MORNING BRIEFING
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Oil, China & The Ocean

Check out the accompanying chart collection.

Executive Summary: Oil prices have spurted skyward in recent months and recent days, as intended by the production cuts instituted by Saudi Arabia and Russia. The S&P 500 Energy sector's share price index has spurted in sympathy, outperforming its counterparts this summer. Jackie looks at the countervailing forces affecting the global oil supply, including Saudi Arabia's budget pressures and rising US oil production. ... Also: China's economy is not doing well despite the stimulative efforts of its government and default-avoidance efforts of its largest property developer. … And: An update on The Ocean Cleanup's daunting mission.

Energy: Saudis Play With Prices. Saudi Arabia and Russia continue to flex their muscle in the oil market, holding back production and pushing up prices. Saudi Arabia announced on Tuesday that it will extend its 1 million barrels per day (mbd) supply cut through the end of this year. On the same day, Russia announced that it will do the same with 300,000mbd. This is in addition to the 1.66mbd of production cuts through year-end that OPEC+ had agreed to earlier. The price of Brent crude futures responded to Tuesday's news by rising to $90.04 a barrel that day, up from its recent low of $72.26 on June 27 (*Fig. 1*).

Before Tuesday's announcement, Saudi Arabia and Russia had said their cuts were to extend through September. The US Energy Information Administration's (EIA) August outlook anticipated that the global oil market would move from a surplus position during H1-2023 to a deficit during H2-2023. After the announcement, that deficit undoubtedly will grow, though it is tempered somewhat by unexpectedly strong US production.

The EIA no doubt will be revising its quarterly production and consumption forecasts through 2024 to reflect Tuesday's news, but as of August 3 they stood as follows: Q1-2023 (101.00 mbd production, 100.16 mbd consumption), Q2-2023 (101.31, 100.97), Q3-2023 (101.03, 101.67), Q4-2023 (101.83, 101.95), Q1-2024 (102.33, 102.29), Q2-2024 (102.83, 102.36), Q3-2024 (103.38, 103.29), and Q4-2024 (103.47, 103.24).

The future course of oil prices is always a function of demand and supply. Determinants on the demand side include the rates of economic growth in China and the United States. But from a supply perspective, oil prices will be heavily determined by the production decisions of Saudi Arabia as well as US production levels. Let's take a deeper look at the dynamics underpinning both:

(1) *Saudis need prices high.* Saudi Arabia's budget deficit jumped by 80% to $1.4 billion in Q2-2023 due to spending on social benefits and capital expenditures. Non-oil revenues rose, but oil-related revenues inched up 0.6% q/q and fell 28% y/y, according to an August 4 *article* at OilPrice.com. In May, the International Monetary Fund said that the country needed oil prices at $80.90 a barrel to balance its budget this year. While that level seemed unlikely to analysts at the time, today it looks far more feasible.

Rising prices might also mean that Saudi Arabia could reverse recent production cuts and generate more revenue from exports, giving its economy a needed boost. The country's GDP slowed to 1.1% in Q2 from 3.8% in Q1 and 11.2% in Q2-2022, a July 31 CNBC *article* reported.

High oil prices also would boost the share price of the stock offering that Saudi Arabia's Aramco is considering. The company may sell as much as $50 billion of shares before year-end, which would make it the largest offering ever sold in the capital markets, according to a September 1 *WSJ* *article*. The higher the price of oil, the more likely the stock offering will occur. The country's Crown Prince Mohammed bin Salman has been monetizing Saudi Arabia's oil-related assets and investing the proceeds in industries outside of the oil patch. Oil priced at $80 a barrel or higher would also help fund the kingdom's efforts to diversify its economy.

(2) *US production on the rise.* US oil production has risen to near-record levels, but that's still not high enough to entirely offset the 1.3mbd production cuts by Saudi Arabia and Russia. The US produced 12.8mbd of crude oil in the week ending August 25; that's only 0.3mbd shy of the record production level of 13.1mbd in February and March 2020.

The recent jump in US production comes even as the number of rigs used for drilling has fallen to 512 from a recent peak of 627 (*Fig. 2*). US shale producers have been lengthening the horizontal laterals they drill, and they've been using new techniques to get more oil out of old wells. ExxonMobil believes that shale producers can double crude output from existing wells by using new fracking technologies.

Exxon "is trying to frack more precisely along the well so that more oil-soaked rock gets drained. It's also looking for ways to keep the fracked cracks open longer so as to boost the flow of oil," a June 4 OilPrice.com *article* reported. In addition, oil companies are returning to old, fracked wells and using a high-pressured blast to get more oil out of them.

The EIA increased its forecast for US oil production by 360,000 barrels per day this year and by 240,000 in 2025, according to its August 23 *report*.

(3) *Energy stocks on a roll.* Although energy stocks fell during most of this year, they've gushed higher in recent months, helped by the surge in the price of crude oil. Since the end of May, the S&P 500 Energy sector has outperformed all other S&P 500 sectors.

Here's the performance derby for the S&P 500 sectors from May 31 through Tuesday's close: Energy (18.6%), Consumer Discretionary (12.5), Industrials (10.4), Materials (9.7), Communication Services (8.5), Information Technology (8.4), Financials (8.2), S&P 500 (7.6), Health Care (3.5), Real Estate (1.7), Consumer Staples (-0.8), and Utilities (-5.1).

Energy stocks may have started to price in a more optimistic future than industry analysts have anticipated. Industry analysts are expecting the S&P 500 Energy sector's revenue to fall 17.4% this year and remain flat in 2024, while calling for the sector's earnings to fall 27.4% this year and rise 1.7% next year (*Fig. 3* and *Fig. 4*). Higher-than-expected crude oil prices could push analysts to revise those estimates up sharply. Thank Saudi Arabia.

China: Waiting for the Restructuring. In recent weeks, China and its property developers have taken steps to keep the Chinese residential real estate market and the broader economy afloat. China has made investing in real estate more attractive, and Country Garden Holdings, one of China's largest property developers, has made an interest payment and extended the maturities on three of its bonds.

While this may allow the Chinese economy to continue limping along, it won't reduce the excessive leverage that's weighing down the real estate sector and local governments. We've long thought that the government ultimately will have to sponsor a debt restructuring program if it hopes to put China's leverage problems in the rearview mirror anytime soon.

The most recent data about China's economy arrived Tuesday: The Caixin/S&P Global services purchasing managers' index fell to 51.8 in August from 54.1 in July. While the August reading marked a slight expansion, it was the lowest reading since December, when Covid-19 kept consumers in their homes (*Fig. 5*). Official figures out of China weren't much better, with August's nonmanufacturing PMI reported at 51.0 and manufacturing PMI at 49.7 (*Fig. 6*).

Here's a look at the steps the Chinese government and Country Garden have taken to keep the train moving down the tracks, albeit very, very slowly:

(1) *Default averted—for now.* Country Garden Holdings dodged default earlier this week by making a $22.5 million interest payment on US dollar-denominated debt; it also extended the maturities on $1.5 billion of local currency-denominated debt. The developer still has about $162 million of offshore bond interest payments due this year and nearly $15 billion of debt due within the next year in the form of bonds, notes, bank debt, and other borrowings—dwarfing the developer's $13.9 billion of cash and equivalents, a September 5 *NYT* *article* reported. Country Garden has warned that default is a risk if its financial performance continues to deteriorate. During a tough H1-2023, it posted a record $7.1 billion loss, a September 4 Reuters *article* reported.

The company has total liabilities of almost $190 billion, which is smaller than China Evergrande Group's more than $300 billion of debt. But don't underestimate the impact that a Country Garden default would have on the Chinese economy. The company had more than 3,100 projects in development across every Chinese province at the end of 2022, with nearly 947 million square feet already presold, a September 2 *South China Morning Post* *article* reported. That far exceeds Evergrande's 1,200 projects in June 2021, before its distress became apparent. If Country Garden defaults and can't deliver units that have already been paid for, more than one million households could be affected.

(2) *Government lends a hand.* Under pressure to get the economy growing faster, the Chinese government and related institutions have taken many small steps to encourage borrowing and lending and to bolster private industry.

The government announced on Monday plans to set up an agency to "coordinate policies across different government bodies and help development of the private economy," a September 4 *WSJ* *article* reported. This is quite a reversal from the Chinese government's stance toward private companies and financial markets in 2021, when it blocked the IPO of Ant Group. Additional moves that China made recently to facilitate financial market activity include halving the stamp duty, a tax charged on shares traded; restricting share sales by major shareholders under certain circumstances; and lowering margin requirements.

In an effort to boost the property sector, the People's Bank of China (PBOC) and other agencies lowered the down payment for first-time home buyers to 20% and for second-time purchasers to 30%. Chinese state-owned banks are expected to help borrowers by lowering interest rates on existing mortgages or replacing them with new mortgages. Chinese banks cut deposit rates to encourage savers to become spenders, and the one-year loan prime rate was lowered by 10 basis points to 3.45% last month. Regulators also have lent a hand by cutting reserve ratios. At large depository institutions, the reserve ratio has fallen to 10.75 from 12.00 two years ago (*Fig. 7*).

The PBOC's ability to cut rates is somewhat limited if it aims to keep the yuan from falling below its current decade-low level. The yuan trades at 7.3 to the dollar, down from its recent peak of 6.7 and its lowest level since early November 2022 (*Fig. 8*).

(3) *China's stocks are down, but are they cheap?* The MSCI China share price index is down 4.1% ytd, and the Shanghai-Shenzhen 300 has lost 1.5% ytd (*Fig. 9* and *Fig. 10*). After recent government actions to boost the economy and the markets, China's MSCI stock price index has outperformed most other international markets during the opening days of September, rising 1.4%. That beat the 0.2% decline in the US MSCI index over the same period.

The collective revenues of the companies in China MSCI stock price index are expected to rise 5.8% this year and 7.5% in 2024 (*Fig. 11*). Their earnings are forecast to increase 18.1% in 2023 and 14.9% in 2024 (*Fig. 12*). Net earnings revision have been decidedly negative over the past 24 months (*Fig. 13*).

The China MSCI's forward P/E has fallen from a peak of 18.3 in February 2021 to a recent 10.0 (*Fig. 14*). The index's valuations have fallen into the single digits during times of extreme stress in the past, and unless the Chinese government proactively works to reduce the leverage in its economy, more distressed valuations may be coming.

Disruptive Technologies: Oceans Getting Cleaned. The Ocean Cleanup, a group focused on ridding our rivers and oceans of trash, has made solid progress since we wrote about them in the November 17, 2022 *Morning Briefing*. At the end of August, the organization deployed System 03, its largest ocean cleanup system, into the Great Pacific Garbage Patch (GPGP). It's goal: To make removing trash from the ocean faster and more cost effective.

Here's a look at what the organization has accomplished and what's left to do:

(1) *Getting bigger.* Over the past two years, System 002 cleaned more than 3,000 square miles of ocean and removed 623,439 pounds of plastic from the GPGP. On its last trip, it brought back more than 55 tons of trash back to shore, but there's plenty left to do because

the GPGP contains around 100,000 tons of plastic. That job will fall to System 03.

As in the past, System 03 uses two boats that each hold one end of a net that's open at the bottom. As the boats move slowly through the ocean, trash is captured by the nets and pushed back into a large sack called the "retention zone." When the sack is full, it's pulled onto one of the boats and emptied.

System 03 has a 7,000-foot-long net that's three times longer than System 002's net. Hanging down from the net is a screen that reaches much deeper to catch plastic flowing underneath the surface. At peak efficiency, System 03 can clean an area the size of a football field every five seconds, according to the company's *website*. The ability to clean up more of the ocean faster and using fewer resources lowers the cost per kilogram of plastic removal from the ocean. The Ocean Cleanup believes it will need a fleet of ships using 12 System 03s to successfully cleanup the GPGP and move onto other problem areas in the world's oceans.

System 03 added a Marine Animal Safety Hatch (MASH) to provide an escape route for animals caught in the retention zone. The MASH is monitored on the ship by humans and underwater by cameras and artificial intelligence (AI).

(2) *Kia steps up.* Kia announced in April 2022 that it would enter a seven-year partnership with The Ocean Cleanup. Kia provides funding and in-kind contributions to support the environmental organization and agreed to use its recycled plastic. Kia will use "a portion" of the recycled plastic made from the last haul of System 002 in its electric vehicles, a September 4 Plastics Today *article* reported.

(3) *What's next.* Looking forward, The Ocean Cleanup is evaluating how best to sort its hauls of trash. As the hauls increase in size, sorting by hand will not be scalable and may need to occur on shore instead of on the ship. Larger hauls will also require new systems on the ships to compact and store the trash. The Ocean Cleanup would like to move recycling operations to North America and find new ways to process items that aren't currently recyclable.

Additionally, the organization remains proactive, with systems cleaning up rivers to prevent trash from ending up in the oceans.

Calendars

US: Thurs: Initial & Continuous Jobless Claims 235k/2.715m; Nonfarm Productivity & Unit Labor Costs 3.7%/1.6%; Williams; Bowman; Logan; Harker; Goolsbee. **Fri:** Consumer Credit $17.5b; Wholesales & Inventories -0.2%/-0.1%; Baker-Hughes Rig Count; Barr. (FXStreet estimates)

Global: Thurs: Eurozone GDP 0.3%q/q/0.6%y/y; Eurozone Employment Change 0.2%q/q/1.5%y/y; Germany Industrial Production -0.2%; Italy Retail Sales 0.2%; UK Halifax Price Index -0.1%; Japan GDP 1.5%q/q/6.0%y/y; Japan Coincident & Leading Indicators; Elderson. **Fri:** Germany CPI 0.3%m/m/6.1%y/y; France Industrial Production -0.2%; Spain Industrial Production; Canada Employment Change 18.7k; Canada Unemployment Rate 5.5%; European Union Economics Forecasts. Wuermeling. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (***link***): The *Bull-Bear Ratio* was below 3.00 for the fifth successive week this week, climbing to 2.25 after falling from 2.38 to 2.07 last week—which was the lowest since the last week in May; it was at 3.07 five weeks ago. *Bullish* sentiment climbed to 49.3% this week after retreating the prior four weeks by 14.0ppts (to 43.1% from 57.1%)—with the 57.1% during the August 1 week, the most bulls since November 2021 when it reached a danger level of 57.2%. Meanwhile, *bearish* sentiment climbed for the second week to 21.9% this week, after falling two weeks ago from 20.0% to 18.6%—fluctuating in a volatile flat trend the past couple of months. The *correction count* dipped this week, for the second week, to 28.8% after increasing the prior three weeks, from 24.3% (the lowest since the start of the year) to 37.1%. Turning to the *AAII Sentiment Survey* (as of August 31), optimism increased this week, though was below its 37.5% average for the third straight week, while bearish sentiment was above average for the second straight week, and neutral sentiment for the third successive week. The *percentage expecting stock prices to rise over the next six months* climbed to 33.1% after falling the prior three weeks, by 16.7ppts (to 32.3% from 49.0%). The *percentage expecting stocks to fall over the next six months* fell to 34.5% this week, after climbing the prior three weeks, by 14.6ppts (to 35.9% from 21.3%). It was above its historical average of 31.0% for the second straight week and the second time in 13 weeks. The *percentage expecting stock prices will stay essentially unchanged over the next six months* increased 0.6ppt to 32.4%, putting it above its historical average of 31.5% for the fifth time in 13 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at a seven-month high of 12.6% during the August 31 week. That's up from a 24-month low of 12.3% during the March 30 week, but is down 0.8pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.3pts above its seven-year low of 10.3% during April 2020. Forward revenues dropped 0.1% w/w from its record high a week earlier. Forward earnings rose less than 0.1% w/w to its highest level since July 2022, and is only 0.9% 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 10-month high of 4.1% and is now up 1.8pts from its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.1ppt w/w to a 13-month high of 9.0%, and is now 5.5pts 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 2.1% in 2023 (down 0.2ppt w/w) and 4.8% in 2024 (unchanged w/w) compared to a revenues gain of 12.3% in 2022. They expect an earnings gain of 1.1% in 2023 (up 0.1ppt w/w) and an 11.7% rise in 2024 (up 0.1ppt w/w) compared to an earnings gain of 7.1% in 2022. Analysts expect the profit margin to drop 0.1ppt y/y to 12.0% in 2023 (unchanged w/w), compared to 12.1% in 2022, and to rise 0.8ppt y/y to 12.8% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.3pt w/w to 19.1 from an 11-week low of 18.8 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 up 0.04pt w/w to 2.41, but that's 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 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 24 week saw consensus forward revenues rise for six sectors and forward earnings rose for four sectors. The forward profit margin moved higher for four sectors. Four sectors have forward revenues at post-pandemic or record highs this week: Communication Services, Health Care, Information Technology, and Utilities. Among the remaining seven sectors, only Energy and Financials have forward revenues more than

5.0% below their post-pandemic highs, while Materials is nearly in that doghouse. Information Technology is the only sector with forward earnings at a post-pandemic or record high this week; the sector had reached that mark a week earlier for the first time in 15 months. These five sectors are less than 1.0% below that mark: Communication Services, Consumer Discretionary, Consumer Staples, Industrials, and Utilities. Among the remaining five sectors, only Energy and Materials have forward earnings down more than 20.0% from their post-pandemic highs. All but the Industrials sector have seen forward profit margins retreat from their post-pandemic or 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 six sectors are expected to see them improve y/y in 2023, up from four a week earlier: Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.8%, down from its 25.4% record high in June 2022), Financials (18.1, down from its 19.8 record high in August 2021), Real Estate (17.2, down from its 19.2 record high in 2016), Communication Services (16.2, down from its 17.0 record high in October 2021), Utilities (13.0, down from its 14.8 record high in April 2021), S&P 500 (12.6, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.1, 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 (9.2, record low this week and down from its 11.5 record high in February 2022), Consumer Discretionary (8.1, 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 Sectors & Industries Forward Profit Margin Since March 30 Bottom (*link*): The S&P 500's forward profit margin was steady w/w at an eight-month high of 12.6% as of the August 31, 2023 week. It's now up 0.3ppt from a two-year low of 12.3% during the March 30 week. Six of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by five sectors. It's still down 6.3%, or 0.8ppt, from its record-high 13.4% during the June 9, 2022 week, as eight of the 11 sectors' margins are down since then, with the S&P 500's drop paced by four of the 11 sectors. Here's the sector performance since the S&P 500's forward profit margin bottom on March 30: Communication Services (up 12.2% to 16.2%), Consumer Discretionary (up 11.1% to 8.0%), Information Technology (up 6.5% to 24.4%), Industrials (up 4.8% to 10.8%), Real Estate (up 3.6% to 17.2%), S&P 500 (up 2.6% to 12.5%), Consumer Staples (up 1.5% to 6.8%), Materials (down 0.1% to 11.0%), Utilities (down 1.3% to 13.0%), Financials (down 1.5% to 18.0%), Health Care (down 4.1% to 9.3%), and Energy (down 4.7% to 11.0%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 95.4% to 7.5%), Passenger Airlines (up 20.1% to 6.4%), Publishing (up 19.8% to 2.9%), Homebuilding (up 19.5% to 12.8%), Wireless Telecommunication Services (up 17.9% to 13.5%), Personal Care Products (up 17.1% to 10.0%), Semiconductors (up 16.3% to 30.6%), Interactive Media & Services (up 16.3% to 23.2%), Hotels, Resorts, & Cruise Lines (up 15.1% to 13.2%), and Brewers (up 14.1% to 9.1%).

US Economic Indicators

Merchandise Trade (***link***): The *real merchandise trade deficit* widened in July to $88.4 billion after narrowing the prior two months from $96.3 billion in April to $85.8 billion in June. It's too early to tell the impact trade will have on Q3 GDP, though July's $88.4 billion deficit was below Q2's average monthly deficit of $90.5 billion. *Real exports* rose for the third straight month in July by 1.1% m/m and 3.3% over the period, an encouraging sign. *Real imports* climbed 1.8% in July, after a two-month drop of 3.2%. Looking at *real exports versus a year ago*, they're down 1.7%—as declines in exports of foods, feeds & beverages (-14.8% y/y) and industrial supplies & materials (-7.0) more than offset gains in automotive vehicles, parts & engines (17.1), other goods (16.5), nonfood consumer goods ex autos (1.0), and capital goods ex autos (0.6). Turning to *real imports versus a year ago*, they're down 0.6%, as a jump in imports of other goods (18.5% y/y) and automotive vehicles, parts, and engines (17.6) nearly entirely offset declines in imports of industrial supplies & materials (-6.6), foods, feeds & beverages (-4.5), nonfood consumer goods ex autos (-4.0), and capital goods ex autos (-2.2).

Global Economic Indicators

Global Composite PMIs (*link*): The global economy continued to lose momentum in August, as the downturn in the manufacturing sector was accompanied by a further slowing of the service economy. The C-PMI posted its third successive decline, slowing to 50.6 last month from May's 18-month high of 54.4. The *C-PMI* did remain above the 50.0 line dividing expansion from contraction for the seventh consecutive month. The *NM-PMI* slowed to a seven-month low of 51.1 after climbing from 48.0 last November to an 18-month high of

55.5 this May, while the *M-PMI* remained below 50.0 for the twelfth straight month, though did edge up to 49.0 from July's recent low of 48.6; it's down sharply from its peak of 56.0 during May 2021. Geographically, eight of the 14 countries for which August C-PMI data were available recorded increases in economic activity, with India (to 60.9 from 61.9) and Russia (55.9 from 53.3) posting the fastest growth. Growth was also recorded in Japan (52.6 from 52.2), mainland China (51.7 from 51.9), Brazil (50.6 from 49.6), the US (50.2 from 52.0), Kazakhstan (50.5 from 51.9), and Ireland (52.6 from 50.0); among all the countries, only Japan, Russia, and Ireland saw an acceleration in growth. The report notes than Europe remained the main drag on the trend in global output in August, with the Eurozone contracting for the third successive month; August's 46.7 was the lowest since November 2020. The Eurozone's Big Four economies all contracted last month: Germany (44.6 from 48.5), France (46.0 from 46.6), Italy (48.2 from 48.9), and Spain (48.6 from 51.7).

US Non-Manufacturing PMIs (*link*): The US service sector gained steam in August, while prices accelerated. According to the report, "There has been an increase in the rate of growth for the services sector, reflected by increases in all four subindexes that directly factor into the composite Services PMI and faster supplier deliveries. Sentiment among Business Survey Committee respondents varies by industry; however, while the majority of panelists are positive about business and economic conditions there has been a slight pullback in the rate of growth for the service sector." The ISM NM-PMI moved up to a six-month high of 54.5 in August, after falling to 50.3 in May; it was at 55.2 at the start of the year. It was above 49.9 for the eighth straight month—the level that ISM says over time indicates growth in the overall economy. Of the *four components* of the NM-PMI, the *employment* (54.7 from 50.7) and *orders* (57.5 from 55.0) components posted the biggest gains, while the *business activity* (to 57.3 from 57.1) gauge remained at a high level. The *supplier deliveries* (48.5 from 48.1) measure is holding near March's 45.8—which was the fastest delivery performance since April 2009. It peaked at 75.7 in the fall of 2021. On the *inflation* front, the price index edged up for the second month, though remained at a low level, climbing to 58.9 in August from 54.1 in June—which was the lowest since March 2020. It reached a record-high 84.5 at the end of 2021, falling to 54.1 by this June.

Eurozone Retail Sales (*link*): Eurozone retail sales in July fell for the first time in four months, led by a slump in sales of auto fuel. *Retail sales* declined 0.2% in July, though June's 0.3% decline was revised to a 0.2% increase. So far this year, retail sales expanded in three months, contracted in three months, and was unchanged one month, for a ytd gain of 1.0%. Since reaching a record high in June 2021, retail sales have dropped 3.7%. Spending on *food, drinks & tobacco* rose for the third successive month in July, by 0.4%

m/m and 0.9% over the period, after falling 1.3% during the three months through April. These sales increased only two months during all of 2022. Sales of non-food products excluding fuel has increased every month but one so far this year, climbing 0.5% in July and 2.0% ytd. Meanwhile, consumption of automotive fuels has declined three of the past four months, by 1.2% m/m and 3.3% over the period and 5.8% ytd. July data are available for three of Eurozone's four largest economies: Spain's retail sales climbed for 11th time in 12 months, by 0.4% m/m and 8.6% y/y, to its highest level since November 2010. Meanwhile, sales in France increased for the second month, by 1.4% over the period, after a falling seven of the prior eight months by 3.8%. German sales contracted 1.0% during the two months through July, after increasing 2.5% the first five months. Sales in Germany and France were 2.2% and 0.9% below year-ago levels.

Germany Factory Orders (*link*): German factory orders were a surprise on the downside in July, plunging at a double-digit pace of 11.7% (vs -4.3% expected), largely due to a big drop in orders for air and spacecraft—which had soared in June. Excluding big orders, factory orders advanced 0.3%. Foreign orders slumped 12.9% during July, led by orders from within the Eurozone (-24.4%), while the decline in orders from outside the Eurozone (-4.2) paled in comparison; domestic orders (-9.7) were also in the red. Capital goods orders contracted 15.9% in July, after a 10.6% increase in June, followed by an 8.2% slump in consumer goods orders, which followed an 8.0% gain in June. Durable goods orders plunged 13.8%, while nondurable orders slumped 5.9%. Intermediate goods orders were 4.5% lower. Versus a year ago, total orders fell 10.5%, falling back into negative territory after posting its first yearly increase since February 2022 in June (3.3%); the breakdown: foreign orders fell 10.9% and domestic orders 10.0%. Within foreign orders, billings were down 15.2% within the Eurozone and 8.0% outside the Eurozone. Here's a look at the movements in domestic orders, along with the breakdown from both inside and outside the Eurozone for the main industry groupings versus a year ago: capital goods (-4.3%, -20.9%, -7.7%), intermediate goods (-16.2, -11.4, -9.7), consumer durable goods (-18.3, +8.3, -40.4), and consumer nondurable goods (-2.9, +10.9, +10.5).

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