MORNING BRIEFING
March 8, 2021

Powell Deputizes Bond Vigilantes

Check out the accompanying chart collection.

(1) T-Fed outsources maintaining law and order to Bond Vigilantes. (2) Powell not worrying about disorderly markets or inflation. (3) The Fed is patient and dovish. The Vigilantes are not. (4) No twisting at the Fed's party for now. (5) T-Fed's party line: Rising yields reflecting strong recovery, not inflation. (6) Rallying commodity prices bearish for bonds. (7) Wage inflation is high. Aberration or a problem for consumer prices? (8) Is Panic Attack #69 over yet? (9) Bull market continues to broaden and rotate from Growth to Value. (10) Movie review: "The Mauritanian" (+ +).

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

Bonds Vigilantes I: Maintaining Law & Order. Last Thursday, Fed Chair Jerome Powell in effect deputized the Bond Vigilantes to maintain law and order in the financial markets and the economy. The Fed and the Treasury (a.k.a. "T-Fed") intend to keep the party going by filling the punch bowl until the labor market is packed with revelers. To make sure that the party doesn't get too out of control, Powell is letting the Vigilantes do T-Fed's job. Consider the following:

(1) *On yields.* The recent run-up in bond yields "was something that was notable and caught my attention," Powell said at a *Wall Street Journal* summit on March 4. He signaled no imminent policy response from the Fed. "I would be concerned by disorderly conditions in markets or persistent tightening in financial conditions that threatens the achievement of our goals."

(2) *On the recovery.* "We will be patient," he said. "We're still a long way from our goals." It's "highly unlikely" that the Fed's goal of maximum employment will be reached this year, he said. "It is a picture of an economy that is all but fully recovered," he said of the conditions the Fed has set for liftoff. "Realistically, that is going to take some time." He acknowledged that there's "good reason to think that the outlook is becoming more positive at the margins."

(3) *On inflation*. "We expect that as the economy reopens and hopefully picks up, we will see inflation move up through base effects," Powell said during the conference. "That could create some upward pressure on prices."

(4) *On financial conditions and monetary policy*. "Financial conditions are highly accommodative, and that's appropriate given the ground the economy has to cover," he said. "If conditions do change materially, the committee is prepared to use the tools that it has to foster the achievement of its goals." He concluded, "Our current policy stance is appropriate."

Powell's remarks are likely to be among the last from a US central banker before the Fed enters its blackout period on public comment ahead of the March 16-17 FOMC policy meeting. The very dovish comments were mostly the same as the very dovish ones he made during his January 27 press conference and his congressional testimony on monetary policy on February 23.

(5) *Market reaction.* The bond and stock markets sold off on Powell's comments. Apparently, traders were hoping that Powell would do something about the recent rise in bond yields. Some were expecting he might announce an Operation Twist policy to purchase more Treasury bonds by selling Treasury bills. Instead, Powell seemed to be okay with the backup in bond yields unless it was "disorderly." In effect, he deputized the Bond Vigilantes to be the bouncers at the party that he is hosting with an open bar.

Bond Vigilantes II: Doing the Heavy Lifting. Melissa and I weren't surprised by Powell's dovishness given his recent press conference and congressional testimony, which were also remarkably dovish.

In last Monday's *Morning Briefing*, we wrote that Powell and his colleagues might welcome the Bond Vigilantes' activity, allowing them to taper credit conditions and thereby avoiding an overheating of the economy. They might be thinking: "Why not let the Bond Vigilantes do the heavy lifting on the long end of the yield curve? Let them be the bad guys blamed for causing a taper tantrum in the stock market." That thinking would make sense if Powell is losing his enthusiasm for the next round of fiscal stimulus because it might be too stimulative.

In last Wednesday's *Morning Briefing*, we observed that on February 25, four Federal Reserve Bank presidents who are also FOMC meeting participants said that they were upbeat about the economic outlook and weren't concerned about the backup in yields. On March 2, Fed

Governor Lael Brainard said she would be concerned "if I saw disorderly conditions or persistent tightening in financial conditions that could slow progress" toward the Fed's dual mandate. This past Friday, Treasury Secretary Janet Yellen, in an interview with *PBS NewsHour*, said, "I don't see that the markets are expecting inflation to rise above" the Fed's 2% target. Instead, she opined: "Long-term interest rates have gone up some—but mainly, I think, because market participants are seeing a stronger recovery."

Since we've been predicting that the 10-year Treasury bond yield would rise to 2.00% by the end of the year, we haven't been surprised by the recent backup in yields. We have been surprised by the speed of the rise so far this year given the Fed's significant purchases of Treasury notes and bonds. Consider the following:

(1) *Nominal yields.* The bond market may simply be discounting the end of the pandemic, as the Covid-19 case count has been plunging since January 15 and more and more people are getting vaccinated against the virus (*Fig. 1*). At 1.56% on Friday, the yield was only back to where it was on February 19 of last year, shortly before the World Health Organization declared the pandemic on March 11 (*Fig. 2*).

(2) *Expected and actual inflation.* The yield spread between the 10-year nominal bond and the comparable TIPS, which is a widely used proxy for expected inflation, was 2.22% on Friday (*Fig. 3*). It is back to its readings of early 2018, which weren't particularly troubling at the time. The 10-year expected inflation proxy has tended to exceed the actual core PCED (personal consumption expenditures deflator) inflation rate since 2003 (*Fig. 4*). It's not a particularly useful predictive indicator of actual inflation.

By the way, the same can be said of the prices-paid indexes that are included in the monthly M-PMI and NM-PMI surveys of manufacturing and nonmanufacturing purchasing managers (*Fig. 5* and *Fig. 6*). The M-PMI prices-paid index rose to 86.0 last month, the highest since July 2008, while the NM-PMI prices-paid index rose to 71.8, the highest since September 2008. Neither one shows much of a coincident or leading relationship with the core PCED inflation rate.

(3) *Commodity prices.* Last Thursday, the same day that Powell unnerved the bond market, so did OPEC+ members. They sent oil prices soaring when they agreed to continue current production quotas in April, including Saudi Arabia's earlier decision to curb 1 million barrels per day of its own output. Recall that last year a price war between Saudi Arabia and Russia

caused the price of a barrel of Brent crude oil to plunge 24% from $45.35 on Friday, March 6 to $34.50 on Monday, March 9. Both the bond yield and the expected inflation proxy tend to move up and down with the price of oil (*Fig. 7* and *Fig. 8*).

Both the bond yield and the expected inflation proxy also have been highly correlated with the price of copper (*Fig. 9* and *Fig. 10*). The price of copper has been soaring since last spring.

Of course, our favorite correlation for the past year has been the one between the bond yield and the ratio of the nearby futures prices of copper to gold (*Fig. 11*). The ratio suggests that the bond yield could rise to 2.41%. Last week, we observed that the price of copper is highly correlated with the expected inflation proxy and that gold is highly correlated with the inverse of the TIPS yield.

(4) *Wage inflation.* On the inflation front, we are more concerned about mounting inflationary pressures in the labor market than in commodity markets. That's because labor costs account for the bulk of the production of goods and services. It may seem odd to worry about wage inflation when there are still 10.0 million unemployed workers. However, there is mounting evidence that wages may be starting to get a boost from a shortage of workers willing to take jobs, perhaps because they can make more money from government unemployment benefits.

The measures of hourly wages all jumped during March and April of last year as low-wage workers bore the brunt of the job losses from the lockdowns (*Fig. 12*). That might still explain the solid y/y percent increases in average hourly earnings for all workers (5.3% through February), average hourly earnings for production and nonsupervisory workers (also 5.1% through February), and hourly compensation in nonfarm business (6.7% through Q4) (*Fig. 13*).

If the latest wage inflation numbers increasingly reflect a shortage of workers with the right skills for the available jobs, then that would pose a greater risk for rising price inflation. On the other hand, we also see plenty of signs that productivity is making a big comeback. We'll keep you posted on how this continues to play out.

(5) *Fed purchases.* By the way, if the FOMC decides to implement Operation Twist, the Fed currently holds $1.0 trillion in Treasury securities with maturities of one year or less and $1.1 trillion in bonds with maturities exceeding 10 years (*Fig. 14*).

Stock Styles I: Panic Attack #69 and Growth-vs-Value Rotation. The bottom line for the stock market is that Panic Attack #69 may not end until the bond yield settles down for a while. The S&P 500 peaked at a record 3934.83 on February 12. It's only down 2.4% since then. However, there has been some serious rotation out of Growth and into Value stocks since then in response to rising bond yields. Consider the following:

(1) *Growth vs Value since February 12.* From February 12 through Friday's close, S&P 500 Growth index is down 6.7%, while S&P 500 Value is up 2.6%. This divergence action is really a continuation of the rotation that started on September 1, 2020 when the ratio of S&P 500 Growth to S&P 500 Value peaked at a record 2.17 as investors were starting to discount widespread Covid-19 vaccination ending the pandemic (*Fig. 15*). Since that peak through Friday's close, S&P 500 Growth is up 1.9%, while Value has soared 18.5%.

Here is the performance derby of the 11 sectors of the S&P 500 since February 12 and since September 1 through Friday's close: Energy (18.4%, 50.2%), Financials (6.8, 34.1), Industrials (3.3, 19.0), Materials (1.0, 16.0), Communication Services (0.1, 12.6), Consumer Staples (-2.0, -1.6), S&P 500 (-2.4, 8.9), Health Care (-3.7, 5.4), Real Estate (-4.1, 2.2), Utilities (-5.0, 1.9), Information Technology (-7.1, 2.2), and Consumer Discretionary (-8.1, -0.8). (See our *Performance Derby: S&P 500 Sectors & Industries 2/12/21-3/5/21* and *Performance Derby: S&P 500 Sectors & Industries 9/1/20--3/5/21*.)

(2) *The Magnificent Five.* The "S&P 5" (a.k.a. the "Magnificent Five," or "Mag-5" for short) are the five S&P 500 companies with the largest market capitalizations in the index (*Fig. 16*). The Mag-5 components change over time but tend mostly to be Growth stocks. The Mag-5 significantly outperformed the S&P 500 since mid-2016 through August 28, 2020. Since then, through Friday, the S&P 500 is up 9.5%, while the Mag-5's market capitalization is down 0.8%.

Stock Styles II: Large Caps vs SMidCaps. The Mag-5 dominated all three investment styles from mid-2016 through September 1, including Growth versus Value, LargeCaps versus SMidCaps, and Stay Home versus Go Global. Here is the performance derby of the LargeCaps and SMidCaps over that period versus the period from September 1 through Friday's close: S&P 500 (83.0%, 8.9%), Mag-5 (249.1, -0.8), S&P 400 (67.9, 29.5), and S&P 600 (83.8, 43.2) (*Fig. 17*).

Since their 2020 lows last spring through the February 25, 2021 week, the rebounds in the forward earnings of the S&P 400 (53.8%) and S&P 600 (91.9%) have outpaced the forward-earnings rebound of the S&P 500 (26.4%) (*Fig. 18*). The former two indexes have forward earnings that are actually at record highs, while the latter's is just under its record high in early 2020.

Stock Styles III: Stay Home vs Go Global. On a global basis, the uptrends in the ratios of the US MSCI and All Country World ex-US MSCI in US dollars and in local currencies remain intact since the start of the worldwide bull market in 2009 (*Fig. 19*). However, the former has underperformed the latter since September of last year.

Here is the performance derby in local currencies and in US dollars for the major MSCI stock indexes since September 1, 2020 through Friday's close: EM Asia (18.6%, 20.8%), Japan (18.2, 15.7), EM (17.8, 19.6), EM Latin America (15.0, 12.8), ACW ex US (14,6, 15.2), EAFE (13.5, 13.3), EMU (13.4, 12.9), UK (13.2, 16.3), ACW (11.5, 11.7), and US (9.3, 9.3).

The recovery in the forward earnings of the US MSCI has outpaced those in the forward earnings of Emerging Markets, the EMU, and the UK (*Fig. 20*).

Movie. "The Mauritanian" (+ +) (*link*) is a docudrama based on the book *Guantanamo Diary*, published in 2015, which became a bestseller around the world. It was written by Mohamedou Ould Salahi, who served 14 years at Guantanamo Bay prison even though he was never charged with a crime. He was arrested from his home in Mauritania shortly after 9/11 on suspicions that he was a key recruiter for the attacks. The only link he had to the terrorists is that one of them spent a night on his couch when he was a student in Germany. Tahar Rahim admirably portrays the remarkable resilience of Salahi, who was severely tortured until he confessed. His lawyer, Nancy Hollander, is consummately played by Jodie Foster. Lt. Colonel Stuart Couch (played by Benedict Cumberbatch) seeks to defend the government's case but discovers that Salahi's confession was extracted under extreme duress, which made it inadmissible evidence.

CALENDARS

US: Mon: Wholesale Inventories 1.3%. **Tues:** NFIB Small Business Optimism Index, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Germany Industrial Production 0.2%, Spain Industrial Production -0.7%, Japan GDP 3.0%, Japan Household Spending -3.1%m/m/-2.1%y/y, Japan Leading & Coincident

Indicators, China National People's Congress, Bailey. **Tues:** Eurozone GDP -0.6%q/q/-5.0%y/y, Germany Trade Balance, Italy Industrial Production 0.7%, China CPI & PPI -0.4%/1.5% y/y, Australia Westpac Consumer Confidence, China National People's Congress, Lowe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 0.3% for its first gain in three weeks as it ranked 20th of the 49 global stock markets we follow in a week when 23 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 0.3%. India was the only country to trade at a record high during the week. EM Latin America was the best-performing region last week with a gain of 1.8%, ahead of EM Eastern Europe (1.5%), EMEA (0.7), and BRIC (-0.2). EMU was the biggest underperformer with a decline of 1.3%, followed by EAFE (-0.6) and EM Asia (-0.3). Ireland and Norway were the best-performing countries last week, each rising 4.3%, followed by India (3.9), Russia (2.8), and South Africa (2.7). Among the 23 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst with a decline of 6.3%, followed by Denmark (-5.9), Hungary (-4.9), the Netherlands (-4.0), and Finland (-4.0). EM Asia leads so far in 2021 with a gain of 4.8%, ahead of BRIC (3.3) and EMEA (2.5). The following regions are lagging the 1.8% gain for the AC World ex-US: EM Latin America (-8.1), EMU (0.0), EAFE (0.4), and EM Eastern Europe (0.8). The top performing countries ytd: Taiwan (10.5), Chile (10.0), South Africa (8.6), Norway (7.7), and Austria (7.7). The biggest laggards of 2021 so far: Colombia (-13.3), New Zealand (-12.5), Brazil (-12.1), Denmark (-9.7), and Argentina (-8.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose for the first time in three weeks. SmallCap gained 1.8% w/w, ahead of the LargeCap (0.8%) and MidCap (0.7) indexes. Twenty-six of the 33 sectors rose last week compared to nine rising a week earlier. Four sectors ended the week at a record high: LargeCap Financials, LargeCap Industrials, MidCap Financials, and MidCap Materials. SmallCap Energy rose 12.6% and was the best performer for the week, followed by MidCap Energy (10.1), LargeCap Energy (10.1), MidCap Utilities (5.5), and MidCap Consumer Staples (5.5). MidCap Tech was the biggest underperformer last week with a decline of 4.3%, followed by SmallCap Tech (-4.1), MidCap Health Care (-3.6), SmallCap Health Care (-3.5), and LargeCap Consumer Discretionary (-2.8). SmallCap leads so far in 2021 with a gain of 16.4%, easily beating both MidCap (8.9) and LargeCap (2.3). All but five of the 33 sectors are higher ytd. The best sector performers so far in 2021: SmallCap Energy (61.7), MidCap Energy (38.9), LargeCap Energy (38.6), SmallCap

Consumer Discretionary (30.0), and SmallCap Communication Services (21.6). The biggest laggards so far in 2021: LargeCap Utilities (-5.5), LargeCap Consumer Staples (-5.0), LargeCap Consumer Discretionary (-3.4), LargeCap Tech (-1.3), and LargeCap Health Care (-0.7).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 S&P 500 sectors rose last week and seven outperformed the composite index's 0.8% gain. That compares to a 2.4% decline for the S&P 500 a week earlier when one sector rose and seven outperformed the index. Energy's 10.1% rise made it the biggest gainer of the week, ahead of Financials (4.3%), Industrials (3.1), Communication Services (2.4), Materials (2.3), Utilities (2.1), and Consumer Staples (1.9). The worst performers: Consumer Discretionary (-2.8), Tech (-1.4), Real Estate (-1.4), and Health Care (0.3). The S&P 500 has risen 2.3% so far in 2021, with six of the sectors higher ytd and five beating the broader index. The leading sectors so far in 2021: Energy (38.6), Financials (13.9), Communication Services (7.1), Industrials (5.1), and Materials (3.5). This year's laggards to date: Utilities (-5.5), Consumer Staples (-5.0), Consumer Discretionary (-3.4), Tech (-1.3), Health Care (-0.7), and Real Estate (0.5).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 3.0% for its biggest rise in four weeks and its 16th gain in the past 18 weeks. It's trading just 2.2% below its four-year high during October 2018. Eight of the 24 commodities that we follow moved higher last week. Brent Crude was the best performer last week with a gain of 7.5%, followed by Crude Oil (7.4%), Unleaded Gasoline (5.8), Heating Oil (5.5), and GasOil (3.1). Nickel was the biggest decliner for the week with a drop of 11.6%, followed by Coffee (-6.3), Silver (-4.4), Lead (-2.7), and Natural Gas (-2.3). The S&P GSCI Commodities index has risen 20.0% 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 (46.4), Crude Oil (36.1), Brent Crude (33.6), Heating Oil (31.0), and GasOil (29.9). The biggest laggards so far in 2021: Gold (-10.3), Silver (-4.3), Cocoa (-2.2), Nickel (-1.1), and Feeder Cattle (0.0).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.8% last week, and moved back above its short-term, 50-day moving average (50-dma) after being below a week earlier for only the second time since early November. It was above its 200-dma for a 36th straight week after being below for 13 weeks through late May, which matched its prior losing 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 ninth time in 10 weeks, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 35th 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 14-week low of 9.6% above its 200-dma, down from 9.9% 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 an 18th week after falling for a week at the end of October for the first time in six months. The price index improved to 0.3% above its rising 50-dma from 0.1% 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, 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 36th week and improved to 10.0% above its rising 200-dma from a 17-week low of 9.7% above a week earlier. That 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, unchanged from a week earlier; that 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. Materials moved above its 50-dma in the latest week, and Real Estate fell below as these four sectors remained above: Communication Services, Energy, Financials, and Industrials. Consumer Staples was below its 50-dma for an eighth straight week. Looking at the longer term, 10 of the 11 sectors traded above their 200-dmas, up from nine a week earlier, as Consumer Staples moved back above after one week below and Utilities remained below for a second week. Energy traded above its 200-dma for a 15th 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 nine weeks when Energy joined for the first time since November 2018. Seven sectors have a rising 50-dma, down from eight a week earlier, as Consumer Discretionary and Tech turned down w/w and Health Care turned up. Consumer Staples' 50-dma fell for a seventh 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, 10 sectors have rising 200-dmas, down from all 11 a week earlier, as Utilities turned a tad lower w/w. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US ECONOMIC INDICATORS

Employment (*link*): Employment gains blew past forecasts in February, led by a surge in private-sector jobs, while January payrolls were much stronger than previously forecast. Nonfarm payroll employment jumped 379,000 in February, following an upwardly revised gain in January (to 166,000 from 49,000), with private payrolls soaring 465,000 last month following a 90,000 gain in January (first reported at 6,000). Leisure & hospitality was the job magnet in February, jumping 355,000, as pandemic-related restrictions in some areas of the country were eased—with 80% of the gain occurring in food services & drinking places (286,000). Temporary help services added jobs for the 10th month, up 52,700 in January and 822,900 over the period, though were still 175,100 below a year ago. Meanwhile, health care & social assistance jobs were up 45,600 last month but 908,800 below the year-ago level. Employment in the retail sector added 41,100 jobs in February on widespread gains, led by general merchandise stores. In the goods-producing sector, manufacturing jobs rebounded 21,000, more than erasing January's 14,000 loss, while construction companies cut 61,000 jobs (likely weather-related) and mining shed 8,000. Here's a tally of industry performances from strongest to weakest during the ten months through February, and where they stand relative to last February's pre-pandemic levels: leisure & hospitality (4.77 million & -3.45 million), retail trade (2.01 million & -362,600), professional & business services (1.62 million & -771,000)—led by temporary-help services (822,900 & -175,100), health care (1.04 million & -577,600), manufacturing (824,000 & -561,000), construction (805,000 & -308,000), transportation & warehousing (409,900 & -164,700), social assistance (370,200 & -331,200), financial activities (174,000 & -105,000), wholesale trade (148,700 & -260,500), education (135,400 & -389,800), information services (33,000 & -248,000), and mining (-34,400 & -98.500).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, edged down 0.3% in February after an uninterrupted nine-month climb of 13.6%. It had plummeted 12.4% during the two months through April to the EIP's lowest reading since spring 2017. The average hourly earnings component of the EIP advanced for the eighth month, by 0.2% in February and 2.3% over the eight-month period—

after falling 2.4% during the two months ending June. Meanwhile, aggregate weekly hours, the EIP's other component, fell for the second time in three months, by 0.5% in February and 0.4% over the period. It had rebounded 14.0% the prior seven months, after plunging 15.2% in April. Compared to a year ago, the EIP dipped back into negative territory, falling 0.7% y/y—after posting its first positive reading in January since last March. Average hourly earnings rose 5.3% y/y in February, unchanged from January's rate and not far from December's seven-month high of 5.5%. Aggregate weekly hours fell 6.0% y/y, widening from January's -4.8%; it had narrowed steadily from -15.8% in April to -4.6% by November.

Unemployment (*link*): February's unemployment rate fell to an 11-month low of 6.2% as the number of unemployed workers fell for the second month, by 158,000 in February and 764,000 over the period to 9.97 million—the lowest since last March. While both measures are much lower than last April's highs, they are still well above their pre-pandemic readings of 3.5% and 5.72 million, respectively. The civilian labor force increased 50,000 in February after plunging 406,000 in January. The participation rate remained at 61.4%, down 1.9ppts from last February's 63.3%. Meanwhile, household employment rose for the 10th successive month by 208,000 in February and 16.9 million over the period. The number of unemployed persons on temporary layoff fell 517,000 to 2.2 million last month, 1.5 million higher than a year ago but well below last April's 18.0 million. By race, unemployment rates for both Whites (to 5.6% from 6.0% in December) and Hispanics (8.5 from 9.3) fell for the second month in February, with the former sinking to an 11-month low. The rate for African Americans (9.9 from 9.2) rose in February after falling steadily from its April/May high of 16.7% to 9.2% in January, which was the lowest since last March; the rate for Asians (to 5.1% from 6.6%) sank to an 11-month low. 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 jumped to a five-month high of 10.1% in February, after falling from 9.8% in December to 9.1% in January, while the rate for those with a high school degree ticked up to 7.2% (its first increase since last April) after falling from 17.3% in April to 7.1% by January. In the meantime, the jobless rate for those with some college sank to an 11-month low of 5.9% in February, while the rate for those with a college degree or higher slipped to 3.8%, matching 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 eighth month, up 0.2% in February and 2.3% over the period; earnings had dropped 2.4% during the two months ending June. The drops in May and June reflected the return to work of lower-paid workers on temporary leave; their absence from the job market had pushed hourly earnings up 4.7% during April alone. The yearly wage rate for private industry was unchanged at January's 5.3% y/y in February, just a couple of ticks below December's seven-month high of 5.5%; it was at a record 8.2% last April. The yearly wage rate for service-providing industries (5.9% y/y) barely budged for the second month, not far from 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% y/y) rate sank to a 17-month low; it was at 5.0% in April. Within goods producing, the wage rate for manufacturing (2.9% y/y) slowed to a 15-month low, while the rate for natural resources (1.3) was back above 1.0% for the second month, after two months below. The construction (3.1% y/y) rate continued to hover around 3.0%. Within service-providing industries, the rate for financial activities (7.8% y/y) remained on a steep accelerating trend, reaching yet another new record high in February, while the rate for education & health services (4.9) eased for the second month from December's record high of 5.8%. The information services (4.2% y/y) 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 has dropped to 3.9% since its October peak of 6.4%. Rates for retail trade (5.2% y/y) and transportations & warehousing (2.7) remain in volatile flat trends, though the former is at the low end of the range, while the wholesale trade (4.1) rate is accelerating toward the top if its recent range. Rates for professional & business services (4.2) and leisure & hospitality (2.3) continued to hover around recent lows.

Merchandise Trade (*link*): The real merchandise trade deficit widened again in January, posting its second largest deficit on record. The real deficit widened to -$96.5 billion (saar) after narrowing from November's record deficit of -$97.2 billion to -$95.0 billion at the end of 2020. January's deficit is larger than Q4-2020's average monthly deficit of -$94.2 billion, suggesting trade will be a drag on Q1 real GDP. Both real exports (-0.7%) and real imports (0.2) were little changed in January, with the former posting its first decline since last May. Since bottoming last May, both real exports and real imports are up an impressive 37.3% and 25.8%, respectively, through January. Here's a snapshot of growth in real exports for January and during the eight months through January: capital goods ex autos (3.9% & 33.3%), industrial supplies & materials (1.0 & 24.3), consumer goods (nonfood) ex autos (-2.9 & 46.4), autos (-5.1 & 284.3), and food (-9.9 & 7.9). Here's the same exercise for real imports: consumer goods (nonfood) ex autos (6.6% & 37.1%), food (3.8 & 16.7), capital goods ex autos (0.9 & 24.2), industrial supplies & materials (-4.3 & -23.3), and autos (-5.0 & 251.4).

Manufacturing Orders & Shipments (*link*): Factory orders advanced for the ninth successive month in January since plunging 13.5% last April. Billings jumped 2.6% in January and 33.2%

during the nine months ending January—to its highest level since September 2018. Factory shipments followed a similar script, rising 1.9% in January and 26.9% over the comparable periods. Both core capital goods orders and shipments moved further above their pre-pandemic levels in January to new record highs. Nondefense capital goods orders ex aircraft (a proxy for future business investment) advanced for the ninth month, by 0.4% in January and 18.9% over the period, while core capital goods shipments (used in calculating GDP) increased 1.8% and 17.7% over the comparable periods. Orders for total manufacturing goods also climbed for the ninth month, jumping 2.6% in January and 33.2% over the period to a new cyclical high. Total factory orders were boosted by strong demand in January for electrical equipment & appliances (4.1%), primary metals (3.3), and fabricated metals (1.8)—with orders the latter at a new record high, and those for electrical equipment & appliances only fractionally away from a new high.

GLOBAL ECONOMIC INDICATORS

Eurozone Retail Sales (*link*): Retail sales in the Eurozone have weakened considerably since reaching a new record high last October. Headline sales, which excludes motor vehicles and motorcycles, dropped 5.9% in January and 9.4% during the three months through January to a nine-month low. Sales of non-food products excluding fuel were hardest hit, plunging 12.0% in January and 17.7% over the three-month period, while sales of automotive fuel tanked for the fourth time in five months, by 1.1% m/m and 13.0% over the five months ending January. Meanwhile, sales of food, drink & tobacco increased for the third time in four months, by 1.1% and 3.5% over the four-month span. Two of the top four Eurozone economies have reported sales for January, Germany and France, with both in the red. Sales in Germany sank 4.5% in January and 13.2% over the past two months to within 1.8% of last April's bottom; spending had soared 17.3% during the seven months through November. In France, sales were more volatile, falling 9.9% in January after soaring 20.6% to a new record high in December, after plummeting 15.6% during November.

Germany Manufacturing Orders (*link*): German factory orders increased for the eighth time in nine months in January, by 1.4% m/m and 64.4% over the period—surpassing pre-Covid levels by 2.4%. January's increase was driven by strong billings from both outside (4.4%) and inside (3.9) the Eurozone, while domestic orders slumped for the second successive month. Foreign billings from outside the Eurozone has increased every month since bottoming last April—soaring 77.1% over the period to a new record high. Meanwhile, foreign billings from inside the Eurozone have bounced in a volatile flat trend (at high levels) in recent months, posting virtually an identical nine-month gain as those from outside the Eurozone. Domestic orders slumped 3.5% during the two months through January—with most of the decline occurring in January—after rebounding six of the prior seven months by 53.2%. Here's a look at the performance by market group for total orders, foreign orders from inside & outside the Eurozone, and domestic orders, respectively, since bottoming in April: capital goods (93.3%, 134.7%, 104.0%, 63.9%), intermediate goods (45.0, 48.0, 51.0, 40.5), consumer durable goods (46.1, 51.3, 36.4, 51.6), and consumer nondurable goods (0.7, -3.7, 4.3, 0.2). Capital goods orders have lost some momentum recently.

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