



MORNING BRIEFING

February 22, 2021

Getting Hotter

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

(1) Some like it hot. (2) The risk is overheating a hot economy. (3) Acting big means bigger deficits and lots more debt. (4) Yellen once worried about deficits. (5) Yellen aims to get back to full employment by next year. (6) Powell and Yellen say jobless rate is more like 10% now. (7) FOMC would welcome an inflation warm-up. (8) January's latest economic indicators are hot. (9) Housing-related industries are booming. (10) Running out of housing inventory. (11) Are Bond Vigilantes getting set to ambush policymakers on the road to inflation? (12) Movie review: "Judas and the Black Messiah" (+ + +).

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

T-Fed I: The Hot Couple. Treasury Secretary Janet Yellen and Fed Chair Jerome Powell both want the economy to run hot for a while. A month into Yellen's new role, their wish seems to be coming true, as evidenced by last Wednesday's economic indicators. During January, retail sales soared 5.3% m/m, industrial production jumped 0.9%, and the headline and core producer price indexes (PPI) increased 1.3% and 1.2%. Now the question is: Will the economy overheat as a result of their ongoing stimulative policies? Consider the following:

(1) *Federal budget deficits and debt.* Yellen wants Congress to "act big" and pass the [American Rescue Plan](#), another pandemic relief bill totaling \$1.9 trillion that includes another round of \$1,400 stimulus checks to most Americans on top of the \$600 checks sent during January and the \$1,200 checks sent during April and May of last year. This package would be deficit financed.

Last week, the Congressional Budget Office (CBO) updated its report [The Budget and Economic Outlook: 2021 to 2031](#). It shows that the fiscal 2020 federal budget deficit totaled a record \$3.1 trillion ([Fig. 1](#)). That boosted federal debt held by the public to a record \$21.0 trillion, or 100.1% of nominal GDP ([Fig. 2](#) and [Fig. 3](#)).

The CBO projects that deficits will total \$14.3 trillion from 2021 through 2031, pushing the debt up to \$35.3 trillion. But don't fret: The debt held by the public will rise to only 107.2% of projected nominal GDP by 2031.

(2) *Economic growth.* The CBO projects that real and nominal GDP will increase 3.7% and 5.6%, respectively, during the current calendar year. Debbie and I think both readings will be stronger at 5.0% and 7.0%.

The CBO's projections incorporate legislation enacted through January 12, 2021. In other words, this is all before congressional Democrats use the [reconciliation process](#) to push through Biden's \$1.9 trillion rescue plan. After that, they will be pushing for another package of infrastructure and Green New Deal spending that might total another \$2 trillion. After they accomplish all that, they undoubtedly will turn to raising taxes.

(3) *Inflation and interest rates.* The CBO projects that the CPI (Consumer Price Index) inflation rate will rise to 2.2% next year and that the PCE (personal consumption expenditures) inflation rate will remain below 2.0%, at 1.9%. The 10-year US Treasury bond yield is expected to average 1.1% this year and 1.3% next year. Needless to say, if the Biden plan is enacted, the CBO will have to scramble to boost its projections for economic growth, inflation, and interest rates—along with the outlook for the federal budget deficits and debt.

(4) *Yellen now and then.* By the way, in congressional testimony on November 29, 2017, then Fed Chair Yellen expressed concern about the amount of federal debt back then. "I would simply say that I am very worried about the sustainability of the US debt trajectory," she said. "Our current debt-to-GDP ratio of about 75% is not frightening but it's also not low." She added, "It's the type of thing that should keep people awake at night." That was her way of distancing herself from endorsing Trump's tax reform.

Now Yellen strongly endorses the Biden plan. On Sunday, February 7, she said, "We're in a deep hole with respect to the job market and a long way to dig out," on CBS News' "[Face the Nation](#)." She predicted that the plan could restore full employment by 2022. "There's absolutely no reason why we should suffer through a long, slow recovery," Yellen said.

Citing the CBO report, Yellen said the unemployment rate could remain elevated for years to come, and it could take until 2025 to get unemployment back to 4%. The jobless rate stood at a half-century low of 3.9% a year ago, before the pandemic hit. The CBO report shows it falling

back down to 5.3% by the end of this year, 4.9% by the end of 2022, 4.6% by the end of 2023, and 4.0% by the end of 2025. Yellen wants to get it to 4.0% by next year.

What a difference a pandemic makes!

Yellen made headlines again on Thursday when she was [interviewed](#) on CNBC. She reiterated her strong support for the Biden plan and said that the risk of inflation is worth taking because “greater risk is of scarring of people, having this pandemic taking a permanent lifelong toll on their lives and livelihoods.” When she was asked about the impact of another round of massive borrowing on the bond market, she said investor demand for Treasury debt is strong. She should have said, “Jay Powell and my other friends at the Fed will buy all of our notes and bonds, as they have since last March.”

(5) *Powell is on board.* In a February 10 webcast with the Economic Club of New York, Fed Chair Jerome Powell presented a [speech](#) titled “Getting Back to a Strong Labor Market.” The word “unemployment” was mentioned 17 times, while “inflation” was mentioned 14 times.

Powell started by describing the benefits of a “strong labor market that is sustained for an extended period.” It “can deliver substantial economic and social benefits, including higher employment and income levels, improved and expanded job opportunities, narrower economic disparities, and healing of the entrenched damage inflicted by past recessions on individuals’ economic and personal well-being.”

He stated that we are “a long way” from a sustainably strong labor market, implying that monetary policy must remain stimulative until we get there. Interestingly, he did acknowledge that we were there not too long ago, during February 2020. But then the pandemic happened. He didn’t acknowledge that the labor market might tighten rapidly during the second half of this year if the economy gets a big boost from the end of the pandemic as more people get vaccinated.

In any event, he painted a grim picture of the current labor market. While the official unemployment rate is currently down to 6.3%, Powell observed:

“Fear of the virus and the disappearance of employment opportunities in the sectors most affected by it, such as restaurants, hotels, and entertainment venues, have led many to withdraw from the workforce. At the same time, virtual schooling has forced many parents to

leave the work force to provide all-day care for their children. All told, nearly 5 million people say the pandemic prevented them from looking for work in January. In addition, the Bureau of Labor Statistics reports that many unemployed individuals have been misclassified as employed. Correcting this misclassification and counting those who have left the labor force since last February as unemployed would boost the unemployment rate to close to 10 percent in January.” (See Figure 6 in Powell’s [chart deck](#).)

Interestingly, in her interview on Thursday, Yellen agreed that the unemployment rate is close to 10%. Neither Powell nor Yellen mentioned in their most recent public appearances that the government’s very generous unemployment benefits might be providing a disincentive for some people to go back to work. This possibility was recently raised by former Treasury Secretary Larry Summers, however. (See our February 10 [Morning Briefing](#) titled “Help Wanted.”)

Powell reiterated “that maximum employment is a broad and inclusive goal” of the Fed’s monetary policy. He explained, “This means that we will not tighten monetary policy solely in response to a strong labor market.” Like Yellen, Powell wants the economy to run hot:

“In particular, we expect that it will be appropriate to maintain the current accommodative target range of the federal funds rate until labor market conditions have reached levels consistent with maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.” The Fed won’t be thinking about thinking about raising interest rates until the unemployment rate is down to 4.0% with broad-based and inclusive maximum employment.

T-Fed II: Anticipating Inflation Warming. The Fed’s new mantra of aiming to achieve “broad-based and inclusive” maximum employment was also mentioned twice in the [Minutes](#) of the FOMC meeting on January 26 and 27. Nevertheless, the word “inflation” appeared 68 times in the Minutes, while unemployment appeared only nine times.

However, the message of the Minutes is clear: The Fed’s priority is full employment. The committee’s participants generally expect that inflation will rebound during the spring and don’t see that as troublesome:

(1) Some of them “anticipated that a possibly abrupt return to normal levels of activity could result in one-time increases in certain prices.”

(2) Many of them “stressed the importance of distinguishing between such one-time changes in relative prices and changes in the underlying trend for inflation, noting that changes in relative prices could temporarily raise measured inflation but would be unlikely to have a lasting effect.”

(3) “Some participants further observed that 12-month PCE inflation was likely to move somewhat above 2 percent for a brief period in the spring as the unusually low monthly observations from last spring roll out of the 12-month calculation.”

(4) “Outside of such near-term fluctuations, participants generally anticipated that inflation would move up along a trajectory consistent with achieving the Committee’s objectives over time, supported by stronger economic activity, widespread vaccinations and the associated reduction in social distancing, and accommodative fiscal and monetary policy.”

US Economy: January Was a Hot Month. Debbie and I are forecasting that real GDP will increase 7.0% (saar) during Q1 and 4.5% during Q2. We anticipated that the \$600 stimulus checks would boost consumer spending during January, as confirmed by last week’s retail sales report. Nevertheless, on February 17, following the release of the strong indicators mentioned above, the Atlanta Fed’s [GDPNow](#) tracking model showed real GDP rising 9.5% so far during Q1, up from its previous estimate of 4.5% on February 10.

We are sticking with our estimate for Q1 but will boost our Q2 projection if Congress enacts Biden’s plan. Meanwhile, let’s examine the latest batch of hot economic indicators:

(1) *Retail sales.* January retail sales tend to be weak following the Christmas holiday season. This year, the \$600 checks sent by the Treasury combined with January’s seasonal adjustment factor boosted retail sales during the month.

As a result, retail sales rose 5.3% m/m ([Fig. 4](#)). Here are some of its components’ comparable growth rates: motor vehicles and parts (3.1%), furniture and home furnishings (12.0), electronics and appliances (14.7), building materials and garden equipment (4.6), Clothing and accessories (5.0), sporting goods (8.0), department stores (23.5), nonstore retailers (11.0), and food services and drinking places (6.9).

Also boosting in-store sales is that the percent of online sales of GAFO (i.e., items typically found in department stores such as general merchandise, apparel, furniture, etc.) has declined from a record high of 50.7% during April to 40.5% during December ([Fig. 5](#)).

February's retail sales are likely to be weak, especially because of the miserable winter weather that has hit much of the country.

(2) *Housing*. While January's seasonal adjustment factor boosted the month's results, the strength in housing-related retail sales certainly makes sense given the housing boom resulting from the pandemic. Sales of electronics and appliances, furniture and home furnishings, plus building materials and garden equipment jumped 7.2% last month to a record high of \$710 billion (saar) ([Fig. 6](#)).

On Friday, the National Association of Realtors released January's existing home sales data. Sales rose 23.7% y/y to 6.7 million units sold (saar) ([Fig. 7](#)). There was a record-low 1.04 million units for sale, bringing the months' supply down to a record low of 1.9 months. The average and median prices of single-family existing homes rose 12.3% and 14.8% y/y.

(3) *Industrial production*. Not surprisingly, there has been a V-shaped recovery in industrial production of housing-related goods such as appliances, furniture, carpeting, and construction supplies ([Fig. 8](#)). These industries have contributed to a broad-based V-shaped recovery in overall industrial production ([Fig. 9](#)). In January, it was up 17.4% from last year's low during April, and it is down only 1.8% y/y. Its manufacturing component is up 23.8% since April and down only 1.0% y/y.

(4) *PPI and import prices*. Meanwhile, potentially inflationary cost pressures are heating up in both import prices and in the PPI. They have yet to show up in consumer prices, but they are likely to do so later this year, especially if Biden's stimulus plan is enacted. Previously, we have shown that there is a strong correlation between the yearly percent change in the import price index excluding petroleum and the intermediate goods PPI excluding food and energy ([Fig. 10](#)). The former was up 2.6% during January, the highest since December 2011. The latter was up 3.7% during January, the highest since November 2018.

Bond Yield: Heating Up. The 10-year Treasury bond yield rose to 1.34% on Friday, the highest reading since February 24, 2020 ([Fig. 11](#)). Debbie and I derive a simple proxy for this

yield using the ratio of the nearby futures prices of copper to gold. It suggests that the yield should be 2.30% currently.

Over the past year, the bond yield has diverged from our proxy because the Fed has been buying almost all the notes and bonds issued by the Treasury ([Fig. 12](#) and [Fig. 13](#)). Nevertheless, the yield—which rose above 1.00% on the first trading day of this year—has been moving higher on stronger-than-expected economic indicators and the expectation of yet another massive stimulus package from the Biden administration.

The Bond Vigilantes are clearly anticipating that after over 40 years of disinflation, we may be back on the road to inflation thanks to the continuation of unprecedented monetary and fiscal stimulus in an economy that has almost fully recovered from the last recession in terms of real GDP. We are expecting that the bond yield will rise to 2.00% before the end of this year.

Bond investors should beware of what Yellen and Powell wish for.

Movie. “Judas and the Black Messiah” (+ + +) ([link](#)) is an intense docudrama featuring a remarkable performance by Daniel Kaluuya as Fred Hampton, the murdered chairman of the Illinois Black Panther Party. Hampton was a late-1960s activist who aspired to unite a “rainbow coalition” of people of all races against racism. He was betrayed and set up by an FBI informant in his organization. The biggest villain in the movie is J. Edgar Hoover, who treated civil rights activists as threats to the country.

CALENDARS

US: Mon: Leading Indicators 0.4%, Dallas Fed Manufacturing Index, Chicago Fed National Activity Index, Bowman. **Tues:** Consumer Confidence 90.0, Richmond Fed Manufacturing Index, S&P Case Shiller Home Price Index, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Germany Ifo Business Climate, Current Conditions, and Expectations 90.5/89.0/91.8, Bundesbank Monthly Report, Lagarde. **Tues:** Eurozone Headline & Core CPI 0.9%/1.4% y/y, UK Employment Change & Unemployment Rate -30k/5.1%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 0.8% for its

first decline in three weeks as it ranked 34rd of the 49 global stock markets we follow in a week when 22 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 0.2%. Five countries traded at a record high during the week: China, Hong Kong, Japan, the Netherlands, and Taiwan. EM Eastern Europe was the best-performing region last week with a gain of 0.8%, followed by EMU (0.3%) and EAFE (0.2). EM Latin America was the biggest underperformer with a decline of 0.6%, followed by BRIC (-0.5), EMEA (0.1), and EM Asia (0.2). Taiwan was the best-performing country last week, rising 3.1%, followed by Poland (3.0), Peru (2.9), Sri Lanka (2.5), and Austria (2.3). Among the 27 countries that underperformed the AC World ex-US MSCI last week, Egypt fared the worst with a decline of 2.3%, followed by Colombia (-2.0), Pakistan (-2.0), and the Philippines (-1.9). BRIC leads so far in 2021 with a gain of 13.1%, ahead of EM Asia (12.7). The following regions are lagging the 6.2% gain for the AC World ex-US: EM Latin America (-2.0), EMU (3.2), EMEA (3.5), EM Eastern Europe (3.5), EAFE (4.0), and the US (4.4).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell last week from their record highs a week earlier on 2/12. MidCap dropped 0.4% w/w, ahead of the 0.7% declines for SmallCap and LargeCap. Fourteen of the 33 sectors rose last week compared to 30 rising a week earlier. Twenty-two of the sectors are out of a correction now, and five finished the week at a record high: LargeCap Financials and Industrials; MidCap Consumer Discretionary and Financials; and SmallCap Industrials. LargeCap Energy rose 3.1% and was the best performer for the week, followed by LargeCap Financials (2.8), MidCap Utilities (1.8), MidCap Financials (1.5), and MidCap Energy (1.5). SmallCap Communication Services was the biggest underperformer last week, with a decline of 3.4%, followed by SmallCap Health Care (-3.1), MidCap Health Care (-3.1), SmallCap Consumer Staples (-3.1), and LargeCap Health Care (-2.4). SmallCap leads so far in 2021 with a gain of 15.2%, easily beating both MidCap (9.9) and LargeCap (4.0). All but two of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap Energy (37.5), SmallCap Consumer Discretionary (23.0), MidCap Energy (21.5), LargeCap Energy (20.7), and SmallCap Tech (19.2). The biggest laggards so far in 2021: LargeCap Consumer Staples (-4.1), LargeCap Utilities (-2.5), LargeCap Health Care (0.6), SmallCap Utilities (2.2), and LargeCap Industrials (2.5).

S&P 500 Sectors and Industries Performance ([link](#)): Four of the 11 S&P 500 sectors rose last week and five outperformed the composite index's 0.7% decline. That compares to a 1.2% gain for the S&P 500 a week earlier when eight sectors rose and six outperformed the index. Energy's 3.1% rise made it the biggest gainer of the week, ahead of Financials (2.8%), Materials (0.9), Industrials (0.7), and Consumer Discretionary (-0.5). The worst performers:

Health Care (-2.4), Utilities (-2.0), Tech (-1.9), Consumer Staples (-1.1), Communication Services (-0.9), and Real Estate (-0.8). The S&P 500 has risen 4.0% so far in 2021 with nine of the sectors higher ytd and five beating the broader index. The leading sectors so far in 2021: Energy (20.7), Financials (9.6), Communication Services (6.1), Consumer Discretionary (4.5), and Tech (4.2). This year's laggards to date: Consumer Staples (-4.1), Utilities (-2.5), Health Care (0.6), Industrials (2.5), Materials (3.4), and Real Estate (4.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.3% for its 14th gain in the past 16 weeks. It's now trading at its highest level since October 2018 and is finally out of a correction at 6.5% below its four-year high on October 3, 2018. Eighteen of the 24 commodities that we follow moved higher last week. Sugar was the best performer last week with a gain of 8.0%, followed by Copper (7.0%), Nickel (5.5), Coffee (5.0), and Unleaded Gasoline (4.1). Gold was the biggest decliner for the week with a drop of 2.5%, followed by Feeder Cattle (-1.4), Live Cattle (-1.2), and Lean Hogs (-0.8). The S&P GSCI Commodities index has risen 14.8% so far in 2021, propelled by gains in 22 of the 24 commodities in the index. The top-performing commodities so far in 2021: Unleaded Gasoline (34.0), GasOil (23.6), Crude Oil (22.1), Heating Oil (22.0), and Lean Hogs (20.2). The biggest laggards so far in 2021: Gold (-6.2), Cocoa (-6.1), Coffee (0.7), Feeder Cattle (1.7), and Wheat (2.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 0.7% last week, but was above its short-term, 50-day moving average (50-dma) for a third week after dropping below for a week at the end of January for the first time since November 3. It remained above its 200-dma for a 34th 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 dmases compare relative to one another, the index's 50-dma relative to its 200-dma edged down for the seventh time in eight weeks, as the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 33rd 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 10.1% above its 200-dma, down from 10.2% 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 dmases, the S&P 500's 50-dma rose for a 16th week after falling for a week at the end of October for the first time in six months. However, the price index dropped to 2.9% above its rising 50-dma from 4.3% above 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 34th week, but dropped to 13.2% above its rising 200-dma from 14.9% a week earlier. That's up from a 13-week low of 10.1% at the end of January and compares to 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](#)): Eight of the 11 S&P 500 sectors traded above their 50-dmas last week, down from 10 a week earlier. Only four were above at the end of January. That compares to all 11 above at the end of November and just one sector above at the end of October. Consumer Staples was below its 50-dma for a sixth straight week and was joined by Health Care and Utilities in the latest week. Looking at the longer term, all 11 sectors traded above their 200-dmas for a 12th straight week. Energy is the newest member of this club, trading above its 200-dma for a 13th 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 six weeks when Energy joined for the first time since November 2018. Nine sectors have a rising 50-dma, down from 10 a week earlier as Consumer Staples' 50-dma fell for a fifth week and Utilities joined that club. 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 since mid-November. Energy's 200-dma finally turned higher then after mostly falling since October 2018.

US ECONOMIC INDICATORS

Housing Starts & Building Permits ([link](#)): Housing starts dipped in January, after a very strong finish at the end of 2020, while building permits (a good leading indicator of housing starts) accelerated at a double-digit pace last month to its highest level since May 2006. Homebuilders' confidence for February inched up, holding just below November's all-time high, as demand for homes remains very strong, though rising lumber prices are dimming builders' confidence. Total housing starts slumped 6.0% in January to 1.580mu (saar), after soaring

22.4% the final four months of 2020 to a cyclical high of 1.680mu, as single-family starts fell for the first time in nine months. Single-family starts plunged 12.2% in January to 1.162mu (saar), after skyrocketing 94.9% during the eight months through December to a new cyclical high of 1.323mu. Meanwhile, volatile multi-family starts rebounded 17.1% to 418,000 units (saar) last month after falling 4.0% in December; these starts had jumped 9.4% during the two months through November. Despite January's decline, single-family starts are a whopping 12.4% above pre-Covid levels, while multi-family starts are 21.6% below. Building permits have increased every month but two since bottoming in April, soaring 10.4% in January and 76.5% over the period to a cyclical high of 1.881mu (saar)—with both single- (+90.5% to 1.269mu) and multi-family (+53.0% to 612,000 units) permits up sharply over the nine-month period, surpassing pre-Covid readings by 27.7% and 37.8%, respectively. The National Association of Home Builders' February Housing Market Index shows builders' confidence ticked up to 84 this month after dipping by 7 points the prior two months—from November's record high of 90 to 83 in January. The three measures were mixed, with traffic of prospective buyers climbing from 68 to 72 this month—its first increase since reaching a record high of 77 in November—while the future sales measure (at 80) fell for the third month since climbing to a record high of 89 last November; the current sales measure held at 90 in February after falling from a record-high 96 in November.

Existing Home Sales ([link](#)): "Home sales continue to ascend in the first month of the year, as buyers quickly snatched up virtually every new listing coming on the market," said Lawrence Yun, NAR's chief economist. "Sales easily could have been even 20% higher if there had been more inventory and more choices." Seventy-one percent of the homes sold in January 2021 were on the market for less than a month. Existing home sales—tabulated when a purchase closes—advanced for the seventh time in eight months, by 0.6% m/m and 66.8% over the period, to 6.69mu (saar). Single-family sales rose 0.2% and 62.5% over the comparable periods to 5.93mu (saar), while multi-family sales rose 4.1% and 111.1% to 760,000 units over the comparable periods. Total, single-family, and multi-family sales were 23.7%, 23.0%, and 28.8% above January 2020 levels. Regionally, sales rose in the South (3.2% m/m) and Midwest (1.9) in January and fell in the West (-4.4) and Northeast (-2.2), though all four regions recorded double-digit gains from year-ago levels: West (16.2% y/y), Northeast (15.8), Midwest (14.7), and South (14.6). Total housing inventory at the end of January numbered 1.04 million units, down 1.9% from December and down 25.7% from January 2020 (1.40 million). Unsold inventory sits at a 1.9-months' supply at the current sales pace, equal to December's supply and down from last January's 3.1-months. The lack of inventory has

boosted existing median home prices in all regions significantly since January 2020: West (16.1 y/y), Northeast (15.8), Midwest (14.7), and South (14.6).

Regional M-PMIs ([link](#)): The two Fed districts that have already reported on manufacturing activity for February (Philadelphia and New York) indicate that it's expanding at a faster pace. The New York region saw an acceleration of growth, though growth in the Philadelphia region was stronger—albeit slower than January's elevated level. Input prices accelerated in both regions, while output prices were a mixed bag. The composite index improved for the second month to 17.6 this month from 15.0 January and 7.0 in December. The New York (to 12.1 from 3.5) measure accelerated for the first time in five months, while Philadelphia's (23.1 from 26.5) slipped a bit after rebounding in January from December's seven-month low of 9.1. The new orders' measure was little changed at 17.1 in February after accelerating from 2.7 in December to 18.3 in January, with growth in New York (to 10.8 from 6.6) region picking up this month while Philadelphia's (23.4 from 30.0) slowed, though was still double New York's pace. In the meantime, factories added to payrolls at the best pace since June 2018, with the employment measure climbing for the second month from 9.9 in December to 18.7 this month. Hiring in the Philadelphia (to 25.3 from 22.5) region was the best since July 2019, while employment in the New York (12.1 from 11.2) region was little changed from January's pace. Prices-paid measures in the New York (to 57.8 from 45.5) and Philadelphia (54.4 from 45.4) regions accelerated at their fastest paces since May 2011 and August 2018, respectively, and the prices-received index in New York (23.3 from 15.2) accelerated at its fastest clip since May 2011. Meanwhile, Philadelphia's prices-received (16.7 from 36.6) measure was half January's pace—which was the highest since February 1989.

Import Prices ([link](#)): Import prices have heated up over the past two months. They climbed 1.4% in January—the biggest monthly gain since March 2012—building on December's 1.0% jump; these increases follow three months of little change. Prices are up 6.9% since bottoming last April, pushing the yearly rate (0.9% y/y) into positive territory for the first time since last January and the highest since October 2018. While petroleum prices (8.3) were a big contributor to January's gain, so were nonpetroleum (0.9) prices—which posted the biggest monthly gain in a decade. The yearly rate in the latter accelerated 2.6%, the highest since December 2011, while petroleum prices fell 14.3% y/y in January; they have narrowed steadily from April's 58.5% decline. The rate for industrial supplies & materials imports (2.0 y/y) posted its first yearly gain in a year—as these prices soared 11.2% during the three months through January—while the rate for capital goods (1.0) held around November's (1.1) 31-month high, up from November 2019's bottom of -2.0%. Rates for consumer goods ex autos (0.1 y/y)

remained around zero, though has moved to the north side, while the rate for autos (0.8) eased a bit from September/October's 1.3%, which was the highest since February 2013. Food prices (0.7 y/y) continued to hover around zero, slowing from October's 15-month high of 2.0%; the rate was negative from March through August. Import prices are showing signs of picking up among some of our trading partners. Import prices for goods from the EU (1.7 y/y) held near October's two-year high in January, while China's (0.7) moved further above zero last month—after posting its first positive reading in two years last November. The rate for the NICs (1.2 y/y) posted its first positive reading since December 2018, while the rate for Japan (0.5) remained around zero, but has been accelerating; that was its best rate in two years.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): Covid-related restrictions caused a sharp drop in car registrations across the EU at the start of this year. EU passenger car registrations (a proxy for sales) tumbled 24.0% y/y to 726,491 units—the lowest January total on record. In addition to the Covid restrictions, the report notes that this January had one less business day than last January—which likely added to the decline. All 27 EU markets except Sweden (22.5% y/y) recorded declines, with three of the top four economies posting double-digit losses and Spain (-51.5% y/y) hit the hardest, followed by Germany (-31.3) and Italy (-14.0). France's (-5.8% y/y) single-digit loss made it the best-performing major market and the second best of the entire EU.

US PMI Flash Estimates ([link](#)): “Price gauges hit record highs as businesses report fastest growth for almost six years” was the headline of IHS Markit's report. This month's C-PMI (to 58.8 from 58.7) rebounded to a 71-month high, according to flash estimates, on a continued acceleration in the service sector, with the NM-PMI (58.9 from 58.3) also climbing to a 71-month high. Meanwhile, the M-PMI's (to 58.5 from 59.2) flash estimate continued to show near-record growth in the manufacturing sector, just a smidge below January's record high. Strong growth is heating up price pressures, with service providers recording the steepest increase in cost burdens since October 2009 and manufacturers the steepest since April 2011. “As a result, firms raised their selling prices at the sharpest rate on record (since October 2009), with panelists stating the increase was due to the partial pass-through of greater costs to clients,” according to the report. Business sentiment remains optimistic, boosted by hopes of further stimulus and the vaccine roll out, though job growth remains subdued. Many service-sector firms in particular remain reluctant to hire, cautious about adding to overheads.

Eurozone PMI Flash Estimates ([link](#)): Business activity in the Eurozone fell for the fourth successive month in February, according to flash estimates, as the service sector continued to contract. The C-PMI ticked up to 48.1 this month after falling from 49.1 in December to 47.8 in January; it was at 45.3 in November. The NM-PMI fell for the second month, from 46.4 at the end of last year to 44.7 this month as ongoing COVID-19 lockdown measures dealt a further blow to the service sector; February's reading was the sixth below the breakeven point of 50.0. Meanwhile, the manufacturing sector remains on a tear, with February's flash estimate for the M-PMI (to 57.7 from 54.8) accelerating to a three-year high. The report cautions about inflationary pressures building, pointing out that supply delays have risen to near-record levels, leading to near-decade-high producer input cost inflation—though weak consumer demand (notably for services) is limiting overall price pressures. Looking at the Eurozone's two largest economies, Germany continued to expand in February, while France continued to contract—though both enjoyed a strong manufacturing sector. Germany's C-PMI (to 51.3 from 50.8) was in expansionary territory for the eighth straight month, though has slowed from July's 55.3, as its service sector continued to contract. Germany's manufacturing sector is operating on all cylinders, with its M-PMI (to 60.6 from 57.1) accelerating at a three-year high this month, while the NM-PMI (45.9 from 46.7) shows the service sector falling at its steepest rate since last May. France's C-PMI (to 45.2 from 47.7) shows economic activity deteriorating this month, despite the M-PMI (55.0 from 51.6) showing the strongest expansion in manufacturing in three years, as the NM-PMI (43.6 from 47.3) shows service sector growth falling at a faster pace. The report notes that while overall growth slowed in Germany and France, “the rest of the region as a whole reported some cooling in the downturn.”

Japan PMI Flash Estimates ([link](#)): Japan's private-sector downturn extended into February, according to flash estimates, though there some bright spots, with manufacturing activity showing signs of life. February's C-PMI (to 47.6 from 47.1) contracted for the 13th consecutive month as the NM-PMI (45.8 from 46.1) showed the service sector falling at its fastest pace in six months; it hasn't been in expansionary territory since the start of 2020. Meanwhile, the M-PMI (50.6 from 49.8) moved above 50.0 for the first time since April 2019—posting its best performance since the end of 2018. New export orders stabilized after contracting for 26 straight months. The report notes that while disruptions caused by Covid 19 are likely to be around in the immediate future, businesses were optimistic that conditions would improve over the next 12 months on expectations that the end of the pandemic will boost foreign and domestic demand.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

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