



MORNING BRIEFING

March 1, 2021

Bond Vigilantes: They're Back!

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

(1) Inflation tantrum in bond market. (2) Protesting fiscal and monetary excesses. (3) Five recent taper tantrums in the stock market. The latest one is Panic Attack #69. (4) The Carville memo. (5) Powell's conundrum. (6) What to do about rising bond yields? Fed has three choices. (7) Is Powell cooling off to more fiscal stimulus? (8) The case for a transient pickup in inflation. (9) The Age Wave is still disinflationary. (10) Prices-paid indexes are soaring. (11) Hard to see the whites of inflation's eyes in consumer prices, so far. (12) Movie review: "The United States vs. Billie Holiday" (+ + +).

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

Bonds I: Panic Attack #69. The bond market had an inflation tantrum during the first two months of this year. The 10-year Treasury bond yield rose above 1.00% on Monday, January 4, the first trading day of the year. It closed at 1.44% this past Friday. Just last week, the yield rose 10bps ([Fig. 1](#)). We still expect to see it at 2.00% before the end of this year.

Also last week, stock market investors concluded that the backup in bond yields so far this year might be the Bond Vigilantes' way of protesting the likely monetary and fiscal excesses of the incoming Biden administration. The S&P 500 peaked at a record high of 3934.83 on February 12 and was down 3.1% through Friday's close.

Occasionally in the past, the stock market has experienced "taper tantrums" when Fed officials signaled that they intended to tighten monetary policy. Specifically, our chronology of [US Stock Market Panic Attacks, 2009-2021](#) includes:

#28	5/21/13	Bernanke's taper talk
#51	1/4/16	Williams' tightening warning
#57	9/9/16	Fed tightening tantrum
#63	10/3/18	Powell's hawkish interview
#69	2/22/21	Return of the Bond Vigilantes

Note that our list now includes last week's stock market selloff as Panic Attack #69, "Return of the Bond Vigilantes." That happened despite last week's congressional [testimony](#) by Fed Chair Jerome Powell, in which he reiterated that the Fed won't be tightening monetary policy for the foreseeable future. Instead, he confirmed once again that "we will continue to increase our holdings of Treasury securities and agency mortgage-backed securities *at least* [emphasis added] at their current pace until *substantial further progress* [emphasis added] has been made toward our goals."

The "current pace" is \$120 billion per month. It was first announced by the Fed in the FOMC's December 16, 2020 [Statement](#), which also stated that the Fed "will continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month until substantial further progress" has been made toward the FOMC's goals of maximum employment and price stability.

Furthermore, the Bond Vigilantes last week anticipated that the House of Representatives would soon pass Biden's \$1.9 trillion [American Rescue Plan](#), which happened Saturday morning. They rightly fear that so much additional monetary and fiscal policy stimulus will overheat the already hot economy, thus causing inflation to rebound later this year.

Apparently, Biden's economic policy team didn't get a copy of the Carville memo. In my book [Predicting the Markets](#) (2018), I wrote:

"The Bond Vigilantes' heyday was the Clinton years, from 1993 through 2001. Placating them was front and center on the administration's policy agenda. Indeed, Clinton political adviser James Carville famously said at the time, 'I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody.'

"From October 15, 1993 to November 7, 1994, the 10-year yield climbed from 5.19% to 8.05%, fueled by concerns about federal government spending. With some guidance from Robert Rubin, who served in the White House as the President's assistant for economic policy from January 1993 to January 1995, the Clinton administration and Congress tried to reduce the federal budget deficit." (See the full excerpt, titled "[Riding with the Bond Vigilantes](#).")

Recall that during her congressional confirmation hearing on Tuesday, January 19, Treasury Secretary Janet Yellen told lawmakers to “act big” and enact Biden’s deficit-financed \$1.9 trillion stimulus plan. The bond yield was 1.09% the day she spoke. The Bond Vigilantes certainly got her message and are acting big again.

The Bond Vigilantes may be having their heyday in the sun once again!

Bonds II: Powell’s Conundrum. In my book *Fed Watching* (2020), I recounted “Greenspan’s conundrum.” I wrote: “The federal funds rate was increased by 25 basis points to 1.25% at the June 29–30, 2004 meeting of the FOMC. That was followed by increases of 25 basis points at every one of the next 16 meetings, putting the rate at 5.25% after the June 29, 2006 meeting. It remained at that level through August 2007. ... However, yields didn’t rise. Instead, the 10-year US Treasury bond yield fluctuated around 4.50% from 2001 to 2007. That was a big surprise given that short-term rates were almost certainly going to go up at every FOMC meeting, albeit at an incremental pace, once the Fed commenced its measured rate hikes. Mortgage rates, which tend to move with the 10-year US Treasury yield, also diverged from the steady upward march of the federal funds rate. That phenomenon in the bond market became known as ‘Greenspan’s conundrum.’”

Greenspan subsequently lamely claimed that a global glut of saving kept a lid on long-term rates, resulting in the speculative bubble in housing, which burst, causing the Great Financial Crisis.

Now, Powell’s conundrum is that bond yields are soaring despite his best efforts to keep a lid on them by buying all of the notes and bonds issued by the Treasury, and more, since early last year (*Fig. 2*). Over the past 12 months through January, the Treasury issued \$1,644 billion in notes and bonds. Over that same period, the Fed purchased \$1,855 billion of these securities.

In my forthcoming book *The Fed and the Great Virus Crisis*, I recount that the Fed’s staff briefed the FOMC on yield-curve targeting (YCT), as summarized in the June 9-10, 2020 *Minutes* of the committee. YCT simply amounts to the Fed setting an official target for the bond yield. At his post-meeting press conference, Powell said that YCT would be re-evaluated in upcoming meetings. Odds are that Powell and his colleagues are doing so right now after last week’s rout in the bond market. Here are their choices:

(1) *Do something.* If they announce an official target of, say, 1.50%, they risk triggering the Mother of All Meltups (MAMU) in the stock and housing markets. Arguably, MAMU is well underway in both ([Fig. 3](#) and [Fig. 4](#)). The Nasdaq is up 92.3% since March 23, 2020. The median prices of new and existing single-family homes are up 5.3% and 14.8% y/y through January. Both are at record highs.

(2) *Say something.* They could spin the backup in bond yields as a welcome signal of confidence that the economic outlook should continue to improve. After all, Q4's real GDP is only 2.4% below its record high during Q4-2019 ([Fig. 5](#)). It could be at a new record high this quarter given that the Atlanta Fed's [GDPNow](#) tracking model is currently showing real GDP jumping 8.8% (saar). The Index of Coincident Economic Indicators is on track for the fastest recovery on record from a recession ([Fig. 6](#))!

Powell's problem is that while he has acknowledged that the economic recovery has been better than expected, he told Congress last week that it "remains uneven and far from complete, and the path is highly uncertain." He clearly wants to keep interest rates down until much more progress is made in the labor market.

(3) *Do nothing.* Alternatively, Powell and his colleagues could do and say nothing about the backup in yields. They might actually be happy to let the Bond Vigilantes taper credit conditions to avoid overheating the economy.

That would make sense if Powell is losing his enthusiasm for the next round of fiscal stimulus because it might be too stimulative. Reuter's Ann Saphir wrote an interesting [article](#) on February 23 titled "Is Fed Chair Powell 'cool' with more fiscal aid? Suddenly he won't say." She observed: "[I]n contrast with his repeated calls last year for additional fiscal support and the dire consequences of skipping it, Powell declined to do so on Tuesday during the first of two days of congressional testimony." On Tuesday, he declined more than once to comment on the current bill.

January's personal income data, released last week, showed that the \$600-per-person stimulus checks sent that month by the Treasury boosted government social benefits and personal saving by \$2.0 trillion and \$1.6 trillion (saar), respectively ([Fig. 7](#)). Personal income jumped 10.0% m/m to a new record high last month. Personal consumption jumped 2.4% m/m, led by a 5.8% increase in spending on goods to a new record high ([Fig. 8](#)).

The next round of \$1,400-per-person stimulus checks coming on top of the cash left over from the previous two rounds undoubtedly will trigger an economic boom. We just raised our Q2 real GDP estimate to 9.0% from 4.5% (saar), following our projected 7.0% increase during Q1. The Bond Vigilantes may be starting to anticipate that the result could also be rip-roaring inflation.

Inflation I: Will It Be Transient? By allowing the Bond Vigilantes to be vigilant, Powell also increases the odds that any post-pandemic rebound in inflation will be transient, as he has been saying it is likely to be.

In his January 27 [press conference](#), Powell said that the y/y increase in consumer prices is likely to “move up a few tenths” during March and April because prices were depressed a year ago by the lockdown recession. He concluded “that’s a transient thing that we think will pass.” He acknowledged that when the pandemic is over, “there’ll be a burst of spending ... that could also create some upward pressure on inflation.” But he expects that is “likely to be transient and not to be very large.”

Debbie and I agree. We are expecting that the PCED (personal consumption expenditures deflator) inflation rate on a y/y basis will be around 2.5%-2.8% during the second half of this year. It then should subside close to 2.0% next year. Here’s why any pickup in inflation should be transitory:

(1) *Technology and productivity.* The most compelling reason why excessively stimulative fiscal and monetary policies shouldn’t trigger a major upturn in inflation is that we expect a major secular upturn in productivity. The latter is already underway, in our opinion ([Fig. 9](#)). The 20-quarter annual average growth rate in productivity has risen from a recent low of 0.6% during Q4-2015 to 1.6% during Q4-2020. Technological innovation should drive this growth rate higher, perhaps to 2.5%-3.5% in coming years.

Unit labor costs is probably the most important driver of consumer price inflation. We can see this by comparing the core PCED inflation rate to the y/y percent change in the ratio of the Employment Cost Index to nonfarm productivity ([Fig. 10](#)). The former closely tracks the latter, which has been subdued in recent quarters, fluctuating around zero.

(2) *The Age Wave.* We believe that productivity in a workforce is partly a function of worker age: Older, more experienced workers tend to be more productive even though younger

workers might bring more energy and creativity to their jobs. In any event, there does seem to be an interesting correlation between the Age Wave and the five-year trends in both the inflation rate and the bond yield ([Fig. 11](#) and [Fig. 12](#)). The former remains consistent with historically low inflation and yields.

(3) *Vigilantes*. There are other forces at work keeping a lid on inflation. (See our “[Four Deflationary Forces Keeping a Lid on Inflation](#).”) But now, we also have the Bond Vigilantes back as inflation busters.

Inflation II: Rearing Its Ugly Head? If inflation is starting to rear its ugly head, should Fed officials wait until they see the whites of its eyes? That seems to be the Fed’s current stance. Let’s see what we can see in the latest inflation data:

(1) *Regional business surveys*. We now have all five of the regional business surveys conducted by the Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia, and Richmond in hand for February. The average of their prices-paid indexes has soared from last year’s low of -3.6 during April to 56.5 last month, the highest reading since April 2011 ([Fig. 13](#)). The comparable prices-received index rose from -9.4 to 23.7 over this same period to the highest since July 2018.

(2) *Consumer prices*. Cost pressures are mounting, as evidenced by the spread between prices paid and prices received ([Fig. 14](#)). However, this spread correlates better with commodity prices than with either unit labor costs or consumer prices.

Indeed, the latest data on the PCED inflation rate (on a y/y basis) shows that both the headline and core rates remained subdued during January at 1.5% ([Fig. 15](#)). The end of the lockdowns last year did trigger a remarkable increase in demand for consumer durable goods. These prices typically fall. Last January, before the pandemic, they were down 2.1% y/y. At the beginning of this year, they were up 1.4%, the highest since April 1995 ([Fig. 16](#)).

The PCED for nondurable goods prices tends to be volatile, reflecting the volatility in food and energy prices. It was unchanged during January on a y/y basis ([Fig. 17](#)).

The PCED for services rose 1.9% y/y during January ([Fig. 18](#)). It has stabilized around this pace in recent months. Inflation in the PCED rent of shelter fell to 2.1% y/y during January,

down from 3.4% a year ago ([Fig. 19](#)). Inflationary pressures seem to be mounting in medical care services, which rose 3.4% y/y during January, up from 2.0% a year ago ([Fig. 20](#)).

Movie. “The United States vs. Billie Holiday” (+ + +) ([link](#)) is another recent biopic/docudrama depicting Hoover’s FBI as obsessed with civil rights activists, who were deemed by Hoover to be un-American. Andra Day provides a remarkable performance as Billy Holiday, the famous blues singer. She refused to stop performing one of her signature numbers, “Strange Fruit,” a protest song about the horror of lynching. She had a serious drug problem, and the FBI used that weakness to hound her. Holiday’s chief tormentor was Harry Anslinger, the commissioner of the Federal Bureau of Narcotics.

CALENDARS

US: Mon: ISM & IHS Markit M-PMIs 58.8/58.5, Construction Spending 0.8%, Motor Vehicle Sales, Brainard. **Tues:** API Crude Oil Inventories, Brainard. (DailyFX estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 57.7/60.6/55.0/57.0/52.0, UK M-PMI 54.9, Germany CPI 0.5%/y/1.2%/y/y, Japan Unemployment Rate 3.0%, RBA Interest Rate Decision 0.1%, Lagarde, Guindos, Buch. **Tues:** Eurozone Headline & Core CPI Flash Estimates 1.0%/1.1% y/y, Germany Unemployment Change & Unemployment Rate -15k/6.0%, Germany Retail Sales -1.0%/m/m/1.2%/y/y, Canada GDP, Australia GDP 2.5%/q/q/-1.8%/y/y, Panetta, McCaul. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 2.9% for its second straight weekly decline as it ranked 27th of the 49 global stock markets we follow in a week when just eight of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 3.9%. Three countries traded at a record high during the week: France, Hong Kong, and Sweden. EMEA was the best-performing region last week, albeit with a decline of 1.6%, followed by EMU (-1.9%) and EAFE (-2.9). BRIC was the biggest underperformer with a decline of 8.6%, followed by EM Latin America (-7.9), EM Asia (-6.7), and EM Eastern Europe (-4.0). Greece was the best-performing country last week, rising 4.3%, followed by Egypt (3.4), Singapore (1.8), Jordan (1.2), and Austria (0.7). Among the 16 countries that underperformed the AC World ex-US MSCI last week, Brazil fared the worst with a decline of 10.5%, followed by Turkey (-10.1), China (-9.6), South Africa (-6.8), and Argentina (-5.9). In February, the US MSCI rose 2.5% and ranked 21/49 as the AC World ex-US index underperformed with a gain

of 1.9%. Thirty-one of the 49 countries moved higher in February as most regions rose. Argentina was the best performer, with a gain of 11.0%, followed by Chile (8.0), Greece (7.1), Peru (7.0), and Italy (5.7). The worst-performing countries in February: Sri Lanka (-11.3), New Zealand (-10.7), Brazil (-6.4), Pakistan (-5.8), and Portugal (-3.9). EMU rose 3.4% in February, ahead of BRIC (3.8) and EMEA (0.4). EM Latin America was February's worst-performing region with a decline of 3.1%, followed by BRIC (-0.3), EM Asia (0.9), EMEA (1.4), and EM Eastern Europe (1.5). EM Asia leads so far in 2021 with a gain of 5.2%, ahead of BRIC (3.5). The following regions are lagging the 2.0% gain for the AC World ex-US: EM Latin America (-9.7), EM Eastern Europe (-0.7), EAFE (1.0), EMU (1.3), the US (1.4), and EMEA (1.8).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell for a second week, the first time that has happened since early September. SmallCap dropped 0.8% w/w, ahead of the MidCap (-1.5%) and LargeCap (-2.4) indexes. Just nine of the 33 sectors rose last week compared to 14 rising a week earlier. LargeCap Real Estate slipped back into a correction, leaving 21 sectors out of a correction now and none ending the week at a record high. SmallCap Energy rose 4.4% and was the best performer for the week, followed by LargeCap Energy (4.3), MidCap Energy (3.8), SmallCap Consumer Discretionary (1.9), and SmallCap Communication Services (1.0). LargeCap Utilities was the biggest underperformer last week with a decline of 5.1%, followed by MidCap Tech (-4.9), LargeCap Consumer Discretionary (-4.9), SmallCap Tech (-4.7), and SmallCap Materials (-4.1). SmallCap soared 7.6% during February, and MidCap gained 6.7%, easily beating the 2.6% rise for LargeCap. Twenty-eight of the 33 sectors rose in February, compared to 19 rising in January, and all 33 rising in December and November. February's best performers: SmallCap Energy (23.9), LargeCap Energy (21.5), MidCap Energy (17.9), MidCap Financials (12.1), and SmallCap Financials (12.1). February's biggest laggards: LargeCap Utilities (-6.5), LargeCap Health Care (-2.2), LargeCap Consumer Staples (-1.5), LargeCap Consumer Discretionary (-1.0), and SmallCap Consumer Discretionary (-0.7). SmallCap leads so far in 2021 with a gain of 14.3%, easily beating both MidCap (8.2) and LargeCap (1.5). All but five of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap Energy (43.6), MidCap Energy (26.2), LargeCap Energy (25.9), SmallCap Consumer Discretionary (25.4), and SmallCap Communication Services (17.8). The biggest laggards so far in 2021: LargeCap Utilities (-7.4), LargeCap Consumer Staples (-6.7), MidCap Utilities (-1.3), LargeCap Health Care (-1.0), and LargeCap Consumer Discretionary (-0.6).

S&P 500 Sectors and Industries Performance ([link](#)): Just one of the 11 S&P 500 sectors rose last week, but seven outperformed the composite index's 2.4% decline. That compares to

a 0.7% decline for the S&P 500 a week earlier when four sectors rose and five outperformed the index. Energy's 4.3% rise made it the sole gainer of the week, ahead of Financials (-0.4%), Industrials (-0.5), Communication Services (-1.4), Health Care (-1.6), Real Estate (-2.0), and Materials (-2.1). The worst performers: Utilities (-5.1), Consumer Discretionary (-4.9), Tech (-4.0), and Consumer Staples (-2.7). The S&P 500 rose 2.6% in February as seven sectors moved higher and five beat the broader index. That compares to four rising in January, when six beat the S&P 500's 1.1% decline. The leading sectors in February: Energy (21.5), Financials (11.4), Industrials (6.6), Communication Services (6.2), and Materials (3.7). February's laggards: Utilities (-6.5), Health Care (-2.2), Consumer Staples (-1.5), Consumer Discretionary (-1.0), Tech (1.1), and Real Estate (1.4). The S&P 500 has risen 1.5% so far in 2021 with seven of the sectors higher ytd and five beating the broader index. The leading sectors so far in 2021: Energy (25.9), Financials (9.2), Communication Services (4.6), Industrials (2.0), and Real Estate (1.9). This year's laggards to date: Utilities (-7.4), Consumer Staples (-6.7), Health Care (-1.0), Consumer Discretionary (-0.6), Tech (0.1), and Materials (1.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.5% for its 15th gain in the past 17 weeks. It traded at its highest level since October 2018 last week, finally pulling out of a correction at 5.1% below its four-year high on October 3, 2018. Thirteen of the 24 commodities that we follow moved higher last week. Cocoa was the best performer last week with a gain of 6.6%, followed by Coffee (6.5%), Crude Oil (3.8), Brent Crude (3.7), and Unleaded Gasoline (3.3). Natural Gas was the biggest decliner for the week with a drop of 7.4%, followed by Nickel (-5.2), Lead (-5.2), Zinc (-3.1), and Silver (-3.1). February saw 19 of the 24 commodities climb as the S&P GSCI Commodities index rose 10.7%. That compares to 18 rising in January, when the S&P GSCI Commodities index rose 5.3%. The top-performing commodities in February: Unleaded Gasoline (25.6), Crude Oil (17.8), GasOil (17.8), Brent Crude (17.0), and Copper (15.6). February's biggest laggards: Gold (-6.6), Silver (-1.8), Live Cattle (-1.5), Kansas Wheat (-0.7), and Wheat (-0.4). The S&P GSCI Commodities index has risen 16.5% 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 (38.3), Crude Oil (26.8), GasOil (25.9), Brent Crude (24.4), and Heating Oil (24.2). The biggest laggards so far in 2021: Gold (-8.8), Cocoa (0.0), Silver (0.1), Zinc (1.6), and Feeder Cattle (1.7).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 2.4% last week, and dropped below its short-term, 50-day moving average (50-dma) in the latest week and just the second time since early November. It remained above its 200-dma for a 35th straight week, but weakened

considerably. 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 weakened for the eighth time in nine weeks, as the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 34th 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 at a 13-week low of 9.9% above its 200-dma, down from 10.1% 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 17th week after falling for a week at the end of October for the first time in six months. However, the price index dropped to 0.1% below its rising 50-dma from 2.9% 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, 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 35th week, but dropped to a 17-week low of 9.7% above its rising 200-dma from 13.2% a week earlier. That's 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](#)): Just five of the 11 S&P 500 sectors traded above their 50-dmas last week, down from eight a week earlier and compares to four above at the end of January. That also compares to all 11 above at the end of November and just one sector above at the end of October. The five sectors still above their 50-dma: Communication Services, Energy, Financials, Industrials, and Real Estate. Consumer Staples was below its 50-dma for a seventh straight week. Looking at the longer term, nine of the 11 sectors traded above their 200-dmas, down from all 11 a week earlier as Consumer Staples and Utilities fell below in the latest week. Energy is the newest member of this club, trading above its 200-dma for a 14th 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 still in the Golden Cross club (50-dmas higher than 200-dmas) for now, unchanged from the prior eight weeks when Energy

joined for the first time since November 2018. Eight sectors have a rising 50-dma, down from nine a week earlier as Health Care joined Utilities and Consumer Staples, whose 50-dma fell for a sixth week. 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 still have rising 200-dmas since mid-November. Energy's 200-dma finally turned higher then after mostly falling since October 2018

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): Another round of pandemic-related relief checks sent both income and saving soaring in January. Spending on government social benefits boosted personal income 10.0% at the start of this year—the most since last April's 12.4% surge, which was also boosted by a Covid-related benefits program. Most of January's \$1.95 trillion (saar) increase in income was put into savings, which jumped \$1.61 trillion—pushing the personal saving rate up to 20.5% from 13.4% at the end of last year. It was at a record-high 33.7% last April. January data suggest consumers will give a nice boost to Q1 GDP growth, as personal consumption expenditures jumped 2.4% to within 0.4% of last January's record high, led by an 8.4% leap in goods consumption to its highest level on record; services consumption edged up 0.7%. Adjusted for inflation, the gains for total, goods, and services consumption were 2.0%, 5.1%, and 0.5%, respectively. Inflation remained tame in January, with both headline and core PCED up 0.3% m/m and 1.5% y/y.

Consumer Sentiment Index ([link](#)): Consumer sentiment improved in late February, though still fell to a six-month low for the overall month. “The worst of the pandemic may be nearing its end, but few consumers anticipate the type of persistent and robust economic growth that restores employment conditions to the very positive pre-pandemic levels. The recent revival in spending has been driven by drawdowns in precautionary savings,” noted Richard Curtin, chief economist of the survey. The Consumer Sentiment Index (CSI) slumped the first two months of this year, sinking from 80.7 in December to 79.0 in January and 76.8 by February—24.2 points below its pre-pandemic peak of 101.0. Both the present situation (to 86.2 from 90.0 in December) and expectations (70.7 from 74.6) components fell over the two-month period, down 28.6 points and 21.4 points, respectively, from their pre-Covid levels of 114.8 and 92.1. All of February's loss in confidence was concentrated among those consumers with annual incomes below \$75,000—and concentrated primarily in consumer expectations. As for signs of inflation, the expected inflation rate for next year climbed to 3.3% last month—the highest since July 2014; it was at 2.4% a year ago.

Durable Goods Orders & Shipments ([link](#)): Both core capital goods orders and shipments in January moved further above their pre-pandemic levels to new record highs, as did the headline measure. Nondefense capital goods orders ex aircraft (a proxy for future business investment) advanced for the ninth month, by 0.5% in January and 19.0% over the period, while core capital goods shipments (used in calculating GDP) increased 2.1% and 17.9% over the comparable periods. Orders for total durable goods also climbed for the ninth month, jumping 3.4% in January (triple consensus estimates) and 53.2% over the period. January's better-than-expected increase reflected a 390% jump in civilian aircraft orders, though ex transportation orders were up a robust 1.4%; these orders also advanced for the ninth month, by a total of 21.0%, to a new record high.

Pending Home Sales ([link](#)): "Pending home sales fell in January because there are simply not enough homes to match the demand on the market," said Lawrence Yun, NAR's chief economist. "That said, there has been an increase in permits and requests to build new homes." The Pending Home Sales Index sank 2.8% in January, and 5.8% since reaching a new record high in August, to 122.8, though it was still up 13.0% y/y. Sales had surged 86.1% during the four months through August. Regionally, contracts fell in the West, Northeast, and Midwest last month, while sales in the South held steady—with yearly gains in the South and West still in double digits. Here's a look: South (+0.1% m/m & 17.1% y/y), West (-7.8 & 11.5), Midwest (-0.9 & 8.6), and the Northeast (-7.4 & 9.6). Looking ahead, Yun notes: "There will be a natural seasonal upswing in inventory in spring and summer after few new listings during the winter months ... These trends, along with an anticipated ramp-up in home construction will provide for much-needed supply."

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators ([link](#)): Economic Sentiment Indexes (ESIs) for both the EU and Eurozone climbed in February for the eighth month since bottoming last April, to within 10.5 points and 10.6 points, respectively, of their pre-Covid readings. The ESIs for both the EU and Eurozone climbed 1.9 points in February to 93.1 and 93.4, respectively, the highest readings since last March. Among the largest Eurozone economies, ESIs in Italy (+4.4 points to 94.6) and Germany (+3.0 to 95.8) recorded the biggest increases, followed France (+0.9 to 91.0). By contrast, Spain (-3.2 points to 90.7) and the Netherlands (-1.3 to 93.5) were in the red. For the overall Eurozone, at the sector level, industry (to -3.3 from -6.1) confidence continued to improve last month, rising steadily from April's bottom of -32.5, while construction (-7.5 from -7.7) confidence is trending higher, improving from -17.0 last May. Consumer

confidence (to -14.8 from -15.5) remains in a volatile flat trend, though up from April's bottom of -21.9, while services confidence held around -17.0 for the third month, up from last May's -43.5 bottom. Meanwhile, retail trade (to -19.1 from -18.5) confidence deteriorated for the fourth month since reaching an eight-month high -6.9 last October.

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