MORNING BRIEFING
August 7, 2023

Guess What?

Check out the accompanying chart collection.

Executive Summary: This is ironic: Just when the most widely anticipated recession of all times is no longer widely anticipated, July's employment report suggests that the Index of Coincident Economic Indicators is weakening. … With the consensus now elbow-to-elbow with us in the no-recession camp, our contrarian instincts are on full alert. The alternative scenarios of two prominent financial market prognosticators may give investors pause and keep the stock market treading water through September. … Also: Friday's employment report does support a scenario of gradually moderating inflation, notwithstanding some observers' views to the contrary. … And: Dr. Ed reviews "The Beanie Bubble" (+ + +).

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US Economy I: What a Coincidence! Now that everyone agrees that a recession isn't imminent, July's Index of Coincident Economic Indicators (CEI) could be flat or even down slightly. That's after showing no change in June (*Fig. 1*).

The CEI's component indicators—payroll employment, real personal income less transfer payments, real manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the US. The CEI on a y/y basis tracks the y/y growth rate of real GDP very closely (*Fig. 2*). For the past two months, industrial production has contributed negatively to the coincident index, offsetting gains from the employment, sales, and income components (*Fig. 3*). Consider the following:

(1) *Employment.* Friday's employment report showed that payroll employment edged up just 0.1% m/m to a new record high during July. However, it also showed that the other three components of the CEI likely fell slightly last month. By the way, Debbie and I have looked at the various components of payroll employment by industry and found that truck transportation and temporary help services are good leading economic indicators (*Fig. 4*). Truck transportation employment looks toppy, while temporary help services is weakening.

(2) *Real personal income.* Our Earned Income Proxy (EIP) for private-sector wages and

salaries in personal income rose 0.2% m/m during July. While private payroll employment rose 0.1%, the average workweek fell 0.3%. So aggregate weekly hours worked declined 0.2% m/m, though it is still up 1.3% y/y (*Fig. 5* and *Fig. 6*). Our EIP, which multiplies aggregate weekly hours by average hourly earnings, edged up just 0.2% during July (*Fig. 7*). This suggests that personal income could have declined modestly on an inflation-adjusted basis during July.

(3) *Real business sales.* Retail sales currently accounts for 33% of nominal manufacturing and distributors sales. On an inflation-adjusted basis, it too might have been weaker last month based on our real EIP (*Fig. 8*). We know that payroll employment in retail trade was basically flat last month. However, unit auto sales rose 0.6% during July (*Fig. 9*). Furthermore, payroll employment in wholesale trade rose to a new record high in July. On the other hand, given the weakness in industrial production during May and June, manufacturing shipments were probably down last month.

(4) *Industrial production.* The employment report obviously provides lots of clues about the CEI components. It does so for the industrial production component too, via the employment report's series for aggregate weekly hours in manufacturing (*Fig. 10*). The latter was flat on both m/m and y/y bases during July.

US Economy II: Surprises, Bonds & Ackman. Now that almost everyone in the investment community is optimistic, at least about the near-term economic outlook, the economic surprises could be on the downside for a while. Don't get us wrong: We are still assigning 85% subjective odds to a no-recession scenario through the end of next year and 15% odds of a downturn. We are still targeting the S&P 500 at 4600 by the end of this year (so there isn't much upside now, in our opinion) and 5400 by the end of next year (so it's still a bull market).

However, our contrarian instincts are on high alert because the most widely anticipated recession of all times is no longer widely anticipated. Consider the following:

(1) My friend David Rosenberg of Rosenberg Research, who continues to expect a recession soon and remains bearish on stocks, wrote last week that his COO told him: "[T]he 'hate mail' I have received on social media these past few weeks has been 'off the charts.' Use that information any way you want—but it is a contrarian indicator."

(2) Billionaire Bill Ackman, CEO of Pershing Square, recently posted a very bearish *tweet* on the X social media platform. He wrote that he has placed a bearish bet "in size" on the

30-year Treasury bond yield rising to 5.50%, using options to limit his downside risk. He stated: "There are few macro investments that still offer reasonably probable asymmetric payoffs, and this is one of them." He views it as a hedge. He focuses on the same bearish supply and demand factors as we have recently. Where we differ is in our outlook for inflation. He thinks it isn't likely to fall below 3.0% in the long run. So the 30-year yield should be "3% + 0.5% (the real rate) + 2% (term premium)."

We haven't changed our opinion that the 10-year Treasury bond yield peaked at 4.25% on October 24, 2022. That's because we think that inflation could fall back down to 2.0% by 2025. This is the Fed's objective, and we think the Fed's game plan of keeping the federal funds rate at the currently restrictive level for longer will do the job, as will other disinflationary forces.

(3) So we are rooting for a decline in the Citigroup Economic Surprise Index (CESI) since that would help to stabilize the bond market. The 10-year US Treasury bond yield (on a 13-week change basis) closely tracks the CESI (*Fig. 11*). Friday's payroll employment report was weaker than expected and might have set the stage for a batch of weaker economic indicators ahead, as discussed above.

(4) There may not be much upside for the S&P 500 and the Nasdaq through the end of this year since investors will be torn between fretting about the potential for much higher bond yields (Ackman's scenario) or a recession after all (Rosenberg's outlook).

US Inflation: Unit Labor Costs Still Moderating. Debbie and I believe that inflation will continue to moderate and might very well reach the Fed's goal of 2.0% by 2025. Fed officials consistently have said that's their game plan. None of them have said that they expect to get there this year or even next year. The FOMC's latest *Summary of Economic Projections* issued on June 14 showed that the committee's median forecast of the core PCED inflation rate was 3.9% this year, 2.6% next year, and 2.2% in 2025. This rate was 4.1% in June.

Yet when Friday's employment report showed that average hourly earnings (AHE) for all workers rose 4.4% in July, the same as in June, that pace was deemed by several commentators to be inconsistent with the Fed's 2.0% target for the PCED. That's true, but the target is for 2025, not for this year. Wages growing at 3.0% would be more consistent with 2.0% price inflation, assuming that productivity growth is around 1.0%. That's a realistic scenario by 2025, in our opinion.

Now let's have a closer look at the latest batch of labor compensation indicators to assess whether they are moving in the right direction, i.e., downwards:

(1) *Average hourly earnings (AHE)*. AHE for all workers rose 0.4% m/m in July for the third time in four months, following three consecutive months of 0.3% gains. Nevertheless, the trend is still down for this measure of wage inflation on a y/y basis. It peaked at 5.9% last March, falling to 4.4% in July (*Fig. 12*).

AHE for production and nonsupervisory workers covers about 80% of payroll employment. This set of workers includes all the lower-wage workers, who have been getting bigger pay increases than higher-wage workers. This measure of wage inflation peaked at 7.0% last March and was down to 4.8% during July. During July, all workers were paid $33.74 per hour on average, while higher-wage workers received $54.80 and lower-wage workers received $28.96. While AHE for all workers rose 4.4% y/y, the averages for the higher and lower paid workers rose 3.3% and 4.8% respectively (*Fig. 13*).

Here are July's y/y increases in AHE for all workers versus their recent highs: leisure & hospitality (5.6 from 14.0), education & health services (2.9 from 7.3), information (3.8 from 7.7), retail trade (4.0 from 6.7), professional & business (4.6 from 7.1), natural resources (4.8 from 7.1), and transportation & warehousing (4.9 from 7.0). Wage inflation rates for financial activities, utilities, and construction are moving sideways, the latter around recent highs, while rates for manufacturing and wholesale trade have moved higher recently, though the latter looks toppy (*Fig. 14*).

(2) *Employment cost index (ECI).* During Q2, wages and salaries in the ECI rose 4.6%, about the same as the 4.4% increase in the AHE for all workers and 4.8% for lower-wage workers (*Fig. 15*). The overall ECI including wages, salaries, and benefits rose 4.5% during Q2 (*Fig. 16*).

The recent increase in labor unrest among union workers reflects the fact that their overall ECI rose 3.6% y/y through Q2, below the 4.5% increase in the compensation paid to nonunion workers. The former's pay gains have been lagging the pay of nonunion workers since mid-2021 (*Fig. 17*).

(3) *Hourly compensation (HC).* HC is the most inclusive measure of hourly compensation and the most volatile (*Fig. 18* and *Fig. 19*). It is also the measure used by the Bureau of Labor Statistics to calculate unit labor costs (ULC). On Thursday, we learned that HC rose 3.7% y/y during Q2 while productivity increased 1.3%, so that ULC rose 2.4%, down from

last year's peak of 7.0% during Q2-2022.

The headline CPI and ULC inflation rate, both on a y/y basis, are highly correlated (*Fig. 20*). Both have plunged from high to low single digits over the past year.

(4) *Wage Growth Tracker (WGT)*. The Atlanta Fed's WGT (using the three-month smoothed series) tends to be less volatile than the AHE measure. That's because the latter doesn't adjust for swings in employment between lower-wage and higher-wage industries, which had a huge impact on AHE during the pandemic when the former lost lots more jobs than the latter. That gave a big boost to AHE in 2020 that was reversed in 2021 (*Fig. 21*).

The WGT rose 5.6% y/y during June, which is the highest reading of the four wage inflation measures. On a three-month smoothed basis, it shows that wage inflation since the start of the pandemic was boosted by job switchers who quit their jobs for better pay elsewhere (*Fig. 22*). The good news is that the WGT for job switchers fell from a peak of 8.5% last July to 6.1% this June.

That's because the quit rate for private industry peaked last year at 3.3% during April and fell to 2.7% during June. It tends to be a very good six-month leading indicator of wage inflation (*Fig. 23* and *Fig. 24*).

Movie. "The Beanie Bubble" (+ + +) (*link*) is a very colorful and entertaining flick about yet another bubble, the 1990s Beanie Babies craze. So it is another toy story movie similar in some ways to the recently released "Barbie." Both appeal to the audience's nostalgia for the toys they played with growing up. But it is also another cautionary tale about speculative excess and corporate hubris. The Ty company that sold the toys created "artificial scarcity" for them by regularly discontinuing certain babies and even producing a few with defects. The company was also among the first to have a website and to use social media to boost sales. Interestingly, eBay owes its early success to Beanie Babies auctions, as collectors flocked to acquire the limited editions, with some going for thousands of dollars. Sales were so big that eBay was required by the SEC to list the babies as a "risk factor" when they went public in 1998. The Beanie bubble burst in 1999.

Calendars

US: Mon: Consumer Credit $11.0b; Harker; Bowman. **Tues:** NFIB Small Business Optimism; Trade Balance -$65.7b; Wholesale Trade Sales & Inventories 0.3%/-0.3%; EIA

Short-Term Energy Outlook. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Confidence -23.4; Germany Industrial Production -0.4%; Spain Consumer Confidence 85.7; UK BRC Retail Sales Monitor; UK Halifax House Price Index; Japan Leading & Coincident Indicators; Japan Household Spending 0.3%m/m/-4.1%y/y; Japan Current Account ¥2.24t; Australia NAB Business Confidence; China Trade Balance 625.2m; Pill. **Tues:** Germany CPI 0.3%m//m/6.2%y/y; France Current Account –¥0.40b; China CPI 0.0%m/m/-0.5%y/y; China PPI -4.0%y/y. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 2.3% last week in only its third decline in 12 weeks, and ended the week at 7.8% below its record high on December 27, 2021. The US MSCI ranked 27th of the 48 global stock markets that we follow in a week when only eight of the 48 countries rose in US dollar terms. The AC World ex-US index underperformed with a 2.4% decline, and remains in a 14.9% correction from its June 15, 2021 record high. All regions fell w/w, but EM Eastern Europe was the best performing region with a 1.0% decline, ahead of BIC (-1.4%), EM Asia (-2.1), EMEA (-2.3), and EAFE (-2.4). EM Latin America was the worst performing region last week with a decline of 3.6%, followed by EMU (-2.8). Sir Lanka was the best-performing country last week, with a gain of 11.1%, followed by Pakistan (8.6), Turkey (3.1), Norway (1.4), and Israel (0.9). Among the 20 countries that underperformed the AC World ex-US MSCI last week, the 6.9% decline for South Africa was the biggest, followed by those of Mexico (-4.2), Hong Kong (-4.1), the Philippines (-3.9), and Korea (-3.9). In July, the US MSCI ranked 27/48 as it rose 3.3%, behind the 3.9% gain for the AC World ex-US index, as 45 of the 48 countries moved higher. Turkey was the best performer, with a gain of 19.2%, followed by Colombia (13.7), South Africa (12.6), Peru (11.6), and China (9.8). The worst-performing countries in July: Egypt (-1.7), Portugal (-0.1), Finland (-0.1), Taiwan (0.2), and Denmark (0.6). All of the regions rose in July, but BIC outperformed with a 7.2% gain, ahead of EM Eastern Europe (6.7), EM Asia (5.7), EM Latin America (5.0), and EMEA (4.8). EMU was July's worst-performing region, albeit with a gain of 2.9% and followed by EAFE (3.2). Looking at 2023's performance so far, the US MSCI is up 17.1% as its ytd ranking rose one place w/w to 14/48. The AC World ex-US's ytd gain of 8.9% is trailing the US's, with 34/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd, with a gain of 29.2%, followed by EM Latin America (15.8), EMU (15.7), and EAFE (10.3). The regional laggards so far in 2023, albeit with gains: BIC (3.1), EMEA (5.2), and EM Asia (6.0). This year's best ytd country performers: Greece (46.2), Sri Lanka (36.7), Argentina

(36.5), Ireland (34.5), and Poland (30.8). Here are the worst-performing countries of the year so far: Pakistan (-21.7), Finland (-12.2), Hong Kong (-10.1), Thailand (-7.3), and Malaysia (-6.8).

S&P 500/400/600 Performance (*link*): All three of these indexes fell for the first time in four weeks. LargeCap dropped 2.3% w/w, worse than the 0.9% and 1.3% declines for SmallCap and MidCap, respectively. At Friday's close, LargeCap finished the week at 6.6% below its record high on January 3, 2022, MidCap dropped to 7.9% below its record high on November 16, 2021, and SmallCap slipped to a 14.1% correction from its November 8, 2021 record high. Just five of the 33 LargeCap and SMidCap sectors moved higher for the week, down from 24 rising a week earlier. MidCap Energy was the best performer with a gain of 2.7%, ahead of SmallCap Energy (1.4), LargeCap Energy (1.1), SmallCap Consumer Discretionary (0.9), and SmallCap Consumer Staples (0.9). Among the biggest underperformers for the week were MidCap Communication Services (-6.0), LargeCap Utilities (-4.7), LargeCap Tech (-4.1), SmallCap Tech (-3.8), and MidCap Utilities (-3.2). During July, LargeCap rose 3.1% for its fifth straight monthly gain, compared to only the second straight gain for both MidCap (4.0) and SmallCap (5.4). Thirty-two of the 33 sectors rose in July compared to 31 rising in June. July's best performers: SmallCap Energy (16.7), SmallCap Financials (14.2), MidCap Energy (12.5), MidCap Financials (8.2), and LargeCap Energy (7.3). July's biggest laggards: SmallCap Health Care (0.0), MidCap Health Care (0.7), MidCap Communication Services (0.8), LargeCap Health Care (0.9), and SmallCap Utilities (0.9). Looking at performances so far in 2023, LargeCap, with a gain of 16.6%, remains well ahead of MidCap (10.3) and SmallCap (8.8); 23 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Communication Services (40.6), LargeCap Tech (39.6), LargeCap Consumer Discretionary (34.5), MidCap Industrials (23.6), and MidCap Tech (23.0). Here are 2023's biggest laggards: MidCap Utilities (-12.6), LargeCap Utilities (-9.4), MidCap Communication Services (-6.7), SmallCap Utilities (-5.7), and SmallCap Financials (-4.6).

S&P 500 Sectors and Industries Performance (*link*): Only one of the 11 S&P 500 sectors rose last week, but eight outperformed the composite index's 2.3% decline. That compares to a 1.0% gain for the S&P 500 a week earlier, when seven sectors rose and five outperformed the index. Energy was the best performer, with a gain of 1.1%, followed by Consumer Discretionary (-0.2%), Financials (-0.8), Industrials (-1.8), Consumer Staples (-1.9), Materials (-2.0), Health Care (-2.1), and Real Estate (-2.2). Utilities was the worst performer, with a drop of 4.7%, followed by Tech (-4.1) and Communication Services (-2.9). The S&P 500 rose 3.1% in July as all 11 sectors moved higher and four outperformed the broader index. That compares to all 11 sectors rising and five outperforming the S&P 500's

6.5% gain in June. The leading sectors in July: Energy (7.3), Communication Services (6.7), Financials (4.7), and Materials (3.4). July's laggards, albeit with gains: Health Care (0.9), Real Estate (1.2), Consumer Staples (2.0), Utilities (2.3), Consumer Discretionary (2.4), Tech (2.6), and Industrials (2.9). Looking at 2023's performance so far, the S&P 500 is up 16.6% ytd, with just three sectors still outperforming the index but eight are higher for the year. The best ytd performers: Communication Services (40.6), Tech (39.6), and Consumer Discretionary (34.5). These are 2023's worst performers: Utilities (-9.4), Health Care (-2.8), Energy (-1.3), Real Estate (0.1), Consumer Staples (0.5), Financials (1.8), Materials (7.4), and Industrials (10.1).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.3% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index was above its 50-dma for a 19th week and its 200-dma for a 20th week. The S&P 500 dropped to a 19-week low of 1.3% above its rising 50-dma from 4.5% a week earlier, and is down from a 20-week high of 5.4% above its rising 50-dma in mid-June. That compares to a 20-week low of 3.6% below at the beginning of March, a four-month low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma last August, and a 27-month low of 11.1% below its falling 50-dma in June 2022. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at a six-week low of 8.9% above its rising 200-dma, down from 11.9% a week earlier, which compares to a 24-month high of 12.4% above its rising 200-dma in mid-July. The S&P 500 is well above its 26-month low of 17.1% below its falling 200-dma in June 2022 and 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 50-dma moved higher for a 19th week in its longest positive streak since September 2021. The 200-dma rose for a tenth week in its longest positive streak since March 2022.

S&P 500 Sectors Technical Indicators (*link*): Eight of the 11 S&P 500 sectors are trading above their 50-dmas, down from all 11 S&P 500 sectors above in the prior three weeks. Real Estate, Tech, and Utilities all fell below in the latest week. Ten sectors have a rising 50-dma, down from 11 a week earlier, which was the highest count since September. Utilities turned down in the latest week. Looking at the more stable longer-term 200-dmas, the positive club dropped to eight members w/w from 10 members as Health Care and Real Estate fell below in the latest week. The rising 200-dma club fell to eight sectors w/w from 10 as the 200-dma turned down w/w for Health Care and Utilities.

US Economic Indicators

Employment (*link*): *Payroll employment* in July was weaker than expected, and there were downward revisions to the prior two months' data, for a net loss of 49,000. July payrolls rose 187,000 (vs 200,000 expected), the second straight month that gains came in under 200,000. July's increase was little changed from June's 185,000 gain—which was the weakest since December 2020. Nonfarm payrolls averaged monthly gains of 287,000 the first five months of the year. *Private* payrolls advanced 172,000 in July, stronger than June's 128,000, though fell short of the average monthly gain of 227,400 from January through May. Private *service-providing* industries increased 154,000 in July, stronger than June's 97,000, though below the average monthly gain of 209,600 the first five months of the year. *Goods-producing* jobs rose 18,000 in July, roughly half June's 31,000 increase, though matching the average monthly gain from June through May. The increase in goods-producing jobs once again was mostly in construction, which climbed 19,000 during the month, while manufacturing jobs lost 2,000—with durable goods manufacturing adding 8,000 jobs and nondurable goods manufacturing cutting 10,000 jobs; mining and logging employment ticked up 1,000. The gain *within service-providing jobs* was once again led by health care (63,000) and social assistance (24,000)—the former stronger than the average monthly gain of 51,000 the prior 12 months and the latter in line with the prior 12-month performance. Financial activities (19,000) moved to the number three spot, with hiring picking up in recent months after falling the first three months of the year. Meanwhile, wholesale trade (18,000) added jobs in July after falling two of the prior three months. Hirings in leisure & hospitality (17,000) showed subpar growth for the fourth straight month, after averaging average monthly gains of 67,000 the first three months of the year. Meanwhile, professional & business services (-8,000) fell for the first time since April 2022, as temporary help jobs (-22,000) continued to trend lower, falling 205,000 since its peak in March 2022. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.6 million), transportation & warehousing (+935,800), health care (+435,800), construction (+363,000), financial activities (+294,000), social assistance (+242,400), information services (+166,000), wholesale trade (+170,900), education (+153,700), durable goods manufacturing (129,000), nondurable goods manufacturing (+71,000), and retail trade (+22,600). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-43,000) and leisure &

hospitality (-352,000).

Wages (*link*): Average hourly earnings (AHE) for all workers rose 0.4% in July, matching its average monthly increase the prior three months and up from the 0.3% gains recorded during the first three months of the year. The yearly rate remained at 4.4%, down from its recent high of 5.9% during March 2022. July's AHE 4.4% yearly rate was 1.4ppts above both the CPI and PCED June rates of 3.0%. Private industry wages rose 4.8% (saar) over the three months through July, a few ticks above its yearly rate of 4.4%, with goods-producing (6.8% saar & 5.3% y/y) industries' three-month rate above its yearly rate, while the comparable rates for service-providing (4.3 & 4.1) industries were very close. *Service-providing industries showing three-month rates above their yearly rates*: financial activities (7.7 & 4.4), information services (5.1 & 3.8), and education & health services (3.2 & 2.9). *Service-providing industries showing three-month rates below their yearly rates:* retail trade (1.8 & 4.0), other services (1.8 & 2.9), wholesale trade (2.3 & 4.7), transportation & warehousing (3.6 & 4.9), utilities (4.9 & 5.3), leisure & hospitality (5.1 & 5.6), while the three-month and yearly rates are nearly identical for professional & business services (4.7 & 4.6). *Goods-producing industries*: The three-month rate is above the yearly rate for nondurable goods manufacturing (7.6 & 5.5), durable goods manufacturing (6.7 & 4.8) and construction (6.2 & 5.4), while below for natural resources (3.7 & 4.8).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 38th increase in the past 39 months, increasing 0.2% in July, after accelerating 0.8% in June—with the EIP climbing 38.9% over the 39-month period to yet another record high. In July, *average hourly earnings* advanced 0.4%, with *aggregate weekly* hours down 0.2%; private payroll employment was up 0.1%, while the average workweek fell 0.3%. Over the past 12 months, our EIP advanced 5.7%, slowing from 6.3% in June—with aggregate weekly hours up 1.3% and average hourly earnings up 4.4%; June's rate is below the 8.1% at the start of this year. It peaked last February at 11.8%, which was the fastest since spring 2021.

Unemployment (*link*): The unemployment rate ticked down for the second month to 3.5% in July from 3.7% in May, drifting back down toward April's 3.4%—which matched its lowest rate since May 1969. The number of unemployed fell 116,000 in July, as the household measure of employment rose 268,000; the civilian labor force increased 152,000. The participation rate in June was at 62.6% for the fifth successive month, up from 62.2% in November though below its pre-pandemic reading of 63.3%. *By race*: The unemployment rate for Asians (to 2.3% from 3.2%) dropped sharply in July, while the rate for African Americans (5.8 from 6.0) also moved lower. The Hispanic (to 4.4% from 4.0% in May) rate moved up for the second month, while the rate for Whites was unchanged at 3.1%—just a tick above its 3.0% record low. *By education*: The rate for those with less than a high-school diploma sank to 5.2% after rising the prior three months from 4.8% in March to 6.0% in June, while those with a high school degree fell from 3.9% to 3.4% in July. Meanwhile, the rates for those with a college degree or higher (2.0%) and some college (3.1) both were unchanged.

Manufacturing Orders & Shipments (*link*): Factory orders surged in June, boosted by a surge in transportation orders, primarily civilian aircraft. *Manufacturing orders* jumped 2.3% (in line with expectations), the fourth consecutive monthly gain, totaling 3.6% over the period. *Excluding transportation*, orders ticked up 0.2% in June, though that followed a four-month slump of 2.4%. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) climbed for the third month, by 0.1% in June and 1.3% over the period, to a new record high, more than recovering from the 0.8% decline recorded during the two months through March. *Nondefense capital goods shipments excluding aircraft* (used in calculating GDP) rose for the fourth time this year, up 0.1% in June and 1.4% ytd to yet another new record high. In June, shipments of machinery and transportation equipment both reached new record highs, while motor vehicles & parts were a tick below May's record reading. Shipments of electrical equipment, appliances & components, fabricated metals, and primary metals held around record highs.

Global Economic Indicators

Global Composite PMIs (*link*): The global economy continued to lose momentum at the start of the third quarter, as the downturn in the manufacturing sector was accompanied by a further slowing of the service economy. The C-PMI posted its second successive decline, slowing to 51.7 from May's 18-month high of 54.4. The *C-PMI* did remain above the 50.0 line dividing expansion from contraction for the sixth consecutive month. The *NM-PMI* slowed to a five-month low of 52.7 after climbing from 48.0 last November to an 18-month high of 55.5 this May, while the *M-PMI* fell to a seven-month low of 48.7—its 11th successive reading below 50.0 and down sharply from its peak of 56.0 in May 2021. Geographically, the Eurozone (48.6) was in contractionary territory for the second month in July, with C-PMIs for the Big Three—Germany (48.5), France (46.6), and Italy (48.9) all deteriorating—with both Germany and Italy at an eight-month low and France at a 32-month low. Meanwhile, C-PMIs slowed in the US (to 52.0 from 53.2), China (51.9 from 52.5), UK (50.8 from 52.8), Spain (51.7 from 52.7), and Russia (53.3 from 55.8). India's C-PMI (61.9 from 59.4) showed faster growth during July, while Japan's (52.2 from 52.1) held steady.

US Non-Manufacturing PMIs (*link*): The US service sector in July continued to expand, though at a slower pace than the start of the year. According to the report, “The majority of respondents are cautiously optimistic about business conditions and the overall economy.” The ISM NM-PMI remains in a volatile flat trend, slowing to 52.7 in July from 53.9 in June, though was above May’s 50.3; it was at 55.2 at the start of the year. It was above 49.9 for the seventh straight month—the level that ISM says over time indicates growth in the overall economy. Of the *four components* of the NM-PMI, the *business activity* (to 57.1 from 59.2) and orders (55.0 from 55.5) components continue to show robust growth, while the *employment* (50.7 from 53.1) component has been bouncing around 50.0 in recent months . The *supplier deliveries* (48.1 from 47.6) gauge is holding near March’s 45.8—which was the fastest delivery performance since April 2009. It peaked at 75.7 in the fall of 2021. On the *inflation* front, the price index remained at a low level, edging up to 56.8 in July after falling from a record high 84.5 at the end of 2021 to 54.1 this June—which was the lowest since March 2020.

Eurozone Retail Sales (*link*): Eurozone retail sales fell for the third time this year, contracting 0.3% in June, though was up 0.7% ytd. Since reaching a record high in June 2021, retail sales have dropped 3.9%. Spending on food, drinks & tobacco fell in June for the seventh time in nine months, sliding 0.3% m/m and 3.2% over the period; it increased only two months during all of 2022. Sales of non-food products excluding fuel remains in a volatile downtrend since peaking at a record high in mid-2021, dropping 3.4% over the period. Meanwhile, consumption of automotive fuels rose for the third time in four months, though fell 3.3% ytd. June data are available for the four Eurozone’s largest economies, with Spain retail sales climbing for 10 of the past 11 months, by 0.4% m/m and 8.3% over the period, to its highest level since December 2010. Meanwhile, sales in France increased 0.4% in June, only its second gain in the past nine months, sinking 3.5% over the period. German sales have moved up from recent lows, though are 8.9% below the record high recorded during June 2021. Sales in Italy have contracted 6.1% from its recent peak last May, posting only three gains over the period.

Germany Factory Orders (*link*): German factory orders were a surprise on the upside in June, soaring 7.0% (vs -2.0% expected), the biggest monthly gain in three years, and coming on the heels of a 6.2% increase in May. It was the sixth gain in seven months, up 8.5% over the period, but there was a 10.9% drop in March within that string of gains. Meanwhile, June’s surge was driven by large orders, as transportation orders ex motor vehicles soared 89.2%, reflecting one major aerospace transaction. Excluding large orders, billings actually fell 2.6%. Foreign orders jumped 13.5% during June, led by orders from within the Eurozone (+27.2%), while orders from outside the Eurozone (+5.0) were not as robust; domestic orders (-2.0) were in the red. Capital goods orders rose 9.9% in June, followed by a 7.7% jump in consumer goods orders—led by a 15.3% surge in durable goods orders; nondurable goods orders (+4.7%) increased at roughly one-third the durable goods pace. Intermediate goods orders were 2.0% higher. Versus a year ago, total orders rose 3.1%, the first yearly increase since February 2022, with foreign orders rising 8.6% and domestic orders falling 4.9% over the period. Within foreign orders, billings were up 17.4% within the Eurozone and only 2.9% outside the Eurozone. Here's a look at the movements in domestic orders, along with the breakdown from both inside and outside the Eurozone, for the main industry groupings versus a year ago: capital goods (+2.9%, +40.7%, +2.8%), intermediate goods (-10.7, -7.4, -0.7), consumer durable goods (-23.3, -10.4, +9.9), and consumer nondurable goods (-21.7, -25.9, +22.9).

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