Yardeni Research

MORNING BRIEFING
January 25, 2021

The Checks Are in the Mail

Check out the accompanying chart collection.

(1) *The Economist*'s rocketship dodges the front-cover curse. (2) Samuelson's mistake. (3) From lots of liquidity to tons of it. (4) The Fed is pumping away. (5) CARES Acts I-III add up to $3.6 trillion in rocket fuel. (6) Biden's Acts IV and V would add another $4 trillion, give or take. (7) First round of rescue checks fueled rocketship recovery from lockdown recession last year. (8) Latest round of checks is half as much, but GDP is almost back to pre-pandemic level. (9) It may be time to start worrying about inflation, or at least monitoring it more closely. (10) Movie review: "News of the World" (+).

YRI Podcast. In our latest video podcast, Dr. Ed discusses the main points of today's *Morning Briefing*.

US Economy I: Tech-Led Rocketship. The January 16 issue of *The Economist* features an article in its Leaders section titled "The roaring '20s? Why a dawn of technological optimism is breaking." The story comes with a graphic of a rocketship taking off.

Fortunately, this story on the Roaring '20s didn't make the front cover of the publication. If it had, then we would have had to worry about the front-cover curse, which I discussed in my 2018 book, *Predicting the Markets*, as follows: [F]ront-cover stories about the economy or the stock market often are great contrary indicators. That's because once the media folks get excited enough about a story to put it on their cover, it's often too late to invest in the idea. Front-cover stories usually mark a major turning point for the economy and the stock market."

In my book, I also discussed how technological innovations solve problems. I criticized late American economist Paul Samuelson for teaching us that economics is about the optimal allocation of scarce resources, when it is in fact about how the price mechanism and the profit motive incentivize entrepreneurs to solve the scarcity problem with abundance, created by their productivity-enhancing innovations.

The Economist article discusses three reasons for optimism: 1) "the flurry of recent discoveries with transformative potential," 2) "booming investment in technology," and 3) "the rapid adoption of new technologies." All three have been important themes that Jackie and I have addressed on a regular basis, especially in our Thursday discussions of disruptive technologies.

US Economy II: From LOL to TOL. The stock market's rocketship was loaded with lots of liquid (LOL) fuel prior to the pandemic. The S&P 500 rose to a record high on February 19 last year. Then, the pandemic poked a hole in the rocketship's fuel tank, its fuel was lost, and gravity pulled the ship back down toward Earth. It was an unprecedented freefall, as the S&P 500 dropped 33.9% in 33 calendar days and only 23 trading days through Monday, March 23.

That day, the Fed patched up the rocketship's fuel tank and filled it with tons of liquidity (TOL). Since then through the end of 2020, the Fed purchased $2.4 trillion in US Treasury and agency securities. At its December 16 meeting, the FOMC committed to pump liquidity into the rocketship's fuel tanks at the rate of $120 billion in QE purchases until further notice. Fiscal policy has also provided lots of high-octane rocket fuel via a series of congressional pandemic emergency acts:

(1) *Act I ($2.2 trillion).* On Friday, March 27, the Treasury topped off the fuel tanks with the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, which included support payments of $1,200 per person sent to many eligible Americans. That was TOL, with more to come from the US Treasury. The Act also appropriated $349 billion to the Paycheck Protection Program (PPP), which was exhausted in a matter of days.

(2) *Act II ($483 billion).* After quickly concluding all that was not enough, Congress passed a supplemental $483 billion Covid-19 related economic relief bill on April 24. The Paycheck Protection Program and Health Care Enhancement Act provided additional appropriations for small business loans, healthcare providers, and Covid-19 testing. The appropriation for PPP loans was increased by $321 billion and extended from August 8, 2020 until March 31, 2021, with slightly modified rules for loan applications and loan forgiveness.

(3) *Act III ($900 billion).* A bipartisan group in the Senate crafted a deal that turned into yet another pandemic relief package, which was enacted by Congress at the end of 2020. The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 totaled about $900 billion and included another round of support for small businesses and unemployed workers. PPP was boosted by $284 billion. President Trump initially refused to sign it unless the amount

for relief checks sent to eligible taxpayers was raised from $600 to $2,000. He signed off on it on December 27, with the $600 checks sent out at the start of this month.

(4) *Act IV ($1.9 trillion)*. Under Biden's $1.9 trillion American Rescue Plan, proposed on January 14, the Treasury would send out another $1,400 per person in checks. That, along with the $600 checks already sent, caused Debbie and me to boost our real GDP forecast last week for Q1 (from 2.0% to 7.0%, saar) and Q2 (from 2.0% to 4.5%) (*Fig. 1*). (See *YRI Economic Forecasts*.)

(5) *Acts I-V ($7.5 trillion).* The first three acts add up to $3.6 trillion in rocket fuel. The fourth act would bring the total to $5.5 trillion. The fifth act is likely to be focused on infrastructure and Green New Deal spending of as much as $2.0 trillion. Ka-ching: The total is $7.5 trillion!

Then again, Biden's acts may not be enacted, not fully at any rate. To get them through the Senate on a bipartisan basis, Biden needs 10 Republican senators to sign onto his budget legislation along with all 50 of the Democratic senators.

Last Wednesday, Republican Senators Lisa Murkowski of Alaska and Mitt Romney of Utah, two members of the bipartisan group of senators who crafted the framework for December's stimulus package, challenged the need for another expensive bill so soon after the previous one. Democratic Senator Joe Manchin of West Virginia also questioned the need for more stimulus. (See "Meet the other Joe, again," in our January 7 *Morning Briefing*.) The current bipartisan group seeking a deal includes eight Republicans and one Independent in the Senate. (See the January 21 CBS News article "Bipartisan group of senators plans to meet with White House on COVID bill.")

Democrats will have to either win 10 GOP votes to get past a Republican filibuster or push the legislation through using the budget reconciliation process, which requires only a majority vote. However, budget rules may prevent them from including pieces of the President's proposal in a bill. (See "Reconciliation's New Definition" in our January 19 *Morning Briefing*.)

US Economy III: Checks Fueling Consumer Spending. Let's review the impact of the CARES Act on personal income last year as a guide to what new stimulus checks—the $600 per person already mailed and possibly another round, of $1,400—could do to personal income:

(1) *Checks in Act I.* The CARES Act provided $300 billion in direct support "economic impact payments" (EIPs) to individuals. These payments to individuals are recorded as federal government social benefit payments to persons in the monthly personal income report released by the Bureau of Economic Analysis (BEA). They were mostly made in April. Since they are reported at an annual rate, consistent with all the other categories of personal income, they added $2,588.4 billion during April and $605.8 billion during May, with another $113 billion in payments from June through November. (See the BEA's "Effects of Selected Federal Pandemic Response Programs on Personal Income.")

Much of those funds initially piled up in the personal saving component of personal income. This item soared from $1,389 billion during February to $6,414 billion during April. It then trended back down as the easing of lockdown restrictions allowed consumers to go shopping at the malls and dine at restaurants again (*Fig. 2*). Personal saving was back down to $2,220 billion during November.

(2) *Checks in Acts II and IV.* Another big surge in EIPs started this month, reflecting the $600-per-person checks sent by the Treasury. If that adds up to $150 billion (i.e., half as much as the first round of checks), it will show up as a $1,800 billion (saar) boost to personal income during January. Assuming that Congress passes the next round of $1,400-per-person checks (to round off the latest payments to $2,000 per person) during February, the additional payments in March could boost personal income by at least as much as the first round, of $1,200 checks, last April and March!

(3) *This time is different*. This is a MIND-BOGGLING amount of policy stimulus in an economy where personal income excluding government support payments has rebounded 8.8% from April's low through November and is only 0.8% below its record high during February (*Fig. 3*). Personal consumption expenditures is up 20.3% over this same period and is only 2.1% below its record high during January (*Fig. 4*).

Oh, and by the way: The housing market is also booming, with home prices soaring. Housing starts jumped 5.8% during December to the highest pace since 2006 (*Fig. 5*). The increase was led by a 12.0% increase in single-family units (*Fig. 6*). Permits for new residential units rose 4.5% in December to a rate of 1.71 million, signaling that the sector's strength will continue in 2021 (*Fig. 7*). The median and average single-family home prices jumped 13.5% and 10.7% y/y during December.

Acts I and II were provided in response to the pandemic and the resulting two-month lockdown recession. This time, social-distancing restrictions are much less severe than they were during last year's March and April lockdowns. Therefore, Act III, which includes the latest round of $600 EIPs, is likely to have a much more immediate impact on boosting personal consumption expenditures in an economy that has fully recovered from last year's recession as measured by GDP, thanks to Acts I-III. By the way, seasonal adjustment factors also tend to boost consumer spending during January and February.

Debbie and I are thinking that our upward revision in real GDP for the first half of this year may not be enough. We will wait to see what Congress delivers in additional EIPs in Act IV before adjusting it, however.

US Economy IV: Inflation Ready for Liftoff? I was an early believer in "disinflation." I first used that word, which means falling inflation, in my June 1981 commentary, "Well on the Road to Disinflation." The Consumer Price Index (CPI) inflation rate was 9.6% that month. I predicted that Fed Chair Paul Volcker would succeed in breaking the inflationary uptrend of the 1960s and 1970s. At the time, monetarists like Milton Friedman were predicting that inflation would make a comeback. Subsequently, over the past 40 years, I've argued that four powerful structural deflationary forces were subduing inflation and would keep a lid on it. (See my *Four Deflationary Forces Keeping a Lid on Deflation*.)

I still think that those "4Ds" will keep a lid on inflation. However, that doesn't mean that inflation can't move sustainably above 2.0% and reach 2.5%-3.0% for a while. On August 27, 2020, the Fed started to officially root for this to happen when the FOMC released its revised "Statement on Longer-Run Goals and Monetary Policy Strategy." Earlier last year, the FOMC essentially embraced Modern Monetary Theory on what Melissa and I call "MMT Day" (March 23, 2020). Now with the Fed pledging to keep interest rates low until there is "substantial further progress" in achieving "maximum employment" and "price stability" and with Act IV on the way, MMT is on steroids and speed.

Our message to the FOMC: Beware of what you wish for. If inflation makes a comeback, you will have to either allow the 10-year US Treasury bond yield to rise to at least 2.00% or continue to peg it around 1.00% by purchasing all the notes and bonds issued by the Treasury to pay for the next round of deficit-financed government spending. Letting bond yields move higher would be a sign of confidence in the economy, though the initial "taper tantrum" reaction of the bond and stock markets would be adverse. Pegging the bond yield when inflationary pressures are clearly building could trigger the MAMU (the Mother of All Meltups) in asset prices.

Melissa and I expect that the Fed will chose to keep a lid on the bond yield through the first half of this year but may be forced to allow it to rise if inflationary pressures build during the second half of this year. Obviously, the outlook for inflation is extremely important considering that even perma-disinflationists like us are starting to worry that inflation could make at least a temporary comeback. Reflationists have been waiting for Godot for a very long time. Debbie, Melissa, and I are watching out for him to appear on stage. Consider the following:

(1) *Commodity prices.* Commodity prices have surprisingly little effect on consumer price inflation. The big exceptions occurred during the 1970s when soaring food and energy prices triggered a wage-price spiral. But since then, the ups and downs in commodity prices have been barely noticeable in the core CPI inflation rate. Nevertheless, commodity prices are a source of inflationary pressure currently. The CRB broad commodity index and raw industrials spot price indexes are up 23% and 28% since March 23, 2020 through Thursday's close. (*Fig. 8*).

(2) *Bonds.* The 10-year annual expected inflation rate, as measured by the yield spread between the 10-year US Treasury bond and the comparable TIPS, jumped from last year's low of 0.50% on March 19 to 2.09% on Friday (*Fig. 9*). This proxy for expected inflation is available only since 2003, and its correlation with the core CPI inflation rate is weak. That's not surprising since this proxy is highly correlated with the CRB raw industrials spot index, which likewise hasn't been especially useful for predicting consumer price inflation (*Fig. 10*).

(3) *Regional price surveys.* Five of the Federal Reserve Banks compile an average of their districts' prices-paid and price-received indexes; the results show rebounds from last year's lows through December similar to those that occurred after the Great Financial Crisis and after the commodity super-cycle boom turned into a bust during 2014 and 2015 (*Fig. 11*). We weren't worried about the inflationary implications of those previous two experiences. We aren't worried about the latest either, so far.

(4) *PMI price surveys.* Similarly, we aren't ready to sound the inflation alarm as a result of the surge in the prices-paid index of the national survey of manufacturing purchasing managers. It jumped from last year's low of 35.3 during April to 77.6 in December, the highest reading since

May 2018 (*Fig. 12*). It has had some correlation with the core CPI inflation rate, but not enough to be of concern to us, yet (*Fig. 13*).

(5) *Import prices and the PPI.* The 11.2% drop in the trade-weighted dollar since March 23, 2020 is putting upward pressure on nonpetroleum import prices. The latter's inflation rate on a y/y basis rose from last year's low of -1.1% during April to 1.8% during December (*Fig. 14*). This is putting upward pressure on the core intermediate goods Producer Price Index (PPI) but not on the core finished goods PPI (*Fig. 15*).

(6) *CPI.* The pandemic has put upward pressure on some CPI categories and downward pressure on others. The CPI goods inflation rate rebounded from last May's low of -2.5% to 0.7% during December (*Fig. 16*). On the other hand, the CPI services inflation rate has dropped from last year's peak of 3.0% during February to 1.6% during December. Leading the way toward lower inflation in services have been CPI medical care services and rent of primary residence (*Fig. 17*).

(7) *Labor costs.* The pandemic has also led to "the rapid adoption of new technologies," as *The Economist* article observes. Debbie and I believe that a significant rebound in productivity is underway, which is why we aren't anticipating a secular rebound in inflation. However, that doesn't rule out a cyclical rebound in inflation.

The newly established Biden administration is rapidly embracing policies that are likely to put upward pressure on inflation, particularly on labor costs. At the end of last week, the President asked his administration to prepare a potential executive order, which he aims to sign in his first 100 days in office, that would require federal contractors to offer a $15-per-hour minimum wage and emergency paid leave. His American Rescue Plan proposes to raise the federal minimum wage to $15 per hour.

Last week, Biden revoked executive orders issued by former President Donald Trump that the White House said damaged workers' collective bargaining power and got rid of a rule that limited job protections for civil servants.

Movie. "News of the World" (+) (*link*) stars Tom Hanks as a weary veteran of the Civil War. He plays Captain Jefferson Kyle Kidd, a Texan and a former member of the Confederate Infantry who now makes a living traveling town to town reading newspapers for the populace for ten cents per person. The last land battle of the Civil War took place near Brownsville, Texas, and it was won by the Confederates. Texas was then basically occupied by Union soldiers to enforce the peace agreement. In the movie, Captain Kidd is on a danger-filled mission to return a young girl who was kidnapped by Native Americans as an infant to her last remaining family. The action is a bit too slow-paced for a Western. But "News of the World" is worth watching if only to remind us that our current period of social unrest and political partisanship is a walk in the park compared to previous periods of turmoil in American history.

CALENDARS

US: **Mon:** Dallas Fed Manufacturing Index, Chicago Fed National Activity Index.**Tues:** Consumer Confidence 89, Richmond Fed Manufacturing Index, S&P Case-Shiller Home Price Index, API Crude Oil Inventories, IMF World Economic Outlook. (DailyFX estimates)

Global: **Mon:** Germany Ifo Business Climate, Current Conditions, and Expectations 91.8/90.6/93.2, World Economic Forum Annual Meeting, BOJ Monetary Policy Meeting Minutes, Lagarde, Panetta, Land. **Tues:** UK Employment Change & Unemployment Rate - 100k/5.1%, UK Average Earning Including & Excluding Bonus 2.9%/3.1% y/y, Australia CPI 0.7% y/y, World Economic Forum Annual Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 2.0% for its biggest gain in eight weeks and rank 11th of the 49 global stock markets we follow in a week when 26 of the 49 countries rose in US dollar terms and the AC World ex-US index rose 1.2%. The US MSCI index ended the week 0.3% below its record high on Thursday. Just five other countries traded at a record high in dollar terms during the week: China, the Netherlands, Sweden, Switzerland, and Taiwan. EM Asia was the best-performing region last week, with a gain of 3.7%, followed by BRIC (3.4%). EM Latin America was the biggest underperformer with a decline of 4.6%, followed by EM Eastern Europe (-3.4), EMEA (-1.4), EAFE (0.7), and EMU (0.8). Sri Lanka was the best-performing country last week, rising 6.3%, followed by China (5.9), New Zealand (4.6), Taiwan (4.3), and the Netherlands (3.6). Among the 33 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst with a decline of 7.1%, followed by Brazil (-5.5), Russia (-4.2), Jordan (-3.9), and Mexico (-3.6). The US MSCI ranks 25/49 so far in 2021, up from 35/49 a week earlier. However, its 2.4% ytd gain remains behind the 4.1% rise for the AC World ex-US. Thirty-eight 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 (9.8) is ahead of BRIC (8.2) and the AC World ex-US (4.1). The ytd laggards: EM Latin America (-3.4), EM Eastern Europe (0.9), EMU (1.2), EMEA (2.3), and EAFE (2.4).

S&P 1500/500/400/600 Performance (*link*): LargeCap led last week with a gain of 1.9%, followed by similar 1.6% increases for SmallCap and MidCap. SmallCap was the only index that did not trade at a record high during the week. LargeCap is now 0.3% below its record high on Thursday, while MidCap and SmallCap are 0.3% and 0.1% below their respective record highs on Wednesday and January 14. Twenty-one of the 33 sectors rose last week compared to 19 rising a week earlier. Twenty-one sectors are out of a correction now, and eight ended the week at a record high. LargeCap Communication Services rose 6.0% and was the best performer for the week, followed by SmallCap Communication Services (4.7%), LargeCap Tech (4.4), SmallCap Consumer Discretionary (3.6), and MidCap Tech (3.2). MidCap Energy was the biggest underperformer last week, with a decline of 8.3%, followed by SmallCap Utilities (-2.5), MidCap Utilities (-2.1), LargeCap Financials (-1.8), and LargeCap Energy (-1.6). In terms of 2021's performance, all three indexes are higher ytd; SmallCap leads with a 10.1% gain, ahead of both MidCap (6.8) and LargeCap (2.3). 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-nine of the 33 sectors are positive so far in 2021. The best performers so far this year: SmallCap Energy (21.6), SmallCap Consumer Discretionary (16.5), SmallCap Tech (12.2), SmallCap Communication Services (11.7), and MidCap Energy (11.3). The worst performers so far in 2021: LargeCap Consumer Staples (-3.8), SmallCap Utilities (-1.5), MidCap Utilities (-1.2), LargeCap Industrials (-0.2), and LargeCap Utilities (0.2).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 S&P 500 sectors rose last week, but just three outperformed the composite index's 1.9% gain. That compares to a 1.5% decline for the S&P 500 a week earlier, when three sectors rose and six outperformed the index. Communication Services' 6.0% gain made it the best performer of the week, ahead of Tech (4.4%) and Consumer Discretionary (3.1). The worst performers: Financials (-1.8), Energy (-1.6), Materials (-1.2), Consumer Staples (-0.9), Industrials (-0.4), Utilities (-0.2), Health Care (0.6), and Real Estate (1.4). The S&P 500 is up 2.3% so far in 2021 with nine sectors higher ytd and five 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 (11.0), Consumer Discretionary (5.0), Health Care (3.5), Materials (2.8), and Financials (2.8). The five underperformers: Consumer Staples (-3.8), Industrials (-0.2), Utilities (0.2), Real

Estate (0.6), Communication Services (1.9), and Tech (-2.1).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 1.0% for its first decline in four weeks and its biggest in 12 weeks. It's down 3.9% from its recent cyclical high on January 6, 2020 and finally out of a bear market at 15.0% below its four-year high on October 3, 2018. Fourteen of the 24 commodities that we follow moved higher last week. Feeder Cattle was the best performer last week with a gain of 6.1%, followed by Lean Hogs (4.8%), Live Cattle (3.7), Silver (2.8), and Lead (2.5). Natural Gas was the biggest decliner for the week with a drop of 8.9%, followed by Soybeans (-7.4), Wheat (-6.1), and Corn (-5.8). The S&P GSCI commodities index is up 4.4% so far in 2021 after declining 6.1% in 2020. The top-performing commodities in 2021: Nickel (10.0), Unleaded Gasoline (9.6), Lean Hogs (8.4), Crude Oil (7.7), and GasOil (6.9). The biggest laggards so far in 2021: Coffee (-3.3), Natural Gas (-3.3), Silver (-3.2), Cocoa (-2.8), and Gold (-1.9).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.9% last week, and was above its short-term, 50-day moving average (50-dma) for a 12th week and above its 200-dma for a 30th 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 edged down for the third time in four weeks, but barely so, as the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 29th 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 ended the week 10.7% above its 200-dma. That's down from its mid-December reading of 11.0%, which 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 a 12th week after falling a week earlier for the first time in 24 weeks. The price index improved to 3.6% above its rising 50-dma from 2.4% 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 30th week and rose to 14.7% above its rising 200-dma from 13.9% 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*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine 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. Communication Services flipped back above its 50-dma in the latest week after trading below for just one week. Consumer Staples was below its 50-dma for a second week, and Energy was solidly above for an 11th week and for the first time since late June. All 11 sectors traded above their 200-dmas for a ninth week. Energy is the newest member, trading above its 200-dma for a ninth 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. Eight sectors have a rising 50-dma, down from 10 a week earlier as Consumer Staples and Real Estate turned down and joined Utilities. 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

Housing Starts & Building Permits (*link*): Builders continued to build aggressively as 2020 drew to an end, but their confidence level deteriorated a bit during the two months through January—from a very high level. Both single-family starts and single-family permits (a good leading indicator of housing starts) rebounded to new cyclical highs in December—surpassing their pre-pandemic readings by 29.4% and 23.3%, respectively; multi-family measures did not join the party. Total housing starts have increased every month but one since bottoming in April, jumping 5.8% in December and 78.7% over the period—and is 6.5% above its pre-pandemic levels. Single-family housing starts continued to soar, jumping 12.0% last month, and have virtually doubled during the eight months through December—to 1.338mu (saar) from 679,000 units. Meanwhile, multi-family starts remain in a very volatile flat trend, contracting 13.6% in December to 331,000 units (saar), after a two-month gain of 12.7%. Building permits, in the meantime, have increased six of the eight months since bottoming in April, up 4.5% in December and 60.3% over the period to a new cyclical high of 1.709mu (saar), driven by an 84.1% surge in single-family permits to 1.226mu (saar)—its highest reading since August 2006 and its fifth straight reading above 1.00mu. Multi-family permits, like starts, remain in a volatile flat trend—bouncing between 416,000 units (saar) and 506,000 units since bottoming in April. NAHB's January Housing Market Index (HMI) shows builders' confidence has dipped 7 points, to 83, since reaching a record high of 90 in November. All three measures of the HMI have deteriorated since reaching record highs in November: current sales (to 90 from 96 in November), future sales (83 from 89), and traffic of prospective buyers (68 from 77); they were at 36, 36, and 13, respectively, in April.

Existing Home Sales (*link*): "Home sales rose in December, and for 2020 as a whole, we saw sales perform at their highest levels since 2006, despite the pandemic," said Lawrence Yun, NAR's chief economist. "What's even better is that this momentum is likely to carry into the new year, with more buyers expected to enter the market." Existing home sales—tabulated when a purchase closes—advanced for the sixth time in seven months, by 0.7% m/m and 72.9% over the period, to 6.760mu (saar). Single-family sales rose 0.7% and 68.9% over the comparable periods to 6.030mu (saar), while multi-family sales rose 1.4% and 114.7% over the comparable periods to 730,000 units. Total, single-family, and multi-family sales were 22.2%, 22.8%, and 17.7% above December 2019 levels. All four regions experienced significant year-over-year growth: Northeast (27% y/y), Midwest (26), South (21), and West (18). Total housing inventory at the end of December totaled 1.07 million units, down 16.4% from November and down 23.0% from last December's 1.39 million units. Unsold inventory is at an all-time low of 1.9 months' supply at the current sales pace, down from 2.3 months in November and from the 3.0 months a year ago. The lack of inventory boosted existing home prices in all regions significantly by year-end: Northeast (19.0% y/y), West (14.2), Midwest (13.7), and South (11.3).

Regional M-PMIs (*link*): Two Fed districts now have reported on manufacturing activity for January (Philadelphia and New York) and show the manufacturing sector expanded at a faster pace—thanks to a sharp acceleration in the Philadelphia region. The composite index was double December's rate, climbing to 15 this week after slowing from 17.6 to 7.0 the prior two months, as the Philadelphia (to 26.5 from 9.1) region posted its best performance in a year; New York's (to 3.5 from 4.9) continued to show limited growth. The new orders measure jumped from 2.7 to 18.3—as billings in the Philly (to 30.0 from 1.9) region expanded at the fastest pace since February 2020, while New York's (6.6 from 3.4) grew at only a slightly faster pace than December. In the meantime, factories added to payrolls at the best pace since July 2018, with the employment measure climbing from 9.9 to 16.9 this month and with the

Philadelphia (to 22.5 from 5.6) region once again driving growth; New York's (11.2 from 14.2) was just below December's pace.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): Private sector businesses indicated a strong start to 2021, according to flash estimates, posting a sharp expansion in business activity, buoyed by hopes that vaccine developments will put the worst of the pandemic behind us, and that the new administration will provide a stable and supportive environment for stronger economic growth. This month's C-PMI rebounded back to within a hair of November's (58.6) 68-month high, jumping from 55.3 in December to 58.0—with manufacturing posting its best performance on record. January's M-PMI rose for the ninth consecutive month, by 2.0 points m/m and 23.0 points over the period to 59.1, driven by the biggest upturn in factory production since August 2014 as new orders rose markedly—with new export orders expanding at their best pace since September 2014. Some of the upswing in January's M-PMI, however, was driven higher by another deterioration in vendor performance due to substantial supply-chain disruptions. The NM-PMI also moved higher, recovering to 57.5 this month after easing from 58.4 to 54.8 last month. This month's rate of expansion is the second best since March 2015, though new business growth softened due to Covid-related restrictions placed on firms. The upturn was still solid, though, with new business from abroad returning to growth, according to the report.

Eurozone PMI Flash Estimates (*link*: Business activity fell at an accelerated rate this month, according to flash estimates, as companies struggled amid the ongoing pandemic and related restrictions. The C-PMI fell from 49.1 to 47.5 this month—the third straight reading below the breakeven-point of 50.0. However, the last three months have seen the C-PMI higher than during the initial months of the pandemic last year, suggesting the impact of the second wave of the virus has so far been considerably less severe than the first wave . The rate of factory growth this month was the slowest since the recovery began, while the service sector saw output contract at the second fastest pace since May. January's M-PMI slipped from 55.2 to 54.7, while the NM-PMI fell from 46.4 to 45.0—its fifth month in contractionary territory. Looking at the Eurozone's two largest economies, growth continues to expand in Germany, though at its slowest rate since the recovery began in July, while growth in France contracted for the fifth successive month. Germany's C-PMI (to 50.8 from 52.0) eased this month, as the NM-PMI (46.8 from 47.0) contracted for the fourth month, while the M-PMI (to 57.0 from 58.3) showed manufacturing activity continued to expand at a robust pace. Meanwhile, France's C-PMI (to 47.0 from 49.5) shows the economy contracting at a faster pace, with the NM-PMI

(46.5 from 49.1) showing a steeper decline in service-sector growth this month, while the M-PMI (51.5 from 51.0) continues to grow at a sluggish pace. Outside of France, the rest of the Eurozone--except for Germany--saw even steeper rates of contraction than France did, with activity contracting for a sixth straight month and with the C-PMI dropping from 46.1 to 44.7 this month. However, as for France, the decline for the rest of the Eurozone remained less severe than in November. Outside of France and Germany, the rest of the Eurozone saw steep rates of decline, with activity contracting for a sixth straight month. The C-PMI dropped from 46.1 to 44.7 this month.

Japan PMI Flash Estimates (*link*): "Rising Covid-19 cases extend private sector downturn," was the headline of this month's report. Japan's private sector contracted again in January, according to flash estimates, declining at its fastest pace in four months. The C-PMI (to 46.7 from 48.5) extended its stay in contractionary territory to 12 months, with the NM-PMI (45.7 from 47.7) contracting at its fastest pace since August, posting its 12th consecutive reading below 50.0. Meanwhile, the M-PMI (49.7 from 50.0) slipped just below the breakeven point at the start of this year, after improving steadily from May's bottom of 38.4 to 50.0 by the end of last year. The report noted, "Short-term activity will undoubtedly be hampered by rising coronavirus disease 2019 (Covid-19) cases, as the government declared a state of emergency in Tokyo and introduced further measures to curb rising infection rates. As a result, positive sentiment weakened across the private sector. Firms are still predicting growth over the coming 12 months, although concern remains that the impact of the pandemic will be prolonged."

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