MORNING BRIEFING
October 5, 2023

Copper, Travel & AI

Check out the accompanying chart collection.

Executive Summary: Investors worried about US inflation might want to take a look at copper prices, which have fallen ytd. Copper faces gleaming long-term fundamentals, with global demand poised to soar as the EV and other electrification markets take off. But the commodity's recent price action has been dulled by investors' economic pessimism. … Also: Jackie examines what's been grounding the stock price indexes of most travel-related industries. … And: AI's transformative reach extends way beyond OpenAI and Bard. A look at some startups' popular AI offerings.

Materials: Mixed Signals. Fears of inflation and growing supply have sent Treasury bond yields up to levels not seen in more than 15 years. The price of copper, however, is not signaling any concerns about inflation or overheated economic growth. The price of the industrial metal was down 0.6% on Tuesday; it fell 0.8% during Q3 and 4.7% ytd through Tuesday's close (*Fig. 1*). At a recent $3.62, the price of copper is below its 2022 high of $4.93 in March but well off its 2020 low of $2.12.

Copper prices typically move in lockstep with global economic activity. The copper market's recent torpor likely reflects the depressed Chinese real estate market, a European economy that is teetering on recession, and rising interest rates that should slow US economic growth. The strong dollar isn't helping (*Fig. 2*). And investors seem unmoved by offsetting factors that are bullish for copper demand over the long term, such as booming production of electric vehicles (EVs) and meager new copper production hitting the market.

Let's take a closer look at what's keeping copper prices so subdued:

(1) *Inventories piling up.* Last month, copper inventories in London Metal Exchange (LME) registered warehouses were at their highest levels since May 2022, an October 2 *article* at Oilprice.com reported. Copper stocks held there have more than doubled in the past two months. The article also noted that the LME copper futures curve was in extreme contango, with copper's three-month futures price trading above the cash price.

(2) *China's property market weighs.* Near term, there's concern about Chinese economic growth. Some of China's largest real estate developers continue to struggle to make debt

payments, and many have thrown in the towel and filed for bankruptcy protection. The sector's woes mean less property will be purchased for development from municipalities, which pinches their budgets. Meanwhile, lower home prices are hurting consumers and worries about bad property loans cloud the future of Chinese banks.

China's real GDP rose 6.3% y/y in Q2, but it fell 1.7% (saar) q/q (*Fig. 3*). And the MSCI China share price index is down 10.5% ytd (*Fig. 4*).

(3) *Bright future.* Analysts remain optimistic about the future of copper prices because there's little in the way of new capacity being built in the industry and demand should rise with the growing number of EVs being built along with other areas of electrification.

The world's going to need two times as much copper over the next 30 years as it needed over the last 30 years, BHP CEO Mike Henry *told* CNBC on September 27. Meanwhile, the commodity is getting harder to find, what's found is of lower quality, and old and new mines face tough environmental, social, and governance (ESG) requirements.

Bringing a new mine online takes time, effort, and money. "For the 127 new mines opened globally between 2002 and 2023, it took an average of 15.7 years after discovery to get to commercial production, although actual figures ranged from six to 32 years," an October 3 *WSJ* *article* reported, citing S&P Global Market Intelligence data. Given the long road, some companies are opting to reopen closed mines, which can be slightly faster.

Running mines once they are opened is expensive too. In the 12 months through June, BHP's output costs rose roughly 9%, and they are now higher than they were before the pandemic, a September 28 *WSJ* *article* reported. Beyond just operational costs, miners are paying fatter royalties to foreign governments and paying for offsets to their carbon emissions. Given the increases in the industry's project costs and rising wages, Morgan Stanley analysts raised their real long-run price forecasts for copper, lithium, and other mined commodities, the *WSJ* article noted.

(4) The S&P 500 Copper stock price index only has one member, Freeport-McMoRan, which mines gold and molybdenum in addition to copper. Industry analysts have been modestly optimistic about the industry's revenue, with forecasts of 1.9% growth this year and 6.2% growth in 2024 (*Fig. 5*). While earnings are expected to fall 31.0% this year, they're expected to rebound and grow 26.4% in 2024 (*Fig. 6*).

So far, the industry's stock price index isn't betting on that earnings rebound. It's down 4.4%

ytd and down 18.6% from its July 31 summer high (*[Fig. 7]*). Perhaps that's because net earnings revisions have been decidedly negative for six months; they came in at -16.3% in September (*[Fig. 8]*). At 18.1, the industry's forward P/E is in between its typical lows when earnings are strong and its typical highs when earnings are low (*[Fig. 9]*).

Consumer Discretionary: Has the Travel Itch Been Scratched? This summer, travel-related stocks were on a tear, as it seemed that everyone was jetting off somewhere. Personal spending on air transportation was at an all-time high in August, and spending at hotels and motels was near record levels (*[Fig. 10]*). We wondered how long the investor enthusiasm could continue given three looming risks: higher oil prices, higher wage-related expenses, and excessive bullishness. A little less than three months later, travel-related industries' stocks have fallen sharply.

The S&P 500 Casinos & Gaming industry stock price index has fallen 24.5% from its July 31 high. The S&P 500 Passenger Airlines industry's index has nosedived 30.3% since its July 11 high. And the stock price index for the S&P 500 Hotels, Resorts & Cruise Lines industry has dropped 8.4% since July 31, a touch more than the S%P 500's 7.8% drop over the same period (*[Fig. 11]* and *[Fig. 12]*).

Here's a look at the forces that have weighed on these travel-related stock price indexes since we last discussed them, in our July 13 *[Morning Briefing]*:

(1) *Fuel prices take a toll.* Production cuts by OPEC+ have sent the price of Brent crude oil futures up 27% from their low this year, and that's causing turbulence for transportation companies of all stripes (*[Fig. 13]*).

Cruise line operator Carnival lowered its Q2 guidance because higher fuel prices and the stronger dollar are sinking results. The company warned last week that it expects a Q4 loss of between 10 cents to 18 cents a share even though occupancy rates have finally rebounded to 2019 levels, a September 29 *Barron's* *[article]* reported. Analysts responded by lowering their estimates for the quarter to a loss of 13 cents a share, down from the loss of eight cents a share they expected three months ago.

(2) *Wages flying higher.* Many of the travel companies' employees are members of unions that have demanded higher wages, successfully. Most recently, United Airlines' pilots approved a new contract that includes pay raises of as much as 40% over the course of four years. That follows Delta Air Lines pilots' new contract struck in March, which gives them 34% pay raises over four years. And American Airlines pilots' contract grants wage

increases of 46% over four years.

Higher labor costs and fuel expense led American Airlines to slash its Q3 adjusted earnings forecast last month to 20-30 cents a share from 85-95 cents previously, a September 13 *Barron's* *article* reported.

(3) *Falling prices for the holidays.* Very early data about holiday travel indicates that "revenge travel" may have run its course. While it's still early for holiday air bookings, most prices for holiday air travel and car rentals are down y/y even though both Christmas and New Year's fall on weekends. For Thanksgiving travel, airfares are 14% lower and car rentals 17% lower than last year, an October 2 *USA Today* *article* reported. For Christmas, domestic flights are 12% cheaper than in 2022, but fares to many international locations are higher by mid-single-digit percentages.

Even Disney has resorted to lowering prices after seeing a slowdown in park attendance. Tickets for Disneyland can be purchased for as low as $50 each if used between January 8 and March 10, CNBC *reported* yesterday. And at Disney World, children's tickets and dining plans will be half-off for those who purchase a four-day, four-night package at Disney resorts for use from March 3 through June 30.

Looking ahead, two groups of travelers could bolster travel stocks' fortunes if they take to the skies in sufficient numbers: If business travelers return to their road warrior ways or if Chinese tourists decide to visit the US of A, travel stocks could improve. Otherwise, the stocks will be facing tough y/y comparisons over the next year.

(4) *A look at earnings.* The rate of earnings growth expected for some travel-related industries has been dropping in recent weeks and months, as analysts have been trimming their earnings estimates for the industries' constituent companies.

The S&P 500 Passenger Airlines industry's expected 2023 earnings growth has fallen to 150.7% from the high triple-digit percentages projected in March 2022. Looking into next year, the industry's projected earnings growth has descended to 13.0% from an estimate of 38.0% about a year ago (*Fig. 14*).

The S&P 500 Casinos & Gaming industry's earnings for 2024 have been revised downward sharply. In January 2023, earnings for 2024 were expected to grow by 177.4%, but now those earnings are expected only to inch up by 4.9% (*Fig. 15*).

The earnings growth expected for the S&P 500 Hotels, Resorts & Cruise Lines industry has held up the best. Earnings are projected to soar in 2023 from a very small profit in 2022; for 2024, projected earnings growth has held relatively steady at 27.7% (*Fig. 16*).

Disruptive Technologies: Developers Embrace AI. OpenAI and Bard have captured the headlines about artificial intelligence (AI), but there's also a slew of small developers, working in small startups, that are harnessing AI engines to provide various services to customers. OpenAI and Bard can write copy and answer questions, but these small developers have created programs with consumer-friendly interfaces that perform various specific tasks faster and better than ever before.

Let's have a look at some of their most popular offerings:

(1) *Everyone's a writer.* Companies like Surfer and Jasper are using AI to write everything from blog posts to SEO-optimized articles. This *video* explains how users can pick the keywords they'd like to appear in an article and the article's tone of voice, and SurferAI will generate an outline. The user then approves or amends the outline before SurferAI writes the article. SurferAI will score the article on how well it's optimized for Google searches, and it will show similar articles composed by competitors.

SurferAI uses Open AI's technology along with its own "proprietary optimization algorithms." Soon it hopes to provide users with links to the source information used to write the copy. Other AI writers of SEO-optimized copy include Frase, GrowthBar, Copysmith, Article Forge, Writesonic, Content at Scale, and KoalaWriter.

There are many "AI-powered" programs to help with marketing tasks, including Phrasee, Optimove, Instatext, Grammarly, Acrolinx, Smartwriter.ai, Zapier, and Hemingway App, according an April 8 *article* at AnalyticsInsight.net. Phrasee specializes in increasing the "brand language used by businesses in their copy to achieve its goals." Optimove gathers data from a company's many information platforms and presents it in one dashboard so that a business can better analyze it. Grammarly checks copy for grammar and spelling errors, and Instatext does the same in addition to improving the readability of sentences.

The question is whether these independent apps can survive as Microsoft and Google integrate their AI programs into Word and Docs.

(2) *Smarter teaching apps.* Dulingo is an app that for many years taught users a new language a little bit every day. The company came out with a new and improved app that

harnesses GPT-4. Its new Explain My Answer function allows users to learn why they didn't get an answer right. And its Roleplay function "lets you chat with an AI bot in your chosen language in guided simulations, complete with tips to help you on your learning journey," an *article* at lifehacker.com reported.

Meanwhile, Socratic uses Google's AI to help with high school and college level homework. Coursework covered includes algebra, geometry, trigonometry, calculus, biology, chemistry, physics, earth and environmental studies, US and world history, and literature.

(3) *AI lends an ear.* Woebot Health dates back to 2017 and aims to help users reduce symptoms of stress, depression, and anxiety. "AI allows Woebot to create that empathetic environment with great specificity to both patient and situation. As a rules-based conversational agent, Woebot does not generate its own sentences, but rather selects an appropriate evidence-based response crafted by the company's team of writers and clinicians," noted a September 11 *article* by Kai Patel, CEO of BrightInsight, a digital health platform for biopharma and medical device companies.

The responses sound relatively human-like. "Say, for example, that a patient has had a difficult argument with a family member. Rather than delivering a formulaic output—'That sounds like a relationship problem'—Woebot responds with true empathy: 'Family situations can be hard—especially at this time of year.'" The response builds a relationship with patients, letting them know they've been heard. That motivates patients to use the actual therapeutic tool, which leads them through exercises based on cognitive behavioral therapy, such as encouraging them to reframe negative thoughts.

(4) *Helping the blind.* Be My Eyes uses GPT-4 to help blind and low-vision people with daily challenges. Its Virtual Volunteer tool lets users snap a picture of their problem, and the AI can identify what's occurring and try to help. It can take a picture of your refrigerator and tell the user what ingredients are available and how they could be used for dinner. If the bot can't help, a sighted volunteer is called to help via a video chat.

Calendars

US: **Thurs:** Trade Balance -$64.6b; Initial & Continuous Jobless Claims 210k/1.678m; Fed's Balance Sheet; Barr; Daly; Barkin; Mester. **Fri:** Payroll Employment Total, Private, and Manufacturing 163k/160k/5k; Average Hourly Earnings 0.3%m/m/4.3%y/y; Average Weekly Hours 34.4; Unemployment Rate 3.7%; Consumer Credit $12.5b; Auto Sales;

Baker-Hughes Rig Count; Waller. (FXStreet estimates)

Global: Thurs: Germany Trade Balance €15.8b; France Industrial Production -0.4%; Japan Household Spending 0.9%/m/-4.3%y/y; De Guindos; Lane; Nagel; Broadbent. **Fri:** Germany Factory Orders 1.5%; UK Labor Productivity 0.7%; UK Halifax House Price Index -0.8%; Italy Retail Sales 0.0%; Canada Unemployment Rate 5.6%; Japan Leading Index 109.0. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* fell further below 2.00 this week, after dropping below last week for the first time since late May. The BBR fell for the third week, from 2.25 to 1.77 this week; it was at 3.07 nine weeks ago. *Bullish* sentiment fell for the third week by 8.4ppts to 42.3% this week, after climbing the prior two weeks by 7.6ppts (to 50.7% from 43.1%). It was at 57.1% during the August 1 week—which was the most bulls since November 2021, when the reading reached a danger level of 57.2%. Meanwhile, *bearish* sentiment was unchanged this week, at last week's 18-week high of at 23.9%, after climbing the prior five weeks by 5.3ppts. The *correction count* rose for the third week, by 7.0ppts (to 33.8% from 26.8%); it was 24.3% nine weeks ago, which was the lowest since the start of the year. Turning to the *AAII Sentiment Survey* (as of September 28), pessimism rose to the highest level since mid-May, while optimism fell to a four-month low. The *percentage expecting stock prices to rise over the next six months* fell for the third week by 14.4ppts to 27.8% (lowest since May 25), after climbing the prior two weeks by 9.9ppts (to 42.2% from 32.3%)—putting optimism below its historical average of 37.5% for the sixth time in seven weeks. The *percentage expecting stocks to fall over the next six months* rose for the second week by 11.7ppts (to 40.9% from 29.2%), after falling the prior three weeks by 6.7ppts (to 29.2% from 35.9%). Pessimism is above its historical average of 31.0% for the fourth time in six weeks, and was last higher on May 11 (41.2%). The *percentage expecting stock prices will stay essentially unchanged over the next six months* pulled back by 5.1ppts (to 31.3% from 36.4%) the past two weeks, after increasing 8.2ppts to 36.4% the prior week—which was the highest since May 18 (37.4%). It was above its historical average of 31.5% for the sixth time in seven weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin fell 0.2pt w/w to 12.6% during the September 28 week from an 11-month high of 12.8% a week earlier. 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 rose to a new record high for the first time since the September 7 week. Forward earnings fell 1.7% from its record high a week earlier, which had been its first since the June 16, 2022 week nine months ago. 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 0.1pt w/w to an 11-month high of 4.4% and is now up 2.1pts 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 was unchanged w/w at 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 2.3% in 2023 (up 0.2pt w/w) and 4.9% in 2024 (up 0.1pt 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 11.7% rise in 2024 (unchanged w/w) compared to an earnings gain of 7.2% in 2022. Analysts now expect the profit margin to fall 0.1ppt y/y to 12.0% in 2023 (down 0.2pt w/w), compared to 12.1% in 2022, and to rise 0.8ppt y/y to 12.8% in 2024 (down 0.2pt w/w). The S&P 500's weekly reading of its forward P/E fell 0.5pt w/w to an 18-week low of 18.0 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 of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was down 0.07pt w/w to a 17-week low of 2.27 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 21 week saw consensus forward revenues rise for eight of the 11 sectors and forward earnings rise for one sector. The forward profit margin moved higher for two sectors. Four sectors have forward revenues at post-pandemic or record highs this week: Communication Services, Health Care, Industrials, and Information Technology. Among the remaining eight sectors, only Energy and Financials have forward revenues more than 5.0% below their post-pandemic highs, while Materials Utilities are nearly in that doghouse. Utilities is the only sector with forward earnings at a record high this week as these four sectors eased from that mark a week earlier: Communication Services, Consumer Discretionary, Industrials, and Information Technology. Among the remaining six sectors, only Energy, Financials, and Materials have forward earnings down more than

10.0% from their post-pandemic highs. Among the 11 sectors, only Industrials weathered the broad retreat in the forward profit margins from their post-pandemic or record highs. Now, nearly all of the sectors are showing signs of recovering from their early 2023 lows. None of the sectors had a forward profit margin at a record high this week. That's down from three sectors in that club a week earlier: Consumer Discretionary, Industrials, and Information Technology. Those of Communication Services, Financials, and Real Estate remain close to their post-pandemic highs. Energy and Materials are surging higher now off their lows in July, but Consumer Staples and Health Care remain at or close to their record lows. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, 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 (24.9%, down from its 25.7 record high a week earlier), Financials (18.2, 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 (16.3, down from its 17.0 record high in October 2021), Utilities (13.1, 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 (11.2, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June 2022), Industrials (10.7, down from its record high 10.8 a week earlier), Health Care (9.2, a record low and down from its 11.5 record high in February 2022), Consumer Discretionary (8.2, down from its 8.4 record high a week earlier), 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 fell 0.2pt w/w to 12.6% during the September 28 week from an 11-month high of 12.8% a week earlier. It's now up 0.3ppt 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 five sectors. It's still down 6.1, or 0.8ppt, from its record-high 13.4% during the June 9, 2022 week, as seven of the 11 sectors' margins are down since then, with the S&P 500's drop paced by three 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 12.6% to 16.3%), Consumer Discretionary (up 11.5% to 8.2%), Information Technology (up 6.5% to 24.9%), Industrials (up 4.5% to 10.7%), Real Estate (up 3.2% to 17.2%), S&P 500 (up 2.6% to 12.6%), Consumer Staples (up 1.4% to 6.8%), Materials (up 0.2% to 11.0%), Utilities (down 0.7% to 13.1%), Financials (down 1.5% to 18.2%), Health Care (down 4.1% to 9.2%), and Energy (down 4.6% to 11.2%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 91.9% to 7.3%), Publishing (up 22.4% to 3.0%), Homebuilding (up 18.7% to 12.7%), Personal Care Products (up 18.2% to 10.0%), Wireless Telecommunication Services (up 17.4% to 13.5%), Interactive Media & Services (up 16.3% to 23.3%), Semiconductors (up 15.3% to 30.8%), Brewers (up 15.2% to 9.1%), and Hotels, Resorts, & Cruise Lines (up 14.5% to 13.3%).

S&P 500 Sectors Net Earnings Revisions (*link*): The S&P 500's NERI improved m/m in September after weakening in August for the first time in five months. It was positive for a fourth straight month; it rose to a 17-month high of 1.8% from 1.0% in August. That's up from a 30-month low of -15.6% in December. Prior to its recently ended negative NERI streak of 10 months through April, it had been positive for 23 months through June 2022. That positive streak, which ended in June 2022, had exceeded the prior 18-month positive streak during the cycle that ended October 2018, when NERI reached a tax-cut-induced then-record high of 22.1% in March 2018. September's 1.8% reading compares to a record-high 23.1% in July 2021 and an 11-year low of -37.4% in May 2020. Five sectors had positive NERI in September, down from six in August and seven in July. Still, that's a big turnaround from 10 and all 11 with negative readings from November to April. Among the 11 sectors, six improved m/m: Consumer Discretionary, Energy, Financials, Health Care, Materials, and Utilities. Financials was negative for a 15th month and Materials for a 14th month. Utilities turned positive for the first time in 11 months, but Consumer Staples and Real Estate were negative for the first time in five and four months, respectively. Here are the September NERIs for the S&P 500 and its sectors compared with their August readings: Consumer Discretionary (9.0% in August [22-month high], up from 8.6% in July), Communication Services (11.4 [23-month high], 8.8), Information Technology (6.0, 6.2 [16-month high]), Industrials (4.3, 6.0), Consumer Staples (-0.1, 1.1), S&P 500 (1.8 [17-month high], 1.0), Real Estate (-3.8, 0.3), Utilities (0.1 [11-month high], -0.5), Health Care (-1.6, -2.9), Financials (-2.7 [14-month high], -4.8), Materials (-11.0, -11.3), and Energy (-5.2, -14.6).

S&P 500 Sectors Net Revenue Revisions (*link*): The S&P 500's NRRI improved m/m in September for the first time in four months, and was positive for an eighth straight month. It rose to 1.2% from 0.8%, but is down from a 12-month high of 5.0% in May. Before its prior positive streak ended in August 2022 at 24 straight months, it had been negative for 21 months. That positive streak exceeded the prior 19-month streak during the cycle that ended in October 2018, when NRRI reached a tax-cut-induced then-record high of 14.7% in March 2018. August's 0.8% reading compares to a record-high 25.9% in August 2021 and an 11-year low of -35.8% in May 2020. Six of the 11 S&P 500 sectors had positive NRRI in August, down from seven in the prior two months, which was the highest count since June 2022. Six sectors had NRRI move higher m/m, up from two in August and the highest count since nine sectors rose m/m in May. Consumer Staples was negative for the first time in 38 months as Tech also turned down and Financials flipped positive. Utilities was positive for a 27th month. Communication Services was negative for a 23rd straight month followed by Materials at 14 months. Here are the September NRRIs for the S&P 500 and its sectors compared with their August readings: Health Care (8.1% in September, down from 7.5% in August), Consumer Discretionary (6.5, 4.2), Real Estate (5.6, 6.0), Industrials (5.8, 6.1), Utilities (5.1, 7.1), S&P 500 (1.2, 0.8), Financials (0.9, -0.5), Information Technology (-0.3, 1.1), Consumer Staples (-1.9 [39-month low], 1.8), Communication Services (-4.3 [18-month high], -5.2), Energy (-14.9 [8-month high], -24.1), and Materials (-20.0, -20.8 [38-month low]).

US Economic Indicators

ADP Employment (*link*): "We are seeing a steepening decline in jobs this month," noted Nela Richardson, chief economist, ADP. "Additionally, we are seeing a steady decline in wages in the past 12 months." *Private payrolls* in September increased only 89,000, the weakest performance since January 2021. The consensus estimate was for payrolls to rise 153,000, with a range from 125,000 to 200,000. Service-providing and goods-producing jobs rose only 81,000 and 8,000, respectively, the weakest since February 2021 and November 2022. Within *servicing-providing* industries, leisure & hospitality (92,000) posted the biggest gain, followed by financial activities (17,000), education & health services (10,000), other services (6,000), and information services (1,000), while payrolls for professional & business services (-32,000), and trade, transportation & utilities (-13,000) were in the red. Leisure & hospitality, education & health services, and other services all reached new record highs in September, while payrolls of professional business services and trade, transportation & utilities were just shy of their record highs. Within *goods-producing* industries, job counts in natural resources & mining have been soaring this year though the pace has slowed dramatically the past two months: The category added 4,000 jobs in September and 371,000 ytd, after losing 107,000 jobs last year. Meanwhile, construction jobs advanced for the eighth successive month, though the pace slowed; the industry average monthly gains of 16,600 the past three months through September—after averaging monthly gains of 62,800 the prior five months. As for manufacturing payrolls, they have contracted during six of the past seven months, by 12,000 in September and 200,000 over the period, though the level remains relatively high—within 239,000 of January 2019's record high. By *company size*, small and medium-sized companies added 95,000 and 72,000 to payrolls in September, while large companies cut 83,000 jobs. Turning to ADP's *median annual pay* measures, the yearly rate for *job-stayers* slowed to a 24-month low of

5.9% this September, down from last September's 7.8% peak, while the rate for *job-changers* eased to 9.0%, 7.4ppts below last June's 16.4% peak.

Manufacturing Orders & Shipments (***link***): Factory orders beat expectations in August, after plunging in July. *Manufacturing orders* expanded 1.2% in August, after slumping 2.1% in July, to within 1.2% of last June's record high. *Excluding transportation*, orders climbed 2.6% during the three months through August, after a four-month slump of 2.4%. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) climbed 0.9% in August, to a new record high, while *nondefense capital goods shipments excluding aircraft* (used in calculating GDP) also reached a new record high in August, climbing 0.7% during the month. In August, shipments of machinery, motor vehicles & parts, and electrical equipment, appliances & components all reached new record highs, while fabricated metals and primary metals held around record highs.

Global Economic Indicators

Global Composite PMIs (*link*): Growth of the global economy continued to slow last month, as manufacturing activity remained in contractionary territory and the service sector slowed further. The C-PMI posted its fourth successive decline, slowing to 50.5 last month from May's 18-month high of 54.4, though showed little movement between August and September. The *C-PMI* did remain above the 50.0 line dividing expansion from contraction for the eighth consecutive month, though September's reading is the lowest during the current eight-month sequence of expansion. The report notes that the latest reading takes the "C-PMI further below its long-run survey average of 53.3." The *NM-PMI* slowed to an eight-month low of 50.8 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 13th straight month, though did edge up for the second month to 49.1 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 13 countries for which September C-PMI data were available recorded increases in economic activity, with Russia (54.7) and Kazakhstan (52.6) at the top of the growth rankings, while Japan (52.1), China (50.9), and the US (50.2) were also above the breakeven point of 50.0. The Eurozone (47.2) continued to contract, with Germany (46.4) and France (44.1) at the bottom of the PMI rankings. Also in contractionary territory were the UK (48.5), Italy (49.2), and Brazil (48.9).

US Non-Manufacturing PMI (*link*): The US service sector remained on a volatile uptrend through September, while the price index moved up from recent lows. The ISM NM-PMI was above 50.0 for the ninth successive month in September, slowing to 53.6 last month from 54.5 in August. It was at a recent low of 50.3 in May. Of the *four components* of the NM-PMI, the *business activity* (to 58.8 from 57.3) gauge remained at a high level, climbing to a three-month high, while the *new orders* (51.8 from 57.5) measure sank 5.7 points to a nine-month low, suggesting that demand for services may be weakening. Meanwhile, employment (53.4 from 54.7) continued to expand at a steady pace. The *supplier deliveries* (50.4 from 48.5) measure has been moving up in recent months, though remains in proximity of March's record low of 45.8—which was the fastest delivery performance since April 2009. It peaked at 75.7 in the fall of 2021. Despite the slowdown in new orders last month, the orders backlog (48.6 from 41.8) improved and exports orders (63.7 from 62.1) moved higher. On the *inflation* front, the price index was unchanged at 58.9, close to June's 54.1—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 has posted only one gain the past six months through August, and was a sea of red in August, will all major categories contracting. *Retail sales* sank 1.2% in August, following a 0.1% drop in July and no change in June. It is down 2.1% y/y. Since reaching a record high in June 2021, sales have dropped 4.7%. Spending on *food, drinks & tobacco* fell 1.2% in August (the first decline since March), following no change in July; these sales had posted a 0.9% gain during the three months through June. Sales of *non-food products excluding fuel* fell in August, for the first time since March, dropping 0.9%, after a four-month gain of 1.2%. Meanwhile, consumption of *automotive fuels* has declined four of the past five months, by 3.0% m/m and 5.4% over the period and 7.9% ytd. August data are available for three of *Eurozone's four largest economies*: Spain's retail sales climbed for 12th time in 13 months, by 0.4% m/m and 9.1% over the period to its highest level since November 2010. Meanwhile, sales in France has posted only one gain the past six months, falling 2.8% in August and 3.5% over the period. German sales contracted 1.2% in August, following no change in July and a 0.8% decline in June. Sales in Spain (8.1% y/y) were significantly above year-ago levels, while sales in France (-3.7) and Germany (-2.3) were below.

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