MORNING BRIEFING
September 18, 2023

Inflation: Twin Peaks Again?

Check out the accompanying chart collection.

Executive Summary: With oil prices spiking again, we can't help but think of the 1970s when two peaks in oil prices fueled the Great Inflation and caused two recessions. We don't see history repeating in this case, however. The big difference this time is the disinflationary tech-driven productivity boom we expect this decade. … But we are concerned enough about the oil price spike, the ballooning federal deficit, and other recent developments to return our subjective odds of a recession before year-end 2024 to 25% from 15%. Notably, we don't view that as the most likely scenario but as a risk to our happier rolling recovery outlook.

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US Economy I: Raising Odds of a Recession a Tad. On July 31, Debbie and I lowered our odds of a recession. We wrote: "Our script has played out as expected so far. The soft-landing scenario looks increasingly like a no-landing one. As a result, we are raising the odds of a no-landing scenario from 75% to 85% and lowering the odds of a hard-landing scenario from 25% to 15% through the end of next year." On August 21, in response to the backup in bond yields, we wrote: "We currently are still assigning 85% odds to a no-landing scenario through the end of next year and 15% to a hard-landing one. However, we are leaning toward lowering the former and raising the latter." Today, in response to several new developments, we are raising the odds of a recession before the end of next year from 15% to 25%.

We remain in the rolling-recession-and-recoveries camp for now. However, the 30% increase in a barrel of Brent crude oil since June 27 is a concern (*Fig. 1*). It has resulted in an 8.2% increase in the retail price of gasoline since late June to $3.94 during the September 11 week (*Fig. 2*). If the price of oil breaches $100 per barrel and the price of gasoline rises solidly above $4.00 a gallon and both remain above those levels for a while, they could trigger a renewed wage-price spiral and higher inflationary expectations.

That scenario would be reminiscent of the 1970s, when the first wave of inflation was followed by a second wave and both triggered recessions (*Fig. 3*). That is not the scenario we consider most likely, but it is the risk to our happier outlook. It's partly because of this risk that we've raised our subjective odds of this alternative scenario to 25%.

US Economy II: Dueling Decades. Now consider the following comparison of the 1970s and the 2020s (so far):

(1) *The dollar.* The Great Inflation of the 1970s actually started during the second half of the 1960s. It was triggered by President Lyndon Johnson's decision to deficit-finance the Vietnam War rather than to increase taxes to fund the war. The same can be said about his Great Society initiative. A result of this guns-and-butter approach to fiscal policy was higher inflation.

President Richard Nixon continued that approach during the early 1970s and exacerbated inflation by closing the gold window on August 15, 1971, which caused the dollar to depreciate significantly. The weaker dollar boosted commodity prices and caused OPEC to drive oil prices higher during the 1970s.

This time, several rounds of fiscal stimulus programs combined with ultra-accommodative monetary policies caused a demand shock that overwhelmed supplies, unleashing the current bout of inflation. The programs presumably were aimed at offsetting the negative impact of the pandemic on workers. More accurately, they were another example of Washington's politicians "never letting a good crisis to go to waste" (in the words of Rahm Emanuel, spoken when he was chief-of-staff in the Obama administration).

What's different this time is that the US dollar is strong. The Fed has been more aggressive in tightening monetary policy in response to inflation than the other major central banks. Also, the US economy is performing much better than the other major economies, which likewise supports the dollar.

(2) *Oil & food prices.* We have no doubt that the Great Inflation of the 1970s was caused by the two spikes in the price of oil during 1973/74 and again in 1979, both triggered by wars in the Middle East (*Fig. 4*). The price of a barrel of West Texas Intermediate crude oil jumped 213% and 166% during these two episodes. Both caused recessions.

This time, the price of a barrel of Brent crude oil jumped 46% during H1-2022, triggered by Russia's invasion of Ukraine. But there was no recession. The rise in the price of oil so far this year isn't likely to cause a recession either unless it is the start of a major spike resulting from another geopolitical crisis, particularly in the Middle East. That possibility cannot be ruled out given the hostilities between Israel and Iran.

The twin peaks in the headline CPI inflation rate during the Great Inflation of the 1970s were 12.3% and 14.8% (*Fig. 5*). Last year, it peaked at 9.1%. The twin peaks in the core CPI inflation rate during the 1970s were 11.9% and 13.6%. Last year, it was 6.6%.

The twin peaks in the CPI energy component during the 1970s were 33.7% and 47.1%. Last year's peak was 41.6%. The twin peaks in the CPI food component were 20.3% and 13.1% during the 1970s, while the peak was 11.4% last year.

(3) *Other prices.* This time, supply-chain disruptions triggered a much greater spike in the inflation rate for durable goods (*Fig. 6*). The CPI durable goods inflation rate peaked at 14.3% and 11.3% in the 1970s. This time, it peaked at 18.7% last year and plunged much faster than during the 1970s. It was back down to -2.0% y/y through August, in the range of the mildly deflationary readings prior to the pandemic. This component of inflation has turned out to be quite transitory this time, while it was more persistent during the 1970s.

The jury is out on the CPI for nondurable goods, including food and energy. It peaked at 16.2% last year, comparable to the levels hit during the twin peaks of the 1970s. It too fully reversed last year's spike. But oil prices have been rising again in recent weeks.

During the 1970s, services inflation was especially persistent, with three consecutively higher peaks at 8.5% (in 1970), 11.7% (in 1975), and 18.1% (in 1980). This time, so far, the CPI services inflation rate peaked at 7.6% last year and declined to 5.4% in August. Exacerbating the services inflation problem during the 1970s was a wage-rent inflation spiral (*Fig. 7* and *Fig. 8*). This time, both wage and rent inflation rates peaked last year (at 7.0% and 8.9%, respectively, and are down to 4.5% and 8.1%). The rent component of the CPI is on track to moderate significantly, reflecting the trend in current rental leases.

(4) *Wages & union contracts.* Will wage inflation moderate along with rent inflation this time? Currently, union members make up a much smaller percentage of the labor force. The available data show membership is down to 6.0% of private-sector wage and salary employment from 16.8% in 1983 (*Fig. 9*). Nevertheless, today's unions have been energized by stagnating real wages. They've achieved sizeable compensation gains in recent negotiations.

(5) *Productivity & technology.* The big difference we are forecasting between now and then

is that productivity growth, which collapsed during the 1970s, will be improving significantly over the rest of the decade (*Fig. 10*). The average annualized five-year growth rate of productivity peaked at a record high of 4.5% during Q1-1966, then proceeded to plunge to a record low of 0.1% during Q3-1982. This time, productivity growth bottomed at 0.4% during Q4-2015. It rose to 1.4% during Q4-2019 just before the pandemic. It soared during the lockdowns and fell when quits rose sharply during the pandemic. Now it is settling down, with a 1.6% increase during Q2-2023.

But we expect that our measure of productivity growth will resume its pre-pandemic ascent to 4.0% by the end of the decade. That may seem farfetched, but that would be consistent with the peaks in the previous three productivity growth cycle booms. This time, we expect to see the plethora of technological innovations boosting productivity in many more companies in many more industries than ever before. In this sense, all companies are now technology companies.

The collapse in productivity growth combined with rapidly rising compensation caused unit labor costs inflation (ULC) to soar during the 1970s (*Fig. 11* and *Fig. 12*). There actually were three peaks in this inflation rate, which closely tracks the headline CPI inflation rate. This time, ULC inflation peaked last year at 7.0% y/y during Q2 and fell to 2.5% during Q2-2023. The headline CPI inflation rate peaked at 9.1% last summer and fell to 3.7% during August.

(6) *Bottom line*. We've raised our subjective odds of a recession from 15% to 25%. The recent rise in the price of oil is somewhat reminiscent of what happened during the Great Inflation of the 1970s. So is the push by labor unions for higher wages to offset the rapid rise in the cost of living. Nevertheless, we don't expect a replay of the 1970s. In our most likely scenario, productivity growth resumes its upward trend that started at the end of 2015, which was interrupted during the pandemic, and overall compensation inflation continues to moderate. So we don't expect to see a second peak for inflation that would force the Fed to cause a recession to bring inflation down.

It isn't just the recent upturn in oil prices that's caused us to raise the recession warning flag a bit higher. We are also concerned about the widening federal budget deficit, with the government's net interest outlays soaring. Bond yields might have to rise higher to attract buyers for the mounting supply of Treasuries, especially if there is an inflation scare along the way. More immediate concerns are the United Auto Workers' strike and the likelihood of a government shutdown at the end of the month.

There’s never a dull moment in our business. Actually, there is occasionally: When the S&P 500 rose at the end of July to our year-end target of 4600, we predicted that the remainder of this year might be a dull one for stock prices, with the index still at 4600 by the end of the year. So far, so dull.

Calendars

US: Mon: NAHB Housing Market Index 50. **Tues:** Housing Starts & Building Permits 1.440mu & 1.441mu; API Weekly Crude Oil Inventories. (FXStreet estimates)

Global: Mon: Buba Monthly Report; RBA Meeting Minutes; Panetta; Elderson; Mauderer; DeGuidos. **Tues:** Eurozone Headline & Core CPI 0.6%m/m/5.3%y/y & 0.3%m/m/5.3%y/y; Eurozone Current Account Balance €30.2b; Canada CPI 0.2%m/m/3.8%y/y; China PBoC Loan Prime Rate 3.45%; Wuermeling. (FXStreet estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index edged down 0.2% last week in its fifth decline over the past seven weeks. The index is now 8.4% below its record high on December 27, 2021. The US MSCI ranked 38th of the 48 global stock markets that we follow in a week when 32 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed markedly with a gain of 1.7%, but remains in a deep 16.5% correction from its June 15, 2021 record high. EM Latin America rose 3.9% and was the only region to outperform the AC World ex-US. EMEA was the worst performing region last week with a 0.4% decline, followed by EMU (0.8%), BIC (0.8), EM Eastern Europe (1.0), EM Asia (1.1), and EAFE (1.6). Colombia was the best-performing country last week, with a gain of 12.8%, followed by Brazil (5.6), Chile (3.9), Canada (3.7), and Japan (3.0). Among the 30 countries that underperformed the AC World ex-US MSCI last week, the 5.9% decline for Turkey was the biggest, followed by those of the Philippines (-2.2), the Netherlands (-1.9), Hong Kong (-1.5), and Thailand (-1.2). Looking at 2023’s performance so far, the US MSCI is up 16.3%, as its ytd ranking remained dropped two places w/w to 11/48. The AC World ex-US’s ytd gain of 6.8% is trailing the US’s, with 29/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 15.0%, followed by EM Latin America (12.3), EMU (11.1), and EAFE (8.5). The regional laggards so far in 2023: BIC (-0.9), EMEA (1.1), and EM Asia (2.8). This year’s best ytd country performers: Greece (35.9), Hungary (35.1), Sri Lanka (33.8), Argentina (30.5), and Ireland (22.4). Here are the worst-performing countries of the year so far: Pakistan (-30.9), Hong Kong (-18.2), Finland (-11.8), New Zealand (-11.1), Thailand (-10.4), and South Africa (-10.4).

S&P 500/400/600 Performance (*link*): SmallCap was the only one of these three indexes to rise last week. SmallCap gained 0.1%, ahead of the 0.2% and 0.3% drops for LargeCap and MidCap. At Friday's close, LargeCap finished the week at 7.2% below its record high on January 3, 2022, MidCap remained in a correction to end at 11.8% below its record high on November 16, 2021, and SmallCap remained near bear market territory at 19.1% from its November 8, 2021 record high. Nineteen of the 33 LargeCap and SMidCap sectors moved higher for the week, compared to just three rising a week earlier. MidCap Utilities and LargeCap Utilities were the best performers with gains of 2.7%, ahead of SmallCap Utilities (2.5), MidCap Consumer Staples (2.3), and SmallCap Materials (2.2). Among the biggest underperformers for the week were LargeCap Tech (-2.2), SmallCap Tech (-1.6), MidCap Tech (-1.6), MidCap Energy (-1.2), and SmallCap Consumer Discretionary (-1.1). Looking at performances so far in 2023, LargeCap, with a gain of 15.9%, remains well ahead of MidCap (5.6) and SmallCap (2.5); 20 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Communication Services (44.1), LargeCap Tech (37.5), LargeCap Consumer Discretionary (34.6), MidCap Industrials (18.6), and MidCap Tech (16.0). Here are 2023's biggest laggards: MidCap Utilities (-17.2), MidCap Communication Services (-12.8), SmallCap Financials (-11.7), SmallCap Utilities (-11.4), and SmallCap Health Care (-11.0).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, but nine outperformed the composite index's 0.2% decline. That compares to a 1.3% decline for the S&P 500 a week earlier, when two sectors rose and eight outperformed the index. Utilities was the best performer with a gain of 2.7%, followed by Consumer Discretionary (1.7%), Financials (1.4), Communication Services (0.6), Consumer Staples (0.4), Real Estate (0.1), Energy (0.1), Health Care (0.0), and Materials (-0.1). Tech was the worst performer, with a drop of 2.2%, followed by Industrials (-0.6). Looking at 2023's performance so far, the S&P 500 is up 15.9% ytd, with just three sectors still outperforming the index and seven higher for the year. The best ytd performers: Communication Services (44.1), Tech (37.5), and Consumer Discretionary (34.6). These are 2023's worst performers: Utilities (-8.7), Health Care (-3.1), Consumer Staples (-2.9), Real Estate (-1.2), Financials (1.3), Energy (4.4), Materials (4.7), and Industrials (6.5).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 0.2% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index remained below its 50-dma for a second week, but has been above in 21 of the past 25 weeks. It remained above its 200-dma for a 26th week. As for what the dmas themselves have been doing, the 50-dma rose for a third week after falling for one week for the first time in 22 weeks, and the 200-dma rose for a 16th week in its longest positive streak since March 2022. The S&P 500 dropped to 0.8% below its rising 50-dma from 0.5% below its rising 50-dma a week earlier, but is up from 2.0% below (a 22-week low) its rising 50-dma in mid-August. 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 weakened to 6.1% above its (rising) 200-dma from 6.7% above a week earlier, but remains above its 11-week low of 5.5% in mid-August. 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*): Four of the 11 S&P 500 sectors are trading above their 50-dmas, up from just two above a week earlier. That's down from all 11 S&P 500 sectors above in the three weeks before the end of July. In the latest week, Consumer Discretionary and Financials joined Communication Services and Energy as the only sectors trading above their 50-dmas. Six sectors now have a rising 50-dma, up from three a week earlier. Turning higher w/w were Consumer Discretionary, Health Care, and Materials. These are the other three sectors with a rising 50-dma: Communication Services, Energy, and Financials. Looking at the more stable longer-term 200-dmas, the positive club remained steady w/w at seven members. The four sectors still trading below their 200-dmas are Consumer Staples, Health Care, Real Estate, and Utilities. The rising 200-dma club improved w/w to seven sectors, as Financials and Materials turned up w/w. These four sectors still have a falling 200-dma: Consumer Staples, Health Care, Real Estate, and

Utilities.

US Economic Indicators

Retail Sales (***link***): Retail sales in August surprised on the upside, boosted by higher gas prices. *Total retail sales* jumped 0.6% (vs 0.2% expected) in August, following a downwardly revised 0.5% (from 0.7%) gain in July. Sales have increased the past five months, by a total of 2.3%, after contracting 1.6% during the two months through March, for a ytd gain of 3.6% to a new record high. Meanwhile, sales in the *control group*—which excludes autos, gasoline, building materials, and food services—has recorded only one decline this year, climbing 0.1% in August and 3.3% ytd to a new record high. This measure correlates closely with the consumer spending component in GDP. Of the *13 nominal retail sales categories*, nine rose in August while three fell, and nonstore retailer sales were flat. Here's a snapshot of the 13 categories' *August sales performance versus that of a year ago*: gasoline stations (5.2% m/m & -10.3 y/y), clothing & accessories stores (0.9 & 1.3), electronics & appliance stores (0.7 & -1.8), health & personal care stores (0.5 & 7.8), food & beverage stores (0.4 & 2.1), food services & drinking places (0.3 & 8.5), motor vehicles & parts (0.3 & 4.4), general merchandise stores (0.3 & 2.0), building materials & garden equipment (0.1 & -4.9), nonstore retailers (0.0 & 7.2), furniture & home furnishings (-1.0 & -7.8), miscellaneous store retailers (-1.3 & -0.4), and sporting goods & hobby stores (-1.6 & -1.4).

Business Sales & Inventories (***link***): Both nominal and real business sales remain in record-high territory, though are down from their recent record highs. *Nominal business sales* expanded 0.6% in July after contracting four of the prior five months, by 1.8%. Since reaching a record high last June, sales have decreased seven months, increased five months, and were unchanged one month—falling 2.6% from its record high. Meanwhile, *real business sales* were flat in July, following a 1.0% gain in June, its first increase in four months. These sales reached a record high in January 2022 and currently are only 0.9% below that record level. In the meantime, the real inventories-to-sales ratio remained at 1.48 in July, down from 1.49 in March and April—which was the highest since mid-2020, though up from a recent low of 1.37 in fall 2021. Meanwhile, the nominal ratio ticked down to 1.39 in July from 1.40 in the months from March through June—which was the highest since the mid-2020s.

Consumer Sentiment Index (***link***): "Notably, both short-run and long-run expectations for economic conditions improved modestly this month, though on net consumers remain relatively tentative about the trajectory of the economy," noted Joann Hsu, director of the Surveys of Consumers at the University of Michigan. *Sentiment* dropped for the second month, according to preliminary estimates, falling from a 21-month high of 71.6 in July to 67.7 in mid-September. This month's reading is about 35% above the all-time low of 50.0, reached in July 2022, but falls short of the historical average reading of 86.0, notes Hsu. The *present situation* component fell for the second month, to 69.8 in mid-September, after climbing five of the prior seven months by 17.2 points to 76.6 in July—its highest level since October 2021. The *expectations* component edged up to 66.3 this month, after falling from a 19-month high of 68.3 in July to 65.5 in August. Hsu warns, "So far, few consumers mentioned the potential federal government shutdown, but if the shutdown comes to bear, consumer views on the economy will likely slide, as was the case just a few months ago when the debt ceiling neared a breach." Turning to inflation, the *one-year expected inflation rate* fell from 3.5% in August to 3.1% in mid-September—the lowest since March 2021—and is just above the 2.3%-3.0% range seen in the two years prior to the pandemic. The rate was at 4.6% in April. The *five-year expected inflation rate* sank to 2.7%, dropping below the narrow 2.9%-3.1% range for only the second time in the past 26 months. In comparison, long-run inflation expectations ranged between 2.2%-2.6% in the two years pre-pandemic.

Producer Price Index (***link***): The gain in August's headline PPI was larger than expected, as goods prices rose at the fastest pace since June 2022, driven by a double-digit gain in energy prices. *Final demand* advanced 0.7% last month and 1.1% during the two months through August, after declining three of the prior four months by a total of 0.6%. *Core prices*—which excludes food, energy, and trade services—advanced 0.3% in August, matching July's gain, after averaging monthly gains of only 0.1% the prior four months. August's yearly rate picked up slightly to 3.0% y/y after easing from a record high of 7.1% last March to a 28-month low of 2.8% this June. *Final demand goods* jumped 2.0% in August, the biggest monthly gain since mid-2022, as prices for final demand energy surged 10.5%. The yearly rate moved above zero, to 0.5% y/y, after easing from a record high of 17.6% last June to a recent low of -4.3% this June—which was the lowest since April 2020. *Final demand services* rose 0.2%, slowing from July's 0.5%, which was the most since last summer; it had fluctuated from -0.1% to +0.2% during the first half of this year. The yearly rate eased back down to June's 29-month low of 2.2%, after ticking up to 2.5% in July; it's down sharply from its record high of 9.4% last March. The PPI for *personal consumption* rose 0.7% in August, the biggest monthly gain since June 2022, following increases of 0.4% and 0.2% the previous two months. The yearly rate moved up for the second month to 2.0%, after slowing from a record high last March of 10.4% to a 34-month low of 0.4% this June. The yearly rate for *personal consumption excluding food & energy* eased for the fourth month to 2.4% in August following a blip up to 3.3% in April; it peaked at a record high of 8.1% during March 2022. Looking at *pipeline prices*, the yearly rate for intermediate goods prices remained below zero for the sixth month, though ticked up from a low of -9.2% in June to -4.4% in August. It fell below zero in March for the first time November 2020; it was at a cyclical high of 26.6% during November 2021. The yearly crude goods rate was in negative territory for the seventh successive month, falling 26.9% y/y in August. However, it narrowed from June's decline of 32.2%—which was the steepest yearly decline since summer 2009; the rate was at a recent peak of 50.3% last June.

Import Prices (***link***): Import prices increased more than expected in August as energy costs surged, though once again underlying inflationary pressures remained subdued. *Import* prices rose 0.5% in August, following a 0.1% uptick in July—after falling five of the prior six months by 1.7%. Prices sank to -3.0% y/y, down from the recent peak of 13.0% in March 2022, though up from June's recent bottom of -6.1%. *Nonpetroleum* prices were flat in August for the second month, following a five-month drop of 1.6%; the yearly rate is -1.1%, up slightly from May's recent low of -2.2%; it peaked at 8.1% last March. Fuel prices posted the fourth gain in the past five months during August, rising 9.0% over the period, after a nine-month slide of 37.1%. The yearly rate was -20.0% in August, narrowing from June's three-year low of -36.7%; it peaked at 130.1% in April 2021. Meanwhile, here's the yearly rate in *import prices for several industries* from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to -12.3% from 55.2%); capital goods (0.5 from 4.2); consumer goods ex autos (-0.3 from 3.2); and foods, feeds & beverages (5.0 from 15.7).

Industrial Production (***link***): Industrial production was a surprise on the upside, led by mining output and defense production. *Headline production* rose 0.4% in August, double the expected 0.2% gain though only roughly half of July's 0.7% increase. A 1.4% increasing in mining output and a 3.5% jump in production of defense and space equipment led to the upside surprise. Meanwhile, *manufacturing* production edged up only 0.1% during the month, held back by a 5.0% drop in the production of motor vehicles and parts. *Excluding motor vehicles & parts*, total production rose 0.7% in August, with manufacturing production up 0.6% and durable goods manufacturing 1.0% higher. By *market group*, *consumer goods* production fell for the third time in four months, by 0.2% m/m and 1.2% over the period, for a ytd gain of only 0.1%. Durable consumer goods production was up 1.6% ytd while nondurable goods production was down 0.2%. *Business equipment* production increased 0.8% in August for the second consecutive month after falling four of the prior five months by 1.0%. Still, output was up 2.0% ytd, led solid gains in information processing (3.8%) and transit (3.7) equipment, with industrial and other equipment (0.6) showing only a negligible gain.

Capacity Utilization (***link***): The *headline* capacity utilization rate moved up for the second month, from 79.0% in June to 79.7% in August; it peaked recently at 80.8% in September. August's rate is in line with its long-run (1972-2022) average. The *manufacturing* utilization rate held at 77.9% in August, up from its recent low of 77.1% in December, putting it 0.3ppt below its long-run average. Meanwhile, the *mining* utilization rate remains on a steep uptrend, posting a new record high of 94.3%—7.9ppts above its long-run average. Meanwhile, the *utilities* rate remains on a volatile downtrend, though did get a boost from a summer heatwave, climbing for the second month to 73.0%, though is not far from February's record low of 69.6%. The utilities rate is substantially below its long-run average.

Regional M-PMIs (***link***): The New York Fed has provided the first glimpse of manufacturing activity for September, and there was a big move up; but activity continued the up-and-down pattern prevalent in recent months. September's *composite index* rebounded 20.9 points (to 1.9 from 19.0), with orders (5.1 from -19.9) and shipments (12.4 from -12.3) jumping 25.0 points and 24.7 points, respectively, this month. However, it's worth noting that the past six months have seen wide swings between expansion and contraction. Meanwhile, delivery times (2.1 from 1.9) held steady this month, while inventories (-6.2 from -9.7) continued to contract. Labor market measures recorded slight declines in both employment (-2.7 from -1.4) and the average workweek (-5.0 from -10.7). Turning to *prices,* the prices-paid (25.8 from 25.2) measure was little changed this month, while the prices-received (19.6 from 12.6) gauge accelerated for the second month, from July's 3.9 reading—which was the lowest reading since summer 2020 in July. Both price measures are down sharply from their record highs of 86.4 and 56.1, respectively, during April and March of last year. Looking ahead, *the index of future business conditions* remains on an upward trend, in expansionary territory, climbing to an 18-month high of 26.3 this month; its recent bottom was -6.1 in November. Both new orders (34.8 from 28.1) and shipments (33.7 from 29.6) are expected to increase again in September, with big gains since their July reading of 11.0 and 12.0, respectively. Employment (15.9 from 24.9) gains are expected to slow.

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