



## MORNING BRIEFING

January 19, 2021

### MMT on Steroids & Speed

Check out the accompanying [chart collection](#).

(1) Powell says it again: Not thinking about raising rates. (2) Powell impressed by recovery. (3) Rosengren endorses Biden plan. (4) Fed and banks financed most of 2020 federal budget deficit. (5) Yields stay low despite soaring commodity prices. (6) New record high in real GDP coming this year. (7) Economy getting Blue Wave booster shot. (8) Upward revision in December retail sales likely. (9) Yellen & Powell: MMT-BFFs. (10) Tech boosts capital spending. (11) The Blue Wave and the budget reconciliation process. (12) Movie review: "The Flight Attendant" (+ +).

**Video Podcast.** In our latest video [podcast](#), Dr. Ed discusses the main points of today's *Morning Briefing*.

**MMT I: T-Fed Here To Help.** Federal Reserve Chair Jerome Powell spoke Thursday in a [virtual chat](#) hosted by the Princeton University Bendheim Center for Finance. He affirmed his commitment to keeping interest rates low for the foreseeable future, even though he said that the economic recovery has been better than expected. More specifically, he said: "When the time comes to raise interest rates, we'll certainly do that, and that time, by the way, is no time soon."

That statement reiterated similar commitments Powell made in 2020. In my forthcoming book, *The Fed and the Great Virus Crisis*, I recount: "At his June 10 press conference, he famously said: 'We're not thinking about raising rates. We're not even thinking about thinking about raising rates.' He reiterated that policy in his July 29 press conference, saying: 'We have held our policy interest rate near zero since mid-March and have stated that we will keep it there until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals.'"

Powell also remarked during Thursday's virtual chat that real economic activity has made a surprisingly rapid recovery, and said that he is optimistic about the outlook:

“I remember ... near the end of February [2020] really being concerned about the possibility of very, very horrible outcomes in the economy and society. ... But here we are now with vaccines. The population is getting vaccinated. ... [W]e could be back to the old economic peak fairly soon and passing it. We may bypass a lot of the damage that we were concerned about to low and moderate income people ... I would say I’m optimistic about the economy over the next couple of years, I really am. ... [A]s the vaccines go out and we get Covid under control, there [are] a lot of reasons to be optimistic about the US economy.”

Meanwhile, Powell and other Fed officials continue to drift out of their monetary policy lane, rooting for more fiscal stimulus and implying that the Fed will finance most of the resulting federal budget deficits. On Friday, Boston Federal Reserve President Eric Rosengren became the first Fed official to publicly speak on the \$1.9 trillion fiscal support plan announced by President-elect Joe Biden on Thursday evening. “It’s a big package, but I think it’s appropriate,” he told CNBC’s Steve Liesman during an [interview](#). “The economy is in a lull right now.”

Rosengren added: “While it’s a very big package, I do think until we get to the point where people have been vaccinated, where businesses have been bridged, and where many of the unemployed workers have come back to work, we need an expansionary fiscal policy. And to the extent that it targets those parts of the economy most affected by the pandemic, that is the appropriate action for fiscal policy at this time.”

It all adds up to Modern Monetary Theory on speed and steroids:

(1) *T-Fed to the rescue*. In my forthcoming book, I wrote: “The Fed and the Treasury had joined forces in the MMT crusade to drown the virus in liquidity during the week of March 23-27 as a result of QE4ever and the CARES Act. We might as well consolidate the two of them in our minds to ‘T-Fed.’ That was the gist of our October 12 [Morning Briefing](#) titled ‘Don’t Fight T-Fed.’ We concluded: ‘T-Fed was born on March 23, the day that the Fed adopted QE4ever. Ever since then, Fed officials have been basically saying: ‘More, more, more!’ They want another round of MMT. They don’t call it that, but that’s what they are asking for.”

Over the 12 months through December 2020, the federal budget deficit swelled to a record \$3.3 trillion ([Fig. 1](#)). Over the same period, the Fed’s purchases of US Treasury securities soared to a record \$2.4 trillion.

(2) *Commercial banks recruited to MMT*. Consequently, the private sector had to finance “only” 1.0 trillion of the remaining budget deficit ([Fig. 2](#)). The MMT mechanism made that a layup. All those unprecedented Treasury bond purchases by the Fed, combined with its \$0.7 trillion in purchases of agency bonds, undoubtedly contributed to the unprecedented \$2.9 trillion increase in commercial bank deposits last year ([Fig. 3](#)). Banks ploughed \$758 billion of those funds back into Treasuries and agencies last year ([Fig. 4](#)).

(3) *De facto yield curve targeting*. Debbie and I were impressed by the stability of the 10-year US Treasury bond yield last week in the face of rising commodity prices and Biden’s stimulus plan. However, we weren’t surprised by it, since it has been our view that the Fed has been buying longer-term Treasuries and agencies since late last March in an effort to keep a lid on bond yields. In other words, the Fed has been unofficially conducting a policy of yield-curve targeting. We reckon that the Fed’s aim is to keep the bond yield around 1.00%.

Near the end of last week, the broad-based Goldman Sachs Commodity Index rose to the highest level since January 7, 2020 ([Fig. 5](#)). The CRB raw industrials spot price index rose to the highest reading since June 12, 2018. Yet the Treasury bond yield edged down from the year’s high of 1.15% most of last week to 1.11% on Friday, even though the ratio of copper to gold prices continued to signal that the yield should be closer to 2.00% than to 1.00% ([Fig. 6](#)).

The FOMC statement released at the end of the committee’s final meeting of 2020, on December 16, stated that the Fed would “continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage backed securities by at least \$40 billion per month until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.” That was the first time since the Great Virus Crisis had started that the Fed specified the likely monthly pace of securities purchases.

From February through December, the average monthly increases in the Fed’s holdings of Treasuries and mortgage-backed securities were \$207 billion and \$59 billion, respectively. Over this period, the Fed had purchased all of the notes and bonds issued by the Treasury ([Fig. 7](#) and [Fig. 8](#)).

**MMT II: Economy Getting Booster Shot.** The first round of MMT policy stimulus certainly contributed greatly to the V-shaped economic recovery last year. A second round is likely to

keep the recovery going during the first half of 2021 until widespread vaccinations allow for self-sustaining economic growth during the second half of this year.

Powell is right about the fast rebound in real GDP. It rose 33.4% (saar) during Q3. The Atlanta Fed's [GDPNow](#) tracking model showed that it increased 7.4% during Q4 based on the economic indicators available through January 15. That's down from 8.7% on January 8. However, it would put real GDP just 1.7% below its record high during Q4-2019. A second major round of fiscal stimulus supported by the Fed's QE4ever should boost real GDP to a full recovery by either Q1 or Q2 of this year.

(1) *Consumer spending.* Leading the way again should be consumer spending, driven higher by government support payments of \$1,400 per person for lots of households on top of the \$600 that they received around the turn of the year. Retail sales rose to a record high during September on the first round of checks—of \$1,200 per person—sent by the US Treasury last April. Retail sales dropped 2.1% since then through December. However, the following categories of retail sales rose to new record highs last month: motor vehicles and parts, building materials & garden equipment, health & personal care stores, and miscellaneous retailers.

Leading the recent declines were the following categories: furniture & home furnishing stores; clothing & accessories stores; electronics & appliance stores; sporting goods, hobby, book & music stores; department stores; food & beverages stores; and food services & drinking places.

Debbie and I are wondering whether there might be a big upward revision in December's 0.7% m/m decline. It was still up 2.9% y/y. However, the National Retail Federation (NRF), the nation's largest retail trade group, said Friday that holiday sales soared 8.3%, far exceeding its forecast of 3.6%-5.2% even as the coronavirus kept shoppers away from physical stores. Weekly indexes of consumer credit and debit card spending confirm the year-end 2020 strength reported by the NFR ([Fig. 9](#)).

The outsized gains reported by NRF show how the pandemic has caused a major shift in spending away from restaurants and travel and more toward buying goods that focus on activities around the home, like home furnishings, food, and activewear. That trend has benefited retailers. The NRF retail sales figures exclude sales from autos, restaurants, and gas.

The AP [reported](#) on Friday: “Moreover, even within the retail industry, big box stores like Walmart and Target are dominating the landscape, enjoying big sales gains at the expense of mall-based stores that were forced to temporarily close during the spring and early summer and still face restrictions. Shoppers are consolidating their trips and favoring stores that offer a wide range of goods under one roof as they look to minimize the exposure of the virus.”

(2) *Capital spending*. The recovery in capital spending has also contributed to the rebound in real GDP during the second half of last year. That shouldn’t be surprising since such spending on IT equipment, software, and R&D now accounts for about half of the total ([Fig. 10](#)). Industrial production of high-tech equipment rose 5.1% y/y during December to a record high ([Fig. 11](#)).

The CEO Economic Outlook Indicator, which is highly correlated with the y/y growth rate in real capital spending, jumped from last year’s Q2 low of 34.3 to 86.2 during Q4 ([Fig. 12](#)). The CEOs must be very pleased that the recession lasted only two months and that the profits recovery has also been V-shaped since mid-2020. Both current-dollar and inflation-adjusted capital spending are highly correlated with S&P 500 forward earnings, which is up 19% since the week of May 14 through the first week of January ([Fig. 13](#) and [Fig. 14](#)).

**MMT III: Biden’s Blue Wave Group.** In a speech Thursday evening, President-elect Joe Biden called for a \$1.9 trillion American Rescue Plan, including a round of \$1,400-per-person direct payments to most households to supplement the \$600 checks sent late last year, a \$400-a-week unemployment insurance supplement through September, expanded paid leave, and increases in the child tax credit. Aid for households makes up about half of the plan’s cost, with much of the rest going to vaccine distribution and state and local governments.

The [WSJ reported](#): “The president-elect won’t offer spending-cut or tax-increase offsets for his plan and will instead rely on federal borrowing, according to a Biden official.” Our guess is that incoming Treasury Secretary Janet Yellen might be the unnamed source. She knows that the Fed publicly committed to purchasing \$960 billion in Treasuries this year. Odds are that she already received assurances from Fed Chair Jerome Powell that the Fed will buy more if necessary. That’s what MMT-BFFs (best friends forever) do for one another.

Here’s more on Biden’s plan:

(1) Adult dependents such as college students, who were excluded from previous plans, would be eligible for the checks. So would many people who have kept their jobs.

(2) The child tax credit would rise from \$2,000 to \$3,000 for this year, with an additional \$600 for children under 6 years old. The plan also includes money to help households with the costs of rent and childcare, plus \$350 billion for state and local governments.

(3) The eviction and foreclosure moratorium, which currently goes until the end of this month, would be extended through the end of September. Biden supports \$10,000 of student-loan forgiveness. However, that's not in the plan. Instead, student loan payments will remain on pause.

(4) The plan includes raising the minimum wage to \$15 an hour.

Biden intends to present another deficit-bloating plan in February. The focus will be on boosting infrastructure spending in ways that will also combat climate change and create more jobs. Odds are that it will also be largely deficit-financed even if taxes are raised on high-income taxpayers and corporations. MMT is here to stay, for the foreseeable future.

**MMT IV: Reconciliation's New Definition.** Needless to say, Biden's American Rescue Plan will run into lots of resistance from congressional Republicans. So what? They are now the minority party in both the House and the Senate. While that is true, the Blue Wave could still be stymied in the Senate even though the Democrats now have a majority in that body. If the Democrats stay united, they will have 50 votes in the Senate. Kamala Harris will give them a majority. As the vice president, she is also the presiding officer of the Senate. She doesn't get to vote unless the senators are equally divided. However, nothing is ever that simple on Capitol Hill.

The legislative reconciliation process in Congress was enacted by the Congressional Budget Act of 1974. It could be used to fast-track Biden's plans since it allows the Senate to pass bills with a simple majority of 51 votes and prohibits filibusters, which can only be stopped with 60 votes. The only problem for the Democrats is that just one plan affecting spending, revenues, and the debt can be passed per fiscal year under the rules.

According to "[Introduction to Budget 'Reconciliation'](#)" on the website of the Center on Budget and Policy Priority, "This rule is most significant if the first reconciliation bill that the Senate

takes up affects both spending and revenues. Even if that bill is overwhelmingly devoted to only one of those subjects, no subsequent reconciliation bill can affect either revenues or spending because the first bill already addressed them.”

Furthermore, “Under general Senate rules, legislation can be stalled by virtually unlimited debate and the offering of numerous amendments, with a three-fifths majority vote required to invoke ‘cloture,’ thereby limiting debate and blocking non-germane amendments. For a reconciliation bill, however, the Congressional Budget Act limits Senate debate on the bill to 20 hours and limits debate on the subsequent compromise between the two houses to ten hours.

“While the special procedures limit the time for debate, they do not limit the number of amendments that can be offered during the Senate’s initial consideration of the bill. As a result, once the 20-hour limit has expired, remaining amendments are considered with little or no debate—a process known as a ‘vote-a-rama.’

“In the Senate, any amendments offered to a reconciliation bill must be germane to the bill. This prevents the process from getting bogged down by disputes over tangentially related or unrelated amendments, as often happens to other legislation under regular Senate procedures.”

**Movie:** “The Flight Attendant (+ +) ([link](#)) is an HBO Max mini-series starring Kaley Cuoco, who plays an alcoholic flight attendant with severe childhood-related PTSD. The show revolves around a murder mystery. The series starts off as light comic entertainment in the first few episodes. As it continues, however, the convoluted twists and turns of the plot barely come close to the ups and downs of the emotional rollercoaster so brilliantly portrayed by Cuoco. Watching her remarkable acting performance as a woman on the edge is as thrilling as watching a high-wire act with no safety net.

## CALENDARS

**US:** **Tues:** None. **Wed:** Inauguration Day, NAHB Housing Market Index 86, MBA Mortgage Applications, API Crude Oil Inventories. (DailyFX estimates)

**Global:** **Tues:** EU Car Sales, Germany ZEW Economic Sentiment 60, Germany CPI 0.5%/m/m/-0.3%/y/y, Guindos, Haldane. **Wed:** Eurozone Headline & Core CPI Finals - 0.3%/0.2% y/y, UK Headline & Core CPI 0.5%/1.3% y/y, Canada CPI 1.0% y/y, Australia



Employment Change & Unemployment Rate 50k/6.7%, BOC Interest Rate Decision, BOJ Interest Rate Decision -0.1%, Bailey. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index fall 1.4% and rank 24th of the 49 global stock markets we follow in a week when just 14 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 0.8%. The US MSCI index ended the week 1.4% below its 1/8 record high. Just five countries traded at a record high in dollar terms during the week: China, India, Japan, the Netherlands, and Taiwan. BRIC was the best-performing region last week, with a gain of 0.9%, followed by EM Asia (0.5%) and EMEA (0.2). EMU was the biggest underperformer with a decline of 2.6%, followed by EM Latin America (-2.2), EAFE (-1.4), and EM Eastern Europe (-1.0). Egypt was the best-performing country last week, rising 7.0%, followed by Jordan (6.0), Sri Lanka (3.2), South Africa (2.1), and Taiwan (2.1). Among the 30 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst with a decline of 9.3%, followed by New Zealand (-7.3), Poland (-6.2), Peru (-5.5), and Portugal (-4.7). The US MSCI ranks 35/49 so far in 2021, with its 0.5% ytd gain behind the 2.9% rise for the AC World ex-US; 39 of the 49 countries are in the plus column this year so far. During 2020, the US MSCI ranked an impressive 7/49 for the year, with its 19.2% gain well ahead of the AC World ex-US (8.2), as 15 of the 21 countries that rose posted double-digit percentage gains for the year. Among regions so far in 2021, EM Asia (5.9) is ahead of BRIC (4.6), EM Eastern Europe (4.5), and EMEA (3.8). The ytd laggards, albeit with gains: EMU (0.4), EM Latin America (1.2), and EAFE (1.7).

**S&P 1500/500/400/600 Performance** ([link](#)): SmallCap led last week with a gain of 1.8%, followed by a slight gain for MidCap (0.3%) and a 1.5% decline for LargeCap. LargeCap was the only index that did not trade at a record high during the week. LargeCap is now 1.5% below its record high on 1/8, while MidCap and SmallCap are 1.0% and 1.7% below their respective record highs on Thursday and Wednesday. Nineteen of the 33 sectors rose last week compared to 25 rising a week earlier. Twenty-one sectors are out of a correction now. MidCap Energy rose 9.9% and was the best performer for the week, followed by SmallCap Energy (6.0), SmallCap Consumer Discretionary (5.9), LargeCap Energy (3.1), and SmallCap Real Estate (3.1). LargeCap Communication Services was the biggest underperformer last week with a decline of 3.6%, followed by LargeCap Tech (-2.6), LargeCap Consumer Staples (-2.0), MidCap Materials (-1.9), and LargeCap Consumer Discretionary (-1.9). In terms of 2021's performance, all three indexes are higher ytd; SmallCap leads with an 8.3% gain,



ahead of both MidCap (5.1) and LargeCap (0.3). During 2020, all three indexes ended the year with gains; LargeCap was up by 16.3%, followed by MidCap's 11.8% rise and SmallCap's 9.6% gain. Twenty-eight of the 33 sectors are positive so far in 2021. The best performers so far this year: SmallCap Energy (21.9), MidCap Energy (21.4), LargeCap Energy (12.7), SmallCap Consumer Discretionary (12.5), and SmallCap Tech (9.0). The worst performers so far in 2021: LargeCap Communication Services (-3.8), LargeCap Consumer Staples (-3.0), LargeCap Tech (-2.2), MidCap Communication Services (-1.6), and LargeCap Real Estate (-0.7).

**S&P 500 Sectors and Industries Performance** ([link](#)): Three of the 11 S&P 500 sectors rose last week, and six outperformed the composite index's 1.5% decline. That compares to a 1.8% gain for the S&P 500 a week earlier, when seven sectors rose and five outperformed the index. Energy's 3.1% gain made it the best performer of the week, ahead of Real Estate (1.9%), Utilities (1.1), Financials (0.0), Health Care (-0.4), and Industrials (-0.9). The worst performers: Communication Services (-3.6), Information Technology (-2.6), Consumer Staples (-2.0), Consumer Discretionary (-1.9), and Materials (-1.6). The S&P 500 is up just 0.3% so far in 2021 with seven sectors higher ytd and six ahead of the index. During 2020, the S&P 500 rose 16.3% as seven sectors moved higher and four outperformed the index. The best performers so far in 2021: Energy (12.7), Financials (4.7), Materials (4.0), Health Care (3.0), Consumer Discretionary (1.9), and Utilities (0.4). The five underperformers: Communication Services (-3.8), Consumer Staples (-3.0), Tech (-2.2), Real Estate (-0.7), and Industrials (0.2).

**Commodities Performance** ([link](#)): Last week, the S&P GSCI index rose 1.0% for tenth gain of the past 11 weeks. It's still down 2.9% from its recent high on January 6, 2020 and finally out of a bear market at 14.1% below its four-year high on October 3, 2018. Seventeen of the 24 commodities that we follow moved higher last week. Kansas Wheat was the best performer last week with a gain of 8.1%, followed by Corn (7.1%), Wheat (5.8), Sugar (5.4), and Lean Hogs (4.5). Zinc was the biggest decliner for the week with a drop of 3.9%, followed by Copper (-2.2), Brent Crude (-1.5), and Aluminum (-1.4). The S&P GSCI commodities index is up 5.4% so far in 2021 after declining 6.1% in 2020. The top-performing commodities in 2021: Corn (9.8), Nickel (8.5), Unleaded Gasoline (8.3), Soybeans (8.1), and Crude Oil (8.0). The biggest laggards so far in 2021: Silver (-5.9), Gold (-3.2), Feeder Cattle (-3.1), Cocoa (-2.9), and Zinc (-1.8).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 fell 1.5% last week, but was above its short-term, 50-day moving average (50-dma) for an 11th week and above its 200-dma for a

29th week. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. Turning to how the dmAs compare relative to one another, the index's 50-dma relative to its 200-dma improved for a second week following three weekly declines, and the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 28th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March 2019. The index's 50-dma improved to 10.7% above its 200-dma from 10.5% a week earlier. Its 11.0% reading in mid-December was the highest since December 2009 when it was falling from its peak of 14.4% during October 2009. In mid-May, the 50-dma had been 9.9% below the 200-dma, which was the most that the former had lagged the latter since May 2009. Turning to the individual dmAs, the S&P 500's 50-dma rose for an 11th week after falling a week earlier for the first time in 24 weeks. The price index dropped to 2.4% above its rising 50-dma from 5.0% a week earlier. That's down from a 13-week high of 6.0% above its rising 50-dma in mid-November. It has been mostly trading above its 50-dma since late April and peaked in early June at 11.7% above the index's 50-dma, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 29th week, but fell to 13.9% above its rising 200-dma from 16.0% a week earlier. That's down from a 17.0% reading in early December, which was the highest since November 2009 and up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier and down from all 11 above at the end of November. That's still a big improvement from one sector at the end of October and compares to all 11 sectors above in the three weeks around the start of June. Real Estate flipped back above its 50-dma yet again in the latest week, and Utilities was above for the first time in seven weeks. Moving below in the latest week for the first time in 11 weeks were Communication Services and Consumer Staples. Energy was solidly above its 50-dma for a tenth week and for the first time since late June. All 11 sectors traded above their 200-dmas for an eighth week. Energy is the newest member, trading above its 200-dma for an eighth week and for the first time since mid-January. That compares to just one sector (Health Care) above its 200-dma in early April. All 11 sectors are now in the Golden Cross club (50-dmas higher

than 200-dmas), unchanged from the prior two weeks when Energy joined for the first time since November 2018. Ten sectors have a rising 50-dma, down from all 11 a week earlier as Utilities turned back down. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement then from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. All 11 sectors have rising 200-dmas, unchanged from a week earlier. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018

## US ECONOMIC INDICATORS

**Retail Sales** ([link](#)): Both headline and core retail sales fell in December for the third month as a surge in Covid cases kept consumers away from stores during the holiday season. That being said, both measures remain at very high levels, holding close to their September record highs. Headline sales dipped 0.7% last month following a revised 1.4% drop in November—which was sharper than the 1.1% preliminary loss. Core retail sales (which excludes autos, gasoline, building materials, and food services) sank 2.0% in December (the sharpest decline since April), while November's 1.1% decline was double the 0.5% initial loss. Headline and core retail sales had increased 33.9% and 21.0%, respectively, during the five months through September; the latest declines left them 2.1% and 3.3%, respectively, below September record highs. In December, seven of the 13 nominal sales categories fell, while six posted gains. Nonstore retailers (-5.8%), electronics & appliance stores (-4.9), and restaurants (-4.5) took the biggest hits in December, followed by food & beverage stores (-1.4), general merchandise stores (-1.2)—with department store sales dropping 3.8%—sporting goods & hobby stores (-0.8), and furniture stores (-0.6). The biggest gainer in December by far was gasoline service stations (6.6), followed by clothing stores (2.4), motor vehicle dealers (1.9), miscellaneous store retailers (1.7), health & personal care stores (1.1), and building materials & gardening equipment stores (0.9).

**Consumer Sentiment Index** ([link](#)): “Consumer sentiment posted trivial declines in early January despite the horrendous rise in Covid-19 deaths, the insurrection, and the impeachment of Trump” said Richard Curtin, chief economist of the University of Michigan's sentiment survey. The Consumer Sentiment Index (CSI) dipped to 79.2 in mid-January after rising from 76.9 to 80.7 in December; it has fluctuated between 76.9 and 81.8 since September. Both the present situation (to 87.7 from 90.0) and expectations (73.8 from 74.6) components moved lower this month, though the former's was the second best reading since March. Two offsetting shifts limited the January loss in sentiment—the Covid-19 vaccines and

a partisan shift in expectations due to the anticipated effect of Biden's economic policies, according to the report. "Importantly, Covid's threats to physical and mental health were seen in January as more important than its financial repercussions," noted Curtin.

**Business Sales & Inventories** ([link](#)): Both nominal and real business sales recovered from their Covid-related declines by October of last year, reaching new record highs that month, though nominal sales followed that with a slight downtick in November. Nominal business sales edged down 0.1% in November after soaring 25.1% the prior six months, while real sales (reported with a one-month lag) climbed 19.9% during the six months through October. Real sales of retailers has more than recouped its pandemic-related losses, surpassing its pre-pandemic reading by 8.4%, while real sales of wholesalers just moved above its pre-pandemic level in October, by 0.2%. Real manufacturing sales has advanced in five of the past six months, by a total of 16.2% through October, though is still 0.8% below pre-Covid readings. November's nominal inventories-to-sales ratio was at 1.32 for the fourth month, after shooting up from 1.38 in February to 1.67 in April. Similarly, the real inventories-to-sales ratio for October remained at 1.36; it had soared to a record high of 1.66 in April from 1.43 in February.

**Industrial Production** ([link](#)): Industrial output continued to climb in December, as both headline and manufacturing production accelerated. Headline production increased for the seventh time in eight months, by 1.6% in December and 15.8% over the period, to within 3.3% of its pre-Covid level, while manufacturing output has climbed steadily since bottoming in April, up 0.9% last month and 21.8% during the eight months through December—to within 2.6% of its pre-pandemic reading. Meanwhile, mining output rose 1.6% in December and 4.5% the past two months, while utilities output rebounded 6.2% after a 4.5% weather-related drop in November. Here's a snapshot of output by market group (and their components) since their April 2020 lows and where they stand relative to their February 2020 levels: Business equipment (35.8% & -4.0%), led by transit equipment (298.7 & +0.7), followed by industrial equipment (22.4 & -5.8), and information procession equipment (1.9 & -3.9)—with the latter showing little volatility during the pandemic shutdown. The same exercise shows the rebound in consumer goods production (20.9% & +0.2%) is being driven by durable goods (102.8 & -0.1)—mostly automotive products (351.3 & -0.1)—though auto output has stalled at record levels recently. The gain in consumer nondurable goods (7.7 & +0.3) production has paled in comparison, though rebounded 2.1% in December after little change the prior three months.

**Capacity Utilization** ([link](#)): The headline capacity utilization rate hasn't posted a decline since bottoming in April at 64.2%. It climbed by 10.3ppts off that low to 74.5% in December, a

reading that is 5.1ppts below its long-run (1972-2019) average. Manufacturing's capacity utilization rate has increased steadily since reaching bottom in April at 60.1%, rising to 73.4% last month—13.3ppts higher than its trough in April but still 4.8ppts below its long-run average. The utilization rate for mining had been in an up-and-down pattern in recent months, rising to an eight-month high of 80.5% last month, while the operating rate for utilities rebounded to 74.5% after falling from 75.8% in July to 70.3% by November; both measures remain well below their long-run averages.

**Regional M-PMIs** ([link](#)): The New York Fed gives the first glimpse of manufacturing activity in January and shows growth slowed for the fourth month, though firms remained optimistic that conditions would improve over the next six months. December's composite index eased to 3.5 this month from 4.9 last month, slowing steadily from September's 17.0—which virtually matched July's 20-month high of 17.2; it was at a record low of -78.2 in April. The new orders measure climbed to 6.6 in January after falling from 12.3 in October to 3.4 by year-end, while the shipments measure remains in a volatile flat trend, slipping to 7.3 after rising from 6.3 in November to 12.1 in December. Orders and shipments were at 22.1 and 18.9, respectively, in February. The employment gauge (to 11.2 from 14.2) showed job growth slowed a bit this month, after expanding at its fastest pace in two years in December, while the average workweek (6.3 from 4.8) lengthened. In the meantime, prices are accelerating. The prices paid index (to 45.5 from 37.1) rose to its highest level in two years; it was as low as 4.1 in May. The prices received index (to 15.2 from 10.0) shows output prices are also accelerating, with the measure reaching its highest point in a year. The index for future business conditions slipped to 31.9 this month from 36.3 last month, and down from September's peak of 40.3—though still at an elevated level. The indexes for future new orders (to 34.8 from 32.3) and shipments (37.6 from 32.7) were positive and slightly higher than last month's readings. Employment levels (to 23.0 from 21.3) and the average workweek (11.7 from 7.1) are expected to continue to expand in the months ahead.

**Producer Price Index** ([link](#)): The Producer Price Index for final demand rose for the eighth straight month in December, accelerating a bit after slowing the prior two months. Prices rose 0.3% last month after easing from 0.4% in September to 0.1% by November; the measure averaged monthly gains of 0.5% during May through July. The yearly rate held at November's nine-month high of 0.8% in December, accelerating from April's -1.5%. Monthly gains in final demand services' prices turned negative in December for the first time since April, dipping 0.1% last month after no change in November; prices had increased 0.7% during the two months through September. Its yearly rate eased to 1.1% after accelerating from 0.2% in May

to 1.5% y/y in November—which was the highest percentage since the start of the year. Meanwhile, prices for final demand goods accelerated at a seven-month high of 1.1%, nearly triple November’s advance. The yearly rate turned positive for the first time since February—accelerating steadily from -5.2% y/y in April to +0.2% by the end of the year. In the meantime, yearly rates for pipeline prices have swung from negative to positive. Intermediate prices rose 1.2% y/y in December, its first positive reading since April 2019, accelerating steadily since hitting bottom at -7.6% in April. Crude prices rose 1.6% y/y, turning positive in November (0.6%) for the first time since December 2018; it hit bottom at -28.7% in April.

## GLOBAL ECONOMIC INDICATORS

**Eurozone Industrial Production** ([link](#)): Output accelerated again in November after slowing to a near standstill in August and September. Industrial production jumped 2.3% in October and 4.8% during the two months through November, after a two-month uptick of only 0.6%; it was on a tear during the three months through July, rebounding 30.1%. Output is now within 0.8% of pre-Covid levels. Here’s a look at how the main industrial groups fared during the seven months through November and where they stand relative to their pre-pandemic levels: consumer durable goods (+104.4% & 0.0%), capital goods (+68.4 & +1.7), intermediate goods (+33.9 & -1.4), consumer nondurable goods (+12.8 & -3.3), and energy (+7.2 & -2.6)—with the upswing in consumer durable goods production stalling recently. Here’s the same exercise for total production among the top four Eurozone economies: Italy (+67.5% & -3.5%), France (+46.3 & -4.2), Spain (+45.6 & -1.6), and Germany (+33.6 & -4.5). Worth noting, among these four economies, only Germany continued to climb in November, while France and Spain took small steps back after a string of gains. Production in Italy fell for the second time in three months, by 5.0%.

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