MORNING BRIEFING
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Oil, Cat & Flying Cars

Check out the accompanying chart collection.

Executive Summary: With US economic growth so strong and OPEC so disciplined, oil inventories are rapidly depleting. The surpluses that have tethered global oil prices over the past year will disappear next year as consumption overtakes production, forecasts the EIA. Jackie examines the reasons and the recent performance of the S&P 500 Energy sector and its component industries. … Also: The US economy's vitality was evident in Caterpillar's remarkable Q2, a testament to the strength of demand for building new homes, mining minerals, and constructing factories. … And in our Disruptive Technologies segment: Will cars ever fly?

Energy: Oil Deficits. The price of crude oil has risen in recent months as investors have grown more confident that the US economy will dodge a recession. The Brent crude futures price is up to $84.91 a barrel from its recent low of $72.26 on June 27 (*Fig. 1*). The past year's crude oil surpluses—which have kept the world's fuel prices in check—will become deficits this quarter and continuing through next year if estimates by the US Energy Information Administration (EIA) are on target.

Here are the EIA's quarterly production and consumption forecasts for the global oil market in 2023 and 2024: Q1-2023 (101.04 mbd production, 100.06 mbd consumption), Q2-2023 (101.13, 100.96), Q3-2023 (100.77, 101.75), Q4-2023 (101.45, 101.83), Q1-2024 (101.90, 102.32), Q2-2024 (102.08, 102.38), Q3-2024 (102.95, 103.29), and Q4-2024 (103.34, 103.22).

The EIA's oil production and consumption estimates no doubt reflect the more-resilient-than-expected US economy, the weaker-than-expected Chinese economy, and OPEC's disciplined adherence to production cuts. Let's take a closer look at these dynamics:

(1) *The recession that never arrived.* The US economy grew 2.4% in Q2, defying naysayers' dour projections (*Fig. 2*). All that economic activity boosted oil demand more than expected, which depleted oil inventories at a record-breaking pace last week. US oil inventories fell by 17 million barrels in the week ending July 28, according to EIA data cited in an August 2 Reuters *article*. It was the largest weekly drop in US crude inventories ever recorded (record taking began in 1982).

Recent market conditions have prompted the Biden administration to pull its offer to buy 6 million barrels of oil as it attempts to refill the Strategic Petroleum Reserve. The administration released 180 million barrels from the reserve last year after the price of oil spiked in reaction to Russia's invasion of Ukraine (*Fig. 3*). Only 6.3 million barrels has been replaced, but the administration has said it will buy oil for the reserve when it costs between $67 and $72 a barrel.

Meanwhile, oil demand in China continues to grow even though its economic growth isn't as strong as expected. Instead of booming after Covid restrictions were lifted, Chinese economic growth has disappointed, burdened by high youth unemployment and real estate companies' excessive leverage. Chinese GDP grew 6.3% y/y in Q2, faster than Q1's rate of 4.5% y/y but below the consensus forecast of 7.3% y/y growth.

While China's economic growth has been slower than expected, its consumption of oil and other liquids is still expected to grow to 16.13mbd in Q2-2023, up from 15.94mbd in Q1-2023 and 15.10mbd in Q2-2022, the EIA *forecasts*.

(2) *OPEC gets religion.* OPEC's Joint Ministerial Monitoring Committee is scheduled to meet today. The organization's crude production fell by 0.9mbd in July to an average of 27.8mbd, according to a Bloomberg survey cited in an August 1 Oilprice.com *article*. The production reduction includes Saudi Arabia's voluntary cut of 1mbd. The country reportedly wants to see the price of crude oil at $90 a barrel or more before starting to unwind its oil production cut.

Production also fell in Nigeria, by 130,000bpd, because Shell suspended loadings of crude due to a potential leak at the export terminal. Libya's production fell by 50,000bpd due to a protest at a field.

(3) *Signs of life.* Energy stocks had a tough start to 2023 as the price of oil tumbled. But since oil prices hit a low for the year in early June, the sector and its industries have enjoyed a strong rebound. Here's the performance derby for the S&P 500 and its 11 sectors from June 1 through Tuesday's close: Industrials (14.7%), Materials (14.0), Energy (13.7), Consumer Discretionary (13.4), Financials (11.5), S&P 500 (9.5), Information Technology (9.4), Communication Services (9.2), Real Estate (5.9), Health Care (4.5), Consumer Staples (4.4), and Utilities (2.6) (*Table 1*).

The rebound among a handful of industries in the S&P 500 Energy sector over the same period is even more impressive: Oil & Gas Equipment & Services (34.3%), Oil & Gas

Refining & Marketing (24.0), Oil & Gas Exploration & Production (18.5), and Oil & Gas Storage & Transportation (15.8). The S&P 500 Oil and Gas Refining and Marketing industry's stock price index is near a record high even though analysts are calling for the industry's earnings to fall by 26.9% this year and 29.4% in 2024 from record levels (*Fig. 4*).

The S&P 500 Oil & Gas Equipment & Services stock price index is near its highest level since the Covid pandemic descended and sent oil prices tumbling in late 2019 and into 2020. Analysts expect the industry will post strong earnings growth of 43.2% this year and 21.5% next year (*Fig. 5*). Meanwhile, earnings for the S&P 500 Oil & Gas Exploration & Production industry are forecast to drop sharply this year, by 34.8%, and then grow 20.7% in 2024 (*Fig. 6*). All three industries have forward P/Es below that of the S&P 500: Oil & Gas Refining & Marketing (8.2), Oil & Gas Exploration & Production (11.2), and Oil & Gas Equipment & Services (15.8).

Industrials: Lessons From the Cat. Caterpillar's Q2 earnings illustrate the power of three important trends: the demand for more new homes, the demand for more minerals, and the push to bring manufacturing back to the US. Each requires the yellow earth-moving equipment that Caterpillar manufactures.

The company reported Q2 sales that jumped 22% to $17.3 billion and operating income that surged 88% to $3.7 billion, far exceeding analysts' expectations. The company's shares jumped 8.9% on Tuesday in response, to $288.68, bringing their ytd gain through Tuesday's close to 20.5%. Earnings growth is expected to continue next year, but much more slowly. Analysts expect the company, which earned $12.64 a share in 2022, to grow earnings per share by 52.6% this year to $19.29 and 4.6% next year to $20.18.

Caterpillar's growth in both revenues and earnings was amazingly broad based, bolstering each of its segments: construction industries (19% revenues, 82% operating profits), resource industries (20, 108), and energy & transportation (27, 93). Let's take a look at what Caterpillar management said drove its success last quarter:

(1) *Thank Uncle Sam*. Revenue in Caterpillar's construction industries segment was helped by the strong markets for new homes and new factories in the US. The segment's North American sales jumped 32%, eclipsing the 20% jump in Europe, Africa & the Middle East, the flat results in Asia, and the 11% decline in Latin America.

In the company's Q2 earnings *conference call*, CEO James Umpleby credited strong demand for equipment in the residential construction market and in the non-residential

construction market, which continues “to benefit from government-related infrastructure and construction projects.” Those projects are also boosting demand for heavy equipment used in quarries and to mine aggregates. The impact of these infrastructure projects should “last for some time,” as some projects wait for permits to come through before they can even break ground.

(2) *Thank EVs.* The demand for materials used in batteries, like cobalt and lithium, has sent geologists scouring the Earth to find new sources for the minerals. Benchmark Mineral Intelligence studied how many new mines would be needed to ensure adequate materials for the batteries to be used over the next decade. “The group’s study found that at least 359 new mines and similar facilities could be needed to meet the demand expected for these materials by 2035, though that number could easily rise to 384. This would include 74 mines for lithium, 62 mines for cobalt, 72 mines for nickel, 97 mines for natural graphite and 54 plants for producing synthetic graphite. If manufacturers are able to make better use of recycled materials, the number shrinks slightly—but only to 336 [mines],” according to a September 19, 2022 *article* in the *Robb Report*.

Caterpillar’s Umpleby sees demand for EV-related minerals driving growth for Cat equipment: “We continue to believe the energy transition will support increased commodit[ies] demand, expanding our total addressable market and providing further opportunities for profitable growth.”

(3) *Energy and turbines help too.* Caterpillar is less well known for the products and services it supplies to the oil and gas industry and the gas-powered turbines used by a variety of industries, including data centers; but this segment also had a great Q2, with total sales jumping 27% y/y and operating profit increasing 93% y/y.

(4) *Comps get tougher.* While revenue is expected to grow, CFO Andrew Bonfield did point out that y/y comparisons during H2-2023 will be tougher because the company started raising prices in Q3-2022 and continued to do so in the ensuing quarters. For example, last quarter sales volume boosted revenue by $1.8 billion in the company’s three equipment operating segments, and price increases boosted revenue by almost as much: $1.4 billion.

Management expects price increases to slow during H2-2023 and the operating margin improvements of the past year to halt as well. That said, the company is sitting on a healthy order backlog of $30.7 billion, up $300 million q/q.

(5) *Supply chain still healing.* While Caterpillar’s supply chain has improved, Umpleby noted

that there are still “challenges.” “We’re still dealing with supply chain constraints around large engines, which impact both E&T and machines. And we also have some issues with things like semiconductors for displays that are impacting other machines as well,” said Umpleby. As a result, the company keeps more inventory on hand than it might otherwise. When the supply chain returns to normal, Caterpillar should be able to reduce its inventory and free up additional cash.

Disruptive Technologies: Still Working on Flying Cars. When we wrote about flying cars in a 2018 *Morning Briefing*, inventors were excited about a future filled with vehicles that could allow us to bypass traffic jams like *George or Jane Jetson*. Five years later, and the topic of flying cars still leaves inventors breathless, but their inventions have yet to hit the market. Some projects have crashed, and others have faded away. But entrepreneurs are still plugging away at making the flying car a reality within the next few years.

Let’s take a look at some of these initiatives:

(1) *Some throw in the towel.* Kittyhawk, backed by Google co-founder Larry Page and Boeing, wound down its attempts to build air taxis last fall. Likewise, Uber had grand plans to test its flying taxi by 2020 and start commercial flights this year, plans that never materialized.

Under pressure to cut costs, Uber sold the division in 2020 to Joby Aviation, which is working to get a flying vehicle approved. Joby is developing an eVTOL, an electric vertical take-off and landing vehicle, which is closer to a helicopter alternative than a flying car. In June, Joby received a Federal Aviation Administration (FAA) Special Airworthiness Certificate, which allows testing of its prototype. By March 2024, the company aims to deliver two of the aircraft to the US Air Force, and it hopes to begin commercial operation in 2025. Joby, which counts Toyota as an investor, plans to operate the vehicles itself and offer customers ridesharing services.

Another company we mentioned in 2018, Opener, has forged ahead on developing its single-seat BlackFly eVTOL. The vehicle, which doesn’t have wheels, is undergoing testing by qualified owners before the company opens sales to the general public. And Archer Aviation announced last week a contract with the US Air Force worth up to $142 million that includes supplying up to six of its Midnight eVTOL air taxi planes once they’re certified, a July 31 *article* in DroneDJ reported.

(2) *Closer to a flying car.* Alef Aeronautics has developed a vehicle that looks more like a

flying car than a helicopter. The company's two-seat Model A drives on roads and can take off and land vertically. The electric vehicle can drive for 200 miles—but only at a maximum speed of 25 miles per hour—and fly for 110 miles, a July 5 Electrive *article* reported.

The Model A has also received a FAA Special Airworthiness Certificate, but it still needs approval from the National Highway Traffic Safety Administration to be tested on public roads. The company has received 2,500 preorders for its $300,000 two-seat model, which it plans to deliver in late 2025, a July 29 *Newsweek* *article* reported. The company is also working on a four-person vehicle and hopes that drivers won't be required to have a pilot's license to operate the vehicle.

(3) *One more flying car.* The Asaka A5 looks less like a car than Alef's model, but it too has wheels that allow the vehicle to drive on a road and park in a standard parking spot. However, when the operator wants to fly, wings unfold and allow the vehicle to take off and land either vertically like a helicopter or horizontally on a runway like a traditional airplane. The A5 is a gas/electric hybrid that can fly for 250 miles at 150 miles per hour or drive at up to 70 miles per hour, a July 30 Freethink *article* reported.

The A5's faster speed and longer range comes with a higher price tag: $789,000. Asaka also plans to rent the A5 to pilots in 2026. The Department of Motor Vehicles is allowing the vehicle to drive on public roads, and the FAA gave the company's prototype a Special Airworthiness Certification.

(4) *Lots of competition.* Hopeful market entrants include companies based abroad as well. In Germany, Lilium and Volocopter are developing vehicles. In the UK, Vertical Aerospace received a $25 million investment from American Airlines Group last year. Eve Air Mobility was created by Brazil's Embraer and plans to produce a four-seat eVTOL in Brazil. United Airlines announced plans for a San Francisco commuter service using Eve Air's planes and has invested $15 million in the company.

China's battery manufacturer CATL entered a joint venture with government-owned aircraft manufacturer Commercial Aircraft Corp. of China and the Shanghai Jiao Tong University Enterprise Development Group to develop a battery powered aircraft. It's not an eVTOL but rather a fixed-wing electric aircraft. And in France, AutoFlight and Airport operator Groupe ADP announced plans to fly passengers around Paris during next year's Summer Olympics.

Calendars

US: Thurs: Initial & Continuous Jobless Claims 227k/1.70m; Nonfarm Productivity & Unit Labor Costs 2.0%/2.6%; 57.2; ISM 53.0; NM-PMI Factory Orders 2.3%; Natural Gas Storage. **Fri:** Payroll Employment Total, Private, and Manufacturing 200k/175k/5k; Average Hourly Earnings 0.3%m/m/4.2%y/y; Average Weekly Hours 34.4; Unemployment & Participation Rates 3.6%/62.6%; Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone PPI -0.2%m/m/-3.1y/y; Eurozone, Germany, and France C-PMIs 48.9/48.3/46.6; Eurozone, Germany, and France NM-PMIs 51.1/52.0/47.4; Italy Retail Sales 0.0%m/m/4.0%y/y; UK C-PMI & NM-PMI 50.7/51.5; BoE Interest Rate Decision 5.25%; RBA Monetary Policy Statement; Panetta; Bailey. **Fri:** Eurozone Retail Sales 0.2%m/m/-2.2%y/y; Germany Factory Orders -1.5%; France Industrial Production -0.3%; Italy Industrial Production -1.3%; Canada Employment Change 20.6k, Canada Unemployment & Participation Rates 5.5%/65.6%; Pill. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* moved back above 3.00 this week, to 3.07—the highest since early August 2021—after falling from 3.01 to 2.87; it's been bouncing around 3.00 the past five weeks. *Bullish* sentiment advanced for the third week, by 5.7ppts (from 51.4% to 57.1%)—the most bulls since November 2021, when it reached a danger level of 57.2%. Meanwhile, *bearish* sentiment fell to 18.6% after rising last week for the first time in 10 weeks to 19.4%; it had dropped the prior nine weeks by 6.7ppts (from 24.7% to 18.0%)—which was the fewest bears since early January 2022. The *correction count* dropped for third week, from 30.5% to 24.3% this week—the lowest since the start of this year. Turning to the *AAII Sentiment Surve*y (as of July 27), optimism declined this week, though remains above average, while neutral and bearish sentiment both moved higher during the week. The *percentage expecting stock prices to rise over the next six months* increase sank 6.5ppts to 44.9%, after soaring 10.4ppts (to 51.4% from 41.0%) the prior week. Optimism is back within its typical range after its unusually high reading last week. The *percentage expecting stock prices will stay essentially unchanged* over the next six months increased 3.8ppts to 31.0%, remaining below its historical average of 31.5% for the sixth time in 11 weeks. The p*ercentage expecting stocks to fall over the next six months* rose 2.6ppts to 24.1% after falling 4.4ppts (to 21.5% from 25.9%) last week. That puts it below its historical average of 31.0% for the eighth straight week—the longest

below-average streak since a 23-week one from February to July 2021. The report noted that after nearing an unusually low level last week, pessimism has returned to its typical range.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at 12.4% during the July 27 week. That's up from a 24-month low of 12.3% during the March 30 week, but down 1.0pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.1pts above its seven-year low of 10.3% during April 2020. Forward revenues improved to 0.1% below its record high during the July 6 week. Forward earnings rose 0.3% w/w to a hair below its nine-month high during the July 6 week, and is only 3.0% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at an eight-month high of 3.6% and is now up 1.3pts from its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.1pt w/w to an 11-month high of 7.8% and is now 4.3pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.7% in 2023 (unchanged w/w) and 4.7% in 2024 (unchanged w/w) compared to a revenues gain of 12.3% in 2022. They expect an earnings decline of 0.5% in 2023 (up 0.3ppt w/w) and a 12.2% rise in 2024 (unchanged w/w) compared to an earnings gain of 7.1% in 2022. Analysts expect the profit margin to drop 0.3ppt y/y to 11.9% in 2023 (unchanged w/w), compared to 12.2% in 2022, and to rise 0.8ppt y/y to 12.7% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E edged down less than 0.1pt w/w from a 17-month high of 19.8. That's up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose was steady w/w at a 15-month high of 2.46. That's up from a 31-month low of 1.98 in mid-October and down from a four-month high of 2.38 in mid-August; it also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, the July 27 week saw consensus forward revenues rise for four sectors and forward earnings rise for five sectors. The forward profit margin rose w/w for five sectors. Two sectors have forward revenues at a record high this week: Health Care and

Tech. Among the remaining nine sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs. No sectors have forward earnings at a record high this week, but six are down less than 5.0% from their post-pandemic highs. Among the remaining five sectors, just three have forward earnings down more than 10.0% from their post-pandemic highs: Energy, Financials, and Materials. Since mid-August 2022, all but the Industrials sector have seen forward profit margins retreat from their record highs, but six of the 11 sectors are showing signs of recovering from their lows in early 2023. Industrials' forward profit margin is at a record high again this week, but Consumer Staples and Health Care are at record lows. Those of Communication Services, Consumer Discretionary, Financials, Real Estate, and Tech remain close to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.2%, down from its 25.4% record high in June 2022), Financials (18.3, down from its 19.8 record high in August 2021), Real Estate (17.4, down from its 19.2 record high in 2016), Communication Services (15.9, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.4, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (10.8, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June 2022), Industrials (10.7, record high this week), Health Care (9.3, record low this week and down from its 11.5 record high in February 2022), Consumer Discretionary (7.7, down from its 8.3 record high in 2018), and Consumer Staples (6.7, record low this week and down from its 7.7 record high in June 2020).

S&P 500 Sectors & Industries Forward Profit Margin Since March 30 Bottom (*link*): The S&P 500's forward profit margin was steady w/w at 12.4% as of the July 23, 2023 week. It's now up 0.1ppt from a two-year low of 12.3% during the March 30 week. Six of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by five sectors. It's still down 7.5%, or 1.0ppt, from its record-high 13.4% during the June 9, 2022 week, as 10 of the 11 sectors' margins have declined since then, with the S&P 500's drop paced by four of the 11 sectors. Here's the sector performance since the S&P 500's forward profit margin bottom on March 30: Communication Services (up 9.9% to 15.9%), Consumer Discretionary (up 5.7% to 7.7%), Real Estate (up 4.8% to 17.4%), Industrials (up 4.0% to 10.7%), Information Technology (up 3.9% to 24.2%), S&P 500 (up 1.3% to 12.4%), Consumer Staples (up 0.5% to 6.7%), Materials (down 0.6% to 11.0%), Utilities (down 0.9% to 13.0%), Financials (down 0.9% to 18.3%), Health Care (down 3.1% to 9.3%), and Energy

(down 7.1% to 10.8%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 65.4% to 6.4%), Publishing (up 26.2% to 3.0%), Passenger Airlines (up 25.7% to 6.7%), Homebuilding (up 19.0% to 12.7%), Multi-Sector Holdings (up 14.6% to 10.6%), Interactive Media & Services (up 13.8% to 22.7%), Brewers (up 13.2% to 9.0%), Wireless Telecommunication Services (up 12.2% to 12.9%), Home Furnishings (up 11.4% to 6.0%), Oil & Gas Storage & Transportation (up 10.1% to 11.9%), and Hotels, Resorts, & Cruise Lines (up 10.0% to 12.6%).

S&P 500 Q2 Earnings Season Monitor (*link*): With the Q2-2023 earnings season now over two-thirds complete, the indications from the companies that have reported so far suggest a similar earnings surprise than in Q1-2023 but a weaker revenues surprise. During Q4-2022, the earnings surprise was the lowest since Q4-2008 and the revenue surprise the smallest since Q1-2020. Furthermore, the earnings surprise failed to outpace the revenue surprise in Q4-2022 for the first time since we began tracking that data in Q1-2009. With 334 of the S&P 500 companies finished reporting for Q2-2023, revenues are ahead of the consensus forecast by 1.6%, and earnings have exceeded estimates by 7.2%. At the same point during the Q1 season, revenues were 2.4% above forecast, and earnings had beaten estimates by 7.9%. For the 334 companies that have reported Q2 results so far through mid-day Wednesday, only 64% has reported a positive revenues surprise; if the companies yet to report don’t raise that number, Q2 would have the narrowest revenues beats reading since Q1-2020. But the percentage with positive earnings surprises is well above the pace of the prior six quarters dating back to Q4-2021. The reporting companies’ aggregate y/y revenues and earnings growth rates are mixed relative to their Q1-2023 readings: tumbling to -7.0% from -0.1% for earnings growth and dropping to 0.6% from 3.8% for revenues growth. Over the past 57 quarters through Q1-2023, y/y earnings growth has trailed y/y revenues growth in only 15 quarters including the past five, and it’s already doing so again in Q2-2023 as Energy sector results are being reported. Excluding the Energy sector’s results from the S&P 500 companies that have already reported underscores Energy companies’ outsized drag on the S&P 500’s y/y growth rates: earnings growth improves to -0.6% from -7.0%, and revenue growth rises to 4.4% from 0.6%. Significantly fewer companies have been reporting positive y/y earnings growth in Q2 (58%) than positive y/y revenues growth (68%). These figures will continue to change as more Q2-2023 results are reported in the coming weeks, but the overall tune has been set. We expect the overall y/y revenues growth rate to remain positive in Q2, but results from the companies in the Energy and Materials sectors are likely to cause the biggest y/y earnings decline for the S&P 500 since Q2-2020.

US Economic Indicators

ADP Employment (*link*): "The economy is doing better than expected and a healthy labor market continues to support household spending," noted Nela Richardson, chief economist, ADP. "We continue to see a slowdown in pay growth without broad-based job loss." *Private payrolls* in July once again blew past forecasts, rising 324,000 (vs 189,000 expected), following gains of 455,000 and 267,000 the prior two months. They averaged 174,000 per month the first three months of this year. Total payrolls continued to reach new record highs in July, as employment in service-providing and goods-producing industries rose 303,000 and 21,000, respectively, both to new record highs. Within *service-providing* industries, leisure & hospitality (+201,000) once again posted the largest gain, followed by information services (36,000), trade, transportation & utilities (30,000), and other services (24,000)—with all but information climbing to new record highs. Also in the plus column were: education/health services (12,000) and professional & business services (5,000), with the former at a new record high. The financial activities industry shed 5,000 jobs in July and 162,000 ytd. Withing *goods-producing* industries, job counts in natural resources & mining have been soaring this year: The category added 48,000 jobs in July and 363,000 ytd, after losing 107,000 jobs last year. Meanwhile, construction jobs advanced for the sixth successive month, though the pace slowed; the industry added only 9,000 jobs in July—after averaging monthly gains of 62,800 the prior five months. As for manufacturing payrolls, they contracted for the fifth month, by a total of 198,000, after a three-month gain of 55,000, though the level remains in record territory—within 237,000 of January 2019's record high. Turning to ADP's *median annual pay* measures, the yearly rate for *job-stayers* slowed to an 20-month low of 6.2% in June, down from last September's 7.8% peak, while the rate for *job-changers* eased to 10.2%, 6.2ppts below last June's 16.4% peak.

Auto Sales (*link*): Total motor vehicle sales remain on a volatile uptrend, moving higher in July for the second month, from 15.2mu to 16.0mu (saar), back near the recent high of 16.1mu during April and January of this year; it was above last July's sales of 13.5mu. *Domestic light-truck* sales continue to bounce around recent highs, climbing from 9.4mu in May to 9.9mu (saar) in July, back near its recent high of 10.0mu in January—which was the highest since April 2021. Domestic truck sales were at 8.4mu a year ago. *Domestic car sales* continue to fluctuate in a volatile flat trend between 2.0mu to 2.5mu the past 11 months, slipping from 2.4mu to 2.3mu (saar) in July. Sales of *imports* are in a volatile flat trend, accelerating from 3.6mu to 3.8mu (saar) in July; sales were at 3.9mu at the start of this year.

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