MORNING BRIEFING
October 16, 2023

All About Inflation

Check out the accompanying chart collection.

Executive Summary: To answer whether the latest bout of inflation in general will prove persistent or transitory, we must look deeper than the headline rate. Core rates exclude energy and food, but shelter arguably should be excluded to get the answer, as it too is still distorted by temporary pandemic-related factors. The resounding message we hear from September's CPI data: Both headline and core CPI rates—ex shelter—were 2.0% y/y in September. That's the Fed's target rate (albeit for the PCED). For us, that's confirmation enough that inflation is moderating. It's transitory, not persistent. Then again, some will see signs of persistent inflation in the data details. ... And: Dr. Ed reviews "Somewhere in Queens" (+).

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Inflation I: Selectively Slicing & Dicing the CPI. Most economists, including Debbie and me, believe that if the data don't support our forecasts, then there must be something wrong with the data and that they will be revised to show we were right after all. Most economists, including yours truly, also often dismiss components of headline indicators that don't support our story and look to the remaining "core" indicators for conformity to our outlook and therefore confirmation of it.

This slicing-and-dicing approach to the major economic indicators is usually what happens when the monthly employment report is released. If the seasonally adjusted data don't support one's narrative, the thinking goes, perhaps the data on a not seasonally adjusted basis will. Or perhaps the revisions to the prior months' data will point in the "right" direction and therefore be what to highlight. If the payroll measure of employment isn't as friendly as the household measure, focus on the household one.

Another major economic indicator that is invariably sliced and diced by the brotherhood and sisterhood of economists is the CPI. September's number was released along with all its components last week on Thursday. Some economists (such as us) claimed that it confirmed that inflation is still moderating and is turning out to be relatively transitory. Others looked at the report and concluded that inflation is stalling at a pace well above the Fed's

2.0% inflation target. A few economists found evidence that inflation may be accelerating again, so it remains a persistent problem.

So who is right? We all are right all the time because there's plenty of data to support all of our stories. Nonconforming data are dismissed as preliminary estimates that undoubtedly will be revised or simply are flawed. Future revisions no doubt will show that we are on the right track after all; if not, different data do so. We may not all be Keynesians or monetarists, but we are all prescient based on the data we choose to support our outlook!

Now let's slice and dice the latest CPI and see what's left:

(1) *Ignore the headline.* Pay no attention to the headline inflation rate. That was one of the messages in the *speech* delivered by Fed Chair Jerome Powell at Jackson Hole on August 25. From the get-go, he said that "food and energy prices are influenced by global factors that remain volatile and can provide a misleading signal of where inflation is headed." So he focused his analysis on the core inflation rate, i.e., the headline rate less energy and food. Of course, this has been the Fed's approach for many years.

The Fed's preferred measure of inflation has been the core PCED, which closely tracks the core CPI (*Fig. 1*). The latter tends to exceed the former. For today, we will focus on the CPI through September since the PCED's September reading won't be out until near the end of the month.

The headline CPI inflation rate was 3.7% y/y through September (*Fig. 2*). The core rate for the CPI was higher at 4.1%. Both are down from their 2022 peaks of 9.1% and 6.6%, respectively. But both remain well above the Fed's 2.0% target.

(2) *Taking out shelter.* Before we go any further, here's our punch line: The headline and core CPI inflation rates excluding shelter were both 2.0% y/y during September (*Fig. 3*). So to the question of when we're going to get to the Fed's inflation target, the answer is that we're there now excluding shelter, at least based on the CPI measure!

Rent of shelter accounts for a whopping 34.7% and 43.6% of the headline and core CPI measures. Its inflation rate jumped from a low of 1.5% during February 2021 to a peak of 8.2% during March 2023 (*Fig. 4*). It was down in September but only to 7.2%.

In his speech, Powell observed: "Because leases turn over slowly, it takes time for a decline in market rent growth to work its way into the overall inflation measure. The market rent slowdown has only recently begun to show through to that measure. The slowing growth in rents for new leases over roughly the past year can be thought of as 'in the pipeline' and will affect measured housing services inflation over the coming year."

Also, Powell acknowledged in his speech that "market rent" inflation (i.e., for new leases) has declined "steadily" this year. The Zillow rent index was down to 3.2% y/y during September. Using that reading rather than the CPI's rent of shelter reading of 7.2%, Debbie found that the headline CPI is up just 2.3% versus 3.7% for the actual headline CPI!

Based on our analysis so far, the latest bout of inflation is turning out to be transitory rather than persistent after all, in our opinion. The Fed might achieve its 2.0% target for the core PCED inflation rate well ahead of schedule, i.e., in 2024 rather than 2025.

(3) *Goods inflation is good.* In his speech, Powell implied that core goods inflation undoubtedly has turned out to be transitory after all. He said: "Core goods inflation has fallen sharply, particularly for durable goods, as both tighter monetary policy and the slow unwinding of supply and demand dislocations are bringing it down."

We've previously explained that consumers' post-lockdown buying binge was focused on goods because services were still hampered by social distancing restrictions. That caused goods inflation to spike from around zero in the summer of 2020 to 14.0% in 2022 (*Fig. 5*). During September, goods inflation was down to 1.4%, with durable goods down 2.2% and nondurable goods up 3.2%. Core goods were unchanged in September from a year ago (*Fig. 6*).

(4) *Supercore inflation is persistent.* In his speech, Powell said: To understand the factors that will likely drive further progress [on lowering inflation], it is useful to separately examine the three broad components of core PCE inflation—inflation for goods, for housing services, and for all other services, sometimes referred to as nonhousing services." That last category has also come to be known as the "supercore" inflation rate. It has been sticky, having been stuck around 4.5%-5.0% since October 2021 (*Fig. 7*). However, the CPI services less housing inflation rate was down to 2.8% in September from last year's peak of 8.2%.

(5) *Health insurance is wild.* It is widely recognized that the CPI's health insurance component is very volatile and based on a very questionable measurement technique (*Fig. 8*). Far more sensible is the PCED's measure of health insurance, which recently has been relatively stable and in the low single digits on a y/y basis, while the CPI measure has been

bouncing around between positive and negative double-digit y/y percent changes. The latter was down 37.3% y/y during September and is now expected to swing back into positive territory for the next few months.

We all know this and will adjust for this distortion. In any event, it has a tiny weight of 0.545% of the CPI.

(6) *Auto prices could accelerate.* Contributing to the volatility and transitory nature of inflation since the pandemic have been new and used car prices. Supply-chain disruptions disrupted the supply of new cars in 2020 through the first half of 2022, sending new car prices soaring. As these problems abated, the inflation rate of new car prices plummeted (*Fig. 9*).

Used car prices soared even more than new cars prices during the pandemic, and the former plunged more than the latter afterwards (*Fig. 10*). Now the concern is that the UAW strike will cause a shortage of new auto inventories that once again will boost new and used auto prices.

(7) *Bottom line*. They say that the devil is in the details. That may very well be true about the outlook for inflation. However, inflation is usually defined as a general and relatively broad increase in prices. In any one month, a few of the CPI's components might account for much of the increase or decrease that month. It's the underlying trend that matters. That's what we look to most for either confirmation of our outlook or the need to change it. The latest data confirm for us that our narrative remains on track: Inflation is continuing to moderate.

Inflation II: Slicing & Dicing Other Indicators. Last week, other inflation indicators were also released, including the PPI, the wage growth tracker (WGT), consumers' inflation expectations, and import & export prices. Let's slice and dice them as well:

(1) *PPI.* September's PPI for final demand was up 0.5% m/m, which was a bit hotter than expected. Yet it was up only 2.2% y/y. More importantly, in our opinion, is that the core PPI for final demand of personal consumption rose 2.7% (*Fig. 11*). It tends to be a leading indicator for the core CPI and the core PCED, which were 4.1% in September and 3.9% in August. The PPI measure of prices received by consumer-related companies does not include rent and suggests that the other two measures should continue to fall if rent inflation falls as we expect.

(2) *WGT.* The WGT fell to 5.2% y/y in September, the lowest since January 2022 (*Fig. 12*). That's still a high reading. However, it tends to exceed the wage inflation rate measured using average hourly earnings for production and nonsupervisory workers, which was down to 4.3% in September. Fed Chair Powell previously has said that he would like to see wage inflation closer to 3.0%. It is still heading in the right direction.

Interestingly, the WGT measure of wage inflation for job switchers has declined more rapidly than for job stayers since they both peaked last year (*Fig. 13*). This may explain why the quits rate has dropped since early last year.

(3) *Expectations.* The Federal Reserve Bank of New York released its survey of consumer expectations last week for September. It showed upticks in the one-year- and three-years-ahead inflation expectations to 3.7% and 3.0% (*Fig. 14*). Those are still relatively low readings. They edged up mostly because gasoline prices rose last month.

(4) *Import prices.* The US continues to import deflation from overseas. Import prices fell 1.7% and 1.2% y/y with and without petroleum through September (*Fig. 15*). Contributing to the weakness in US import prices are deflationary forces that are depressing China's PPI (-2.5% y/y in September) and CPI (unchanged y/y) (*Fig. 16*). These forces include the bursting of China's property bubble and the rapidly aging population.

Movie. "Somewhere in Queens" (+) (*link*) was written and directed by Ray Romano about an Italian family living in Queens. Ray stars as Leo Russo, the father. He works for his father's construction company. It's a family business, and Leo's large extended family is in everybody else's business. They regularly get together at the local catering hall for family events. Leo is obsessed with helping his son overcome his social awkwardness by pushing him to succeed on his high school basketball team, which he does. Leo pushes a bit too hard to get his son a college basketball scholarship and causes a family crisis as a result. It's a warm-hearted film about the importance of *famiglia* in our lives.

Calendars

US: Mon: NY Empire State Manufacturing Index -1.50; Fed Budget Balance -$78.6b; Harker. **Tues:** Headline & Core Retail Sales 0.2%/0.1%; Industrial Production 0.1%; Capacity Utilization Rate 79.6%; Business Inventories 0.1%; API Weekly Crude Oil Inventories Williams; Bowman. (FXStreet estimates)

Global: Mon: Germany WPI 0.5% y/y; Italy CPI 1.7%m/m/5.7%y/y; Japan Industrial Production 0.0%; BoC Business Outlook Survey; Eurogroup Meetings Enria; Tuominen; Woods; Pill. **Tues:** Germany ZEW Economic Sentiment -10.8; UK Earnings Index Including & Excluding Bonus 8.3%/7.8%; UK Employment Change 3m/3m -195k; UK Unemployment Rate 4.3%; China GDP 1.0%q/q/4.4%y/y; China Industrial Production 4.3% y/y; China Retail Sales 4.5% y/y; Canada CPI 0.1%m/m/4.0%y/y; NBS Press Conference; Nagel; De Guindos; Jochnick; Bullock. (FXStreet estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 0.4% for its second straight weekly gain following its four-week losing streak, which was its longest since the end of December 2022. The index is still in a correction at 10.9% below its record high on December 27, 2021. The US MSCI ranked 33rd of the 48 global stock markets that we follow in a week when 34 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed with a gain of 1.2% for the week and remained barely in bear market territory at 20.1% below its June 15, 2021 record high. Nearly all regions rose w/w. EM Eastern Europe was the best performer with a gain of 5.0%, ahead of EM Latin America (2.9%), EM Asia (1.5), and BIC (1.3). EMEA was the worst performing region last week with a 1.0% decline, followed by EMU (-0.5) and EAFE (1.0). Poland was the best-performing country last week, with a gain of 6.8%, followed by Pakistan (6.4), Denmark (6.2), South Africa (5.5), and Norway (5.5). Among the 26 countries that underperformed the AC World ex-US MSCI last week, the 8.8% decline for Israel was the biggest, followed by those of Turkey (-4.1), Egypt (-2.3), New Zealand (-2.2), and Jordan (-2.2). Looking at 2023's performance so far, the US MSCI is up 13.1%, as its ytd ranking improved one place w/w to 10/48. The AC World ex-US's ytd gain of 2.2% is trailing the US's, with 27/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 13.1%, followed by EMU (4.7), EM Latin America (1.7), and EAFE (3.5). The regional laggards so far in 2023: BIC (-3.5), EMEA (-2.9), and EM Asia (-0.3). This year's best ytd country performers: Sri Lanka (31.6), Greece (25.2), Hungary (23.5), Denmark (21.7), and Argentina (20.1). Here are the worst-performing countries of the year so far: Pakistan (-21.7), Hong Kong (-19.4), Finland (-17.1), Thailand (-16.0), and Colombia (-15.8).

S&P 500/400/600 Performance (*link*): For a second straight week, LargeCap was the only one of these three market-capitalization-style indexes to move higher w/w. LargeCap's 0.4% gain in the past week outperformed the 0.5% and 1.0% declines for MidCap and SmallCap. At Friday's close, LargeCap exited its correction to end at 9.8% below its record high on January 3, 2022, MidCap remained in 16.1% correction from its record high on November 16, 2021, and SmallCap slipped further into bear market territory at 24.1% from its November 8, 2021 record high. Fourteen of the 33 LargeCap and SMidCap sectors moved higher for the week, compared to three rising a week earlier. SmallCap Energy was the best performer with a gain of 6.9%, followed by MidCap Energy (6.1), LargeCap Energy (4.5), LargeCap Utilities (3.6), and LargeCap Real Estate (2.3). Among the biggest underperformers for the week were SmallCap Health Care (-3.1), MidCap Health Care (-3.1), SmallCap Tech (-2.5), SmallCap Materials (-2.3), and MidCcap Tech (-2.0). Looking at performances so far in 2023, LargeCap, with a gain of 12.7%, remains well ahead of MidCap (0.5) and SmallCap (-3.9); 14 of the 33 sectors are higher ytd compared to 19 a week earlier. The top sector performers in 2023: LargeCap Communication Services (43.4), LargeCap Tech (37.9), LargeCap Consumer Discretionary (24.5), MidCap Industrials (14.1), and MidCap Tech (13.2). Here are 2023's biggest laggards: MidCap Utilities (-22.3), SmallCap Health Care (-18.4), SmallCap Utilities (-17.4), MidCap Communication Services (-17.3), and SmallCap Financials (-17.1).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 S&P 500 sectors rose last week and five outperformed the composite index's 0.4% gain. That compares to a 0.5% gain for the S&P 500 a week earlier, when three sectors rose and three outperformed the index. Energy was the best performer with a gain of 4.5%, followed by Utilities (3.6%), Real Estate (2.3), Industrials (1.0), and Financials (0.5). Consumer Discretionary was the worst performer, with a drop of 0.7%, followed by Materials (-0.4), Communication Services (-0.2), Health Care (0.1), Tech (0.2), and Consumer Staples (0.2). Looking at 2023's performance so far, the S&P 500 is up 12.7% ytd, with just three sectors still outperforming the index and five higher for the year. The best ytd performers: Communication Services (43.4), Tech (37.9), and Consumer Discretionary (24.5). These are 2023's worst performers: Utilities (-16.0), Consumer Staples (-9.4), Real Estate (-7.3), Health Care (-4.3), Financials (-3.1), Materials (-0.2), Energy (2.1), and Industrials (3.6).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.4% last week and improved slightly 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 sixth week, but has been above in 21 of the past 29 weeks. It remained above its 200-dma for a 30th week. As for what the dmas themselves have been doing, the 50-dma moved lower for a fourth week, but the 200-dma rose for a 20th week in its longest positive streak since March 2022. The S&P 500 improved to 1.8% below its falling 50-dma from a 50-week low of 4.7% below its falling 50-dma at the beginning of the previous week. For perspective, the latest reading is down from a 20-week high of 5.4% above its (rising) 50-dma in mid-June. 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 improved to 2.2% above its (rising) 200-dma from a 28-week low of 0.3% above at the start of the prior week. 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*): Just three of the 11 S&P 500 sectors trade above their 50-dmas now, as Energy and Tech turned positive last week and joined Communication Services in that club. That compares to all 11 S&P 500 sectors above their 50-dmas in the three weeks before the end of July. Communication Services also joined Energy in the latest week as the only sectors with a rising 50-dma. Looking at the more stable longer-term 200-dmas, the positive club was unchanged w/w at four members. The four sectors still trading above their 200-dmas are Communication Services, Consumer Discretionary, Energy, and Information Technology. The rising 200-dma club remained steady w/w at five sectors, as Energy turned up w/w and Materials turned negative. Energy rejoined these four sectors in the rising 200-dma club: Communication Services, Consumer Discretionary, Industrials, and Information Technology.

US Economic Indicators

Consumer Price Index (*link*): The CPI was higher than expected again in September, though core inflation monthly gains have slowed since earlier this year. The *headline CPI* slowed to 0.4% (vs 0.3% expected) from August's 0.6%, which was the biggest monthly gain since June 2022—with gasoline prices accounting for over half the increase that month. On a yearly basis, the headline CPI remained at 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% for the second month in September, a tick above the 0.2% posted the prior two months; it averaged monthly gains of 0.4% the first five months of the year. The core prices yearly rate continued to ease, slowing from a recent peak of 6.6% last September to a two-year low of 4.1% this September, above the 2.0%-2.5% range pre-Covid. *Excluding shelter*, the yearly core rate was only 2.0%, down from February 2022's peak of 7.6%. Here's a laundry *list of CPI yearly rates* for September: The rate for consumer durable goods fell 2.2% y/y, its ninth negative reading in ten months, while the rate for *consumer nondurable goods* excluding food (2.7 y/y) moved out of negative territory in August (0.6%) and moved further above zero in September. The *services rate excluding energy* eased a bit for the seventh month, to 5.7% y/y, after rising from 1.3% in January 2021 to 7.3% this February—which was the highest since summer 1982. *Food* costs (3.7% y/y) eased for the 13th month from last August's 11.4%, which was the fastest pace since April 1979. Within food, the rate for *food at home* (2.4%) has slowed steadily from 13.5% last August (the highest since March 1979); the yearly rate for *food away from home* slowed for the sixth month to 6.0% y/y from March's 8.8%—which was the highest since fall 1981. *Energy costs* were below zero for the seventh 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 -0.5% last month, a hair below 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 three months to -5.1% in September. The rate for *gasoline* prices bottomed at -26.5% in June, climbing to +3.0% in September; 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 -19.9% in September. The y/y rate was 38.4% last June, which was the highest since October 2005. The *electricity* rate moved up to 2.6% in September, after easing 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 1.7% 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 –8.0% 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 to -5.4% y/y in September (lowest since mid-2010), 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 to -7.7% y/y, down from its recent peak of 12.4% last March, though narrowing from June's record low of -10.7%. Within *consumer nondurable goods*, the rate for apparel prices eased to 2.3% y/y, the lowest since April 2021 and down from last March's recent peak of 6.8% (which was the highest since the end of 1980). Before the recent move down, it fluctuated in a 5.0%-5.5% range from last April through September.

Within services, *owners' equivalent rent* eased for the fifth month, to 7.1% y/y, not far from its record high of 8.1% in April, while the rate for rent of *primary residence* dipped to 7.4% 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* accelerated 7.3% y/y in September, after easing to a 13-month low of 3.0% in August; 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* has been fluctuating in a volatile flat trend in recent months, accelerating 4.5% y/y in September from a recent low of 2.7% in March. The *physicians' services* (-0.2) rate has hovered around zero the past seven months. Meanwhile, the yearly rate for *airfares* fell 13.4% 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.

Import Prices (*link*): Import prices posted a smaller-than-expected increase in September as a strong dollar depressed prices of non-petroleum products, though petroleum prices continued to surge. *Import* prices ticked up 0.1% last month, following an upwardly revised 0.6% (from 0.5%) in August and a 0.1% uptick in July—after falling five of the prior six months by 1.7%. Prices sank to -1.7% 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 haven't posted a gain since January's 0.3% increase, falling 0.3% in September and 2.0% during the eight months through September. The yearly rate is -1.2%, up slightly from May's recent low of -2.2%; it peaked at 8.1% last March. Fuel prices posted the fifth gain in the past six months during August, rising 14.9% over the period after a nine-month slide of 37.1%. The yearly rate was -8.3% in September, 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 -7.7% from 55.2%); capital goods (0.6 from 4.2); consumer goods ex autos (-0.3 from 3.2); and foods, feeds & beverages (3.1 from 15.7).

Consumer Sentiment Index (*link*): *Sentiment* dropped for the third month, according to October's preliminary estimate, falling from a 21-month high of 71.6 in July to 63.0 in mid-October, the lowest since May. The *present situation* component fell for the third month, to 66.7 in mid-October, after climbing five of the prior seven months by 17.2 points to 76.6 in July—which as the highest level since October 2021. The *expectations* component in mid-October sank to a five-month low of 60.7 from July's 19-month high of 68.3. Assessment of personal finances dropped about 15%, reflecting a sizable increase in inflation concerns, while expected business conditions plunged roughly 19%. However, the report notes that despite these declines, "long-run business conditions are little changed, suggesting the consumers believe the current worsening in economic conditions will not persist." Nearly all demographic groups posted a pullback in sentiment because of inflation concerns. Turning to inflation, the *one-year expected inflation rate* shot up from 3.2% in September to 3.8% in mid-October—the highest since May's 4.2%. It remains well above the 2.3%-3.0% range in the two years prior to the pandemic. The *five-year expected inflation rate* edged up from 2.8% to 3.0%, again staying within the narrow 2.9%-3.1% range for 25 of the last 27 months. However, long-run inflation remains elevated relative to the 2.2%-2.6% range seen in the two years just before the pandemic.

Global Economic Indicators

Eurozone Industrial Production (*link*): Eurozone industrial production expanded in August after contracting in July, with gains in consumer durable goods, consumer nondurable goods, and capital goods production offsetting declines in energy and intermediate goods output. *Headline* production, which excludes construction, recovered some lost ground in August, increasing 0.6% after slumping 1.3% in July, but was still down 2.1% ytd and 5.1% y/y. *Manufacturing* production remains in a rut. It edged up 0.2% in August, following July's 4.0% slide, posting declines of 4.1% ytd and 4.9% y/y. Among the main industrial groups, *energy output* slumped 0.9% after a two-month gain 1.5%, though was in the red during five of the available eight months so far this year, for a loss of 3.0%. *Intermediate goods* output fell four of the past six months, losing 0.3% m/m and 2.6% over the period. *Consumer durable goods* production recovered 1.2% in August, after a four-month drop of 5.6%, while *consumer nondurable goods* output increased three of the past four months by 0.7%. *Compared to a year ago*, production in all main industrial groups were in the red: consumer durable goods (-7.2% y/y), capital goods (-7.0), energy (-6.3), intermediate goods (-5.2), and consumer nondurable goods (-1.4). August production data for the *top four Eurozone economies* are now available and show that over the 12 months through August, all four were below year-ago levels, with Italy (-4.2% y/y) posting the largest decline, followed by Spain (-3.6), Germany (-2.3). and France (-0.4)

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