

OBSERVATIONS

- The S&P 500 rallied +3.2% last week as inflation data (see below) softened — this brings total gains of +16.9% for the index since reaching its 2022 lows on June 16. Last week's rally was the fourth consecutive positive week for the S&P 500, a stretch not seen since October last year.¹
- U.S. consumer headline inflation (CPI) was surprisingly cool in July, showing no net increase in prices from last month, and while July prices were 8.5% higher than July-2021, this was down from June's year-over-year (YoY) rate of 9.1%. Similarly, core-inflation also surprised to be a bit softer than expectations and remained at 5.9% YoY—the same as it was in June.²
- Headline producer prices (PPI) dropped 0.5% in July, the first negative monthly figure since April 2020. Core PPI (ex. food and energy) rose 0.2% — both readings were softer than expected. On a year-over-year basis, headline PPI was up 9.8%, while core PPI was up 7.6%, both are the lowest readings since October 2021.¹
- In China, CPI and PPI for July both surprised to be lower than anticipated. China's CPI for July was 2.7% YoY—consensus estimates were for inflation to be closer to 3.0% YoY—and PPI fell to 4.2% YoY in July—expectations were for 4.5% YoY—and showed a deceleration from June's figure of 6.1% YoY.³
- Small business optimism index rose 0.4 points in July; however, this is the sixth consecutive month the index is below its long-run average. Small businesses expecting better business conditions over the next six-months increased modestly from June's historic low-reading, while the number of small businesses indicating that inflation was their top business challenge reached an historic high.⁴
- Consumer sentiment (University of Michigan Sentiment index) rose to a three-month high of 55.1 on better expectations for the economy. Still, the index remains below the 101 reading from before the pandemic.¹
- M&A activity took a surprise turn in August, with approximately \$63 billion of deals announced in North America this month-to-date — higher than any other comparable period since November 2021.¹

EXPECTATIONS

- Why does Taiwan matter? Taiwan manufactures nearly a third of the world's processing chips, while Taiwan Semiconductor Company (TSMC) produces over 90% of the world's most advanced chips. Multiple industries remain vulnerable to further supply chain constraints in the event of a Taiwan – China conflict, which could induce further supply side inflationary pressures.⁵
- Meanwhile, Micron announced plans to invest \$40 billion in semiconductor manufacturing over the next 8 years, supported by the bipartisan CHIPS and Science Act that was signed into law last week by Biden. Similarly, Intel plans to push ahead with the \$20 billion investment to build two new plants in the Columbus, Ohio area.⁶

ONE MORE THOUGHT⁷: New York Fed Consumer Expectations Survey

Last week's release of the New York Federal Reserve Bank's Survey of Consumer Expectations (SCE) showed that inflation expectations one-year ahead fell by the most ever last month, while three-year ahead inflation

¹ Bloomberg LP

² https://www.wsj.com/articles/us-inflation-july-2022-consumer-price-index-11660077986?mod=hp_lead_pos1&mod=hp_lead_pos5

³ Goldman Sachs "China: CPI and PPI Surprised to the Downside in July" 10-Aug-2021

⁴ <https://www.nfib.com/surveys/small-business-economic-trends/>

⁵ Capital Economics, *Emerging Markets Update*, August 8, 2022

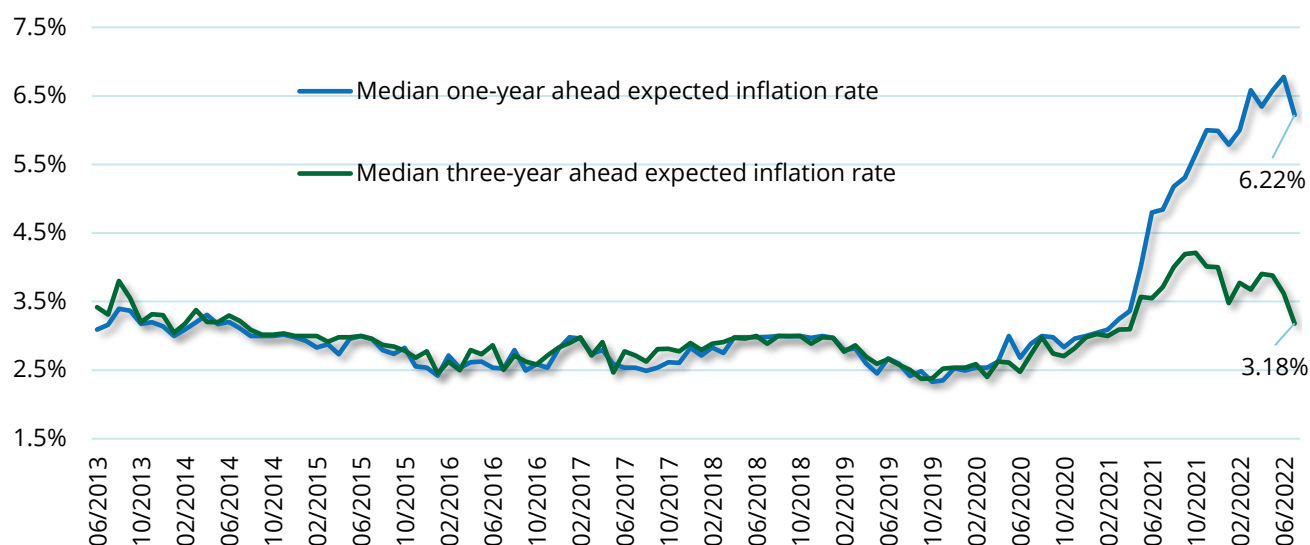
⁶ <https://www.cnbc.com/2022/08/09/micron-to-invest-40-billion-in-us-chip-manufacturing.html>

⁷ Federal Reserve Bank of New York Survey of Consumer Expectations, August 8, 2022

expectations also fell. The declines come as the Federal Reserve's hawkish policy stance on inflation embeds with consumers and while on its own is a good sign, may be more nuanced after considering other data from the survey. The SCE data also showed the tenuous nature of consumer sentiment with regards to household financial situation. The percentage of respondents indicating their household financial situation was either "much worse off" or "somewhat worse off" relative to both one-year ago and one-year ahead expectations reached near record highs, 50% and 39% of respondents, respectively. Yet, related to employment, survey respondents assign a median probability of 56% for finding a job in three months which is consistent with prior highs in the data (*the economy has recovered pre pandemic total employment as over 22 million jobs have been added since the worst of the pandemic*). Lastly, median expectations for home prices in the year ahead slowed to a +3.5% gain, earlier in the year that figure stood at +6.0%. Most of the data from the survey is consistent with expectations of a slower or slowing economy, cooling prices, but steady employment — otherwise characterized as a soft landing. More to come.

CHART OF THE WEEK

Consumer Survey of Inflation Falls



Source: Clearstead, Federal Reserve Bank of New York Survey of Consumer Expectations, August 8, 2022

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