MORNING BRIEFING
August 28, 2023

The Chairman's Speech

Check out the accompanying chart collection.

Executive Summary: Today, we examine Fed Chair Jerome Powell's Jackson Hole speech on Friday. The tone was more hawkish than we expected, with Powell saying that the Fed wouldn't hesitate to raise interest rates further if needed to bring inflation back down to the Fed's 2.0% target but failing to say what it would take for the Fed to lower interest rates given that inflation has been moderating. … We also examine 12 sets of economic data that Powell monitors, sharing what he said their recent readings indicate and our observations on each. … And Dr. Ed reviews "Painkiller" (+).

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Fed I: 'Navigating by the Stars Under Cloudy Skies.' Everyone who has heard or read Fed Chair Jerome Powell's *speech* at Jackson Hole on Friday probably agrees: It was hawkish on the whole. He did acknowledge that inflation has moderated since last summer and that it continued to do so over the past two months. However, he did not directly confirm or even suggest what Melissa and I were hoping to hear: that if inflation continues to moderate, the Fed will probably lower the federal funds rate sometime next year. That would have been totally consistent with the FOMC's June *Summary of Economic Projections* (SEP). That's also still our outlook.

Instead, Powell concluded by saying: "At upcoming meetings, we will assess our progress based on the totality of the data and the evolving outlook and risks. Based on this assessment, we will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data." There was no mention of what it would take for the Fed to lower interest rates. Again, the latest SEP shows that the FOMC is expecting to lower the federal funds rate in 2024 and 2025 as inflation falls toward the committee's 2.0% target.

Powell's speech was all about inflation. Indeed, it was titled "Inflation: Progress and the Path Ahead." He started the speech by stating: "It is the Fed's job to bring inflation down to our 2 percent goal, and we will do so." He clearly sought to dispel any notion that the Fed

might raise its inflation target. Near the end of his speech, he said: “Two percent is and will remain our inflation target.”

Powell acknowledged that the federal funds rate is currently restrictive. However, Fed officials aren’t sure if it is restrictive enough to bring inflation down over time to 2.0%. He strongly reiterated that if inflation stalls or heads back up again, the Fed won’t hesitate to raise interest rates further.

Powell said that the Fed is monitoring real interest rates and that they are “now positive and well above mainstream estimates of the neutral policy rate,” which is widely referred to as r-star (or r*). However, he strongly suggested that r-star is a useless concept for policymakers. We agree. That’s because it can’t be measured: “But we cannot identify with certainty the neutral rate of interest, and thus there is always uncertainty about the precise level of monetary policy restraint.”

For an instant, Powell waxed poetic: “[W]e are navigating by the stars under cloudy skies.” These would make good lyrics for the Fed’s official anthem.

Complicating the Fed’s assessment of the restrictiveness of its monetary policy are the long and variable lags of monetary policy: “Since the symposium a year ago, the Committee has raised the policy rate by 300 basis points, including 100 basis points over the past seven months. And we have substantially reduced the size of our securities holdings. The wide range of estimates of these lags suggests that there may be significant further drag in the pipeline.”

Powell didn’t mention any of the specific factors—one of which was monetary policy—that caused inflation to soar in 2021 and 2022. He blamed “unprecedented pandemic-related demand and supply distortions.” He explained that the tightening of monetary policy aimed to “slow the growth of aggregate demand, allowing supply time to catch up.” He predicted that “the process still has a long way to go, even with the more favorable recent [inflation] readings.”

The speech ended with a pledge: “We will keep at it until the job is done.”

Fed II: Powell’s Inflation Dashboard. Of course, Fed policy remains data dependent. In fact, Powell mentioned “data” nine times in his speech (including the footnotes). Let’s review the various data series he flagged:

(1) *Inflation (core PCED).* Powell focused on the core PCED measure of inflation, which excludes food and energy, because these volatile components “can provide a misleading signal of where inflation is headed.”

Core PCED inflation peaked at 5.4% y/y in February 2022. It declined gradually to 4.1% in June, and only 3.3% at an annual rate over the past three months through June (*Fig. 1* and *Fig. 2*). The Fed staff estimates that it edged back up to 4.3% in July based on the month’s CPI.

Nevertheless, Powell said that “lower monthly readings for core inflation in June and July were welcome, but two months of good data are only the beginning of what it will take to build confidence that inflation is moving down sustainably toward our goal.” In any event, he noted, the latest core 12-month inflation rate is still too high relative to the Fed’s target of 2.0%.

(2) *Inflation (core PCED goods).* As in Powell’s November 30, 2022 *speech* “Inflation and the Labor Market,” he separately examined the three broad components of core PCED inflation—inflation for goods, for housing services, and for non-housing services (*Fig. 3*).

Powell started with a brief analysis of core goods inflation (*Fig. 4*). Here are last year’s peaks and June’s readings for the inflation rates of core PCED goods (7.6%, 1.7%), core PCED nondurable goods (6.3%, 4.2%), and durable goods (10.6%, -0.4%).

Powell’s assessment of the progress made in lowering core goods inflation was cautious: “Core goods prices fell the past two months, but on a 12-month basis, core goods inflation remains well above its pre-pandemic level. Sustained progress is needed, and restrictive monetary policy is called for to achieve that progress.”

(3) *Inflation (core PCED housing and non-housing services).* Powell then explained why he is relatively optimistic about the rent component of the PCED, which accounts for 15.0% of the headline PCED, 16.9% of the core PCED, and 22.5% of PCED services.

He noted that current inflation rates of market rents on new leases, as measured by Zillow and CoreLogic, have dropped sharply since last summer from peaks of 13%-16% y/y to around 2%-4% currently (*Fig. 5*). These declines are only now starting to lower the PCED measure of rent inflation: “Because leases turn over slowly, it takes time for a decline in market rent growth to work its way into the overall inflation measure.”

Powell's big hangup is with the non-housing services components of the PCED measure of inflation, which "accounts for over half of the core PCE index and includes a broad range of services, such as health care, food services, transportation, and accommodations." It has moved sideways around 4.5% from July 2021 through this June (*Fig. 6*).

A look at the seven major components of PCED services shows that transportation inflation has dropped sharply from 16.7% during October 2022 to 3.6% in June (*Fig. 7*). The stickiest component other than housing & utilities (7.0%) has been food services & accommodation, currently at 6.5%. Recreation services, currently 4.7%, has been stuck around 5.0% since early last year. Not participating at all in the inflation spike has been health care (2.2%).

(4) *Economic growth (GDP).* Melissa and I take issue with the following statement Powell made in his speech: "Getting inflation sustainably back down to 2 percent is expected to require a period of below-trend economic growth as well as some softening in labor market conditions."

In our opinion, the labor market is tight because of a chronic shortage of labor attributable to demographic factors. That won't change with an economic slowdown. But what's happening in response, we believe, is that company managements increasingly are using technology-based innovations to boost productivity. That should boost economic growth and dampen inflationary pressures. It should also lift real wages and increase corporate profitability. The relationship between real GDP growth and inflation as measured by the GDP price deflator is a weak one at best and unpredictable (*Fig. 8*).

(5) *Economic growth (consumer spending).* Nevertheless, Powell and his colleagues still believe in the questionable Phillips Curve paradigm that posits an inverse relationship between the inflation rate and the unemployment rate and a direct one between inflation and economic growth. They believe that tight monetary policy should slow the growth of demand, especially consumer demand, which should boost the unemployment rate, cooling price and wage inflation.

And demand is still too strong, Powell said: "But we are attentive to signs that the economy may not be cooling as expected. So far this year, GDP … growth has come in above expectations and above its longer-run trend, and recent readings on consumer spending have been especially robust."

In our opinion, however, the Phillips Curve is flawed: The relationship between the growth rate of real consumer spending and inflation as measured by the PCED is also a weak one

at best and unpredictable (*Fig. 9*).

(6) *Economic growth (housing).* Powell noted that even housing is showing signs of "picking back up." His hawkish conclusion was: "Additional evidence of persistently above-trend growth could put further progress on inflation at risk and could warrant further tightening of monetary policy."

However, the recent renewed jumps in mortgage interest rates and mortgage applications to purchase homes strongly suggest that housing's recent recovery is already crumbling (*Fig. 10*).

(7) *Labor supply (participation rate).* Powell closely monitors the relationship between labor supply and labor demand. He noted that the supply side has improved, "driven by stronger participation among workers aged 25 to 54 and by an increase in immigration back toward pre-pandemic levels. Indeed, the labor force participation rate of women in their prime working years reached an all-time high in June."

The labor force participation rate of the civilian noninstitutional working-age population bottomed at 60.1% during April 2020 and rose to 62.6% in July (*Fig. 11*). The labor force participation rate of 25- to 54-year-olds rose to 83.4% during July, exceeding its pre-pandemic high of 83.1% during January 2020 (*Fig. 12*).

(8) *Labor demand (job openings & payroll growth).* Powell also closely watches the JOLTS measure of job openings. The three measures of job openings that we track (including the JOLTS series) all have been declining this year but remain historically high (*Fig. 13*). Powell observed: "Demand for labor has moderated as well. Job openings remain high but are trending lower."

(9) *Labor demand (aggregate hours worked & average workweek).* Powell also mentioned that payroll employment growth has slowed significantly, aggregate hours worked has been flat over the past six months, and the average workweek has declined to the lower end of its pre-pandemic range, "reflecting a gradual normalization in labor market conditions" (*Fig. 14*, *Fig. 15*, and *Fig. 16*).

Nevertheless, Powell warned: "We expect this labor market rebalancing to continue. Evidence that the tightness in the labor market is no longer easing could also call for a monetary policy response."

(10) *Labor market (unemployment & wages).* Powell acknowledged that “rebalancing” of supply and demand in the labor market “has eased wage pressures.” Measures of wage inflation—including average hourly earnings, wages in the employment cost index, and the wage growth tracker—have all moderated since last summer (*Fig. 17*). However, they all must “slow to a rate that is consistent with 2 percent inflation.” So they need to decline from 4%-6% currently to closer to 3%, according to Powell’s previous discussions of this issue.

(11) *Real interest rates.* As noted above, Powell is watching real interest rates, which have turned positive this year (*Fig. 18*). He’s just not sure whether they are restrictive enough currently. The 10-year TIPS yield rose to 1.92% on Friday, not far from last Monday’s 2.00%, which was the highest reading since July 6, 2009.

(12) *Financial conditions.* Powell is monitoring various measures of financial conditions and believes that restrictive monetary policy has tightened them: “Beyond changes in interest rates, bank lending standards have tightened, and loan growth has slowed sharply. Such a tightening of broad financial conditions typically contributes to a slowing in the growth of economic activity, and there is evidence of that in this cycle as well. For example, growth in industrial production has slowed, and the amount spent on residential investment has declined in each of the past five quarters.”

Commercial bank loans are up 4.8% y/y, the slowest pace since February 23, 2022 (*Fig. 19*). Industrial production was down 0.2% y/y through July (*Fig. 20*).

Movie. “Painkiller” (+) (*link*) is another miniseries about how the Sackler family made a fortune selling OxyContin produced by their company, Purdue Pharmaceuticals. They were essentially drug dealers assisted by the do-nothing US Food and Drug Administration. This series was produced by Netflix and isn’t as good as Hulu’s “Dopesick,” which was released in 2021. The latest series is like a fast-paced caricature of the earlier one and stars Matthew Broderick in the lead role of Dr. Richard Sackler. His performance pales in comparison to Michael Stuhlbarg’s portrayal of Sackler in the original. In any case, both series clearly depict the deadly OxyContin crisis that killed so many people and shattered so many families. Even more deadly today is the fentanyl crisis. The government may be assisting this one too, by failing to keep this narcotic from pouring across the Rio Grande.

Calendars

US: **Mon:** Dallas Fed Manufacturing Index -21.6. **Tues:** Consumer Confidence 113.4;

JOLTS Job Openings 9.793m; S&P/CS HPI 20-City Composite 1.2%m/m/-1.4%y/y; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: **Mon:** Spain Consumer Confidence 85.7; Japan Leading Index 108.9; Japan Unemployment Rate 2.55; Nagel; Balz. **Tues:** Gfk German Consumer Climate -24.2; France Consumer Confidence 84.0; Spain Retail Sales 0.6%y/y; European Union Economic Forecasts; Bullock. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose for the first time in four weeks. Its 0.8% gain caused the index to move back out of a correction to 9.4% below its record high on December 27, 2021. The US MSCI ranked 16th of the 48 global stock markets that we follow in a week when 26 of the 48 countries rose in US dollar terms. The AC World ex-US index was flat for the week, and remained deep in correction territory at 18.6% below its June 15, 2021 record high. Less than half of the regions rose w/w, but that follows a three-week period when every region fell. EM Latin America was the best performing region with a 1.2% gain, ahead of EM Asia (0.6%) and BIC (0.3). EM Eastern Europe was the worst performing region last week with a decline of 0.9%, followed by EMU (-0.3), EAFE (-0.2), and EMEA (0.0). Turkey was the best-performing country last week, with a gain of 5.1%, followed by Thailand (3.2), South Africa (3.1), Argentina (2.9), and Portugal (2.1). Among the 20 countries that underperformed the AC World ex-US MSCI last week, the 4.6% decline for Sri Lanka was the biggest, followed by those of Colombia (-3.4), the Philippines (-2.9), New Zealand (-2.1), and Morocco (-1.8). Looking at 2023's performance so far, the US MSCI is up 15.0%, as its ytd ranking remained steady w/w at 13/48. The AC World ex-US's ytd gain of 4.2% is trailing the US's, with 31/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 20.4%, followed by EM Latin America (11.9), EMU (10.7), and EAFE (5.6). The regional laggards so far in 2023: BIC (-3.3), EM Asia (0.6), and EMEA (3.2). This year's best ytd country performers: Argentina (41.7), Greece (41.0), Hungary (34.3), Sri Lanka (29.2), and Ireland (25.9). Here are the worst-performing countries of the year so far: Pakistan (-28.5), Hong Kong (-18.0), Finland (-14.6), Colombia (-11.1), and Norway (-9.5).

S&P 500/400/600 Performance (*link*): Two of the these three indexes rose w/w for the first time in four weeks, but SmallCap recorded its fourth straight losing week. LargeCap rose 0.8% w/w, ahead of the less than 0.1% rise for MidCap and the 0.4% decline for SmallCap. At Friday's close, LargeCap finished the week at 8.1% below its record high on January 3,

2022, MidCap remained in a correction at 11.4% below its record high on November 16, 2021, and SmallCap slipped into a deeper correction at 18.4% below its November 8, 2021 record high. Sixteen of the 33 LargeCap and SMidCap sectors moved higher for the week, compared with all 33 falling a week earlier for the first time since September 2020. LargeCap Tech was the best performer with a gain of 2.6%, ahead of SmallCap Tech (2.2%), MidCap Tech (1.9), MidCap Real Estate (1.6), and LargeCap Consumer Discretionary (1.1). Among the biggest underperformers for the week were SmallCap Communication Services (-3.0), SmallCap Consumer Discretionary (-2.6), MidCap Consumer Discretionary (-2.3), and SmallCap Financials (-1.8). Looking at performances so far in 2023, LargeCap, with a gain of 14.7%, remains well ahead of MidCap (6.1) and SmallCap (3.4); 19 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Communication Services (38.6), LargeCap Tech (37.9), LargeCap Consumer Discretionary (29.1), MidCap Industrials (20.2), and MidCap Tech (17.1). Here are 2023's biggest laggards: MidCap Utilities (-19.2), SmallCap Financials (-11.8), LargeCap Utilities (-10.3), MidCap Communication Services (-10.3), and SmallCap Utilities (-9.1).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, but only three outperformed the composite index's 0.8% rise. That compares to a 2.1% decline for the S&P 500 a week earlier, when all 11 sectors fell and four outperformed the index. Tech was the best performer with a gain 2.6%, followed by Consumer Discretionary (1.1%) and Communication Services (1.0). Energy was the worst performer, with a drop of 1.4%, followed by Consumer Staples (-0.8), Health Care (-0.1), Materials (0.0), Financials (0.1), Utilities (0.3), Industrials (0.3), and Real Estate (0.7). Looking at 2023's performance so far, the S&P 500 is up 14.7% ytd, with just three sectors still outperforming the index and only five higher for the year. The best ytd performers: Communication Services (38.6), Tech (37.9), and Consumer Discretionary (29.1). These are 2023's worst performers: Utilities (-10.3), Consumer Staples (-2.4), Health Care (-2.1), Real Estate (-1.7), Financials (-1.0), Energy (-0.9), Materials (3.8), and Industrials (8.2).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.8% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). While the index was below its 50-dma for a second week after being above for 20 straight weeks, it remained above its 200-dma for a 23rd week. As for what the dmas themselves have been doing, the 50-dma moved lower for the first time in 22 weeks, ending its longest positive streak since September 2021, while the 200-dma rose for a 13th week in its longest positive streak since March 2022. The S&P 500 improved to 1.2% below its now-falling 50-dma from a 22-week low of 2.0% below its rising 50-dma a week earlier. That's down from a 20-week high of 5.4% above its rising 50-dma in mid-June and 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 trading above its 50-dma from most of 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 6.0% above its still-rising 200-dma, down from an 11-week low of 5.5% above its rising 200-dma 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 level of the Great Financial Crisis following the failure of Lehman Brothers, the S&P 500 index was 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Three of the 11 S&P 500 sectors are trading above their 50-dmas, up from two a week earlier and down from all 11 S&P 500 sectors above in the three weeks before the end of July. Communication Services moved above its 50-dma in the latest week, joining Energy and Health Care as the only sectors in that club. Just five sectors have a rising 50-dma, down from eight a week earlier. These five sectors still have a rising 50-dma: Communication Services, Energy, Financials, Health Care, and Industrials. Looking at the more stable longer-term 200-dmas, the positive club remained steady w/w at six members. The five sectors trading below their 200-dmas are Consumer Staples, Financials, Materials, Real Estate, and Utilities. The rising 200-dma club shrank to five sectors w/w from six last week as the 200-dma turned up for Materials and turned lower w/w for Consumer Staples and Health Care. Energy, Financials, Real Estate, and Utilities are the other four sectors with a falling 200-dma.

US Economic Indicators

Regional M-PMIs (*link*): Four Fed districts have now reported on manufacturing activity for August—New York, Philadelphia, Kansas City, and Richmond. *Manufacturing activity* (to -3.5 from -8.1) continued to contract this month, though at a slower pace, easing from March's -14.0, as the Philadelphia (to 12.0 from -13.5) region moved from contraction to expansion and the Kansas City (0.0 from -11.0) region stopped falling. Meanwhile, the New

York (-19.0 from 1.1) area dropped back into contractionary territory, while Richmond's (-7.0 from -9.0) continued to decline at a fairly steady pace. *New orders* (-4.5 from -13.2) moved back near the breakeven point between expansion and contraction this month, as billings in the Philadelphia (16.0 from -15.9) area experienced a wide 31.9-point swing back into expansionary territory, while orders in the Kansas City (-3.0 to -20.0) moved closer to the breakeven point and Richmond (-11.0 from -20.0) billings declined at half July's pace. Meanwhile, billings in the New York (-19.9 from 3.3) region plunged into negative territory. *Employment* (-2.4 from 3.2) showed factories are slow to hire, bouncing around zero the past few months. The New York (-1.4 from 4.7), Richmond (-3.0 from 5.0), and Philadelphia (-6.0 from -1.0) regions showing slight contractions in August, while Kansas City's (1.0 from 4.0) barely budged. Looking at *prices-paid* indexes, the Philadelphia (20.8 from 9.5) measure showed an acceleration from April's 8.2 reading—which was its lowest since mid-2020—while New York's (25.2 from 16.7) accelerated from July's pace, which was the slowest since August 2020. The former was at a recent high of 83.6 in November 2021, while the latter was at a record high of 86.4 in April 2022. The Kansas City (13.0 from 9.0) region also showed a pickup in prices from June's three-year low of 4.0; it was at a record-high 84.0 in May and October 2021. Meanwhile, the Richmond (31.7 from 40.7) region continued to show an easing in prices pressures, dropping to its slowest pace since December 2020; it was at a record high of 152.9 last May. *Prices-received* indexes were mixed: New York's (12.6 from 3.9) picked up a bit from July's three-year low; it was at a record high of 56.1 in March 2022. Meanwhile, Philadelphia's gauge moved down to 14.1 after climbing from -7.0 in May to 23.0 during July. It was at a record high of 65.8 in November 2021. Richmond's (31.1 from 40.1) measure eased to its slowest pace since January 2021, down from last June's record high of 106.3, while Kansas City's (-6.0 from -7.0) was the lowest since the pandemic; it reached a record high of 60.0 during summer 2021. (Note: The New York, Philadelphia, Dallas, and Kansas City measures are diffusion indexes, while Richmond's measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures.)

Durable Goods Orders & Shipments (*link*): *Durable goods orders* fell at a sharper-than-expected pace in July after it blew past forecasts in June to a new record high. Durable goods orders plunged 5.2% (vs -4.0% expected) last month after shooting up 4.4% in June and 11.3% during the four months through June, which more than reversed the 4.0% drop of the first two months of the year—with transportation equipment orders climbing 11.9% and 34.3% over the comparable periods. Excluding transportation, durable goods orders expanded for the seventh time in eight months, by 0.5% in July and 1.8% over the period, to a new record high. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) remains in record territory—within 1.2% of this May's record

high. *Nondefense capital goods shipments excluding aircraft* (used in calculating GDP) followed a similar script, hovering within 0.3% of this May's record high. In July, orders for both motor vehicle & parts and electrical equipment, appliances & components climbed to new record highs, while orders for machinery held just below its record high. Meanwhile, orders for both primary metal and fabricated metals remained in record-high territory.

Consumer Sentiment Index (*link*): "After rising sharply for the past several months, consumer sentiment moved sideways in August with a small decline that is not statistically different from July. Sentiment reached its second highest reading in 21 months and is about 39% above its all-time historic low reached in June of 2022. *Overall consumer sentimen*t dipped 2.1 points in August to 69.5 (below the mid-month reading of 71.2). The *present situation* component was little changed in August at 75.7, after climbing five of the prior seven months by 17.2 point to 76.6—its highest level since October 2021. The *expectations* component slipped in August to 65.5 after climbing five of the first seven months of this year by 8.4 points to a 19-month high of 68.3. Turning to inflation, the *one-year expected inflation rate* edged up to 3.5% from 3.4% in July; this was after falling the prior two months from a five-month high of 4.6% in April to 3.3% in June, which was the lowest reading since March 2021. The current percentage remains above the 2.3%-3.0% range recorded during the two years prior to the pandemic The *five-year expected inflation rate* remained stable at 3.0% for the third month, still within its narrow 2.9%-3.1% range in 24 of the past 25 months. These expectations are elevated, however, relative to the 2.2%-2.6% range of the two years pre-pandemic.

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): German business confidence fell for the fourth straight month in August, to a 10-month low, coming on the heels of August's flash PMI data, which showed German business activity contracted at the fastest pace in over three years. German business confidence dropped for the fourth month, by 7.9 points over the period to 85.7 in August, after climbing the prior six months from 85.2 last October to 93.6 this April—which was the highest since February 2022. *Expectations* took the biggest hit over the four-month period, dropping 9.4 points to 82.6, after a seven-month upswing of 15.4 points—from 76.6 last September to 92.0 this April. Meanwhile, *current conditions* fell for the fifth successive month, slipping 6.5 points to 89.0 this month. The *manufacturing* sector saw its business climate index deteriorate again this month, with the current conditions (to -2.2 from 3.6) dipping into negative territory for the first time since October 2020, while the expectations (-30.0) component remains entrenched in negative territory.

The *service sector* saw its business climate index (to -4.2 from 9.0 in March) drop 13.2 points over the past five months, with expectations sinking to an eight-month low of -19.3—falling during four of the past five months, by 15.3 points—and the current conditions component dropping 10.8 points to 12.1. Sentiment in the *trade sector* continued to deteriorate, dropping 15.5 points (to -25.6 from -10.1 in March) over the past five months, as the current conditions fell 18.6 points over the period (to -10.5 from 8.1) and expectations declined for the third time in four months, by 14.9 points (to -39.5 from -24.6). The *construction* sector remained mired in negative territory, falling to -29.3—which is its lowest level since February 2009—as the expectations component remains deep in negative territory, at -43.1, though is up from its recent low of -47.3 last October. Meanwhile, current conditions have tumbled from 33.2 last February to -14.4 this August, falling below zero in May for the first time since December 2015.

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