MORNING BRIEFING
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Powell's Ideal Economy

Check out the accompanying chart collection.

Executive Summary: What would it take for the Fed to abandon its hawkish stance? Three things, suggested Fed Chair Powell's recent Jackson Hole speech: core PCED inflation dropping closer to 2% y/y, demand for labor dropping closer to the supply of it, and consumer spending cooling off a bit. All that can happen without a recession, as it has twice before in recent history, and the latest data on all three parameters suggest progress in the right direction. … Today, we review the data showing rebalancing of the labor market, slowing consumer spending, and moderating inflation. … Dr. Ed also reviews "The Crowded Room" (+).

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Ideal Economy I: Rebalancing Labor Market. In his Jackson Hole *speech* on August 25, Fed Chair Jerome Powell sounded quite hawkish. He implied that he would turn less hawkish if price inflation continued to fall toward the Fed's 2.0% target. In the past, he has indicated that wage inflation would probably have to slow to 3.0% (from 4%-5% currently) to get there, which would require that the supply of labor increase at a faster pace than the demand for labor. He also would like to see hot consumer spending cool off. Powell has said on numerous occasions that he believes monetary policy is on course to achieve this ideal outcome without a recession.

Powell's naysayers say that he is naïve. History shows that only a recession can subdue price and wage inflation; it does so by depressing consumer spending. Debbie and I have been pointing to examples in the past when midcycle slowdowns (a.k.a. soft landings or growth recessions) subdued inflation without recessions. The clearest examples occurred during the mid-1980s and mid-2010s (*Fig. 1* and *Fig. 2*). We think this is happening again now.

Thursday's personal income report for July confirmed that price inflation remains on a downward path. Consumer spending was hot during the month, but we expect it to cool. Friday's employment report for August showed that labor supply may be starting to outpace labor demand. Tuesday's JOLTS report for July confirmed this development, as did the Consumer Confidence Index survey.

Let's have a closer look, starting with the labor market:

(1) *Labor supply*. The unemployment rate jumped from 3.5% in July to 3.8% in August as the labor force swelled by 736,000, outpacing the 222,000 increase in the household measure of employment (*Fig. 3* and *Fig. 4*). Notably, the household measure counts the number of people with jobs rather than the number of jobs, unlike payroll employment, which counts the number of jobs. The labor force participation rate rose from 62.6% in July to 62.8% in August, led by a jump in the labor force participation rate of women (*Fig. 5*).

(2) *Labor demand*. Payroll employment rose 187,000 during August, the third consecutive reading below 200,000 (averaging 150,000 over the period) (*Fig. 6*). It averaged gains of 287,000 during the first five months of this year. The average workweek in private industry edged up from 34.3 hours in July to 34.4 hours in August (*Fig. 7*). It's down from a recent high of 35.0 hours during January 2021 and back to the more normal readings before the pandemic.

(By the way, July's employment gain would have been over 200,000 but for the loss of 30,000 jobs in the trucking industry resulting from the bankruptcy of Yellow and the Writers Guild of America and Screen Actors Guild strike involving 16,000 workers. On the other hand, June and July payrolls were revised down by 110,000.)

Also heading back down toward more normal pre-pandemic readings is the JOLTS job openings series (*Fig. 8*). It is down from a record 12.0 million during March 2022 to 8.8 million in August. That's still a very high reading, but it is falling. Also falling is the "jobs plentiful" series included in the Consumer Confidence Index survey from a peak of 56.7% saying so last March to 40.3% this August, which is below the pre-pandemic readings during 2019 (*Fig. 9*). However, the "jobs hard to get" series remained low at 14.1% in August.

(3) *Wages*. Average hourly earnings of all workers in private industry rose just 0.2% m/m during August. However, it was still up 4.3% y/y (*Fig. 10*). That's still well above Powell's ideal of 3.0%, but it is heading in the right direction given that it peaked at 5.9% during March 2022.

Ideal Economy II: Slowing Consumer Spending. Forecasters who've long been expecting a hard landing of the economy made a big mistake in betting against American consumers. But the hard-landers are not accepting that consumer spending isn't going to retrench; instead, they're doubling down by predicting that it will happen soon, because consumers are running out of pandemic-related excess savings now and have too much consumer debt. In addition, payments on student loans are about to resume.

Powell doesn't want consumers to retrench. He just wants them to cool their jets. We think they will do just that. Inflation-adjusted consumer spending jumped 0.6% m/m during July (*Fig. 11*). But that was boosted by Amazon's Prime Day (and maybe by Taylor Swift's concerts). In current dollars, retail sales of non-store retailers jumped 1.9% during July.

Let's have a closer look at the consumer-related data:

(1) *Earned Income Proxy.* Our Earned Income Proxy (EIP) for private wages and salaries in personal income rose 0.6% m/m during August, as aggregate hours worked rose 0.4% and average hourly earnings increased 0.2% (*Fig. 12*). That augers well for August's personal income and retail sales reports.

(2) *Disposable personal income and consumption.* Inflation-adjusted disposable income fell 0.2% m/m during July, while real consumer spending on goods and services rose 0.6% m/m (*Fig. 13*).

(3) *Personal saving.* The personal saving rate fell to 3.5% during July, remaining near its post-pandemic lows and well below 9.3%, which was its reading in February 2020 just before the pandemic (*Fig. 14*). It is widely expected that the saving rate will start moving higher later this year or early next year once consumers deplete the excess savings they accumulated during the pandemic.

We don't agree. We believe that as the Baby Boomers continue to retire, they are no longer saving. Instead, they are spending their retirement nest eggs. The oldest Baby Boomers turned 65 during 2011 and 75 during 2021. The youngest of this cohort will turn 65 in 2029 and 75 in 2039 (*Fig. 15*).

The Baby Boomers' net worth at the end of Q1-2023 was $74.8 trillion (*Fig. 16*). That's a huge pile of "excess saving."

Ideal Economy III: Moderating Price Inflation. Both the headline and core PCED inflation rates rose 0.2% m/m in July. Powell anticipated in his August 25 Jackson Hole speech that these rates would be moderate in July, as they were in June. However, he said that two consecutive months of such moderation aren't enough. He wants to see inflation drop closer to the Fed's 2.0% target on a y/y basis. The headline and core PCED inflation rates were 3.3% and 4.2% on a y/y basis during July (*Fig. 17*). He focuses on the core rate, which, by the way, rose at an annualized rate of just 2.9% over the past three months.

Headline goods inflation was -0.5% y/y in July. Housing services inflation (for rent, etc.) peaked at the start of this year and is slowly heading lower. Non-housing services inflation has been stuck around 5.0% for the past two years and remains one of Powell's major concerns about inflation (*Fig. 18*).

Excluding rent, the headline and core PCED inflation rates were only 2.6% and 3.6% in July on a y/y basis (*Fig. 19*).

We are still predicting that the core PCED inflation rate will fall close to 3.5% by the end of this year and 2.5% by the end of next year (*Fig. 20*).

Movie. "The Crowded Room" (+) (*link*), an Apple TV+ series, is a slow-paced psychological thriller. So it isn't very thrilling and is only mildly entertaining. Tom Holland plays the lead role of a young man dealing with some major childhood trauma. His psychologist is played by Amanda Seyfried. Previously, he starred in a couple of Spiderman flicks, and she played scamstress Elizabeth Holmes in "The Dropout." This series failed to provide either actor with a good script to show off their talents.

Calendars

US: Tues: Factory Orders -2.0%; Auto Sales. **Wed:** Trade Balance -$68.0b; ISM NM-PMI 52.5; MBA Mortgage Applications; Beige Book; API Weekly Crude Oil Inventories. (FXSTREET estimates)

Global: Tues: Eurozone, Germany, and France C-PMIs 47.0/44.7/46.6; Eurozone, Germany, and France NM-PMIs 48.3/47.3/46.7; Eurozone PPI -0.6%m/m/-7.6%y/y; UK C-PMI & NM-PMI 47.9/48.7; RBA Interest Rate Decision 4.10%; Lagarde; De Guindos; Schnabel; Wuermeling; Fernandez-Bollo. **Wed:** Eurozone Retail Sales -0.2%m/m/-1.2%y/y; Germany Factory Orders -4.0%; Australia GDP 0.3%q/q/1.7%y/y; Canada Labor Productivity -0.1%; Canada Trade Balance -$3.6b; China Exports & Imports -9.8%/-.8%y/y; BoC Interest Rate Decision 5.00%; BoE MPC Treasury Committee Hearings; Balz; McCaul;

Lowe; Wuermeling. (FXSTREET estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 2.7% last week for its biggest gain in 22 weeks. That gain caused the index to improve to 7.0% below its record high on December 27, 2021. The US MSCI ranked 11th of the 48 global stock markets that we follow in a week when 38 of the 48 countries rose in US dollar terms. The AC World ex-US index underperformed with a healthy gain of 2.3%, but remains in a deep 16.6% correction from its June 15, 2021 record high. EAFE rose 2.5% w/w, and was the only regional index to outperform the AC World ex-US. EM Latin America was the worst performing region last week with a 0.0% change, followed by EMEA (0.2), EM Eastern Europe (1.2), EMU (1.6), EM Asia (1.9), and BIC (2.2). Egypt was the best-performing country last week, with a gain of 7.5%, followed by Canada (4.2), Japan (4.1), Finland (4.0), and Norway (3.9). Among the 34 countries that underperformed the AC World ex-US MSCI last week, the 6.1% decline for Pakistan was the biggest, followed by those of Hungary (-2.6), Mexico (-2.0), Chile (-1.4), and Portugal (-1.3). In August, the US MSCI ranked 10/48 as it fell 1.9%, less than the 4.8% decline for the AC World ex-US index, as only five of the 48 countries moved higher. Egypt was the best performer, with a gain of 10.9%, followed by Turkey (7.6), Hungary (5.4), Denmark (4.3), and Sri Lanka (3.0). The worst-performing countries in August: Colombia (-15.7), South Africa (-12.3), Poland (-10.5), Pakistan (-10.2), and Singapore (-10.1). All of the regions fell in August, but EMEA outperformed with a 3.4% decline, ahead of EAFE (-4.1) and EMU (-4.7). EM Eastern Europe (6.7), EM Asia (5.7), EM Latin America (5.0), and EMEA (4.8). EM Latin America was August's worst-performing region with a drop of 7.9%, followed by BIC (-7.1), EM Eastern Europe (-6.9), and EM Asia (-6.3). Looking at 2023's performance so far, the US MSCI is up 18.1%, as its ytd ranking remained improved two places w/w to 11/48. The AC World ex-US's ytd gain of 6.6% 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 21.9%, followed by EMU (12.6), EM Latin America (11.9), and EAFE (8.2). The regional laggards so far in 2023: BIC (-1.2), EM Asia (2.6), and EMEA (3.5). This year's best ytd country performers: Greece (42.2), Argentina (41.5), Hungary (30.8), Sri Lanka (29.5), and Ireland (28.1). Here are the worst-performing countries of the year so far: Pakistan (-32.9), Hong Kong (-15.2), Finland (-11.2), Colombia (-10.0), and South Africa (-7.5).

S&P 500/400/600 Performance (*link*): All three of the these indexes rose together w/w for the first time in five weeks. Smallcap's 3.6% gain was slightly ahead of MidCap's 3.5% rise, and both were well ahead of LargeCap (2.5%). At Friday's close, LargeCap finished the week at 5.9% below its record high on January 3, 2022, MidCap exited its correction to end at 8.3% below its record high on November 16, 2021, and SmallCap remained in a deep 15.5% correction from its November 8, 2021 record high. Twenty-nine of the 33 LargeCap and SMidCap sectors moved higher for the week, compared 16 rising a week earlier. MidCap Tech was the best performer with a gain of 5.4%, ahead of SmallCap Energy (5.2), SmallCap Consumer Discretionary (5.2), SmallCap Tech (4.9), and SmallCap Materials (4.6). Among the biggest underperformers for the week were SmallCap Utilities (-1.9), LargeCap Utilities (-1.7), LargeCap Consumer Staples (-0.3), and MidCap Communication Services (-0.3). During July, LargeCap fell 1.8% for its first decline in six months, compared to the first decline in three months for MidCap (-3.0) and SmallCap (-4.3). Just four of the 33 sectors rose in August compared to 32 rising in July. August's best performers: MidCap Energy (3.0), LargeCap Energy (1.3), SmallCap Energy (1.2), and MidCap Consumer Staples (0.2). August's biggest laggards: MidCap Utilities (-10.1), MidCap Communication Services (-9.8), SmallCap Health Care (-7.0), LargeCap Utilities (-6.7), and SmallCap Financials (-6.5). Looking at performances so far in 2023, LargeCap, with a gain of 17.6%, remains well ahead of MidCap (9.8) and SmallCap (7.1.); 21 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (44.0), LargeCap Communication Services (43.4), LargeCap Consumer Discretionary (33.0), MidCap Industrials (25.2), and MidCap Tech (23.4). Here are 2023's biggest laggards: MidCap Utilities (-18.4), LargeCap Utilities (-11.8), SmallCap Utilities (-10.8), MidCap Communication Services (-10.5), and SmallCap Financials (-8.7).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 S&P 500 sectors rose last week, and five outperformed the composite index's 2.5% gain. That compares to a 0.8% rise for the S&P 500 a week earlier, when seven sectors rose and three outperformed the index. Tech was the best performer with a gain of 4.4%, followed by Energy (3.8%), Materials (3.6), Communication Services (3.5), and Consumer Discretionary (3.0). Utilities was the worst performer, with a drop of 1.7%, followed by Consumer Staples (-0.3), Health Care (0.1), Real Estate (1.4), Financials (2.0), and Industrials (2.0). The S&P 500 fell 1.8% in August as only one sector moved higher and five outperformed the broader index. That compares to all 11 sectors rising and four outperforming the S&P 500's 3.1% gain in July. The leading sectors in July: Energy (1.3), Communication Services (-0.4), Health Care (-0.8), Consumer Discretionary (-1.3), and Information Technology (-1.5). August's laggards: Utilities (-6.7), Consumer Staples (-3.8), Materials (-3.5), Real Estate (-3.1), Financials (-2.9), and Industrials (-2.3). Looking at 2023's performance so far, the S&P 500 is up 17.6% ytd, with just three sectors still outperforming the index and seven higher for the year. The best ytd performers: Tech (44.8), Communication Services (43.4), and Consumer

Discretionary (33.0). These are 2023's worst performers: Utilities (-11.8), Consumer Staples (-2.8), Health Care (-2.1), Real Estate (-0.2), Financials (1.0), Energy (2.8), Materials (7.5), and Industrials (10.4).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 2.5% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index moved back above its 50-dma after spending two weeks below that level, and has been above in 21 of the past 23 weeks. It remained above its 200-dma for a 24th week. As for what the dmas themselves have been doing, the 50-dma turned higher w/w after falling a week earlier for the first time in 22 weeks, and the 200-dma rose for a 14th week in its longest positive streak since March 2022. The S&P 500 improved to 1.0% above its now-rising 50-dma from 1.0% below its falling 50-dma a week earlier and 2.0% below (a 22-week low) its rising 50-dma the week before that. For perspective, the latest reading is also down from a 20-week high of 5.4% above its (rising) 50-dma in mid-June and up from a 20-week low of 3.6% below its (falling) 50-dma at the beginning of March. Other comparison points include: a four-month low of 10.6% below its (falling) 50-dma at the end of September 2022, a 23-month high of 8.7% above its (rising) 50-dma in August 2022, 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. Turning to the 200-dma, the price index closed Friday at 8.4% above its (rising) 200-dma, up from 6.0% above a week earlier and an 11-week low of 5.5% above the week before that. That 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*): Eight of the 11 S&P 500 sectors are trading above their 50-dmas, a marked improvement from just three a week earlier. That compares to just two sectors above their 50-dma the week before that up and is down from all 11 S&P 500 sectors above in the three weeks before the end of July. Consumer Staples, Real Estate, and Utilities are the only sectors trading below their 50-dma. Nine sectors have a rising 50-dma, up from five a week earlier. These two sectors still have a falling 50-dma: Consumer Staples and Utilities. Looking at the more stable longer-term 200-dmas, the positive club improved w/w to eight members from six. The three sectors still trading below their 200-dmas are Consumer Staples, Real Estate, and Utilities. The rising 200-dma club remained steady w/w at five sectors. These six sectors continue to trade below their 200-dma: Consumer Staples, Energy, Financials, Health Care, Real Estate, and Utilities.

US Economic Indicators

Employment (*link*): *Payroll employment* in August was stronger than expected, climbing 187,000 (vs 168,000 expected), though there were downward revisions to July (to 157,000 from 187,000) and June (105,000 from 185,000) payrolls for a net loss of 110,000. Nonfarm payrolls averaged monthly gains of 287,000 the first five months of the year, slowing to an average gain of 149,700 during the three months through August. *Private* payrolls rose 179,000, stronger than the gains of 155,000 and 86,000 during July and June, respectively, though below the average month gain of 227,400 the first five months of the year. Private *service-providing* industries increased 179,000 in August, stronger than the gains of 155,000 and 86,000 during July and June, respectively, though below the average monthly gain of 209,600 the first five months of the year. *Goods-producing* jobs advanced 36,000 in August, double July's gain and the best since the 41,000 gain at the start of the year. Once again, construction recorded the biggest gain, climbing 22,000 m/m and 134,000 ytd, followed by manufacturing payrolls, which rose 16,000 m/m and 23,000 ytd. Within manufacturing, durable goods jobs rose 12,000 and 52,000 over the comparable periods, while nondurable goods employment rose 4,000 m/m but fell 29,000 ytd. The gain *within service-providing jobs* was once again led by health care (70,900), which was stronger than the average monthly gain of 51,900 over the prior 12-month period, while leisure & hospitality (40,000) took the number-two spot, but was below the average monthly gain of 61,000 jobs over the prior 12-month period. Meanwhile, social assistance (26,000) was in line with its prior 12-month average. Employment in professional & business services increased 19,000 in August, though has shown no net change since May. It's down 242,000 since its peak last May. Meanwhile, transportation & warehousing lost 34,000 jobs last month, on a sharp drop in truck transportation (-37,000), the result of a business closure. These payrolls had shown little net change over the prior 12 months. Information jobs fell 15,000 in August, though were affected by the strikes within the motion picture industry. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.6 million), transportation & warehousing (+889,600), health care (+533,400), construction (+385,000), financial activities (+289,000), social assistance (+269,200), information services (+143,000), wholesale trade (+177,200), education (+141,200), durable goods manufacturing (145,000), nondurable goods manufacturing (+67,000), and retail trade (+25,000). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-44,000) and leisure & hospitality (-290,000).

Wages (*link*): Average hourly earnings (AHE) for all workers rose 0.2% in August, half the gain of the prior two months and the lowest monthly gain since February 2022. The yearly rate fell to 4.3%, down from its recent high of 5.9% during March 2022. August's 4.3% yearly rate was 1.1ppts above July's CPI rate of 3.2% and 1.0ppt above the PCED's rate of 3.3%. Private industry wages rose 4.4% (saar) over the three months through August, a tick above its yearly rate of 4.3%, with the goods-producing (5.1% saar & 5.2% y/y) industries' three-month rate on par with its yearly rate, as were the comparable rates for service-providing (4.2 & 4.1) industries. *Service-providing industries showing three-month rates above their yearly rates*: financial activities (10.3 & 5.6), transportation & warehousing (5.8 & 5.2), education & health services (3.8 & 3.1), and other services (3.8 & 3.6). *Service-providing industries showing three-month rates below their yearly rates:* information services (0.7 & 1.8), utilities (2.8 & 5.5), leisure & hospitality (3.0 & 5.0), retail trade (3.0 & 4.2), and professional & business services (3.1 & 4.2); the wholesale trade rates are identical (5.1 & 5.1). *Goods-producing industries*: Three-month rates are above yearly rates for nondurable goods manufacturing (7.7 & 5.8), while below for natural resources (-2.0 & 4.5), durable goods manufacturing (4.0 & 4.4) and construction (5.0 & 5.2).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 39th increase in the past 40 months, increasing 0.6% in August, after slowing to 0.2% in July—with the EIP climbing 39.7% over the 40-month period to yet another record high. In August, *average hourly earnings* advanced 0.2%, with *aggregate weekly* hours up 0.4%; private payroll employment was up 0.1%, while the average workweek climbed 0.3%. Over the past 12 months, our EIP advanced 6.0%, picking up from 5.7% in July—with aggregate weekly hours up 1.7% and average hourly earnings up 4.3%; August'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 climbed from 3.5% to 3.8% in August as the labor force surged. The number of employed rose 222,000, while the number of unemployed climbed 514,000 as 736,000 people entered the labor market. The participation rate in August was at 62.8%—the highest since February 2020—after being at 62.2% the prior five months. It remains below its pre-pandemic reading of 63.3%. *By race*: The unemployment rate for African Americans (to 5.3% from 5.8%) moved down toward its recent low of 4.7% in April. Meanwhile, the rates for Asians (3.1% from 2.3%), Hispanics

(4.9 from 4.4), and Whites (3.4 from 3.1) all moved higher. *By education*: The rate for those with some college (to 3.0% from 3.1%) ticked down in August, while the rate for those with a high school diploma (3.8 from 3.4) showed the biggest gain, while the rates for those with a bachelor's degree or higher (2.2 from 2.0) and those with less than a high school degree (5.4 from 5.2) both ticked up 0.2 point. Here are the current rates compared to their record lows: less than a high school degree (5.4% vs 4.4%), high school degree (3.8 vs 3.2), some college or associates degree (3.0 vs 2.4), and bachelor's degree or higher (2.2 vs 1.5).

Personal Income & Consumption (*link*): Personal income continued to rise in July, though at a slower pace, while consumer spending continued to post robust gains as consumers dipped into savings. *Personal income* rose 0.2% in July, slowing from gains of 0.3% and 0.4% the prior two months and half the average monthly gain of 0.4% the first half of this year. Wages & salaries has posted only two declines in the past 29 months, climbing 0.4% in June and 20.3% over the period; *adjusted for inflation*, wages & salaries have expanded 1.4% the past five months through July to a new record high, after contracting 0.9% during the five months through February. *Personal consumption expenditures* continued to set new record highs in July, with spending climbing the first seven months of his year, by 0.8% in July and 4.5% ytd; spending on goods and services were up 4.3% and 4.6%, respectively ytd. In *real terms*, consumer spending in July climbed 0.6%, with spending on goods up 0.9% and services up 0.4%. Year to date, real goods consumption climbed 4.0%, while real services consumption was up 1.9%; compared to a year ago, the former was up 3.3% and the latter 2.9%. Meanwhile, *personal saving* has dropped $233.6 billion the last two months through July, as spending rose at a faster pace than income. Saving is up $199.3 billion from its recent low last June of $506.3 billion to $705.6 billion this July. The *saving rate* dropped to 3.5% in July, down from 4.7% in May.

Personal Consumption Deflator (*link*): July's PCED increased 0.2% and has averaged gains of only 0.2% the past six months. Core prices also rose, by 0.2% in July, matching June's seven-month low and slightly slower than the average 0.3% gain the first sixth months of the year. The yearly headline rate accelerated to 3.3% from June's 3.0% (the lowest since March 2021), slowing from a peak of 7.0% last June—which was the highest since the end of 1981. The yearly core rate also ticked up, to 4.2%, after slowing from a recent peak of 5.4% during February and March of last year to 4.1% this June. On a *three-month annualized* basis, the core rate eased for the fifth month to 2.9% (saar) in July from 5.0% in February, below its yearly rate of 4.2%. The three-month rate for durable goods has hovered around zero the past few months, falling below zero in July to -2.9%, while the three-month rate for core nondurable goods prices eased to 2.4% (saar), after accelerating to 10.3% in March—from a recent low of 1.0% during December and November.

Meanwhile, services prices ex energy picked up to 4.3%, after slowing the prior four months from 6.1% to 3.9%. The three-month annual rates for core nondurable goods (2.4%, saar & 4.2% y/y), consumer services ex energy (4.3 & 5.4), and consumer durable goods (-2.9% & -0.8%) all were below both below their yearly rates, with both measures below zero in the latter. *PCED components for which three-month rates lag yearly rates*: video audio & information processing (-10.7 & -5.3), motor vehicles & parts (-6.5 & 2.7), airfares (-6.2 & 2.4), sports & recreational vehicles (-5.0 & 0.5), furniture & home furnishings (-4.7 & -1.3), lodging away from home (-3.4 & 6.2), professional & other services (-1.1 & 6.3), new motor vehicles (-1.0 & 3.6), prescription drugs (0.5 & 2.8), alcoholic beverages purchased for off-premise consumptions (0.9 & 2.7), food & nonalcoholic beverages purchased for off-premise consumption (1.1 & 3.7), transportation services (3.2 & 6.6), recreation services (4.1 & 4.9), tobacco (4.6 & 6.1), tenant rent (5.5 & 8.1), and owner-occupied rent (5.9 & 7.7). *PCED components for which three-month rates exceed yearly rates*: used motor vehicles (10.4 & -5.6), personal care products (7.0 & 6.5), and education services (3.0 & 2.6), and gasoline & other energy products (-18.2 & -22.3). *PCED components for which three-month rates & yearly rates are comparable*: clothing & footwear (2.6 & 2.4), hospitals (2.1 & 2.2), physician services (1.0 & 0.7), and household appliances (-8.7 & -8.5).

Construction Spending (*link*): Construction spending continued to reach new record highs in July, rising every month so far this year, driven by public construction spending and private nonresidential spending, though private residential investment has joined the party. *Total* construction spending climbed 0.7% in July and 7.2% ytd, while *private* construction investment rose 1.0% and 7.0% over the comparable periods—also to a new record high. *Public* construction spending in July fell for the first time in 11 months, slipping 0.4%, following a 10-month surge of 12.4% to a new record high in June. Within *private construction*, residential investment rose in July for the third month, by a total of 6.6% over the period, breaking out of an 11-month slump. Meanwhile, nonresidential investment climbed for the 13th time in 14 months by 23.1% over the period. Within residential investment, *single-family* construction rebounded 6.8% during the three months through July, after a 12-month plunge of 26.5% to its lowest level since November 2020. *Home improvement* spending has been volatile in recent months, though has picked up 7.5% during the three months through July. Meanwhile, *multi-family* construction remains on a steep uptrend, soaring 24.6% over the past 12 months to a new record high!

Global Economic Indicators

Global Manufacturing PMIs (*link*): "Downturn in global manufacturing sector slows in

August" was the headline of the August release. The JP Morgan Global M-PMI edged up in August to a three-month high of 49.0, after deteriorating the prior five months, from 49.4 in February to 48.6 in July—holding below the breakeven point of 50.0 for the 12th straight months. In August, the rates of decline for production, total orders, and new export business all slowed, while the employment rate moved higher. Mainland China returned to growth, the US fell back into decline, and the downturn in Japan continued. August data are available for 30 nations, with only nine signaling expansions in output and 20 signaling contractions, while Brazil was at 50.1. Here's how August *M-PMIs ranked by country/region* from highest to lowest: India (58.6), Indonesia (53.9), Myanmar (53.0), Greece (52.9), Russia (52.7), Philippines (52.7), Kazakhstan (52.4), Mexico (51.2), China (51.0), Ireland (50.8),Brazil (50.1), Australia (49.6), Japan (49.6), WORLD (49.0), Turkey (49.0), Thailand (48.9), South Korea (48.9), Canada (48.0), US (47.9), Malaysia (47.8), Colombia (46.8), Spain (46.5), France (46.0), Netherlands (45.9), Italy (45.4), UK (45.3), Taiwan (44.3), EUROZONE (43.5), Poland (43.1), Czech Republic (42.9), Austria (40.6), and Germany (39.1).

US Manufacturing PMI (*link*): August's M-PMI was in contractionary territory for the 10th straight month—the longest string of readings below 50.0 since the Great Financial Crisis (2007-09), though was less negative. August's M-PMI edged up for the second month to a six-month high of 47.6, after falling to a 37-month low of 46.0 in June. Looking at August's report, the production index climbed to back up to the break-even point of 50.0, after sinking to a 37-month low of 46.7 in June, while the new orders index remained in a volatile flat trend below 50.0 for the 12th straight month, falling to 46.8. Factories continued to cut payrolls (48.5 from 44.1) in August, though that is nearing its breakeven point. The *supplier deliveries* (48.6 from 46.1) has been moving up from recent lows, though remains at a low level, down sharply from May 2021's peak of 78.8. (A reading below 50.0 indicates faster deliveries to factories.) Meanwhile, inventories (44.1 from 46.1) remained below 50.0 for the sixth successive month, as businesses continued to manage inventories carefully. ISM's *prices-paid* (48.4 from 42.6) measure has moved up from December's 32-month low of 39.4; it peaked at 92.1 in mid-2021—which was the fastest since the summer of 1979.

Eurozone CPI Flash Estimates (*link*): The CPI rate for August is expected to remain at July's 5.3%—which was the lowest since January 2022; it peaked last October at a record-high 10.7%. Looking at the main components, *energy* is forecast to fall 3.3% y/y, its fifth negative reading in six months, up from July's -6.1%, which was the weakest since December 2020. It posted double-digit yearly gains from April 2021 through February of this year. It peaked at a record high of 44.3% last March. The rate for *food, alcohol & tobacco* is predicted to slow for the fifth month to 9.8% y/y after accelerating steadily from June 2021's

0.5% to a record high of 15.5% this March. The rate for *non-energy* industrial goods is expected to ease for the sixth month to 4.8% y/y from February's record-high 6.8%. Meanwhile, the *services* rate is forecast to ease to 5.5%, from 5.6% y/y in July—which was the highest since fall 1992. Of the *top four Eurozone economies*, Germany (6.4% y/y), France (5.7), and Italy (5.5) showed rates above the Eurozone's expected 5.3% rate, while Spain's (2.4) rate was one of the lowest of the overall Eurozone economies, though it did accelerate for the second month from June's 1.6%. Here are the record-high inflation rates and dates they were achieved for the four countries: Germany (11.6%, October 2022), Italy (12.6%, October & November 2022), France (7.3%, February 2023), and Spain (10.7%, July 2022).

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