Summary

Economic data for the week included mixed producer and consumer inflation results, with headline numbers driven by higher energy costs. Retail sales, industrial production, and regional manufacturing results showed gains for the prior.

Equities ended with flattish returns in the U.S., underperforming foreign stocks, which saw gains. Bonds fell back along with higher interest rates across the yield curve. Commodities gained last week, led by continued supply concerns in crude oil.

Economic Notes

(+/0) **Retail sales** for August rose by 0.6%, similar to that of the prior month, and higher than the 0.1% gain expected. However, the number is less impressive when including prior-month revisions. August data was led by a 5% rise in gasoline station sales from higher prices, while autos were also up 0.3%. However, removing the more volatile categories of autos, gasoline, and building materials, the gain was trimmed to 0.1%. For core, the month was led by gains in clothing, electronics/appliances, and health/personal care, as well as food services, while non-store/online retail was flat (normalizing after last month's Amazon Prime-boosted results), and sporting goods/hobby and furniture declined outright. Likely there was some 'back to school' effect based on the category leadership. Relative to last year, retail sales are up 2.5%, which, after accounting for inflation over that time, results in a decline in real terms.

(+) **Industrial production** rose 0.4% in August, half the pace of the prior month, but above the 0.1% expected. Manufacturing rose only 0.1% for the month, held back by a -5% decline in auto production, despite a gain in business equipment production. On the other hand, utilities—a segment driven by the randomness of weather—rose 0.9% to help the headline index, and mining gained 1.4% along with stronger energy prices as of late. Capacity utilization rose two tenths to 79.7%. Year-over-year, industrial production is up 0.25%, which remains on the borderline of growth and weakness.

(+) The **Empire manufacturing index** rose by a substantial 20.9 points in September back to an expansionary 1.9 reading, surpassing expectations of a continued contractionary -10.0. This included gains in new orders and shipments, each of which were up around 25 points into expansion, while prices paid rose slightly, further expanding. Employment, however, fell over a point a bit further into a slight contraction. Assessments of business conditions six months out rose by 6 points further into expansion. Although a sometimes-erratic single-region report, this was a positive showing.

(0) The **Producer Price Index** for August rose 0.7% on a headline level, and 0.3% for core, removing food, energy, and transportation—each a few tenths higher than the expected 0.4%. Energy was the largest driver in the month, up 11%, offsetting a decline of a half-percent in food prices. On a year-over-year basis, headline and core PPI are up 1.6% and 3.0%; compared to other quoted inflation numbers, these continue to show improvement. By segment, services prices are up just over 2%, while goods prices have only increased a half-percent, with intermediate processed goods prices actually down -4% over the past 12 months. This deceleration is meaningful as a positive input to overall inflation in addition to a potential steadying influence on company profit margins, although the past few months have seen another uptick with higher petroleum prices not helping.

(-/0) The **Consumer Price Index** for August rose by 0.6% on a headline level and 0.3% for core, removing food and energy. This tick higher was largely as expected, with energy commodity prices up over 10% for the month being the overwhelming contributor. Airline fares, new cars, and auto insurance gained, while other segments were more tempered, with shelter costs decelerating a tenth to a rise of 0.3%, and apparel of 0.2%. Used car prices fell by over -1%, in the deflationary direction. Items running at a monthly pace of 0.2% equate to an annualized inflation rate of 2.4%, so such segments are seen as 'normalizing' influences towards the overall inflation number.

Year-over-year, the headline CPI pace bumped up a half-percent to 3.7%, while core CPI continued to come down several tenths, to 4.3%. Services CPI remains up 5.4% on the year, with a 7% rise in owners' equivalent rent continuing to add pressure. In more slicing and dicing of the data, the Cleveland Fed Trimmed Mean CPI is up 4.5% for the year, and the 'super core' inflation the Fed has been watching, and removes energy, food, rents, and 'other' goods, is up 4% over the past year. Through another derivative, CPI of 'all items less shelter' was only up 1.9% on a year-over-year basis. So, there has been improvement—although most measures still reside well over the target inflation rate.

(0) **Import prices** rose 0.5% in August, exceeding the median forecast of 0.3%. This was entirely driven by energy prices, as import prices removing petroleum were unchanged. Gains in price for industrial supplies and food/beverages were offset by declines in autos/parts and capital goods. Year-over-year, import prices are down -3.0%, which is a positive.

(-) The **Univ. of Michigan index of consumer sentiment** for September fell by -1.8 points to 67.7, below the 69.0 level expected. While current conditions weakened sharply, expectations for the future rose slightly. Inflation expectations over the next year declined by -0.4% to 3.1%, while those for the next 5-10 years fell -0.3% to 2.7%. The latter are especially meaningful, pointing to rising consumer realization of inflation normalization in coming years.

(0) **Initial jobless claims** for the Sep. 9 ending week rose 3k to 220k, still below the 225k forecast. Continuing claims for the Sep. 2 week ticked up by 4k to 1.688 mil., below the 1.690 mil. expected by consensus. Claims were mixed by state, with the largest states accounting for the bulk of the changes, as would be expected, with some seasonal distortions continuing to affect the results as claims data still appears to be normalizing.

Market Notes

Period ending 9/15/2023	**1 Week %**	**YTD %**
DJIA	0.14	6.14
S&P 500	-0.12	17.30
NASDAQ	-0.37	31.78
Russell 2000	-0.20	6.01
MSCI-EAFE	1.67	10.90
MSCI-EM	1.24	5.19
Bloomberg U.S. Aggregate	-0.33	0.26

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2022	4.42	4.41	3.99	3.88	3.97
9/8/2023	5.55	4.98	4.39	4.26	4.33
9/15/2023	5.56	5.02	4.45	4.33	4.42

U.S. stocks ended flattish on the week, with sectors mixed, seeing gains in utilities, consumer discretionary (solely due to gains in Tesla), and financials. Technology was the sole decliner of several percent, with some degree of disappointment about Apple's annual fall product event last week. Real estate ticked slightly higher, despite a rise in interest rates. Stocks closed the week on a sourer note, as data from China came in more positively, weakening the case for additional stimulus there that markets had hoped for. The U.S. auto worker strike also began, being the first time where all three domestic automakers were targeted in a century, which economists have predicted could negatively affect spending and GDP growth if it continues for an extended period. At the same time, decent economic data and rising energy prices as of late threatens another Fed rate hike—even if not for this coming week's meeting (as futures markets point to overwhelming odds of no change).

By contrast, foreign stocks gained in both developed and emerging markets. Stocks in the U.K. and Japan led world markets, up several percent, outperforming Europe, which also fared decently. The ECB raised rates for the 10th time, by 0.25% to 4.0%, while also hinting that they could be reaching a peak in policy rates. At the same time, economic growth forecasts for Europe have declined by several tenths in recent weeks to under 1%, with an outright decline expected in Germany, which serves in important role as the EU's manufacturing core. In EM, Brazil led with a 5% gain in USD terms, dominating other regions as inflation data came in better than expected. China saw little change, in contrast to prior weeks, with stronger industrial production and retail sales data offset by continued concern over property markets. The central bank also lowered reserve requirements for banks by a quarter-percent, keeping the stimulus response thus far fairly modest.

Bonds fell back last week, as interest rates continued to tick higher upon decent economic growth results in the U.S. (at least not pointing to recession as of yet). Floating rate bank loans continued to work in the opposite direction, seeing gains of a half-percent, having provided leadership in the fixed income group over the past year. Foreign bonds were mixed to lower, with the headwind of a stronger dollar.

Commodities rose several percent last week, with strong gains in energy and industrial metals. Crude oil prices rose nearly 3% to $90/barrel, due to continued OPEC production cut expectations, as well as signs of improving Chinese demand, and Russia potentially banning oil product exports in order to stabilize prices higher (which becomes a self-fulfilling prophecy to an extent).

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.