



MORNING BRIEFING

February 8, 2021

Earnings Season's Greetings

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

(1) Positive revenues and earnings surprises. (2) Tweaking our earnings forecasts. (3) Still targeting 4800 for S&P 500 by year-end 2022. (4) More fiscal stimulus will boost earnings this year. (5) Corporate tax hike likely to pare earnings next year. (6) Profit margins have been remarkably resilient. (7) Another quarterly earnings hook. (8) The meltup risk again. (9) Bullish PMIs. (10) Personal income gets a boost despite weak employment. (11) T-Fed's digital printing presses are on overdrive. (12) Inflationary pressures building below the calm surface of consumer prices. (13) Bond Vigilantes may be coming back from the dead. (14) Movie review: "The Little Things" (+ +).

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

Strategy I: Earnings Recovery Still V-Shaped. Last week, Joe and I observed that the positive surprises for both S&P 500 revenues and earnings per share have been much greater over the past three quarters of the Great Virus Crisis (GVC) than they were coming out of the Great Financial Crisis (GFC) ([Fig. 1](#) and [Fig. 2](#)). Our S&P 500 Net Earnings Revisions Index also has rebounded into positive territory faster during the GVC than the GFC ([Fig. 3](#)). The big difference is that the GFC involved a severe recession caused by a prolonged credit crunch. The GVC could have played out the same way but for the unprecedentedly massive liquidity provided by monetary and fiscal policies around the world.

As a result, we are revising our earnings outlook, tweaking our estimate for this year to the upside while lowering our estimate for next year a bit on the likelihood of higher corporate tax rates effective in 2022. We are sticking with our S&P 500 price targets of 4300 for the end of this year and 4800 for the end of next year ([Fig. 4](#)). In our forecast, earnings should grow enough to keep the forward P/E around 22.5, where it is currently ([Fig. 5](#)).

Let's have a closer look at our analysis of the stock market equation, which we detailed in our September 20 Topical Study, [S&P 500 Earnings, Valuation & the Pandemic: A Primer for Investors](#):

(1) *S&P 500 revenues*. Notwithstanding companies' positive surprises during the last three quarters of 2020, we are shaving our revenues-per-share forecasts for 2020 (from \$1,400 to \$1,350), for 2021 (from \$1,545 to \$1,500), and for 2022 (from \$1,625 to \$1,600) ([Fig. 6](#)). The revenues growth rates these imply are still very solid for this year (11.0%) and next year (6.6%). We had to lower our numbers mostly because last year's result is lower than we projected in our last forecasting go-round.

Tesla's addition to the index on December 21 caused 2020 revenues per share to fall nearly \$22, earnings per share to drop \$2.15, and the profit margin to tick down a tad less than 0.1ppt. Although Tesla's forward P/E was over 180 at the time, its addition to the index added just 0.2ppt to the S&P 500's forward P/E.

(2) *S&P 500 earnings*. We are leaving our earnings-per-share forecast for last year at \$140 but raising our forecast for this year from \$170 to \$175 since another round of fiscal stimulus is likely within the next couple of months ([Fig. 7](#)). Widespread distribution of vaccines by the summer—assuming that they work against mutations of the Covid-19 virus—could trigger an economic boom during the second half of this year. On the other hand, we are lowering our 2022 earnings-per-share forecast from \$195 to \$190 because the Biden administration is committed to raising the corporate tax rate.

(3) *S&P 500 profit margins*. Among the many surprises during the GVC has been the resilience of the S&P 500's profit margin. Its four-quarter trailing average peaked at a record high of 12.1% during Q4-2018 following the corporate tax cut at the beginning of that year ([Fig. 8](#)). We estimate it bottomed at 10.4% last year and could rebound to 11.7% this year and 11.9% next year.

If for some reason the corporate tax rate isn't raised, we think that the profit margin could rise to a new record high as technological innovations boost productivity. While nonfarm business productivity dropped 4.8% (seasonally adjusted annual rate) during Q4-2020, that followed gains of 5.1% during Q3 and 10.6% during Q2. In any event, the trend in the five-year growth rate of productivity remains solidly to the upside ([Fig. 9](#)).

(4) *S&P 500 forward earnings & valuation*. As Joe and I explained in our Topical Study cited above, to forecast the S&P 500, we project S&P 500 forward earnings—i.e., the time-weighted average of consensus estimates for this year and next year—allowing us to also forecast

forward P/Es. Forward earnings per share has mounted a V-shaped recovery, rebounding from a low of \$141.00 during the May 14 week of last year to \$167.24 at the end of last year. It was up to \$173.62 during the week of January 28, the best reading since March 19, 2020. It was only 3.0% below the record high during the week of January 30, 2020 ([Fig. 10](#)).

Based on our analysis above, we estimate that forward earnings per share will be \$190 at the end of this year and \$205 at the end of next year. Our 4300 target for the S&P 500 at the end of this year implies a 22.6 forward P/E, while our 4800 target at the end of next year implies a 23.4 multiple ([Fig. 11](#)). (See [YRI S&P 500 Earnings Forecast](#).)

(5) *Quarterly earnings hook*. Earnings seasons often bring actual earnings that exceed expected earnings just prior to the start of the season. This results in an “earnings hook.” There wasn’t much of a hook during Q1-2020, but there were significant ones during both Q2 and Q3 ([Fig. 12](#)). Another one seems to be underway for Q4, as actual results in aggregate have been beating analysts’ consensus estimates.

So far, 283 companies of the S&P 500 have reported their Q4-2020 results. We calculate the aggregate percent deviation in S&P 500 companies’ revenues and earnings, whether above or below, from analysts’ consensus estimate at the time of the earnings report. Here is Joe’s tally of the revenues and earnings surprises for the S&P 500 and its 11 sectors: S&P 500 (2.7%, 18.2%), Communication Services (3.7, 19.6), Consumer Discretionary (3.1, 55.1), Consumer Staples (2.6, 6.0), Energy (0.1, 28.7), Financials (-0.3, 27.9), Health Care (2.6, 5.0), Industrials (3.2, 7.9), Information Technology (5.7, 17.9), Materials (4.4, 11.3), Real Estate (1.3, 64.1), and Utilities (-12.0, 5.7).

(6) *Risks*. If the stock market continues to melt up this year, as it has since it bottomed last year on March 23, then the S&P 500 would get to 4800 well ahead of our schedule, implying a forward P/E near 30.0. Such a high valuation could set the stage for a market meltdown if inflation rebounds during the second half of the year with bond yields moving higher.

We are expecting that the Fed will try to keep the 10-year US Treasury bond yield near 1.00% through mid-year, but will have to let it rise to 2.00% by the end of this year if the economy is booming and inflation is heating up. A 2.00% bond yield wouldn’t stop the S&P 500 from rising to 4300 by the end of this year and 4800 by the end of next year. But it could trigger a significant stock market correction if the index gets to 4800 this summer, let’s say. In this

scenario, the market would be vulnerable to a big selloff during September and October, the two months often associated with the worst returns of the year.

Strategy II: Bullish Fundamentals. By the way, speaking of V-shaped recoveries, the latest US purchasing managers indexes for manufacturing (M-PMI) and nonmanufacturing (NM-PMI) remained robust during January, with readings of 58.7 for both the M-PMI and the NM-PMI. Both are strongly correlated with the y/y growth rate of S&P 500 aggregate revenues ([Fig. 13](#) and [Fig. 14](#)). Both also are highly correlated with the y/y percent change in the S&P 500 price index ([Fig. 15](#) and [Fig. 16](#)). Whether or not the market is valuing earnings appropriately is one thing, but there's nothing wrong with the underlying fundamentals for earnings themselves.

But what about those awful employment numbers? Payroll employment rose only 49,000 during January. The number of unemployed workers totaled 10.1 million, 4.3 million more than a year ago, just before the pandemic. Yet our Earned Income Proxy (EIP) for private-sector wages and salaries in personal income rose 1.1% m/m during January, back to within a fraction of last February's record high of \$6.6 trillion ([Fig. 17](#)).

Private-sector wages and salaries in personal income already rose to a record high during December and probably did so again in January according to our EIP! How can this be with so many people still out of work? That's a very good question.

One obvious explanation is that average hourly earnings is getting a lift from fewer low-wage payrolls, thus exaggerating the improvement in total wages and salaries. Another possibility is that the government's generous unemployment benefits have made it harder to attract workers back into the labor force—creating a shortage of people willing to work at the wages offered and requiring higher wages to attract them! Consider the following:

(1) *JOLTS report.* The Bureau of Labor Statistics will release its Job Openings and Labor Turnover Survey (JOLTS) for December on Tuesday morning. November's report showed that there were 6.5 million job openings that month ([Fig. 18](#)). That same month there were 10.7 million unemployed workers. The ratio of the number unemployed to job openings was 1.64, close to the lows of this series, which starts in 2001 ([Fig. 19](#)).

(2) *Long-term unemployed.* The number of long-term unemployed workers rose to 4.0 million during January, up from 1.2 million a year ago and the highest since November 2013 ([Fig. 20](#)). This suggests that they can't find jobs. It may also reflect the possibility that many won't be

taking jobs until their benefits run out. Biden's America Rescue Plan would extend those benefits.

US Economy: M2 Is Off the Charts. We are in *The Twilight Zone* of monetary policy. This television series aired on CBS on October 2, 1959. It was created by Rod Serling. Every episode started with his voice-over: "There is a fifth dimension, beyond that which is known to man. It is a dimension as vast as space and as timeless as infinity. It is the middle ground between light and shadow, between science and superstition, and it lies between the pit of man's fears and the summit of his knowledge. This is the dimension of imagination. It is an area which we call 'The Twilight Zone.'"

That certainly describes our collective experience since the start of the pandemic. "Vast" and "infinite" seem to be appropriate adjectives for the Fed's monetary policy since our central bank embraced QE4ever on March 23, 2020. The same can be said about the federal budget deficits that have resulted from the fiscal policy response to the pandemic. Today, let's focus on the monetary aggregates, showing how much they are up y/y through the week of January 25 in billions of dollars and on a percent-change basis:

(1) *M1* (\$2,943 billion, 74%) consists of: (i) currency held by the public (\$281 billion, 16%); (ii) demand deposits at commercial banks (\$1,888 billion, 121%); and (iii) other checkable deposits (OCDs), consisting of negotiable order of withdrawal, or NOW, and automatic transfer service, or ATS, accounts at depository institutions, credit union share draft accounts, and demand deposits at thrift institutions (\$774 billion, 115%) ([Fig. 21](#)).

(2) *M2* (\$4,069 billion, 26%) consists of *M1* plus: (i) savings deposits (including money market deposit accounts) (\$1,361 billion, 14%); (ii) small-denomination time deposits (time deposits in amounts of less than \$100,000) less individual retirement account (IRA) and Keogh balances at depository institutions (-\$331 billion, -59%); and (iii) balances in retail money market mutual funds less IRA and Keogh balances at money market mutual funds (\$96 billion, 10%) ([Fig. 22](#)).

(3) *Digital printing press*. Where did all this money come from? Uncle Sam is our Daddy Warbucks thanks to his digital printing press department, which Melissa and I have dubbed "T-Fed." The Treasury sent checks to the public during April and May and again in January. More are coming. The Fed has purchased \$3.0 trillion in US Treasuries and mortgage-backed securities since the first week of March 2020 through the week of January 25. These transactions all have boosted *M1* and *M2*. The system is flush with liquidity.

Inflation: PMI Prices Paid Signaling Higher Inflation? Everyone at YRI is on the lookout for inflation torpedoes. As we discussed in our February 3 [Morning Briefing](#), January data showed a bunch of them striking the commodity markets, import prices, the intermediate goods PPI, and regional and national surveys of prices paid and prices received by businesses. So far, they haven't hit consumer prices. We aren't convinced that they will do so because we expect that productivity will cushion the blow of higher costs. Nevertheless, inflationary pressures are building below the surface calm of consumer price inflation. Here's the latest:

(1) *M-PMI prices paid rebounding.* The prices-paid index in the M-PMI survey rebounded from last year's low of 35.3 during April to 82.1 in January. That's the highest since April 2011. It is more highly correlated with the core intermediate goods PPI inflation rate, which was up 2.0% y/y in December, than with the goods PCED (personal consumption expenditures deflator) inflation rate, which was down 0.1% y/y during December ([Fig. 23](#) and [Fig. 24](#)).

(2) *NM-PMI prices paid remain elevated.* The prices-paid index in the NM-PMI edged down in January to 64.2, still matching its highs in early 2018. This index is somewhat correlated with the services PCED inflation rate, which was up 1.9% in December ([Fig. 25](#)). Its correlation with the services-excluding-rent PCED inflation rate had been greater prior to the pandemic ([Fig. 26](#)). The services-excluding-rent PCED rate, currently at 1.7%, could be where consumer price inflation might rebound the most once the pandemic is over.

(3) *Bond vigilantes back from the dead?* The bond yield rose to 1.17% on Friday, the highest since February 27, 2020, after both houses of Congress voted to begin the process of approving Biden's \$1.9 trillion fiscal relief plan without votes from congressional Republicans. The Bond Vigilantes may be starting to win the tug of war with the Fed. The expected inflation rate in the 10-year bond market rose to 2.19% on Friday, matching its highest reading since August 14, 2014. Siding with the Fed, the Treasury issued a statement last Wednesday that it wouldn't change the size of its sales of coupon-bearing securities, meaning notes and bonds maturing in one year or more. It had been increasing the size of auctions since April, when the CARES (Coronavirus Aid, Relief, and Economic Security) Act was passed.

Movie. "The Little Things" (+ +) ([link](#)) is a crime film with a twist. The cops are played by Denzel Washington and Rami Malek, and the psycho is played by Jared Leto. While the film fits into the serial killer genre, it doesn't follow the usual scripted formula. It focuses more on the characters, blurring the lines between "good guys" and "bad guys." It leaves ambiguous the

question of whether the suspect is the actual perpetrator and whether the good guys themselves become perpetrators in their passionate pursuit of justice. The warning that “it’s the little things that get you caught” is expressed several times. However, the thrills come at too slow a pace to be that thrilling. Nevertheless, it’s always a pleasure to watch Denzel Washington perform.

CALENDARS

US: **Mon:** None. **Tues:** NFIB Small Business Optimism Index, Job Openings, API Crude Oil Inventories. (DailyFX estimates)

Global: **Mon:** Germany Industrial Production 0.3%, Lagarde. **Tues:** Germany Trade Balance €16.3b, Italy Industrial Production 0.4%, China CPI & PPI -0.1%/0.4% y/y, Japan Machine Tool Orders, Lane. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 4.9% for its biggest gain in 13 weeks and rank 25th of the 49 global stock markets we follow in a week when 38 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 4.3%. The MSCI indexes for the US and India were the only ones to end the week at a record high. BRIC was the best-performing region last week with a gain of 5.9%, followed by EM Latin America (5.5%), EM Asia (5.3), and EM Eastern Europe (3.8). EMEA was the biggest underperformer, albeit with a gain of 1.4%, followed by EAFE (2.7) and EMU (3.6). Argentina was the best-performing country last week, rising 11.7%, followed by India (7.7), the Philippines (6.7), Turkey (6.6), and Brazil (6.4). Among the 26 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst with a decline of 8.4%, followed by New Zealand (-2.4), Jordan (-2.1), Portugal (-2.0), and Finland (-1.4). BRIC leads so far in 2021 with a gain of 9.9%, ahead of EM Asia (9.7) and the US (3.8). The following regions are lagging the 3.7% gain for the AC World ex-US: EM Latin America (-1.7), EMU (1.4), EAFE (1.6), EM Eastern Europe (1.6), and EMEA (1.7).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose sharply last week and ended the week at new record highs. MidCap rose 5.8%, ahead of SmallCap (5.4%) and LargeCap (4.6). MidCap was the only index that did not trade at a record high during the week. Thirty-two of the 33 sectors rose last week compared to just three rising a week earlier. Twenty-two of the sectors are out of a correction now, and six finished the week at a record

high. SmallCap Energy rose 10.8% and was the best performer for the week, followed by SmallCap Tech (9.5), SmallCap Communication Services (8.4), LargeCap Energy (8.3), and MidCap Consumer Discretionary (8.0). SmallCap Consumer Discretionary was the biggest underperformer last week, with a decline of 3.7%, followed by LargeCap Health Care (0.5), SmallCap Consumer Staples (2.1), LargeCap Utilities (2.3), and LargeCap Consumer Staples (2.5). SmallCap leads so far in 2021 with a gain of 12.0%, easily beating both MidCap (7.4) and LargeCap (3.5). All but one of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap Energy (28.5), SmallCap Consumer Discretionary (21.7), SmallCap Communication Services (17.5), SmallCap Tech (14.1), MidCap Consumer Discretionary (13.5), and MidCap Energy (13.5). The biggest laggards so far in 2021: LargeCap Consumer Staples (-2.9), LargeCap Industrials (0.3), MidCap Utilities (0.7), LargeCap Utilities (1.3), SmallCap Utilities (1.4), and LargeCap Materials (1.4).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week for the first time in 13 weeks. Six sectors outperformed the composite index's 4.6% gain. That compares to a 3.3% decline for the S&P 500 a week earlier when all 11 sectors fell and five outperformed the index. Energy's 8.3% rise made it the biggest gainer of the week, ahead of Communication Services (7.3%), Financials (6.6), Consumer Discretionary (6.0), Industrials (4.9), and Tech (4.9). The worst performers, albeit with gains: Health Care (0.5), Utilities (2.3), Consumer Staples (2.5), Real Estate (3.2), and Materials (3.9). The S&P 500 has risen 3.5% so far in 2021 with 10 of the sectors higher ytd and six beating the broader index. The leading sectors so far in 2021: Energy (12.2), Consumer Discretionary (6.4), Communication Services (5.6), Financials (4.5), Tech (3.9), and Real Estate (3.7). This year's laggards to date: Consumer Staples (-2.9), Industrials (0.3), Utilities (1.3), Materials (1.4), and Health Care (1.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 4.6% for its 12th gain in the past 14 weeks and its biggest in 17 weeks. It's now trading at its highest level since April 2019 and is nearly out of a bear market at 10.3% below its four-year high on October 3, 2018. Twenty of the 24 commodities that we follow moved higher last week. Natural Gas was the best performer last week with a gain of 11.5%, followed by Crude Oil (8.9%), GasOil (8.2), Brent Crude (7.7), and Unleaded Gasoline (7.6). Wheat was the biggest decliner for the week with a drop of 3.1%, followed by Gold (-2.0), Kansas Wheat (-1.8), and Soybeans (-0.3). The S&P GSCI Commodities index has risen 10.0% so far in 2021, propelled by gains in 19 of the 24 commodities in the index. The top-performing commodities so far in 2021: Unleaded Gasoline (18.4), Crude Oil (17.1), GasOil (15.7), Heating Oil (15.4), and Brent Crude (14.5). The biggest laggards so far in 2021: Gold (-4.3), Zinc (-3.1), Coffee (-2.6), Cocoa (-1.5), and

Feeder Cattle (-0.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 4.6% last week and moved back above its short-term, 50-day moving average (50-dma) after dropping below a week earlier for the first time since November 3. It remained above its 200-dma for a 32nd straight 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 fifth time in six weeks, as the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 31st 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 10.3% above its 200-dma, down from 10.5% a week earlier. 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 14th week after falling a week earlier for the first time in 24 weeks. The price index improved to 3.7% above its rising 50-dma from 0.3% below 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 32nd week and improved to 14.4% above its rising 200-dma from a 13-week low of 10.1% 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 sharply from four a week earlier. That compares to all 11 above at the end of November and just one sector above at the end of October. Consumer Staples is only sector still trading below its 50-dma and did so for a fourth week. Looking at the longer term, all 11 sectors traded above their 200-dmas for an 11th week. Energy is the newest member of this club, trading above its 200-dma for an 11th week and for the first time since January 2020. 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 four weeks when Energy joined for the first time since November 2018. Ten sectors have a rising 50-dma, up from eight a week earlier. The 50-dma turned up w/w for Industrials and Utilities and dropped for a third week for Consumer Staples. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Currently, 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

Employment ([link](#)): January payrolls fell short of expectations on a surge in Covid-19, and there were downward revisions to employment during both December and November. Payroll employment climbed only 49,000 (less than half the expected 105,000 gain) last month, while revisions showed a net two-month loss of 159,000 to December (to -227,000 from -140,000) and November (264,000 from 336,000) jobs. The pattern was the same for private-sector jobs, which rose only 6,000 last month (vs ADP's 174,000 jump), following downward revisions to both December (-204,000 from -95,000) and November (359,000 from 417,000) payrolls for a net loss of 167,000. Accounting for January's lower-than-expected gain were job losses in several industries. Within service-providing industries, jobs were cut in leisure & hospitality (-61,000), health care & social assistance (-40,800), retail trade (-37,800), and transportation & warehousing (-27,800); in goods-producing industries, manufacturing (-10,000) and construction jobs (-3,000) were in the red after enjoying eight-month gains of 813,000 and 860,000, respectively. Meanwhile, on the positive side, employment in professional & business services rose by 97,000—with temporary help services (80,900) accounting for most of the gain, while public and private education jobs were also major contributors to January's gain: local government (49,000), state government (36,000), and private education (34,000). 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 pre-pandemic levels: leisure & hospitality (4.34 million & -3.88 million), retail trade (1.99 million & -383,000), and professional & business services (1.56 million & -825,000). The latter was led by temporary-help services (756,900 & -241,100), health care (1.07 million & -542,000), construction (857,000 & -256,000), manufacturing (803,000 & -582,000), social assistance (344,600 & -356,800), transportation & warehousing (410,900 & -163,700), financial activities (186,000 & -93,000), education (99,100

& -426,100), wholesale trade (146,200 & -263,000), and information services (39,000 & -242,000). Mining added to payrolls for the fifth straight month, by a total of 18,300, following a six-month decline of 96,600.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed 1.1% last month and 14.0% during the nine months ending January to within a fraction of last February's record high; this followed a 12.4% decline during the two months through April to the EIP's lowest reading since spring 2017. The average hourly earnings component of the EIP increased for the seventh month, by 0.2% in January and 2.1% over the seven-month period—after falling 2.4% during the two months ending June. Aggregate weekly hours, the EIP's other component, rose 0.9% at the start of this year, its eighth advance in nine months for a total gain over the span of 14.4%; it had plunged 15.2% last April. Compared to a year ago, the EIP rose 0.6% y/y—its first positive reading since last March—narrowing from April's 8.9% drop; the y/y decline in aggregate weekly hours slowed to 4.8% from -15.8% in April, while average hourly earnings' rate matched December's seven-month high of 5.4% y/y.

Unemployment ([link](#)): January's unemployment rate fell to a 10-month low of 6.3% as the number of unemployed workers fell along with those looking for jobs. Unemployment fell 606,000 to 10.1 million in January—the lowest since last March, while the civilian labor force dropped 406,000 to 160.2 million. Meanwhile, household employment rose for the ninth successive month by 201,000 in January and 16.7 million over the period. January's participation rate was little changed at 61.4%; it's been hovering from 61.4% to 61.6% since last September. The number of unemployed persons on temporary layoff fell 293,000 to 2.7 million last month, considerably below April's 18.0 million but 2.0 million above last February's 750,000. By race, unemployment rates for both Whites (to 5.7% from 6.0%) and Hispanics (8.6 from 9.3) fell in January after rising in December for the first time since reaching record highs of 14.1% and 18.9%, respectively, in April, with the former falling to a 10-month low. The rate for Blacks (9.2 from 9.9) continued to fall from its April/May high of 16.7% to its lowest reading since last March, while the rate for Asians rose to 6.6% last month after falling steadily from 14.9% last May to 5.9% by December. These rates were at 3.0%, 4.4%, 6.0%, and 2.4%, respectively, in February. By education, the rate for those with less than a high school diploma fell to 9.1% in January, after rising in December (9.8 from 9.2) for the first time in eight months, while the rates for those with a high school degree (7.1 from 7.8) or some college (6.2 from 6.3) both sank to 10-month lows. In the meantime, those with a Bachelor's degree or higher (4.0 from 3.8) rose for the first time in nine months after falling in December to its lowest rate

since last March. These four rates had been at 5.8% 3.5%, 3.0%, 1.9%, respectively, last February, prior to pandemic lockdown effects.

Wages ([link](#)): Average hourly earnings for all workers increased for the seventh month, up 0.2% in January and 2.1% over the period; earnings had dropped 2.4% during the two months ending June. The drops in May and June reflected lower-paid workers, on temporary leave, returning to work; their absence from the job market had pushed hourly earnings up 4.6% during April alone. The yearly wage rate for private industry remained at December's seven-month high of 5.4% y/y in January; it was at a record of 8.2% y/y in April. The yearly wage rate for service-providing industries (6.0% y/y) was little changed at December's seven-month high of 6.1%, after easing from 9.0% in April to 4.9% during October and November. The goods-producing (2.8) rate sank to a 16-month low; it was at 5.0% last April. Within goods-producing, the wage rate for manufacturing (3.0) slowed to an 11-month low, while the rate for natural resources (0.7) was below 1.0% for the third month, though appears to have bottomed; the rate was at a recent peak of 6.0% during October 2019. The construction (2.8) rate continues to hover just below 3.0%; it was at a 13-month high of 3.2% last July. Within service-providing industries, the rate for financial activities (7.4) remained on a steep accelerating trend, reaching a new record high in January, while the rate for education & health services (5.1) eased a bit from December's record high of 5.8%. The information services (4.1) rate was on an upswing, accelerating to a 14-month high of 5.6% in October, though has eased to around 4.0% since then, while the utilities rate slowed to 4.4% y/y since its October peak of 6.4%. Rates for retail trade (8.2), wholesale trade (3.9), and transportations & warehousing (3.0) remained in volatile flat trends, while rates for professional & business services (3.8) and leisure & hospitality (2.3) continued to hover around recent lows.

Productivity & Labor Costs ([link](#)): Nonfarm productivity contracted 4.8% (saar) during the final quarter of 2020 (the steepest decline since Q2-1981) after rising 5.1% during Q3 and a record 10.6% during Q2. Output expanded 5.3% (saar) during Q4, though hours worked (10.7) was double that pace. During Q3, real output increased a record 44.1% (saar), beating the record gain in hours worked (37.1%). Unit labor costs climbed 6.8% (saar), after contracting 7.0% during Q3, reflecting last quarter's swing in the percent change in hourly compensation (to 1.7% from -2.2.%) from negative to positive, coupled with the drop in Q4 productivity. Over the past four quarters, nonfarm productivity increased 2.5% y/y, with output and hours worked falling 2.7% and 5.0%, respectively; unit labor costs climbed 5.2% y/y. We track the five-year growth rate of productivity, and it shows productivity continues to trend higher despite Q4's decline. The five-year rate was 1.6% during Q4-2020, nearly tripling since Q4-2015's 0.6%.

Merchandise Trade ([link](#)): The real merchandise trade deficit narrowed in December after widening the prior two months to a new record high. The gap narrowed to -\$94.8 billion in December after widening from -\$88.3 billion in September to -\$97.2 billion in November. While the trade gap is volatile, there's lots of strength, with both real exports and real imports on impressive upswings. Real exports rose for the seventh month, up 2.8% in December and 38.5% over the period, while real imports advanced by 0.7% and 25.6% over the comparable periods. The biggest gain in exports over the seven months through December occurred in autos (305.3%), followed by consumer goods (nonfood) ex autos (51.2), capital goods ex autos (28.2), industrial supplies & materials (23.6), and food (20.1). The same exercise for imports shows autos (269.8) also took the number-one spot, followed by consumer goods (nonfood) ex autos (28.6), capital goods ex autos (23.0), food (13.0), and industrial supplies & materials (-19.8).

GLOBAL ECONOMIC INDICATORS

Eurozone Retail Sales ([link](#)): Retail sales in the Eurozone rebounded 2.0% in December; sales had dropped two of the previous three months, by 5.8%, after reaching a new record high in August. December's gain was widespread, putting sales within 4.2% of a new record high. All the major components advanced during the final month of 2020: automotive fuel (5.1%), food, drink & tobacco (1.9), and non-food products excluding fuel (1.5)—with the latter boosted by a 12.4% jump in clothing sales, though all major categories remained below their pre-Covid levels. Three of the top four Eurozone economies have reported sales for the month of December—with sales in France on a tear. Retail sales in France rebounded 22.3%, more than recovering November's 15.6% plunge, boosting sales to a new record high. Spain saw retail sales jump 1.8% following a 1.2% loss and a 0.7% gain the prior two months. Sales were within 1.2% of pre-Covid readings. Meanwhile, German retail sales plunged a record 9.6% in December as sales of non-food products (excluding fuel) tumbled 14.8%. Total sales had jumped 3.9% during the two months through November to a new record high.

Germany Manufacturing Orders ([link](#)): German factory orders contracted at the end of last year for the first time in eight months, driven by a sharp drop in billings from within the Eurozone. Total orders sank 1.9% after a seven-month surge of 65.8%, as both domestic (-0.9%) and foreign (-2.6) orders fell in December, after skyrocketing 53.2% and 75.7%, respectively, during the seven months through November. Foreign orders from within the Eurozone plunged 7.5% in December following an 86.5% surge the prior seven months, while orders from outside the Eurozone rose for the eighth successive month, by 70.1%. Despite

December's setback, total orders are still 1.4% above pre-pandemic levels, with domestic orders (4.1) and foreign orders from outside the Eurozone (2.9) above these levels and foreign orders from inside the Eurozone (-5.9) below. Here's a snapshot of the performance by market group for total orders, foreign orders from inside and outside the Eurozone, and domestic orders, respectively, since bottoming in April: capital goods (88.1%, 109.5%, 98.2%, 67.7%), consumer durable goods (51.2, 87.3, 16.6, 55.4), intermediate goods (44.7, 50.8, 41.0, 44.1), and consumer nondurable goods (8.8, 18.6, 4.6, 6.7). In December alone, consumer durable goods orders soared 8.1% to a new record high, driven by a 10.6% jump in foreign orders, while capital goods orders sank 4.6% as orders from within the Eurozone tumbled 16.4%.

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