Yardeni Research

MORNING BRIEFING
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Transports Flying Into Headwinds

Check out the accompanying chart collection.

Executive Summary: It's a been train wreck: Investors have been bailing on the S&P 500 Transportation index in recent weeks, after sending it northward for most of the year. Jackie examines the business pressures they've been reacting to, including lighter loads to haul in the wake of the inventory correction at a time of increased fuel and labor costs. … Also: May the best battery developer win EV market dominance. Our Disruptive Technologies segment takes a look at where the top contenders are in this high-stakes race.

Industrials: Transports in the Slow Lane. The S&P 500 Transportation stock price index was gaining altitude ytd through the end of July; then its performance stalled. Demand for transportation services softened as US imports and exports fell, dragged down by consumers' preference to spend more on services and less on goods in the wake of the Covid pandemic. The behavioral change has resulted in a US inventory correction that's been exacerbated by the economic slowdowns in China and other economies. Making matters worse for the transporters of goods, costs have increased as fuel prices and employee wages have risen.

The S&P 500 Transportation index has fallen 10.7% from the end of July through Tuesday's close, lagging far behind the S&P 500's 2.8% decline over the same period. As a result, the S&P 500 Transportation index's ytd gain, which stood at 15.8% on July 31, has shriveled to 3.5% as of Tuesday's close.

Here's the performance derby for the industries in the S&P 500 Transportation index from July 31 through Tuesday's close: Passenger Airlines (-13.5%), Air Freight & Logistics (-12.9), Rail Transportation (-9.4), and Cargo Ground Transportation (-3.0). Each of the industries fell more than the S&P 500's 2.8% decline over the same period.

Here's the performance derby for the industries in the S&P 500 Transportation index from August 1 through Tuesday's close: Passenger Airlines (-13.5%), Air Freight & Logistics (-12.9), Railroad Transportation (-9.4), and Cargo Ground Transportation (-3.0).

We'll be watching for signs that the inventory correction has run its course. Perhaps by next spring, consumers will store their suitcases away and start spending more of their incomes on goods once again. Meanwhile, let's look at the business pressures that have put the brakes on transportation stocks:

(1) *Airlines lose altitude.* With consumers traveling at home and abroad, the S&P 500 Passenger Airlines industry stock price index took off as the year started and gained 37.4% at its peak on July 11 of this year. The industry's stock price index has since lost altitude, though it remains up 9.2% ytd (*Fig. 1*).

Like other transport industries, airlines are facing higher expenses. American Airlines and Spirit Airlines warned on Wednesday that higher fuel costs and wages will eat into Q3 profits. American cut its Q3 earnings estimate to 20-30 cents a share, down from its previous forecast of 95 cents a share.

Brent crude oil futures have risen from a low this year of $71.84 per barrel to a recent high of $92.06 (*Fig. 2*). Wages in the industry are also climbing due to a shortage of pilots and the renewed confidence of unions. "In January, JetBlue agreed to a two-year contract extension that provided a compensation increase of 21.5% over 18 months. In March, Delta agreed on a pilot contract that increases wages 34% by 2026. In July, United Airlines pilots agreed to a pilot contract that would increase pay up to 40% over four years. And [in August], American agreed to a similar 40% pay boost over its new four-year contract," an August 25 *Seattle Times* *article* reported. Most recently, Alaska Airlines pilots received an 11.2% pay increase on September 1 because their contract stipulates the airline's wages must keep pace with wages at rival airlines.

The airline industry has also struggled to buy enough planes to meet travelers' desire for post-pandemic revenge travel. The industry's capacity constraints increased this week for some airlines when RTX announced it would have to ground 600-700 Airbus jets to conduct quality inspections of Pratt & Whitney Geared Turbofan engines due to a manufacturing flaw, a September 12 Reuters *article* explained.

The RTX news follows Boeing's ongoing difficulties ramping up output of new planes. The manufacturer's deliveries dropped to 35 planes in August from 43 planes in July and 60 in June, as it has been fixing a manufacturing defect on the 737 Max. Despite the setback, Boeing's deliveries this year are still an improvement over 2022's deliveries, which were hampered by supply-chain and production difficulties.

Analysts expect the S&P 500 Passenger Airlines industry's earnings growth to slow to

10.4% in 2024, down from the 165.3% surge expected in 2023 when the industry was rebounding from pandemic-related losses (*Fig. 3*). Notably, analysts have been trimming their 2024 earnings estimates for the industry, which had indicated growth as high as 43.8% in October 2022. The cyclical industry's forward P/E has fallen to a record low of 5.9 as its earnings have recovered (*Fig. 4*).

(2) *Trucking along.* The S&P 500 Cargo Ground Transportation stock price index has been a top performer this year, climbing 32.7% ytd through Tuesday's close (*Fig. 5*). The index has been boosted by Old Dominion Freight Line's stock, which has risen 48.7% ytd, as investors hope it will benefit from the bankruptcy of its less-than-truckload competitor Yellow. Old Dominion has bid $1.5 billion for Yellow's North American real estate holdings.

Shares of the index's other constituent, J.B. Hunt Transport Services, haven't fared as well, rising 4.3% ytd through Tuesday's close. Hunt isn't a large player in the less-than-truckload market, so it isn't expected to benefit as much from Yellow's bankruptcy. Hunt and others are facing a market where trucking demand has fallen as consumers slowed their goods purchasing, forcing retailers to shrink bloated inventories.

Business inventories stopped seeing sharp increases at the end of 2022 and were up just 2.2% y/y in June, the weakest since February 2022 (*Fig. 6*). Likewise, trade through the West Coast ports has slowed, hurt by US inventory destocking and softness in global economic growth. Outbound plus inbound West Coast port container traffic fell 19.0% y/y in July, and it declined 22.5% from its peak in June 2021 based on 12-month data (*Fig. 7*). Likewise, the real dollar value of exports and imports has been flattish since it peaked in March 2022 (*Fig. 8*).

The ATA Truck Tonnage index has fallen 3.4% from its recent peak in September 2022 and declined 0.7% y/y in July (*Fig. 9*). Softer demand for trucking services is reflected in the recent sharp 9.5% drop in purchases of new medium and heavy trucks since May and the 12.4% y/y decline in prices for trucking services (*Fig. 10* and *Fig. 11*). The recent loss of truck transportation jobs may have been amplified by the Yellow bankruptcy (*Fig. 12*).

(3) *Rails at a crossing.* The S&P 500 Rail Transportation industry stock price index is the only industry in the transport area that's in negative territory ytd, falling 3.0% through Tuesday's close (*Fig. 13*). The rail index has been dragged down by a 19.4% ytd decline in Norfolk Southern's share price, while CSX and Union Pacific shares have logged flattish performances over the same period (-1.3% and 3.3%, respectively).

Norfolk Southern has been cleaning up hazardous materials spilled in an Ohio train derailment, which the company estimates could cost $803 million. Costs could rise further if additional legal costs, fines, or penalties arise.

Fundamentally, the rail industry has faced the same headwinds that the truckers face: inventory destocking and less trade have meant less stuff to move. Intermodal railcar loadings have fallen 4.2% ytd and 14.5% since the late January 2021 peak, based on the 26-week average (*Fig. 14*). The good news: Loadings ticked up ever so slightly in August, boosted by a jump in shipments of chemicals and petroleum products, nonmetalic minerals, metals and products, and waste and scrap (*Fig. 15*).

Analysts are forecasting a 3.0% decline in rail revenues this year followed by a 3.3% increase in 2024 (*Fig. 16*). Earnings are expected to follow a similar pattern, falling 6.3% in 2023 and rising 9.6% in 2024 (*Fig. 17*). The S&P 500 Rail Transportation industry's profit margins have been under pressure, falling from a peak of 30.4% in December 2021 to a three-year low of 26.9% (*Fig. 18*). But investors may be looking ahead to better times, as the industry's forward P/E has risen to 16.8 from a low of 15.2 earlier this year (*Fig. 19*).

(4) *Less freight and logistics.* Inventory destocking and less trade also mean there's less freight to ship and logistics to manage. The S&P 500 Air Freight & Logistics stock price index has gained only 3.7% ytd through Tuesday's close (*Fig. 20*). The stocks in the index have had very different ytd returns: FedEx (45.2%), Expeditors International of Washington (12.1), C.H. Robinson Worldwide (-5.0), and UPS (-9.9).

FedEx shares have benefitted from a company-wide restructuring pushed by activist investor D.E. Shaw. The company's ground and express delivery units were combined among other cost-saving moves. Conversely, its competitor UPS has struggled with union negotiations this summer that resulted in higher pay for employees and sent shares tumbling. The industry's earnings are expected to fall 18.3% this year after declining by 5.2% last year. But analysts are optimistic that earnings will jump 14.6% in 2024 (*Fig. 21*).

Disruptive Technologies: The Race for Stronger Batteries. We've long believed that the winner in the race for electric vehicle (EV) dominance would begin and end with who has the best battery at the best price. So far, Tesla has passed that test, with cars that can drive for 300-400 miles on a charge. But scientists are developing new batteries that will add hundreds of miles to a car's driving range on a single charge. Here's a look at who's making progress:

(1) *900 miles from Toyota.* Toyota believes it can build a solid-state battery that delivers 900 miles of range. That's quite a claim from a company that until now has sold hybrid cars but shunned fully electric models. Getting there will be a winding road. In 2026, the company plans to produce a lithium nickel cobalt manganese battery that offers 504 miles of range, improving that to 660 miles of range by 2028. Research on the 900-mile battery is ongoing with no delivery date disclosed, a June 13 Electrek *article* reported.

(2) *600 miles from WeLion.* Chinese battery manufacturer WeLion New Energy Technology (WeLion) has built a "semi-solid-state" battery that gives the Nio ES6 SUV, which is currently for sale, 578-miles of range on one charge, an August 7 *PC Magazine* *article* reported. Were it used in a lighter, more aerodynamic passenger car, the battery could provide 621 miles of range.

WeLion, which is building four plants in China, reportedly plans an IPO by 2025 to help fund its expansion. "Founder Li Hong said he was targeting a 20 times increase in annual revenue to CNY10bn (US$1.4bn) by 2025 and noted that, in the latest private funding round, the company was valued at CNY16bn" ($1.2 billion), an August 8 *article* in JustAuto reported. WeLion's battery reportedly has a solid electrolyte, an anode made of a silicon graphite composite, and a cathode with ultra-high nickel content, a July 4 Electrive *article* noted.

(3) *Don't count out Tesla.* Tesla has simplified its battery manufacturing process and developed the 4680 battery, which allows the company to promise a $25,000 car that offers a range of 250-300 miles. Most low-cost EVs have a range closer to 100-200 miles. It's believed that the 4680 batteries will use new single-crystal cathodes that battery supplier LG Chem is developing. The new cathodes are expected to increase battery lifespan by more than 30% and increase the capacity of the battery by 10% compared to current batteries, a June 30 *article* by InsideEVs reported.

(4) *Batteries taking flight.* NASA is working on a solid-state battery for use in planes. Solid-state batteries are preferred because they don't catch fire, as some liquid electrolyte batteries can when exposed to heat. "A prototype sulphur selenium battery developed by the project produces 500 watt-hours of energy per kilogram of battery. That is double the energy density of a standard lithium-ion battery," an August 17 Euronews.green *article* reported. The battery also weighs less and can release energy more quickly than a standard battery.

Calendars

US: Thurs: Retail Sales Total and Ex Autos & Gas 0.2%/0.5%; Headline & Core PPI 0.4%m/m/1.2%y/y & 0.2%m/m/2.2%y/y; Initial & Continuous Jobless Claims 226k/1.69m; Business Inventories 0.1%. **Fri:** Import & Export Prices 0.3%/0.3%; Headline & Manufacturing Industrial Production 0.1%/0.1%; Capacity Utilization Rate 79.3%; Empire State Manufacturing Index -10.0; University Of Michigan Consumer Sentiment Index 69.2; Baker-Hughes Rig Count. (FXStreet estimates)

Global: Thurs: Japan Industrial Production -2.0%; China Industrial Production 4.0%y/y; China Retail Sales 3.0%y;y; China Unemployment Rate 5.3%; ECB Interest Rate Decision & Deposit Facility Rate 4.25%/3.75%; NBS Press Conference; Lagarde; Enria; McCaul; Fernandez-Bollo. **Fri:** Eurozone Trade Balance Germany WPI; France CPI; Eurogroup Meetings; Lagarde. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* was below 3.00 for the sixth successive week this week, holding at 2.25. It had dropped from 2.38 during the August 22 week to 2.07 during August's final week—which was the lowest since the last week in May; it was at 3.07 six weeks ago. *Bullish* sentiment climbed for the second week by 7.6ppts (to 50.7% from 43.1%), after retreating the prior four weeks by 14.0ppts (to 43.1 from 57.1); the 57.1% during the August 1 week was the most bulls since November 2021, when the reading reached a danger level of 57.2%. Meanwhile, *bearish* sentiment climbed for the third week to a 15-week high of 22.5% this week, after falling three weeks ago from 20.0% to 18.6%—it had fluctuated in a volatile flat trend before the recent move up. The *correction count* dipped this week for the third week, to 26.8%, 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 September), optimism increased this week, climbing above its average for the first time in four weeks, while bearish sentiment sank to a four-week low and neutral sentiment to a seven-week low. The *percentage expecting stock prices to rise over the next six months* climbed for the second week by 9.9ppts (to 42.2% from 32.3%) 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 for the second week by 6.3ppts (to 29.6 from 35.9), after climbing the prior three weeks by 14.6ppts (to 35.9% from 21.3%). It was below its historical average of 31.0% for the first time in three weeks. The *percentage expecting* *stock prices will stay essentially unchanged over the next six months* decreased 4.2ppts to 28.2%, putting it below its historical average of 31.5% for the first time in four weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin rose 0.1pt w/w to a nine-month high of 12.7% during the September 7 week. That's up from a 24-month low of 12.3% during the March 30 week, but is down 0.7pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.4pts above its seven-year low of 10.3% during April 2020. Forward revenues rose 0.4% w/w to a record high. Forward earnings rose 0.9% w/w to its highest level since July 2022, and is less than 0.1% 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 rose 0.2pt w/w to an 11-month high of 4.3% and is now up 2.0pts 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 surged 0.8pt w/w to a 15-month high of 9.8%, and is now 6.3pts 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 2.2% in 2023 (up 0.1pt 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 (unchanged w/w) and an 11.6% rise in 2024 (down 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 fell 0.3pt w/w to a 13-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 down 0.04pt w/w to a three-week low of 2.37 and compares to 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 S&P 500 sectors, the September 7 week saw consensus forward revenues rise for all 11 sectors and forward earnings rise for all but the Real Estate sector. The forward profit margin also moved higher for all but Real Estate. Five sectors have forward revenues at post-pandemic or record highs this week: Communication Services, Health Care, Industrials, 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. Five sectors have forward earnings at a record high: Communication Services, Consumer Discretionary, Industrials, Information Technology, and Utilities. Among the remaining six 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's 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: 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 (25.0%, down from its 25.4% record high in June 2022), Financials (18.2, down from its 19.8 record high in August 2021), Real Estate (17.1, down from its 19.2 record high in 2016), Communication Services (16.4, 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 (12.7, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.2, down from its 12.8 record high in November), Materials (11.1, 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, 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 rose 0.1ppt w/w to a nine-month high of 12.7% as of the September 7, 2023 week. It's now up 0.4ppt from a two-year low of 12.3% during the March 30 week. Seven of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by four sectors. It's still down 5.8%, or 0.7ppt, 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 13.1% to 16.4%), Consumer Discretionary (up 11.6% to 8.1%), Information Technology (up 7.2% to 25.0%), Industrials (up 5.2% to 10.8%), S&P 500 (up 3.1% to 12.6%), Real Estate (up 2.9% to 17.1%), Consumer Staples (up 1.7% to 6.8%), Materials (up 0.3% to 11.1%), Utilities (down 0.8% to 13.0%), Financials (down 1.2% to 18.2%), Health Care (down 3.6% to 9.2%), and Energy (down 4.4% to 11.2%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 92.2% to 7.4%), Publishing (up 22.4% to 3.0%), Wireless Telecommunication Services (up 20.3% to 13.8%), Homebuilding (up 19.5% to 12.8%), Personal Care Products (up 18.0% to 10.0%), Semiconductors (up 17.9% to 31.0%), Passenger Airlines (up 17.6% to 6.2%), Interactive Media & Services (up 16.9% to 23.3%), Hotels, Resorts, & Cruise Lines (up 16.7% to 13.4%), and Brewers (up 14.8% to 9.1%).

US Economic Indicators

Consumer Price Index (***link***): August's CPI monthly gain was triple July's increase, as a spike in gasoline prices accounted for over half the increase, with shelter costs also contributing to the gain. The *headline CPI* jumped 0.6% last month, the biggest monthly gain since June 2022 and triple the 0.2% increase posted in both July and June. On a yearly basis, the headline CPI accelerated to 3.7%, after decelerating from a recent peak of 9.1% in June 2022 to a recent bottom of 3.0% this June, which was the lowest since March 2021 and only one-third of last June's 9.1% peak. *Core prices* increased 0.3% last month, an uptick from the 0.2% gains in July and June but below the average gain of 0.4% the first five months of the year. Meanwhile, the core prices yearly rate continue to ease, slowing from a recent peak of 6.6% last September to a 23-month low of 4.3%, above the 2.0%-2.5% range pre-Covid. *Excluding shelter*, the yearly core rate was only 2.2%, down from February 2022's peak of 7.6%. Here's a laundry *list of CPI yearly rates* for August: The rate for consumer durable goods fell 2.0% y/y, its eighth negative reading in nine months, while the rate for *consumer nondurable goods* excluding food (0.6 y/y) moved out of negative territory after five months below. The *services rate excluding energy* eased a bit for the sixth month to 5.9% y/y, after rising from 1.3% in January 2021 to 7.3% this February—which was the highest since summer 1982. Food costs (4.3% y/y) eased for the 12th month from last August's 11.4%, which was the fastest pace since April 1979. Within food, the rate for *food at home* (3.0) has slowed steadily from 13.5% last August (the highest since March 1979); the yearly rate for *food away from home* slowed slightly for the fifth month to 6.5% y/y from March's 8.8%—which was the highest since the highest since fall 1981. *Energy costs* were below zero for the sixth month, tumbling from last June's 41.6%—which was the fastest pace since April 1980—to -16.7% y/y this June, though the decline has narrowed to -3.6% last month, nearing the breakeven point of zero. Within energy, the yearly rate for *fuel oil* plummeted to -36.6% y/y in June, down from last May's record high of 106.7%, though has picked up the past two months to -14.8% in August. The rate for *gasoline* prices bottomed at -26.5% in June, climbing to -3.3% in August; it peaked at 59.9% last June (fastest since March 1980). The rate for _natural gas_ prices has been dropping y/y: Prices fell below the year-ago level in April (-2.1) for the first time since August 2020 and was at -16.5% in August, bouncing between -13.7% and -18.6% the past few months. The y/y rate was 38.4% last June, which was the highest since October 2005. The _electricity_ rate eased to a 31-month low of 2.1% y/y in August; it peaked at 15.8% last August—which was the highest since August 1981. Within _consumer durable goods_, the rate for *new cars* rose 2.4% y/y, the lowest rate since April 2021, down from last April's near-record high of 14.2%, while the rate for _used cars & trucks_ was -6.6% y/y last month, up from February's -13.6% bottom—which was the lowest since November 1960. It was as high as 41.2% last February and at a record-high 45.2% during June 2021. The rate for _furniture & bedding_ fell 4.4% y/y in July, after posting its first negative reading since July 2020 in May (-0.5%), and is down dramatically from last February's record high of 17.1%. The rate for _major appliances_ fell 8.3% y/y, down from its recent peak of 12.4% last March. Within c_onsumer nondurable goods_, the rate for apparel prices continues to hold between 3.1% and 3.6% the first eight months of this year, not too far from the 20-month low of 2.9% at the end of 2022; before that, it fluctuated in a 5.0%-5.5% range from last April through September. It was at a recent peak of 6.8% last March (the highest since the end of 1980). Within services, _owners' equivalent rent_ eased for the fourth month, to 7.3% y/y, not far from its record high of 8.1% in April, while the rate for rent of *primary residence* dipped to 7.8% y/y, easing from 8.8% y/y during February through April, which was the highest since fall 1981. These rates compare with recent lows of 1.8%. Meanwhile, the yearly rate for _lodging away from home_ eased to 3.0% in August after accelerating from 3.3% in April to 6.0% in July; it was at a record high of 25.1% in both March and February of 2022. Turning to *medical care*, the yearly rate for _hospitals' services_ (3.0) eased from June's 4.1% to not far from March's 20-month low of 2.7%. The _physicians' services_ (0.3) rate has hovered around zero the past six months. Meanwhile, the yearly rate for _airfares_ fell 13.3% y/y, up from June's -18.0%, which was its steepest drop since February 2021; that compares with last October's 42.9%, which wasn't far from the record high of 45.0% in September 1980.

Global Economic Indicators

Eurozone Industrial Production (**_link_**): Eurozone industrial production contracted in July, slumping after a three-month climb. _Headline_ production, which excludes construction, fell 1.1% in July, after expanding 1.8% during the three months through June, though is down 1.7% ytd and 2.2% y/y. _Manufacturing_ production is in a rut, contracting 2.5% ytd and 1.8% y/y. Among the main industrial groups, _energy output_ was in the black for the second month, climbing 1.6% m/m and 2.0% over the period, though was down 5.7% y/y. Meanwhile, *capital goods* production fell 3.1% during the two months through July, after gains of 1.1% and 15.3% in May and April, respectively—though April's 15.3% gain was a rebound from March's 15.4% drop. *Intermediate goods* output ticked up 0.2% in July, after declining three of the prior four months by 2.4%. *Consumer durable goods* production contracted for the fourth successive month in July, down 2.2% m/m and 6.4% over the period; output is down 4.1% ytd. *Consumer nondurable goods* output edged up 0.4% in July after sliding for the third time in four months, by 4.8%. *Compared to a year ago*, headline production was down 2.2%. Capital goods (0.4% y/y) was the only industrial group showing an increase in output versus a year ago, though a negligible one, with consumer nondurable goods (-0.6) decline also close to zero. Consumer durable goods (-6.7% y/y) posted the biggest yearly decline in output, followed by energy (-5.7) and intermediate goods (-5.0). Production data are available for the *top four Eurozone economies* for July and show that over the 12 months through July, only France (+2.8% y/y) showed a gain, while Germany (-2.5) recorded the biggest yearly decline, followed by Italy (-2.1) and Spain (-1.9).

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