MORNING BRIEFING
October 17, 2022

Mostly All About Inflation

Check out the accompanying chart collection.

Executive Summary: More persistently pernicious inflation than expected is at the root of the financial market's bearish sentiment. Revenues, profit margins, and earnings have been holding up relatively well; the market's big problem is a significant downward rerating of the P/E multiples that investors are willing to pay in this inflationary economic environment. ... We continue to think the economy is undergoing a rolling recession afflicting different industries at different times. We also think that inflation might be following a similar rolling script. Notably, goods inflation pressures have abated as services inflation pressures have picked up.

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Strategy: Sizzle to Fizzle in Two Days. It's still a bear market. Financial market sentiment is still all about hotter-than-expected inflation and the Fed's increasingly hawkish approach to the problem.

Extremely bearish sentiment often gives way to rallies, but the recent rallies haven't lasted very long. From a fundamental perspective, even the S&P 500's industry analysts—who collectively tend to have an optimistic bias—are finally reducing their earnings estimates for 2022 and 2023, resulting in a flattening of forward earnings. Forward revenues, derived from their consensus revenue estimates for the index, is still rising in record-high territory, driven higher by inflation. But the analysts collectively are shaving their profit margin expectations, according to the forward profit margin we calculate from their consensus earnings and revenue estimates.

In the fixed-income markets, the two-year Treasury note yield—which tends to reflect investors' expectations for the terminal federal funds rate (FFR)—continues to rise. That's pulling the 10-year Treasury note yield higher, but not as fast. So the yield curve is getting more inverted, signaling a rising risk of a financial crisis, which could turn into a credit crunch and a recession. All these unhappy developments are weighing on the S&P 500's forward P/E, which has been leading the bear market so far this year.

Since all the above is all about inflation, let's review the latest PPI and CPI reports released last week. Debbie and I must warn you that we will be looking for signs that it has peaked now that the markets are challenging that hypothesis. But before we go there, let's have a closer look at the numbers and details behind the picture we just painted of the financial markets:

(1) *Anatomy of a bear market in stocks*. The S&P 500 sizzled on Thursday following the release of September's hot CPI inflation report. At first, it dropped 2.4% from Wednesday's close. But then it rebounded remarkably by 5.6% and closed up 2.6% for the day. In our October 13 *QuickTakes*, we explained: "It's possible that prior to the widely feared CPI report, investors hedged their portfolios and scrambled to cover their shorts when the market dropped on the bad news. That forced unhedged shorts to cover too resulting in a reversal day."

However, on Friday, the S&P 500 closed down 2.4% when interest rates moved higher in reaction to the previous day's bad inflation news. The index is down 25.3% from its record high on January 3 (*Fig. 1*). It is 13.5% and 8.8% below its 200-day and 50-day moving averages.

The internal damage among the 11 sectors of the S&P 500 is particularly intense among the cyclical ones. Here is their performance derby since January 3 through Friday's close: Energy (41.7%), Health Care (-11.5), Utilities (-12.5), Consumer Staples (-12.6), Industrials (-19.3), Financials (-21.8), Materials (-23.7), S&P 500 (-25.3), Information Technology (-33.7), Real Estate (-34.3), Consumer Discretionary (-35.7), and Communication Services (-40.0). (See *Table 1* and *Fig. 2*.)

As noted above, while S&P 500 forward revenues per share continues to be boosted by inflation to new highs (albeit at a slower pace in recent weeks), forward earnings per share peaked at its record high during the June 23 week and since then has stalled just below that level at around $237 (*Fig. 3*). The forward profit margin peaked at a record 13.4% during the June 9 week, edging down to 13.0% during the October 6 week.

So far, the bear market has been all about the plunge in the S&P 500's forward P/E. It has dropped 30% from 21.5 on January 3 to 15.1 on Friday (*Fig. 4*). This severe rerating of the valuation multiple is all about inflation turning out to be more persistent (i.e., higher for longer) than widely expected at the end of last year. As a result, interest rates have been rising all year.

(2) *Anatomy of a bear market in bonds.* On Friday, the 10-year Treasury bond yield rose to 4.00%, the highest reading since April 5, 2010 (*Fig. 5*). The 2-year Treasury note yield rose to 4.48%, up from 4.30% a week ago, as investors continued to anticipate a higher terminal FFR level. The FOMC is widely expected to raise the rate by 75bps on November 2 to a range of 3.75%-4.00% and by 50bps on December 14 to 4.25%-4.50%.

The widening inverted yield-curve spread between the 2-year and 10-year notes suggests that investors are increasingly concerned that the Fed's monetary tightening might soon trigger financial instability, i.e., a financial crisis that leads to a widespread credit crunch and a recession (*Fig. 6*).

(3) *Anatomy of Bullard's frontal lobe.* In a Friday, October 14 Reuters *interview*, St. Louis Fed President James Bullard said that he favors "frontloading" hikes in the FFR, with a wait-and-see stance on 2023. In other words, he suggested that the Fed should go ahead with the widely expected 75bps hike in the rate at the November 1-2 meeting of the FOMC and another 75bps hike at the December 13-14 meeting. That would bring the FFR target range up to 4.50%-4.75%. But then Bullard went on to imply that the Fed should pause for a while.

In the interview, Bullard commented on September's CPI, which was released on Thursday, saying that it showed inflation had become "pernicious" and difficult to stop, and therefore "it makes sense that we're still moving quickly." Bullard tends to be among the most hawkish of the hawks on the FOMC. And he often tends to provide an accurate early read on changes in the committee's thinking and stance.

Bullard didn't rule out raising the FFR above 5.00% next year if "inflation doesn't come down the way we're hoping in the first half of 2023 and we continue to get hot inflation reports." He didn't rule out a soft landing of the economy and said that the inversion of the yield curve might be attributable to an inflation premium. He posited that after "the transition," the economy "could grow just as fast at the higher interest rates." He downplayed the risk of a financial crisis like those of 2008 or early 2020: "I don't think we're in a situation where global markets are facing a lot of stress of that type."

Bullard's outlook jibes with our rolling recession outlook. We also agree with him that the new normal, coming out of this mess, may very well be the old normal of economic growth with higher interest rates. We are just waiting for him also to acknowledge that the Fed might have to learn to live with inflation rates closer to 3.0% y/y than to 2.0%.

(4) *Feshbach's call.* Joe Feshbach is neutral about the short-term trading prospects for the

S&P 500. He wasn't surprised by Friday's downward reversal of Thursday's upside reversal. "The part that doesn't fit and makes me uncomfortable is that breadth continues to be just awful, continually outperforming on the downside and underperforming on the upside." He was quite surprised that the put-call ratios both Thursday and Friday were among the lowest readings in weeks: "It's as if investors are too optimistic about the upside and not sufficiently pessimistic about the downside." So Feshbach is in a wait-and see trading mode currently.

US Economy: Rolling Along Slowly. Last week, Debbie and I reiterated our rolling recession scenario for the economy. We also suggested that inflation might be following a similar rolling script.

Currently, we think that the single-family housing market and auto sales are in recessions because of the Fed's tightening. Retailers also are experiencing a recession. They've had to discount prices to reduce their bulging inventories of goods, because consumers had satisfied their post-lockdown pent-up demand for goods while previously ordered ones arrived en masse as supply-chain problems abated. Consumers also satisfied their pent-up demand for PCs and TVs, built up during the first two years of the pandemic. So the semiconductor industry is in a recession.

The bottom line is that the unit sales of many goods producers and distributors have been weakening since the beginning of the year. Here are the ytd changes in real business sales from December through July: total (-0.8%), manufacturing shipments (-3.2), wholesale sales (-0.5), and retail sales (1.1) (*Fig. 7* and *Fig 8*). In current dollars, September's retail sales was virtually unchanged m/m and rose just 0.1% m/m excluding gasoline (*Fig. 9*).

Meanwhile, the energy sector is booming and scrambling to export more natural gas to Europe. The services economy is also prospering, as evidenced by the strength of September's NM-PMI. As we noted in last Wednesday's *Morning Briefing*, September's MasterCard SpendingPulse found relative weakness in housing-related retail sales. Furniture & furnishings and hardware retailers had small gains of 1.4% and 1.7%, respectively. On the other hand, "experiential" spending is strong. In September, spending at restaurants rose 10.9% y/y and spending on airlines and lodging likewise experienced double-digit y/y growth, of 56.4% and 38.1%.

US Inflation: Rolling Along Too. Excessively stimulative fiscal and monetary policies during 2020 and 2021, in response to the pandemic, caused a demand shock, especially for goods during 2021 and early 2022. As a result, global supply chains were overwhelmed, causing a supply shock that resulted in rapidly rising prices, especially for durable goods.

The Ukraine war put more upward pressure on goods prices, particularly for energy and food.

Now those goods-specific inflationary pressures seem to be abating, but inflation has rebounded in the services sector. Underlying demographically driven labor shortages were exacerbated by the pandemic and government programs aimed at helping the unemployed. That resulted in an increase in wage inflation. As a result of record quits, the turnover in the labor market has increased greatly, which has weighed on productivity.

Let's review the latest developments in this rolling inflation scenario:

(1) *Goods & services.* We can see that inflation has been rolling out of goods and into services in the core CPI (excluding energy and food) (*Fig. 10*). On a y/y basis, the former rose from 1.7% in January 2021 to a peak of 12.4% in February 2022. It was back down to 6.7% by September. The core services CPI was 1.3% at the start of last year and rose to 6.7% in September of this year, the hottest reading since August 1982. There's no peak yet in the services CPI inflation rate.

(2) *Goods.* Among nondurable goods in the CPI, energy inflation seems to have peaked on a y/y basis during June at 41.6%. It was down to 19.8% in September. Food inflation hasn't peaked yet. It rose to 11.2% during September (*Fig. 11*). The most significant peaks have been made in durable goods inflation (*Fig. 12*). The CPI index for this category peaked at 18.7% y/y in February and fell to 7.1% in September. The three-month annualized rate through September was down to 2.7%.

By the way, both the headline and core PPIs show recent clear peaks in their y/y inflation rates for finished goods, intermediate goods, and crude goods (*Fig. 13*).

(3) *Services.* Among the biggest jumps in CPI services prices recently has been health insurance, which soared 28.2% y/y through September (*Fig. 14*). Its three-month annualized inflation rate was almost as bad at 27.6%. The only good news is that this item was up only 1.3% y/y in August's PCED inflation. That's because the PCED reflects the fact that this item tends to be paid for by businesses rather than consumers.

Needless to say, because we and others have said it before, the rent component of the CPI has been sticking out like an increasingly large sore thumb in the inflation picture (*Fig. 15*). It's misleading partly because it includes so-called "owners' equivalent rent." Further confusing the picture, rent has a bigger weight in the CPI than in the PCED.

One cause for stratospheric rent inflation that a smart fellow at one of our accounts recently pointed out to us is that many landlords were stymied from raising their rents by government-imposed moratoriums during the pandemic and are now raising them to make up for lost revenue.

Calendars

US: Mon: Federal Budget Balance -$173.5b. **Tues:** Headline & Manufacturing Industrial Production 0.1%/0.3%; Capacity Utilization 80.0%; Empire State Manufacturing Index -4.0; NAHB Housing Market Index 44; TIC Net Long-Term Transactions; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Italy CPI 0.3%M/M/8.9%y/y; Japan Industrial Production 2.7%; China GDP 3.5%q/q/3.4%y/y; China Industrial Production 4.5%y/y; China Retail Sales 3.3%y/y; China Unemployment Rate 5.2%; German Buba Monthly Report; NBS Press Conference; DeGuindos; Nagel; Lane; Rogers. **Tues:** Eurozone ZEW Economic Sentiment -61.2; Germany ZEW Economic Sentiment -66.0; Canada Housing Starts 261.5k; China FDI; Adachi. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 1.8% last week and closed the week just about even with its new bear market low from Wednesday. It's now 26.3% below its record high on December 27. The US MSCI ranked 26th of the 48 global stock markets that we follow in a week when just 15 countries rose in US dollar terms. The AC World ex-US index dropped 2.2% and ended the week at 31.5% below its June 15, 2021 record high as all regions fell. EMU was the best performer, albeit with a decline of 0.3%, followed by EM Eastern Europe (-1.0%) and EAFE (-1.4). BIC was the worst performing region last week with a decline of 4.7%, followed by EM Asia (-4.0), EM Latin America (-3.8), and EMEA (-2.4). Greece was the best-performing country last week with a gain of 2.5%, followed by Hungary (2.0), Sri Lanka (1.5), and Denmark (1.4). Among the 22 countries that underperformed the AC World ex-US MSCI last week, the 9.2% decline for the Czech Republic was the biggest, followed by Argentina (-6.4), China (-6.2), Hong Kong (-5.8), and Brazil (-5.0). The US MSCI's ytd ranking remained steady w/w at 23/49. After lagging for much of year through July, the US MSCI's ytd decline of 25.9% is now less than the AC World ex-US's 28.4% drop. EM Latin America is now down 0.4% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-87.4), EMEA (-37.2), EMU (-33.9), EM Asia (-31.8), BIC (-31.3), and EAFE (-28.5). The best country performers so far in 2022: Turkey (27.7), Jordan (17.2), Brazil (6.6), Chile (5.2), and Indonesia (0.3). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-66.9), Poland (-51.3), Hungary (-48.1), Austria (-44.5), and the Netherlands (-43.4).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved lower w/w for the seventh time in nine weeks. SmallCap dropped 0.2%, less than the declines for MidCap (-1.0%) and LargeCap (-1.6). LargeCap and MidCap marked their fourth week back in a bear market and SmallCap its fifth. LargeCap finished the week at 25.3% below its record high on January 3; MidCap is 22.9% below its record high on November 16; and SmallCap is 25.6% below its November 8 record high. Eleven of the 33 sectors moved higher for the week, down from 24 rising a week earlier. Still, that's an improvement from the three weeks before that when nearly all sectors moved lower. SmallCap Utilities was the best performer with a gain of 3.9%, followed by SmallCap Financials (3.3), SmallCap Real Estate (2.5), SmallCap Consumer Staples (2.2), and MidCap Financials (1.9). MidCap Tech (-5.2) was the biggest underperformer last week, followed by SmallCap Tech (-4.4), SmallCap Energy (-4.3), LargeCap Consumer Discretionary (-4.1), and LargeCap Tech (-3.2). In terms of 2022's ytd performance, LargeCap's 24.8% decline continues to trail those of MidCap (-21.0) and SmallCap (-22.2). 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 (46.1), SmallCap Energy (34.5), MidCap Energy (33.6), MidCap Consumer Staples (-8.9), and MidCap Financials (-8.9). The biggest ytd laggards: LargeCap Communication Services (-39.7), SmallCap Real Estate (-36.8), LargeCap Real Estate (-34.9), LargeCap Consumer Discretionary (-33.9), and SmallCap Consumer Discretionary (-33.7).

S&P 500 Sectors and Industries Performance (*link*): Three of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.6% decline. That compares to a 1.5% gain for the S&P 500 a week earlier, when seven sectors rose and five outperformed the index. Consumer Staples was the top performer with a gain of 1.4%, followed by Health Care (0.8%), Financials (0.2), and Industrials (-0.6). Consumer Discretionary was the worst performer with a decline of 4.1%, followed by Tech (-3.2), Utilities (-2.6), Real Estate (-2.4), Materials (-1.9), Communication Services (-1.9), and Energy (-1.9). The S&P 500 is down 24.8% 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 (46.1), Health Care (-12.3), Consumer Staples (-12.6), Utilities (-13.3), Industrials (-19.9), Financials (-20.8), and Materials (-24.7). The ytd laggards: Communication Services (-39.7), Real Estate (-34.9), Consumer Discretionary (-33.9), and Tech (-33.1).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 1.6% last week and weakened 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 fifth week after rising for a week before that for the first time in seven weeks. It closed below its 200-dma for the 34th time in 37 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 18th time in 24 weeks as the index dropped to 8.8% below its falling 50-dma from 8.4% a week earlier. It remains above its 15-week low of 10.6% below at the end of September. That compares to a 23-month high of 8.7% above its rising 50-dma 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 13.5% below its falling 200-dma, down from 12.7% below a week earlier, and compares 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 November 2021. 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 24th straight week and near 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, unchanged from a week earlier and up from all 11 sectors below at the end of September. Energy is the only sector above its 50-dma in the latest week. Energy is also 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. 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

Consumer Price Index (*link*): September's CPI rose more than expected, climbing 0.4% after a 0.1% uptick in August and no change in July, while core prices rose 0.6% for the second month, double July's 0.3%. The CPI yearly rate eased for the third month from 9.1% in June (the highest since November 1981) to 8.2% in September, while the core rate accelerated for the second month to 6.6% (the highest since August 1982), after easing steadily from 6.5% in March to 5.9% in both June and July. Rates for both consumer durable goods and consumer nondurable goods excluding food are slowing, while the services' rate excluding energy is accelerating—with shelter costs particularly high. *Food costs* (11.2% y/y) were little changed from August's 11.4%, which was the fastest pace since April 1979. Within food, the rate for food at home (13.0) was just below August's 13.5%, which was the highest since March 1979, while the rate for food away from home picked up to 8.5% y/y, the highest since fall 1981. *Energy costs* (19.8) continued to ease from June's 41.6%, which was the fastest pace since April 1980. Within energy, yearly rates eased virtually across the board. The rate for fuel oil slowed for the fourth month to 58.1% from May's record-high 106.7%, while the rate for gasoline prices eased to 18.2% y/y, down from June's 59.9% (fastest since March 1980). Meanwhile, the rate for natural gas prices picked up a bit for the second month to 33.1%y/y after easing from 38.4% in June (highest since October 2005) to 30.5% in July; electricity costs eased slightly to 15.5% y/y from August's 15.8%—the highest since August 1981. *Consumer durable goods inflation* slowed for the seventh month, from 18.7% in February (highest since early 1940s) to an 18-month low of 7.1% in August. The rate for new cars (10.5) eased for the fifth month from April's near-record high of 14.2%, while the rate for used cars & trucks ticked down from 7.8% in August to 7.2% last month, after slowing sharply from 41.2% in February to 6.6% in July—which was the lowest since August 2020; it was at a record-high 45.2% during June 2021. The rate for apparel prices continued to fluctuate just above 5.0%, slowing from its recent peak of 6.8% in March—which was its fastest rate since the end of 1980. The rate for furniture & bedding (10.1) is down from February's record high of 17.1%, while the rate for major appliances was flat, down from its recent peak of 12.4% in March. *Consumer nondurable goods inflation* slowed for the third month, to 10.8% y/y, after shooting up to 16.2% in June, which was more than double June 2021's rate and the highest since the 1940s. *Services inflation* shot up to 7.4%—the highest since the early 1980s—rising steadily from January and February 2021s 1.4%. Within services, owners' equivalent and tenant-occupied yearly rates accelerated 6.7% and 7.2%, respectively, in September—up from recent lows of 2.0% and 1.8%—with the former at a new record high and the latter the highest since October 1982. Over the three months through September, the owners' equivalent rent accelerated 8.6% (saar) and tenant rent 9.2%—far exceeding their yearly rates. Meanwhile, the yearly rate for lodging away from home slowed to 2.9% y/y in September after picking up a bit August to 4.0%; it had plummeted from a record high of 25.1%, posted in both February and March, to 1.0% by July. Turning to medical care, the yearly rate for hospitals' (3.8) services has been moving in a relatively flat trend, while the physicians' (1.8) services rate is down sharply from last March's 5.3% peak, though has edged up in recent months. Meanwhile, the yearly rate for airfares has shot up to 42.9% y/y—not far from September 1980s record high of 45.0—though the three-month rate turned negative in August.

Import Prices (*link*): Import prices fell in September for the third month as petroleum prices continued to decline. Import prices sank 1.2% last month and 3.7% the past three months. Import prices' yearly rate eased to 6.0% from a recent high of 13.0% in March, as the yearly rate in fuel prices slowed to 32.0% y/y—the lowest since February 2021; it peaked at 130.1% last April. Nonpetroleum import prices declined for the fifth successive month, by 0.5% in September and 2.0% over the period, with the yearly rate falling to a 19-month low of 3.7% 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 15.4% from 55.2%), foods, feeds & beverages (3.4 from 15.7), and consumer goods ex autos (1.7 from 3.2). Meanwhile, the capital goods rate held steady at 3.2% y/y in September after easing steadily from a recent peak of 4.2% in May to 3.2% in August, while the rate for auto imports ticked down for the second month to 2.9%, after accelerating to 3.6% y/y in July—which was the highest rate since summer 2011.

Retail Sales (*link*): Retail sales were weaker than expected in September, showing no change (vs a 0.3% expected gain) after a 0.4% gain and a 0.4% loss the prior two months, with the 13 sales categories a mixed bag. Adjusted for inflation, retail sales fell for the fourth time in five months, by 0.4% m/m and 1.4% over the period. The control group—which excludes autos, gasoline, building materials, and food—rose for the ninth time this year in September, up 0.3% m/m and 7.2% ytd. Of the 13 nominal retail sales categories, six rose in September while seven fell. Here's a snapshot of the sales performances of the 13 categories during September as well as the performances versus a year ago: general merchandise stores (0.7 & 3.7), nonstore retailers (0.5 & 11.6), clothing & accessories stores (0.5 & 3.1), food services & drinking places (0.5 & 11.4), health & personal care stores (0.5 & 4.3), food & beverage stores (0.4 & 6.4), motor vehicles & parts (-0.4% & 5.6%), building materials & garden equipment & supplies (-0.4 & 9.7), furniture & home furnishings (-0.7 & 0.9), sporting goods & hobby stores (-0.7 & 3.7), electronics & appliance stores (-0.8 & -8.6), gasoline stations (-1.4 & 20.6), and miscellaneous store retailers (-2.5 &

8.2).

Consumer Sentiment Index (*link*): Consumer sentiment in early October climbed for the fourth month since dropping to a record low of 50.0 in June, up 1.2 points m/m and 9.8 points over the period to 59.8, with over two-thirds of the gain occurring in August. The present situation component increased 5.6 points in mid-October and 11.5 points over the four-month span to a six-month high of 65.3. Meanwhile, a rise in expected inflation rates sent the expectations component down 1.8 points this month after no change last month; it had experienced a 10.7-point surge in August. The report noted that the one-year expected inflation rate rose to 5.1% after falling to a 12-month low of 4.7% in September, as increases were reported across age, income, and education segments. In September, the five-year rate fell to 2.7%—falling below the narrow 2.9%-3.1% range for the first time since last July—but this month it returned to that range of 2.9%. Joanne Hsu, the consumer survey's director, noted, "Continued uncertainty over the future trajectory of prices, economies, and financial markets around the world indicate a bumpy road ahead for consumers."

Business Sales & Inventories (*link*): Nominal business sales returned to growth in August after falling in July for the first time this year from June's record high, while July real business sales (reported with a lag) rose for the first time in six months. Nominal business sales climbed 0.3% in August and 8.5% ytd to within 0.7% of June's record high. Meanwhile, real business rose 0.6% after a five-month slide of 3.1%; it was 2.6% below its record high posted during January of this year. Real sales for wholesalers have dropped 3.5% since reaching a record high at the start of this year, though have shown signs of life the past two months. Meanwhile, real sales for retailers has been on a downtrend since reaching a new record high in March 2021, falling 6.4% over the period. Real manufacturing sales recorded its first gain this year in July, climbing 0.4% after sinking 3.6% the first half of the year; it's 8.0% below its recent peak recorded during January 2021. In the meantime, the real inventories-to-sales ratio ticked down to 1.47 after climbing from 1.37 last September to 1.48 this June—which was the highest since mid-2020; the nominal ratio moved up to an 18-month high of 1.33 in August, rising from a near-record low of 1.26 last October and November.

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