



MORNING BRIEFING

February 4, 2021

Chips Shortage

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

(1) Semiconductor sales and stocks booming. (2) Auto manufacturers searching for chips. (3) Introducing gallium nitride. (4) NXP forecasts strong Q1. (5) Cloud computing driving chip demand too. (6) Chinese focused on developing home-grown chips. (7) US tech giants want to develop semis in house too. (8) Watching the US and Chinese 5G rollout race. (9) Abu Dhabi can claim best 5G download speeds in the world. (10) China's in the lead, but these are still early days.

Technology: Semis, Autos, 5G, and China. The market action in GameStop shares reminded us of the infamous Value investor Benjamin Graham, who said that in the short run the stock market is a voting machine, reflecting a company's popularity, but in the long run the market is a weighing machine, reflecting a company's substance and value. This week, the market decided that GameStop wasn't worth \$468.49 a share.

Over the past year, however, Mr. Market has decided that semiconductor companies are worth far more than was believed just a year ago. The S&P 500 Semiconductors industry index has risen 52.1% y/y through Tuesday's close, and the S&P 500 Semiconductor Equipment industry index has rallied 73.1%, far outpacing the S&P 500's 18.6% gain over the same period ([Fig. 1](#) and [Fig. 2](#)).

In Q2 and Q3, semiconductor sales boomed as tablet and laptop sales surged because the Covid-19 economic lockdowns and shutdowns sent many people scurrying for technology to help them work and learn from home. There will be tough y/y comparisons in that sector going forward. However, many major semiconductor end markets should continue expanding this year. Sales of cars, filled with semiconductors, are in the fast lane. Cloud computing, powered by chip-filled servers, shows no signs of slowing. And we are in the early stages of rolling out 5G phones and telecommunications systems that depend on chips. NXP Semiconductors' Q4 earnings report earlier this week gave no inkling that a slowdown in the semi market is forthcoming.

There are, as always, things that could cause problems for semiconductor companies. China, for one, is spending a tidy sum to develop its own semiconductor industry. Some of the largest tech companies are developing their own semiconductor chips instead of buying them from suppliers. And Graham, the father of Value investing, might have raised an eyebrow at the industry's forward earnings multiple, which has risen almost as quickly as its stock prices. I asked Jackie to take a deeper look at the latest in semiconductors; here's what she found:

(1) *Semis in autos, IoT, and 5G*. The second half of 2020 was kind to semiconductor companies as most economies around the world reopened and factories got back to work. NXP's revenue rose 9.0% y/y in Q4 after surging 24.7% in Q3, a nice rebound from the first half of the year when revenue dropped 12.2% in Q1 and 10.1% in Q2.

After the rebound, the industry now finds itself short on inventory. NXP CEO Kurt Sievers explained in the company's February 1 [conference call](#) that after the first-half 2020 surge in demand for computers and mobile equipment, foundry capacity was largely sold out when the auto and industrial markets began to rebound in the second half of the year. "As a result, we and others are experiencing significant increases in lead times, and in certain cases, increased cost from suppliers," he said. "Taken that altogether, the setup indicates a really robust demand environment combined with a very challenging supply situation, which we anticipate may continue for several more quarters."

NXP forecasts Q1 revenue will jump about 26% (using the midpoint of its estimated range), with revenue jumping in the mid-20% range y/y in autos. Demand for semis in the auto industry is so strong that "every single product" NXP ships is immediately built into a car. Its auto customers haven't begun rebuilding inventories.

Q1 revenue should rise nearly 50% y/y in NXP's industrial and IoT segment, and 40% y/y in mobile. While Q1 revenue is forecast to be flat in communications infrastructure, the company is optimistic about its new gallium nitride chips that would replace silicon chips. NXP opened a plant in Arizona last year that will produce 5G radio chips for wireless data equipment made of gallium nitride. The material can "handle the high frequencies used in [5G] networks while consuming less power and taking up less space than other chip materials," a September 29 Reuters [article](#) explained. The ability to offer this new product will help the company gain share in the communication infrastructure market in the second half of this year, Sievers predicted. The "niche" product is primarily being produced by NXP, Skyworks Solutions, and Qorvo, Reuters reports. Certainly something to watch.

(2) *Semis still floating on the cloud.* The move to put computing power and data in the cloud got a shot in the arm as Covid-19 forced almost everyone to work and learn from home. Q4 results from Microsoft, Amazon, and Google confirmed the cloud strength continued through last quarter. And Amazon's promotion of Andy Jassy, head of its cloud computing division, to replace Jeff Bezos as CEO speaks volumes about the cloud's importance to the Internet retailing giant. The division kicked in roughly 10.1% of Amazon's Q4 revenue but slightly more than half of the company's Q4 operating income.

Amazon Web Services' Q4 sales rose 28.0% y/y to \$12.7 billion, and its Q4 operating income jumped 37.3% y/y to \$3.6 billion. Microsoft's Azure cloud operation grew sales 50% in the December quarter y/y, making the unit's revenues larger than those generated by Microsoft's Windows operating system licenses. And Google's cloud unit grew revenue by 46.2% y/y in Q4, though the unit lost \$1.2 billion.

(3) *Keeping one eye on China.* Former President Donald Trump highlighted the US dependence on Chinese semiconductor manufacturing and encouraged manufacturers to open factories on US soil. The encouragement seems wise given the Chinese military's recent aerial maneuvers over Taiwan.

Former President Trump also placed China's leading semiconductor companies, Huawei and Semiconductor Manufacturing International, on the Commerce Department's "entity list," which restricts suppliers from selling US goods and technology to the Chinese companies. Conversely, an executive order by President Trump prevented US companies from buying telecommunications equipment from companies deemed a national security risk, and Huawei fell into that bucket.

China has struck back by laying out a set of policies to boost the country's semiconductor industry growth through 2025. "Measures to bolster research, education and financing for the industry have been added to a draft of China's fourteenth five-year plan," a September 3 Reuters [article](#) reported.

The country appears to be successfully using RISC-V, an open-source chip architecture that essentially translates "software commands into instructions for processors to perform the computations needed to send email, play games or perform other tasks," a January 11 *WSJ* [article](#) reported. Using RISC-V allows semiconductor companies to avoid paying licensing fees

to companies like Arm Holdings and Intel that have similar technology. For example, Alibaba Group Holding used RISC-V in a chip it developed and is using “in its data centers to perform artificial intelligence calculations,” the *WSJ* article explained.

But China’s efforts also have had a setback: Tsinghua Unigroup, a Chinese-state-backed conglomerate with large semiconductor operations, has defaulted or had cross-defaults triggered on \$3.6 billion of debt. The company, which is known for its unsuccessful \$23 billion bid for Micron Technology in 2015, has about \$31 billion in debt outstanding as of last June—more than half of which was due to mature within a year—and only \$8 billion of cash, a January 19 Reuters [article](#) reported.

(4) *Customers or competitors?* A number of large technology companies have started developing their own semiconductor chips. Apple replaced Intel’s central processors in Mac computers with chips it had developed in house using ARM technology. Apple is also reportedly working on developing its own modem chips, which could displace those made by Qualcomm, a December 11 *WSJ* [article](#) reported.

Amazon announced late last year that Amazon Web Services has created chips to power customers’ websites and other services. “Amazon says it took on the tricky business of chip design to better integrate the software and hardware inside its giant data centers, allowing it to offer new, cheaper services,” a November 27 *Wired* [article](#) reported. In addition, Google is working on semiconductors that would power machine-learning algorithms. These tech companies with deep pockets could prove fierce competitors.

(5) *Semi industry had good Q4 and 2020.* The semiconductor industry glided through 2020 relatively unscathed compared to many industries that had a miserable year, the Semiconductor Industry Association [reported](#) on February 1. Global semiconductor sales rose 6.5% y/y in 2020. In December, semiconductor sales rose 8.3% y/y and fell 2.0% m/m.

December’s y/y sales were strongest in Asia Pacific/All Other (12.7%), followed by the Americas (11.1), Japan (7.3), Europe (4.7), and China (4.4) (*Fig. 3*). The strength in the industry can also be confirmed by looking at US industrial production in semiconductor & other electronic components, which rose 0.9% in December (*Fig. 4*).

Analysts expect earnings growth in the S&P 500 Semiconductors industry will continue in 2021 (*Fig. 5*). The industry is expected to grow revenue by 10.3% this year and 7.7% in 2022 (*Fig.*

6). Likewise, operating earnings are forecast to grow by 14.3% this year and 14.5% next year ([Fig. 7](#)). Growth in the S&P 500 Semiconductor Equipment industry is expected to be even more robust. Sales are forecast to jump 21.0% in 2021 and 5.9% in 2022, and earnings are targeted to gain 30.0% this year and 7.3% in 2022 ([Fig. 8](#) and [Fig. 9](#)).

The only blemish on either industry is their forward P/Es, which are at decade highs, though not as high as they had spiked during the tech boom of the late 1990s. The forward P/E for the S&P 500 Semiconductors industry is 20.6, and it's 21.9 for the Semiconductor Equipment industry ([Fig. 10](#) and [Fig. 11](#)).

High expectations may be to blame for the almost 8% decline in Qualcomm shares after the market closed Wednesday. Qualcomm's adjusted earnings of \$2.17 a share beat analysts' consensus forecast of \$2.10 a share. However, revenue came in at \$8.24 billion, up 62.2%/y/y but slightly below the forecast of \$8.27 billion. But then again, Qualcomm shares are up almost 88% over the past year.

Disruptive Technology: The 5G Rollout Race Heats Up. In addition to being competitors in the semiconductor market, the US and China are engaged in a race to roll out 5G wireless capacity to as many of their citizens as possible as quickly as possible. In the US, private companies AT&T, T-Mobile, and Verizon are spearheading the rollout, which is in its early stages. The Chinese government is spearheading its 5G buildout. Which country wins the 5G race may determine who will develop the next generation of applications that takes advantage of this incredibly fast communications technology. Let's take a look at some of the recent data points, which show that after two innings China is in the lead:

(1) *China's 5G is faster.* China's upload and download speeds over 5G systems are far faster than those available in the US, according to Q3 data collected by Ookla and presented in a December 16 LightReading [article](#). China's 5G median download is 301.6 Mbit/s compared to 64.1 Mbit/s in the US. China's 5G upload speed is 52.3 Mbit/s compared to 16.2 Mbit/s in the US.

Norway actually won the contest for country with the fastest median download speed over 5G—549.0 Mbit/s—followed by the United Arab Emirates (516.6), South Africa (427.9), Saudi Arabia (421.6), South Korea (411.3), Spain (404.7), Qatar (374.7), Kuwait (371.8), and Hungary (371.4).

Ookla also looked at speeds in each countries' capital, and again neither the US nor China stood out. The capital with the fastest median downloads over 5G was Abu Dhabi (546.8 Mbit/s), followed by Riyadh (496.1), Madrid (440.2), Seoul (414.0), and Kuwait City (394.0). Beijing's 5G download speed clocked in at 289.9 Mbit/s, and Washington DC's at 97.2 Mbit/s.

(2) *China's rollout faster too.* China's rollout of 5G equipment also appears to be faster than the US telecom companies' equipment rollout, though a comparison of the two isn't quite apples to apples. By the end of last year, China was expected to have 690,000 5G base stations, which contain equipment that sends 5G signals to consumers, compared to 50,000 in the US, a November 9 [WSJ article](#) reported. This year, China is expected to add anywhere from 600,000 to 1 million additional stations, a January 8 [article](#) in All About Circuits reported.

China's direct involvement in the 5G rollout has been beneficial so far. The country can cut through local governments' red tape to deploy towers and antennas. Private telecom companies in the US have to battle local jurisdictions on their own. China also has more 5G-enabled phone models than are available currently in the US—86 versus 16 as of September, the *WSJ* reported.

There is also a difference in the wireless spectrum the two countries use to deliver 5G, and what the US uses may be a disadvantage that hinders its 5G rollout. Specifically, US telecom companies use two areas of spectrum for 5G. "One lets a cellular tower beam a signal over miles, but at speeds not much faster than 4G. The other chunk, which U.S. wireless carriers are focusing on, lets a tower zip data at superfast rates, but over only a few hundred feet. China's telecom regulator focuses on a third chunk, what telecom executives and experts call the Goldilocks of spectrum: airwaves that blend fast speeds with transmission distances of about half a mile. One cellular tower in China can cover the same area as 100 high-speed American ones," a September 7, 2019 [WSJ article](#) reported.

(3) *Reasons for hope.* These are early innings of the 5G rollout, giving the US telecom operators time to accelerate their rollouts. Also, China has a far larger population than the US has. China will need about 4.5 times more cell sites than the US will need to support 5G availability to its people.

"Adjusted by the size of population served, the U.S. and China have a similar deployment pace. In 2019, the U.S. companies built 1 cell site for every 7,134 people; China is projected to build about 1 site for every 6,965 people by the end of 2020," a November 30 [article](#) from the

Information Technology & Innovation Foundation reported. As Yogi Berra wisely said: “It ain’t over ’til it’s over.”

CALENDARS

US: Thurs: Initial & Continuous Jobless Claims 830,/4.7m, Productivity & Unit Labor Costs - 2.9%/3.6%, Factory Orders 0.7%, EIA Natural Gas Inventories, Daly. **Fri:** Payroll Employment Total, Private, and Manufacturing 50k/60k/30k, Average Hourly Earnings 0.3%/m/m/5.0%/y/y, Average Workweek 34.7hrs, Unemployment Rate 6.7%. Consumer Credit \$12b, Balance of Trade -\$65.7b, Baker-Hughes Rig Count. (DailyFX estimates)

Global: Thurs: Eurozone Retail Sales 1.6%/m/m/0.3%/y/y, Japan Household Spending - 1.9%/m/m/-2.4%/y/y, BOE Interest Rate Decision 0.1%, RBA Statement on Monetary Policy, ECB Economic Bulletin, Bailey. **Fri:** Germany Factory Orders -1.0%, Canada Employment Change & Unemployment Rate -27,5k/8.9%, Canada Balance of Trade –C\$3/0b. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) this week fell to 3.46 after rising last week from 3.60 to 3.71—continuing its up-and-down pattern since mid-December—though it’s been above 3.00 since the week of November 10. Bullish sentiment fell from 61.2% to 57.8% this week, ending nine consecutive weeks of readings above 60.0%, with nearly all moving to the correction camp. The correction count jumped from 22.3% to 25.5% this week—the highest since the November 3 week. Meanwhile, bearish sentiment edged up from 16.5% to 16.7% this week, only 0.5ppt above the 2.5-year low of 16.2% posted during the September 8 week. The AAll Ratio fell from 66.5% during the December 23 week to 49.6% this week—the lowest since mid-October. Bullish sentiment fell from 43.6% to 37.7% over the period, while bearish sentiment rose from 22.0% to 38.3%. This represents the fewest bulls since late October and the most bears since early October 2020.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): The rapid pace of Covid-19 estimate cuts has turned into a V-shaped recovery as analysts continue to play catch-up from their lowball estimates prior to the better-than-expected Q2 and Q3 earnings seasons. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues is now at its highest level since early March and is just 1.6% below its record high in February 2020. Forward earnings is at its highest level since

mid-March and is now 3.2% below its record high in early March. Forward revenues growth rose 0.3ppt w/w to 8.4%, its highest reading since April 2010. That's up from 0.2% in April, which was the lowest reading since June 2009. Forward earnings growth improved 0.5ppt w/w to 22.8%. That's its highest level since July 2010 and has risen 28.4ppts from its record low of -5.6% at the end of April. Analysts expect revenues to decline 2.8% y/y in 2020 and rise 8.7% in 2021 compared to the 4.3% reported in 2019. Analysts expect an earnings decline of 13.9% y/y in 2020 and a 24.4% gain in 2021 compared to a 1.5% rise in 2019. The forward profit margin rose 0.1pts w/w to 11.8%; that's the highest reading since early March and up 1.5ppts from 10.3% during April, which was the lowest level since August 2013. It's still down 0.6ppt from a record high of 12.4% in September 2018. Analysts expect the profit margin to fall 1.3ppt y/y in 2020 to 10.2%—from 11.5% in 2019—and to improve 1.5ppt y/y to 11.7% in 2021. Valuations fell for the first time in three weeks. The S&P 500's weekly forward P/E dropped 0.9pt w/w to a 10-week low of 21.8 from a 20-week high of 22.7, which compares to a six-month low of 20.6 at the end of October. That compares to 23.1 in early September, which was the highest level since July 2000 and up from a 77-month low of 14.0 in mid-March. The S&P 500 price-to-sales ratio fell 0.07pt w/w to 2.58 from a record high of 2.65. That compares to its prior record high of 2.53 at the beginning of September and is up from the 49-month low of 1.65 in mid-March.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins ([link](#)): Last week saw consensus forward revenues rise w/w for 10 of the 11 S&P 500 sectors and forward earnings rise for nine sectors. Materials had both measures decline, and Industrials recorded a drop in forward earnings. Due to the sharp decrease in forward earnings last year, forward P/E ratios for nearly all sectors now are back above their recent record or cyclical highs prior to the bear market. During 2019, just two sectors' margins improved y/y: Financials and Utilities. Consumer Staples, Tech, and Utilities are the only sectors expected to have an improved profit margin in 2020, whereas back in early March eight sectors were expected to see margins improve y/y. All but Real Estate are expected to improve during 2021. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since 2018, it has moved lower for nearly all the sectors. The forward profit margin rose for six sectors in the latest week; most notably for Financials, Real Estate, and Tech. Real Estate has been improving in recent weeks from its lowest level since January 2012 and Energy from its record low. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (22.9%, down from 23.0%), Financials (16.9, down from 19.2), Utilities (14.4, a new record high),

Communication Services (14.2, down from 15.4), Real Estate (13.2, down from 17.0), S&P 500 (11.8, down from 12.4), Health Care (10.9, down from 11.2), Materials (10.9, down from 11.6), Industrials (8.5, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, down from 7.7), Consumer Discretionary (6.8, down from 8.3), and Energy (3.9, down from 8.0).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough

[\(link\)](#): The S&P 500's forward revenues and earnings, as well as its implied forward profit margin, bottomed at cyclical lows on May 28 after 14 weeks of Covid-19-related declines. Since then, S&P 500 forward revenues has risen 7.0%, forward earnings has gained 23.0%, and the forward profit margin has risen 1.6pt to 11.8%. Among the 11 sectors, all but Industrials and Real Estate posted new post-Covid-19 highs during the latest week in either their forward revenues, earnings, or profit margin. The major laggards from their pre-Covid-19 highs: Energy, Financials, Industrials, and Real Estate. Among those four sectors, all but Real Estate appear to be on an upswing now. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28: Information Technology (forward revenues up 12.0%, forward earnings up 18.0%), Communication Services (10.8, 17.6), Materials (9.2, 34.8), Financials (9.0, 36.8), Industrials (9.0, 25.9), Health Care (7.1, 16.3), S&P 500 (7.0, 23.0), Energy (4.5, 609.1), Consumer Staples (4.3, 10.1), Real Estate (0.5, -6.6), Consumer Discretionary (-0.1, 45.2), and Utilities (-0.9, 2.9). Tesla's addition to the S&P 500 on December 21 caused revenue and earnings forecasts to fall for the index and the Consumer Discretionary sector. Before then, S&P 500 revenues were up 7.1% and earnings 19.6%. The similar readings for Consumer Discretionary then were 11.2% and 39.7%, which would have ranked the sector first in the revenues derby instead of next to last.

S&P 500 Q4 Earnings Season Monitor [\(link\)](#): With 43% of S&P 500 companies finished reporting revenues and earnings for Q4-2020, revenues have beaten the consensus forecast by a well-above-trend 3.2%, and earnings have beaten estimates by 19.5%. The large surprises result from a lack of financial guidance from the companies that analysts follow during an economic rebound. At the same point during the Q3 season, revenues were 3.0% above forecast and earnings beat by 16.9%. For the 215 companies that have reported through mid-day Wednesday, aggregate y/y revenue and earnings growth and the percentage of companies reporting a positive revenue and earnings surprise have improved from their Q3 measures. The Q4 reporters so far has 1.1% y/y revenue growth and an earnings gain of 4.3%. Those results mark a big recovery from Q3-2020, which was the worst quarter since Q1-2009 during the financial crisis. A whopping 85% of the Q4 reporters so far has reported a

positive earnings surprise, and 78% has beaten revenues forecasts. More companies have reported positive y/y earnings growth in Q3 (66%) than positive y/y revenue growth (61%), which bodes well for profit margins. Excluding the FAANGM stocks, the earnings surprise drops to 16.1% from 19.5% and the revenue surprise falls to 2.4% from 3.2%; earnings would decline 7.1% y/y instead of rising 4.3% and revenues would be down 4.1% instead of up 1.1%. These figures will change markedly as more Q4-2020 results are reported in the coming weeks and the positive impact of the FAANGMs are washed out. We expect the y/y revenue and earnings growth results to turn negative.

US ECONOMIC INDICATORS

ADP Employment ([link](#)): “The labor market continues its slow recovery amid COVID-19 headwinds,” said Ahu Yildirmaz, vice president and co-head of the ADP Research Institute. January employment rebounded 174,000 from December’s revised 78,000 decline (which was smaller than the 123,000 preliminary loss), while November’s gain (to 299,000 from 304,000) was slightly smaller. Medium-sized (84,000) companies posted the biggest gain last month, posting its sixth successive gain for a total of 756,000 jobs over the period. Meanwhile, small and large businesses added 51,000 and 39,000, respectively, last month after declining 12,000 and 109,000 in December. By sector, service-providing jobs rose 156,000 during January, following December’s 73,000 decline, led by gains in health care & social assistance (48,000), leisure & hospitality (35,000), and administrative & support services (24,000). Goods-producing jobs climbed 19,000 following a 5,000 shortfall in December, with construction (18,000) accounting for virtually all of January’s gain—jumping 143,000 the past six months. Manufacturing employment edged up 1,000 last month following a 14,000 loss in December. Here’s a tally of industry performances from strongest to weakest during the nine months through January, and where they stand relative to February’s levels: leisure & hospitality (+3.7 million & -4.0 million), trade transportation & utilities (+1.6 million & -1.5 million), health care & social assistance (+1.3 million & -780,000), construction (850,000 & -148,000), other services (+780,000 & -500,000), manufacturing (+746,000 & -585,000), administrative & support services (+696,000 & -870,000), professional & technical services (+215,000 & -324,000), education (+157,000 & -303,000), financial activities (+ 120,000 & -141,000), management of companies & enterprises (-16,000 & -99,000), natural resources & mining (-23,000 & -77,000), information services (-37,000 & -298,000). Here’s the same exercise by company size: large (+3.9 million & -5.4 million), small (+3.6 million & -1.8 million), and medium (+2.5 million & -2.5 million) businesses.

Auto Sales ([link](#)): Motor vehicle sales in January rebounded back near last February's pre-pandemic level of 17.0mu (saar), driven by the best light-truck sales since the summer of 2005—when aggressive incentives boosted these sales to 11.3mu. Total sales climbed for the second month to 16.8mu (saar) in January, after falling the prior two months from 16.5mu in September to 15.9mu by November; before this decline, sales had rebounded steadily from April's record low of 8.7mu. Domestic light truck sales sped up to 10.2mu (saar) in January, climbing for seven of the nine months since April's cyclical low of 5.3mu. Meanwhile, domestic car sales remain in a rut, ticking down to 2.6mu (saar) in January—only 1.1mu above April's record low of 1.5mu. Sales of imports have more than recovered their Covid-related declines, jumping to 4.0mu (saar) last month—the highest since August 2009 and double April's cyclical low of 2.0mu.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity remained robust in January despite slowing the past three months, with both the manufacturing and service sectors retaining most of their recent rebound. The JP Morgan Global Composite Output Index (C-PMI) slipped negligibly for the third month to 52.3 in January, after climbing from 26.2 in April to a 26-month high of 53.3 in October. The Global M-PMI rebounded steadily from April's record low of 39.6 to a 33-month high of 53.8 in November—holding at that level in December; January's was little changed at 53.5. Meanwhile, the NM-PMI slipped for the third month to 51.6 in January after an uninterrupted rebound from 23.7 in April to a 19-month high of 52.9 in October. The C-PMI for the advanced economies remained around recent highs, edging up to 52.4 last month after easing from a 20-month high of 52.8 in October to 52.0 in December; it was at 22.2 in April. Emerging economies saw their C-PMI dip for the second month, to a six-month low of 52.1 in January, after climbing steadily from 34.6 in April to 54.9 in November. Five out of the six sub-industries covered by the survey registered increases in economic activity during January—led by financial services, with consumer and investment goods also registering stronger growth. Upturns slowed in the business services and intermediate goods industries. The downturn at consumer services companies extended into its 12th straight month, with output falling at its fastest pace since May 2020. National C-PMI data signaled the strongest growth was in the US (58.7), Australia (55.9), and India (55.8), with Russia (52.3) and China (52.2) posting modest growth and Germany's (50.8) near the breakeven point. Growth contracted in Brazil (48.9), France (47.7), Italy (47.2), Japan (47.1), Kazakhstan (44.9), and Spain (43.2)—with the steepest rates recorded in Ireland (40.3) and the UK (41.2).

US Non-Manufacturing PMIs ([link](#)): The US service sector accelerated in January according to both the ISM and IHS Markit measures, with price pressures heating up. The ISM's NM-PMI advanced for the third month from 56.2 in October to nearly a two-year high of 58.7 last month. The new orders (to 61.8 from 58.6) measure moved back above 60.0, while the business activity (to 59.9 from 60.5) gauge remained right around 60.0 for the third month; it was at a 16-month high of 63.9 last June. Meanwhile, employment (to 55.2 from 48.7) swung from contraction to expansion last month, with the measure jumping to its best reading since last February's 55.7—just before the pandemic began. The supplier deliveries' (to 57.8 from 62.8) index continued its recent up-and-down pattern; it peaked at 78.3 in April. The price index (to 64.2 from 64.4) was above 60.0 for the fourth month; it was as low as 50.9 last March. IHS Markit NM-PMI rebounded from 54.8 in December to 58.3 in January—back near November's 58.4, which was the highest since March 2015—as growth in both orders and output regained momentum. Meanwhile, cost pressures continued to heat up, with January input prices the fastest since the survey began in 2009 and firms passing on higher costs to clients through a marked increase in charges.

Eurozone CPI Flash Estimate ([link](#)): January's CPI headline rate is expected to turn positive for the first time since last July. January's rate is predicted to pick up to an 11-month high of 0.9% y/y from -0.3% in each of the prior four months. The core rate is expected to be up 1.4% y/y—accelerating from its record low of 0.2% from September through December. Looking at the main components, food alcohol & tobacco is expected to post the highest rate at 1.5% y/y (up from 1.3% in December), followed closely by the non-energy industrial goods expected rate of 1.4%—which would be the first positive reading in six months. Meanwhile, once again energy is expected to have the lowest rate at -4.1% y/y (the 12th consecutive negative reading), narrowing steadily from November's -8.3%. Of the top four Eurozone economies, only Germany's (1.6% y/y) rate is expected to be above the headline rate of 0.9%, with France's (0.8) just below; rates for Spain and Italy are predicted to be 0.6% and 0.5% y/y, respectively.

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