (16,400), and durable goods manufacturing (1,000). *Here's a list of the industries that are below their February 2020 pre-pandemic levels*: social assistance (-35,100), mining & logging (-53,000), and leisure & hospitality (-1.1 million).

Wages (*link*): Average hourly earnings for all workers in September increased 0.3%, following gains of 0.3% and 0.5% the prior two months, with the yearly rate easing to 5.0% (the lowest this year) from 5.2% in each of the prior three months. It peaked at a recent high of 5.6% in March. September's rate was below the August inflation-rate gains of 8.3% and 6.2% in the CPI and PCED measures, respectively. Private industry wages over the three months through September increased 4.4% (saar), slightly below its 5.0% yearly rate, with the three-month rates for both goods-producing (4.1%, saar & 4.4% y/y) and service-providing (4.5 & 5.1) industries below their yearly rates. *Service-providing industries showing three-month rates below their yearly rates*: education & health services (2.9 & 4.6), professional & business services' (3.0 & 5.2), retail trade (3.0 & 4.1), utilities (3.9 & 5.7), leisure & hospitality (4.4 & 7.9), and transportation & warehousing (6.3 & 6.6). *Service-providing industries showing three-month rates above their yearly rates*: information services (11.2 & 7.2), financial activities (7.6 & 4.8), other services (5.4 & 2.7), and wholesale trade (4.9 & 4.2). *Goods-producing industries*: The three-month rates are below their yearly rates for durable goods manufacturing (3.3 & 3.7) and construction (4.3 & 5.5) and above for nondurable goods manufacturing (4.8 & 3.5) and natural resources (4.1 & 3.8).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 28th increase in the past 29 months—up 0.5% in September and 31.3% over the period—to yet another new record high. In September, average hourly earnings advanced 0.3%, with aggregate weekly hours up 0.2%. Over the past 12 months, our EIP was up 8.7%—with aggregate weekly hours up 3.7% and average

hourly earnings up 5.0%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): September's unemployment rate fell back down to its recent low of 3.5% (which matched its lowest rate since 1969), as 57,000 left the labor force last month. The participation rate in September continued to move sideways, slipping to 62.3% after climbing from 62.1% to 62.4% in August—which was the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. *By race*: The unemployment rate fell among all races, with the rate for Hispanics (to 3.8% from 4.5%) and African Americans (5.8 from 6.4) dropping sharply last month—with the former at a new record low and the latter within striking distance of its record low of 5.4%. The rate for Asians sank from 2.8% to 2.5% in September, while the rate for Whites ticked down from 3.2% to 3.1%—both not far from their record lows of 2.1% and 3.0%, respectively. *By education*: The rate for those with less than a high school degree fell to 5.6% in September after climbing from a record low of 4.3% in February to 6.2% in August, while the rate for those with a high school degree fell to 3.7% after climbing from 3.6% to 4.2% in August; it was at 5.7% a year ago. The rate for those with some college was unchanged at August's 2.9% rate 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. The rate for those with a college degree and higher slipped for the third month to 1.8%—the lowest since March 2007.

Global Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales, which excludes motor vehicles & motorcycles, contracted in August for the third consecutive month, as July's 0.3% rise was revised to a 0.4% fall. Sales sank 0.3% in August and 1.6% over the three months through August to its lowest level since April 2021. It's dropped 3.5% since reaching a new record high last June. Spending on food, drinks & tobacco declined for the fifth successive month, by 0.8% in August and 3.7% over the period, while sales of non-food products excluding fuel ticked up 0.2% after a two-month drop of 2.4%. Meanwhile, sales of automotive fuels have posted only one decline since March, climbing 3.2% in August and 4.4% over the five-month period. Overall sales are down 2.0% y/y, led by declines in non-food products excluding fuel (-3.0% y/y) and food, drinks & tobacco (-2.0); sales of automotive fuels climbed 5.1% y/y, from near zero in July. Data are available for three of the Eurozone's largest economies, with only Germany (-1.3%) showing a decline, its fourth in five months for a total loss of 4.6%. Meanwhile, sales in Spain increased in August for the first time in

four months, by 0.6%, following a three-month loss of 1.3%, while sales in France ticked up 0.2% after a two-month drop of 3.3%. Compared to a year ago, sales were down in Germany (-4.2% y/y) and France (-0.9), and were basically flat (0.2) versus a year ago in Spain.

Germany Manufacturing Orders (*link*): The volume of German factory orders in August contracted for the sixth time in seven months, sinking a larger-than-expected 2.4% m/m and 8.8% over the period, after starting the year with a 3.0% gain. *Domestic orders* fell for the third time in four months, by 3.4% m/m and 7.3% over the period, while foreign orders remain in a volatile flat trend, falling 1.7% in August after a 6.0% gain and a 1.5% loss the prior two months. *Foreign orders from within the Eurozone* sank 3.8% in August after a two-month jump of 8.7%, registering wide swings the first eight months of the year. *Orders from outside the Eurozone* edged down 0.4% after a 6.9% increase and a 4.6% decrease the prior two months—also posting wide swings. *This year to date*, total orders sank 6.0%, led by a 14.7% plunge in domestic orders, while orders from inside the Eurozone fell 1.1% and billings from outside the Eurozone rose 1.5%. Here's a look at the ytd movements in domestic orders, along with the breakdown from both inside and outside the Eurozone for the main industry groupings, respectively: consumer durable goods (+5.1%, +10.1%, -0.2%), intermediate goods (-7.8, -10.5, -6.3), capital goods (-20.1, +6.4, +4.9), and consumer nondurable goods (-19.9, -16.4, +3.7).

Germany Industrial Production (*link*): Raw materials shortages and supply-chain bottlenecks continue to hamper production in Germany, which remains in a volatile flat trend. Germany's *headline production*, which includes construction, fell 0.8% in August after no change in July and a gain of 2.2% during the three months through June. Production is down 1.6% ytd. Production excluding construction (which the overall Eurozone uses) contracted 0.9% during the two months through August, following a three-month gain of 3.2%; it's down 2.1% ytd. *Manufacturing production* edged down 0.7% during the two months through August following a three-month spurt of 3.6; it's down 1.6% ytd. Looking at the *main industrial groupings*, capital goods output climbed in August for the fourth time in five months, by 1.2% m/m and 9.7% over the period, recovering from the 9.5% plunge during the two months through March—with output basically flat ytd. Consumer durable goods production remains on a volatile uptrend, climbing 3.6% during the two months through August and 7.9% y/y. Meanwhile, consumer nondurable goods production rose 1.8% in August after a 3.0% loss and a 0.9% gain; it's down 5.7% from its recent peak during February. Output of intermediate goods sank to its lowest level since September 2020, contracting 3.5% ytd.

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