MORNING BRIEFING
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China, Consumers & Alzheimer's Breakthroughs

Check out the accompanying chart collection.

Executive Summary: China's property development companies are going bankrupt left and right, with real estate prices tanking and monthly residential property sales their slowest in a decade. What China needs is a US-style restructuring of its real estate market. Jackie surveys the past week's wreckage. … Also: Consumers these days! They know what they want: Amazon products, Teslas, newly built homes, and travel. Related stocks did the heavy lifting to hoist the S&P 500 Consumer Discretionary stock price index 32% ytd. … And: Can Baby Boomers forget about getting Alzheimer's? Maybe someday if the many ongoing R&D efforts targeting its eradication succeed.

China: The Real Estate Morass Deepens. It's been almost two years since China Evergrande Group, once China's largest real estate developer, shocked the financial markets by defaulting on $340 billion in debt. Since then, the Chinese real estate market has been in a serious slump.

Developers in China sold 60.3 million square feet of residential property in July—the least in any given month since 2012, an August 15 *WSJ* *article* reported. Real estate prices are falling, most recently by 0.2% m/m in July. Investment in real estate fell 8.5% y/y during the first seven months of this year. And over the past few years, more than 70 real estate developers have gone bankrupt, according to KPMG's *count*. Two more names may join the illustrious list: Real estate developers Country Garden and Sino-Ocean Group Holding have missed payments on billions of dollars of debt.

Were that not enough, Zhongrong International Trust and its major investor Zhongzhi Enterprise Group stopped making payments on some trust investments they sold to investors. Add July's dour economic reports to the equation, and it's clear why the People's Bank of China (PBOC) cut interest rates on Tuesday. The central bank's move failed to staunch the slide in Chinese stocks or currency. The country needs a good US-style restructuring of its real estate market, where apartment prices are slashed, debt is restructured, and new equity investors are brought in as grave-dancers.

Until then, we're left watching the wreckage unfold. Let's take a look at some of this week's major events in the Chinese real estate market:

(1) *Debt payments missed.* Once China's largest real estate developer by sales, Country Garden sold more than a half a trillion renminbi (RMB) of real estate annually from 2018 to 2021. However, its sales have slid sharply in the past two years. In July, sales declined for the fourth month in a row to just 12.1 billion RMB, down from 30.1 billion RMB in July 2022 and 54.3 billion RMB in July 2021, an August 10 *FT* *article* reported. Chinese developers depend on cash deposits collected when an apartment is purchased to fund operations. As sales have slumped, so too have developers' cash flows.

Last week, Country Garden missed $22.5 million of payments on two international bonds. The company—which expects to report a net loss of 45 billion to 55 billion yuan in 1H-2023—owes almost $200 billion of debt and has 35 billion yuan of bonds maturing through January, reported an August 14 *South China Morning Post* (*SCMP*) *article*. If the company doesn't make the interest payment within 30 days of the skipped payment, it will be in default.

State-controlled Sino Ocean also recently ran into a wall. It suspended trading of its 6% guaranteed notes due in 2024 after missing a $20.9 million interest payment. China's 25th largest real estate developer has conducted a consent solicitation of bond investors, securing an extraordinary resolution to defer its interest payments. But ultimately, default seems probable because the company has $1.6 billion of bond debt due by year-end and only $811 million of cash or equivalents, according to its annual report. Almost 30% of Sino-Ocean's shares are owned by China's finance ministry.

(2) *Ripple effects hits financial companies.* There's growing concern that Chinese real estate debt defaults increasingly could impact the financial sector, including trust companies that loan to and invest in real estate developments in addition to stocks, bonds, and commodities. Zhongrong International Trust has delayed payment on some of its maturing wealth products, an August 13 *SCMP* *article* reported. It had bought stakes in at least 10 real estate projects last year, hoping that unfinished homes would sell and pay off some of the projects' $230 billion in property-backed debt.

The news comes amid rumors that Zhongzhi Enterprise Group, a major shareholder in Zhongrong, was experiencing its own liquidity crisis. Zhongzhi has about 1 trillion yuan ($138 billion) of assets under management. Zhongzhi owns many different businesses, including Datang Wealth, which also has missed payments on a wealth product, an August 14 *FT* *article* reported.

Zhongzhi's wealth arms have delayed payments to "more than 150,000 clients with

outstanding investments totaling 230 billion yuan," an August 14 Bloomberg *article* reported.

Concern about trust companies and other Chinese shadow banks' exposure to the real estate market is growing. The shadow banking industry totals about $3 trillion, and JPMorgan estimates that its rising trust defaults could drag down the country's y/y GDP growth by 0.3-0.4ppts, an August 14 Reuters *article* reported. "Chinese authorities [are studying] possible contagion with the banking regulator examining risks at Zhongzhi," according to the August 14 Bloomberg *article*.

(3) *Government responds a bit.* China's central bank responded to this and other disappointing economic data discussed in yesterday's *Morning Briefing* by cutting interest rates. The PBOC lowered the interest rate on one-year loans to banks to 2.50% from 2.65%, while adding $55.2 billion of new loans into the banking system. This isn't likely to be the last thing the government must do to steady its economic ship.

The MSCI China share price index fell by 0.9% (in local currency) on Tuesday despite the PBOC's moves. The country's stock price index is down 4.6% ytd through Tuesday's close, compared to a 15.9% increase in the US MSCI index (*Fig. 1*). China's yuan also has been under pressure, falling to 7.29 relative to the dollar on Tuesday. It's down 4.7% ytd (*Fig. 2*).

Consumer Discretionary: An Unusual Year. The S&P 500 Consumer Discretionary sector may be up 31.8% ytd through Tuesday's close, but that does not translate into a booming traditional retail environment for clothes and home goods. Instead, it's a reflection of the amazing performance this year of Amazon, Tesla, homebuilders, and the travel industry.

Excluding just Amazon and Tesla drops the Consumer Discretionary sector's ytd performance to 7.5%. Tesla's 89.1% gain through Tuesday's close helped the S&P 500 Automobile Manufacturing industry's stock price index jump 69.7% ytd (*Fig. 3*). Likewise, Amazon's 63.9% ytd gained helped the stock price index of its industry, Broadline Retail, soar 60.3% ytd (*Fig. 4*). The Consumer Discretionary sector was also boosted by the 45.7% surge in the Homebuilding industry's stock price index (*Fig. 5*). Meanwhile, the post-pandemic travel surge has benefitted the stock price indexes of the Hotels, Resorts & Cruise Lines industry, up 49.7% ytd, and the Casinos & Gaming industry, up 21.7% (*Fig. 6*).

Compare those numbers to the sluggish ytd performances of the S&P 500's more traditional retail categories' stock price indexes: General Apparel Retail (4.9%) and Other Specialty Stores (-3.5). The Consumer Staples Merchandise Retail industry—which is in the

Consumer Staples sector—includes Walmart, Target, and the dollar stores. Its stock price index has risen 8.9% ytd but still trails the S&P 500's 15.6% ytd return.

So which accurately reflects the health of the prototypical consumer—the one spending on services by jetting off to Europe or the one keeping his or her wallet shut and spurning the latest fashion trend? It's hard to tell by the Q2 earnings reports of Target and TJX released yesterday. Same-store sales fell 5.4% y/y for Target but rose 6.0% y/y for TJX.

Let's take a look at what the retailers reporting last quarter's earnings had to say:

(1) *Missing the target.* Target's results were dented after the retailer found itself at the center of the culture wars for offending some customers with the Pride merchandise it displayed. Target CEO Brian Cornell noted in Wednesday's earnings *conference call* that inflation continues to push consumers to purchase more staples and fewer discretionary items, and the preference to spend on services instead of consumables continues. And he added: "[T]he rollback of government efforts to support consumers during the pandemic, including stimulus payments, enhanced childcare tax credits, and the suspension of student loan payments, presents an ongoing headwind…"

That said, the company has reduced its inventory by 17% y/y, ending the need to run unexpected sales and allowing margins to rebound from last year. Nonetheless, management expects Target's same-store sales will decline for the remainder of the year, and it reduced its fiscal 2024 (ending January) earnings-per-share target to $7.00-$8.00 from $7.75-$8.75.

(2) *Maxxinistas still shopping.* TJX, which didn't face a culture backlash, reported stronger-than-expected Q2 same-store sales, driven by an increase in customer transactions across all of its divisions, which include Marshall's, TJ Maxx, and Home Goods. Consumers purchased less expensive items but made up for it by buying more items. Same-store sales are expected to slow during H2-2023 but remain positive, bringing management's fiscal 2024 (ending January) same-store sales guidance to an increase of 3%-4%. Management increased its fiscal 2024 earnings-per-share guidance to $3.66-$3.72, up from the $3.49-$3.58 offered a quarter ago.

Disruptive Technologies: Med Tech Takes on Alzheimer's. Advancements in medical technology are taking aim at Alzheimer's. About 6.5 million Americans have Alzheimer's, and scientists are harnessing stem cells, CRISPR, and immunotherapy to slow the disease's progression and eventually find a cure.

Fortunately, there is a full pipeline of potential Alzheimer's drugs in various stages of testing, according to a study *cited* by the Alzheimer's Association. There are 187 Phase 1, 2, or 3 clinical trials assessing 141 treatments as of January 1, and 55 of the trials are in Phase 3. Just in time for the Baby Boomers' old age!

Let's take a look at some of the theories scientists are testing out:

(1) *CRISPR to the rescue.* Microglia are brain cells that protect the central nervous system from disease. Some believe that damaged microglia create the excessive beta-amyloid plaques associated with Alzheimer's or inhibit the body's ability to clear the plaques away. Beta-amyloid is a protein that accumulates in the brains of Alzheimer's patients and creates a sticky plaque that interferes with neurons and prevents the transmission of information.

Until recently, scientists have been unable to remove damaged microglia cells to replace them with healthy cells. However, an FDA-approved cancer drug, pexidartinib, blocks a protein on microglia cells and kills them. The problem: The cancer drug will kill both the healthy, donated microglia cells as well as the damaged microglia cells.

Neuroscientists at the University of California, Irvine (UCI) and the University of Pennsylvania used CRISPR gene editing to solve the problem, a January 30 UCI *press release* announced. CRISPR created one amino acid mutation, known as "G795A," which they introduced into microglia produced either from human stem cells or from a mouse microglial cell line. CRISPR-edited microglia injected into mice were resistant to the cancer drug. Meanwhile, the damaged microglia cells were killed off by the cancer drug. Next, scientists will study how to use the CRISPER-edited microglia to attack the plaques associated with Alzheimer's.

(2) *The power of stem cells.* Scientists at the University of California San Diego are also focused on microglia cells. They've been evaluating whether stem cells that generate new, healthy microglia could slow the progression of Alzheimer's.

Scientists transplanted healthy "wild-type hematopoietic stem and progenitor cells into Alzheimer's mice and found that the transplanted cells did differentiate into microglia-like cells in the brain," an August 11 *article* in *SciTechDaily* reported. They found that memory loss and neurocognitive impairment were "completely prevented" in mice receiving the transplant. The mice that received stem cells showed a "significant reduction" in beta-amyloid plaques and reduced microgliosis and neuroinflammation.

Next, the scientists plan to study how the transplanted cells produced such impressive improvements and whether transplants will work to stop the progression of—or perhaps even cure—Alzheimer's in humans.

(3) *Immunotherapy gets the nod.* The Food and Drug Administration (FDA) gave accelerated approval in January to the first Alzheimer's drug, Leqembi, developed by Eisai. Used in early stages of the disease, Leqembi has been shown to reduce the disease's progression by 27% after 18 months; however, it is not a cure.

Leqembi is a monoclonal antibody, a protein made in the lab that acts like an antibody. It binds to the plaque and helps to remove it.

Eli Lilly's donanemab is another monoclonal antibody, which in trials slowed the progression of Alzheimer's by up to 35%. The earlier in the disease's progression that it's given, the greater the impact the drug has. The trial involved 1,743 early-stage patients who were given a monthly infusion of donanemab until all of their brains' plaques were gone. After 76 weeks of treatment, the drug slowed clinical decline by 35.1%, a July 17 *article* in *Independent* reported. Lilly expects an FDA decision by year-end.

Patients must visit a clinic to receive Leqembi or donanemab via an intravenous drip, increasing the cost and difficulty involved with administering the drugs. Eli Lilly's Remternetug is also an immunotherapy that targets beta-amyloids, but it's delivered via an injection. Scientists hope that this more easily delivered drug will be more effective and have fewer side effects. Early results from ongoing trials are encouraging. "[A]fter 6 months of treatment 75% of 41 people tested had amyloid cleared from their brains. This is in contrast with donanemab which took 18 months to have 72% of patients cleared of amyloid," reported a July 19 Alzheimer's Society blog *post*.

Calendars

US: Thurs: Leading Indicators -0.4%; Philadelphia Fed Manufacturing Index -10.0; Initial & Continuous Jobless Claims 240k/1.692m. **Fri:** Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone Trade Balance €18.3b; UK Gfk Consumer Confidence; Japan Tertiary Activity Index -0.2%; Balz. **Fri:** Eurozone CPI -0.1%m/m/5.3%y/y & -0.1%m/m/5.5%y/y; UK Headline & Core Retail Sales 0.5%m/m/-2.1%y/y & -0.7%m/m/-

2.2%y/y; Lane. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* moved further below 3.00 for the second week, to 2.36, from 3.07 two weeks ago, which was the highest since early August 2021. It had been bouncing around 3.00 the prior six weeks. *Bullish* sentiment retreated for the second week to 47.1% this week after climbing the prior three weeks by 5.7ppts (from 51.4% to 57.1%)—which was the most bulls since November 2021 when it reached a danger level of 57.2%. Meanwhile, *bearish* sentiment climbed for the second week to 20.0% after falling from 19.4% to 18.6% the prior week. It was at 18.0% four weeks ago. The *correction count* increased for the second week by 8.6ppts to 32.9%, after falling 6.2ppts the prior three weeks (from 30.5% to 24.3%)—which was the lowest since the start of this year. Turning to the *AAII Sentiment Survey* (as of August 10), optimism fell this week, though remained above average for the 10th successive week, while both bearish and neutral sentiment increased. The *percentage expecting stock prices to rise over the next six months* fell 4.3ppts to 44.7% during the latest week, after climbing 4.1ppts (to 49.0 from 44.9) the prior week. Optimism is above its historical average of 37.5% for the 10th consecutive week—the longest above-average string since a 13-week stretch from February to May 2021. Bullish sentiment returned to its typical range this week after being unusually high last week. The *percentage expecting stocks to fall over the next six months* rose 4.2ppts to 25.5%, after falling 2.8ppts last week (to 21.3% from 24.1%). That puts it below its historical average of 31.0% for the 10th straight week—the longest below-average streak since a 23-week one from February to July 2021. The report notes that “after nearing an unusually low level last week, bearish sentiment is back within its typical range.” The *percentage expecting stock prices will stay essentially unchanged over the next six months* ticked up 0.1ppt to 29.8% after dropping by 1.3ppts the prior week to 29.7%. It was below its historical average of 31.5% for the eighth time in 10 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500’s forward profit margin remained steady w/w at a seven-month high of 12.5% during the August 10 week. That’s up from a 24-month low of 12.3% during the March 30 week, but is down 0.9pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It’s now 2.2pts above its seven-year low of 10.3% during April 2020. Forward revenues rose 0.3% w/w to a new record high. Forward earnings rose 0.2% higher w/w to its highest level since September 2022, and is only 1.5% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to June 2022;

prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at a nine-month high of 3.9% and is now up 1.6pts 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 edged down 0.1pt w/w to 8.7% from a 13-month high of 8.8% and is now 5.2pts 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 2.5% in 2023 (up 0.6ppt w/w) and 4.3% in 2024 (down 0.4ppt w/w) compared to a revenues gain of 12.3% in 2022. They expect an earnings gain of 0.4% in 2023 (up 0.3ppt w/w) and an 11.6% rise in 2024 (down 0.2ppt 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 fell 0.2pt w/w to 19.1 and is down from a 17-month high of 19.8 during the July 20 week. That's still 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 was down 0.04pt w/w to 2.38 and is down from a 15-month high of 2.46 during the July 27 week. 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 August 10 week saw consensus forward revenues and the forward profit margin rise for four sectors as forward earnings rose for six sectors. Two sectors have forward revenues at post-pandemic or record highs this week: Health Care and Utilities. Among the remaining nine sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs. These three sectors have forward earnings at post-pandemic or record highs this week: Consumer Discretionary, Industrials, and Utilities. Among the remaining eight sectors, three are down less than 5.0% from their post-pandemic highs, and these two have forward earnings down more than 20.0% from their post-pandemic highs: Energy 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 Health Care is at a record low. 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 four sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.4%, down from its 25.4% record high in June 2022), Financials (18.0, down from its 19.8 record high in August 2021), Real Estate (17.3, down from its 19.2 record high in 2016), Communication Services (16.3, down from its 17.0 record high in October 2021), Utilities (13.1, down from its 14.8 record high in April 2021), S&P 500 (12.5, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.0, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June 2022), Industrials (10.8, 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 (8.0, down from its 8.3 record high in 2018), and Consumer Staples (6.8, record low this week and down from its 7.7 record high in June 2020).

S&P 500 Growth vs Value (*link*): Back on February 2, the S&P 500 Value price index hit a record high for the first time in just over a year. It continued to make new highs through the end of July at the same that the Growth index was recovering from a deep bear market to a correction. As of Tuesday's close, the S&P 500 Value index is 3.3% below its July 31 record high, but it has soared 24.2% from its September 30 low. The S&P 500 Growth price index is also down 3.3% since July 31 and remains in a deep correction at 17.3% below its December 27, 2021 record high, but it has risen a slightly lower 23.0% from its October 12 low than Value. Growth's underperformance relative to Value began on November 30, 2021 when their relative price index peaked at a record high. Since then, Value's price index has risen 9.8%, while Growth's is down 14.2%. Looking at their ytd performance through Friday's close, Growth is up 19.9%, well ahead of the 10.9% gain for the S&P 500 Value index. According to the consensus, Growth is expected to record slightly higher revenue growth (STRG) than Value over the next 12 months, but its earnings growth (STEG) is expected to lag Value's considerably. Growth has 4.3% forecasted for STRG and 6.7% for STEG, while Value has forecasted STRG and STEG of 3.6% and 10.7%, respectively. Growth's forward P/E peaked at a 20-year high of 30.4 on January 26, 2021 before tumbling 42% to a 33-month low of 17.6 on January 5. It was back up to an 11-month high of 22.4 on July 31 before dropping a full point to 21.4 by Tuesday's close. Value's forward P/E has been more stable, falling 26% from 17.6 in January 2021 to a 30-month low of 13.0 on September 30, and then rising to a 25-month high of 17.5 on July 19. Value has since fallen 0.8pt since then to 16.7 as of Tuesday's close. Regarding their NERI readings, Growth's and Value's have been positive since May following 10 months of negative readings and improved in July for a fourth straight month. Growth's NERI rose to a 14-month high of 3.4%

in July from 3.2% in June, while Value's improved to a 16-month high of 2.0% from 1.0%. Growth's forward profit margin forecast of 15.8% remains 3.3ppts below its record high of 19.1% in February 2022, but that's up from a 32-month low of 15.6% during the April 20 week and compares to its prior pre-Covid record high of 16.7% during September 2018. Value's has held up better, dropping to 0.9ppt to 10.5% from its record high of 11.4% in December 2021 and compares to a 24-month low of 10.2% during the March 30 week.

US Economic Indicators

Industrial Production (*link*): Industrial production rose for the first time in three months, driven by a jump in motor vehicle production and a surge in utilities output. *Headline production* rebounded 1.0% in July, after falling 0.8% and 0.4% the prior two months. *Utilities* output soared 5.4% in July as very high temperatures kept air conditioners humming. Meanwhile, *manufacturing* production got a boost from a 5.2% jump in motor vehicle production, climbing 0.5% in July after contracting 0.5% and 0.3% the prior two months. Excluding motor vehicles, manufacturing production ticked up 0.1% July after declines 0.2% and 0.3% the prior two months. Meanwhile, *mining* production is stalled around recent highs, up 31.6% from its May 2020 bottom. By *market group*, *consumer goods* production rebounded 1.4% in July, following a two-month drop of 2.2%. *Durable consumer goods* production rebounded 2.7% in July, from June's 3.2% drop, climbing 3.8% ytd to within 1.3% of January 2021's record high. *Nondurable consumer goods* production jumped 1.0% after a two-month drop of 2.0%; it's down 0.5% ytd. *Business equipment* production is also stalled around recent highs, rising 1.3% in July after a 0.9% drop during the two months through June. It's within 2.0% of its recent high. Transit equipment output has climbed three of the past four months, by 3.8% in July and 7.8% over the period, to its highest level since December 2019. Production of industrial & other equipment ticked up 0.2% in July after falling during four of the prior five months, by 2.8%—more than offsetting the 2.0% jump at the start of the year. Meanwhile, production of information processing equipment is down 1.7% from its recent peak last October, though has moved higher the past two months.

Capacity Utilization (*link*): The *headline* capacity utilization rate moved up to 79.3% in July, after edging down the prior two months, from 79.8% to 78.6%; it peaked recently at 80.8% last September. June's rate is 0.4ppt below its long-run (1972-2022) average. The *manufacturing* utilization rate climbed to 77.8% last month, after falling three of the prior four months, from 78.5% in February to 77.5% in June, putting it 0.4ppt below its long-run average. Meanwhile, the *mining* utilization rate remains in a volatile flat trend around recent

highs, at 92.4% in July, not far from its all-time record high of 94.0% in 1980, while the *utilities* rate remains on a volatile downtrend, though did get a boost from July's heatwave, rebounding to 72.3% from June's record low of 68.8%. July's rate for mining is 6.0ppts above its long-run average, while the utilities rate is substantially below its long-run average.

Housing Starts & Building Permits (*link*): Housing starts rebounded in July, led by a surge in single-family starts driven by a limited supply in the resale market. *Housing starts* in July climbed 3.9% in July to 1.452mu (saar), after an 11.7% loss and 17.4% gain the prior two months; starts are up 7.0% ytd. *Single-family units* surged 6.7% in July to 983,000 units (saar) after slumping 9.0% in June; however, they have increased during five of the past six months, by 19.4%. Single-family starts were in a freefall from November 2021 through November 2022, plunging 34.7% over the period; they've rebounded 22.3% from last November's bottom through July. Meanwhile, volatile *multi-family starts* fell during four of the past five months, by 22.0% to 469,000 units (saar), after a two-month jump of 27.9% at the start of the year. These starts are basically flat ytd. *Building permits* were little changed in July, at 1.442mu (saar), after falling three of the prior four months by 2.8%, though are up 2.3% ytd. *Single-family permits* haven't posted a decline so far this year, climbing 0.7% in July and 24.3% ytd to 930,000 units (saar). Meanwhile, *multi-family permits* are in a volatile downtrend, falling 22.5% ytd to 512,000 units (saar) and plunging 36.0% from its December 2021 peak. *Homebuilders' confidence* took a slight step back in August, posting its first decline this year, slumping 6 points to 50, though is up 19 points ytd.

Global Economic Indicators

Eurozone Industrial Production (*link*): Eurozone industrial production increased for the second time in three months, after dropping sharply in March (-4.4%), which was the only decline through the first half of this year. *Headline* production, which excludes construction, rose an unexpected 0.5% in June, following no change in March and a 1.2% gain in April; output, however, was down 0.6% ytd. *Manufacturing* production rose 3.5% over the three months through June after a 5.4% shortfall in March. Among the main industrial groups, only *energy output* was in the black, rising 0.5%, after a three-month drop of 3.3%. Meanwhile, capital goods production slipped 0.7% in June after gains of 1.1% and 15.7% in May and April, respectively—though April's 15.7% gain was a rebound from March's 15.7% drop. *Intermediate goods* output fell in three of the last four months, sliding 0.9% in June and 2.4% over the period. *Consumer durable goods* production contracted for the third successive month in June, down 0.1% m/m and 3.9% over the period; output is down 1.3%

ytd. *Consumer nondurable goods* output fell for the third time in four months, by 5.2% over the time span. *Compared to a year ago*, headline production was down 1.2%. Capital goods (4.4% y/y) was the only industrial group showing an increase in output versus a year ago, with consumer nondurable goods (0.2) production flat. Energy (-7.8) posted the largest decline of the group, followed by intermediate goods (-6.3), and consumer durable goods (-5.2). Production data are available for the *top four Eurozone economies* for June and show that only Italy (+0.5%) recorded a gain during the month, while Germany (-1.3) posted the biggest decline, followed closely by France and Spain, which both fell 0.9% during the month. Over the 12 months through June, only France (+0.2% y/y) showed a gain, though barely, while Spain (-2.8) recorded the biggest yearly decline, followed by Germany (-1.4) and Italy (-0.8).

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