**MORNING BRIEFING**
**May 6, 2021**

## Talkative Yellen, Chip Shortage, and Bad Drought

*Check out the accompanying chart collection.*

(1) The Fairy Godmother causes mini taper tantrum. (2) Boom times at semiconductor companies. (3) Shortages may end just-in-time purchasing. (4) New capacity may take years—not quarters—to build. (5) Temperatures are heating up out West. (6) Tech companies creating gadgets and apps to help with drought. (7) Farming moves indoors and goes vertical. (8) Solar panels coexist with crops.

**Strategy: Loose Lips.** Tuesday might have been a warm-up act for what's ahead in the stock market. Treasury Secretary Janet Yellen caused a brief taper tantrum when she said, "It may be that interest rates will have to rise somewhat to make sure that our economy doesn't overheat." Stock prices plunged. A few hours later, before the market closed, she walked back her comments saying, "I don't think there's going to be an inflationary problem, but if there is the Fed can be counted on to address it."

The past three taper-tantrum sinking spells (in May 2013, January 2016, and October 2018) were triggered by loose lips at the Fed. Yellen seems to have temporarily forgotten that she now heads up the Treasury, not the Fed. When she was at the Fed, I often called her the "Fairy Godmother of the Bull Market." So imagine her surprise when stock prices dropped on her first comments, causing her to scramble to repair the damage. (See the following excerpt from my book *Fed Watching for Fun and Profit*, "*Janet Yellen: The Gradual Normalizer.*"

The stock market was already jittery about Friday's employment report. As Debbie and I discussed in the May 4 *Morning Briefing*, there's been plenty of anecdotal evidence that wage inflation could soon be picking up significantly. Any signs of higher-than-expected and more persistent inflation could trigger a taper tantrum.

**Technology: Semiconductors Wanted.** Just as the US economy is emerging from quarantine, a shortage of semiconductor chips is causing layoffs at the automakers, providing a drag on economic activity. The development is causing all manner of ripple effects. Manufacturers that use semiconductors in their products are expected to hold larger chip inventories, enter into longer-term contracts with suppliers, and upgrade the suppliers they use.

Chip manufacturers, on the other hand, are raking in the dough, enjoying double-digit Q1 revenue increases and fat margins. Some manufacturers, like Intel and Taiwan Semiconductor, are talking about expanding production, raising investor concerns that the manufacturers' pricing power and fat profits might end as quickly as they began. There's also some concern that customers could be double ordering in order to ensure they can get their hands on chips. The S&P 500

Semiconductors stock price index has fallen roughly 10% since its mid-April high, but it remains up 54.5% y/y as of Tuesday's close, beating the S&P 500's 46.5% gain (*Fig. 1*).

Meanwhile, down in Washington DC, President Joe Biden has proposed $50 billion of government funding for semiconductor research and incentives to set up chip manufacturing in the US instead of overseas. The chip industry thinks this is great. Those looking at the industry's years of stock buybacks and the billions of cash on their balance sheets wonder why the flush industry needs a government handout. Fortunately, the wheels of government move slowly, making it highly likely that the semiconductor shortage will have come and gone before legislation can make its way to President Biden's desk.

Here's Jackie's look at the industry's latest news and some of the themes discussed in Q1 conference calls:

(1) *Fantastic fundamentals.* It's a good time to be a chip maker. Covid-19 lockdowns sent everyone scrambling for computers and tablets so we could work from home and for gaming systems to keep the kids entertained. As we've discussed in the past, there is an increasing number of chips in an increasing number of things. Refrigerators and stoves have gotten "smart," and cars have grown so complex it takes an hour to learn what all the buttons on the dashboard do.

NXP Semiconductor's CEO Kurt Sievers explained the situation well in the company's Q1 earnings *conference call* on April 27: "In Automotive, we plan to ship at least 20% more in the first half of 2021 versus the first half of 2019. And this is while IHS suggests a drop of 10% in car production in the very same period."

Global semiconductor sales remained strong in March, up 3.7% m/m, and Q1 sales were up 3.6% q/q and 17.8% y/y, according to a Semiconductor Industry Association *press release*. Q1 sales q/q were down in the Americas (-8.2%) and Japan (-1.6)—likely due to the Texas storms and the fire at a Japanese factory—but up in Europe (8.8), China (8.9), and Asia Pacific/All Other (6.5) (*Fig. 2*).

(2) *Supply can't keep up.* This increase in demand faced unfortunate hiccups in supply due to an unexpected deep freeze in Texas and the aforementioned fire at a chip plant in Japan. Auto manufacturers reportedly canceled chip orders when Covid-19 shut down economies early in 2020, only to have difficulty getting orders filled when demand for cars rebounded faster and stronger than expected later in the year.

While chips are small, they can take 120 days to produce and even more time to transport, often from foundries in Asia to manufacturers in the US. So the chip shortage isn't going to be resolved in a matter of weeks. At best, it will be in a few months to a few quarters. Intel's new CEO claims it will be years before supply catches up to demand.

GM is the latest company to quantify the chip shortage's impact. The auto manufacturer forecast it would generate $10 billion to $11 billion of pretax profits this year, including a hit of $1.5 billion to $2.0 billion due to the impact of the chip shortage, a May 5 CNBC *article* reported. The company forecasts free cash flow will get hit even harder, coming in at $1 billion to $2 billion in 2021, which is $1.5 billion to $2.5 billion lower than it would have been without the chip shortage.

The strong demand has allowed chip manufacturers to increase their factories' utilization rates and produce strong jumps in revenue, margins, and earnings. The S&P 500 Semiconductors industry is expected to increase revenue by 15.3% this year and 8.2% in 2022 (*Fig. 3*). The industry's forward profit margin is expected to improve to 30.4%, up from a low of 27.5% at the end of 2019 and compared to a high of 32.2% in September 2018 (*Fig. 4*). The industry's earnings are forecast to surge 22.8% this year and 14.2% next year (*Fig. 5*). And the analysts' net earnings revisions index has been positive over the last ten months, most recently reading 29.6% in April, 29.8% in March, and 28.3% in February (*Fig. 6*).

(3) *So why are investors glum?* Semiconductor shares have sold off in recent weeks on concern that customers, in their desperation to get chip supplies, are double ordering, which implies that demand isn't as strong as it appears. However, NXP's Sievers said that the company's customers are "placing long-dated, non-cancellable and nonreturnable order requests. And we are making long-term strategic supply commitments to our partners in order to assure future supplies." NXP has 81 days of inventory, an increase of three days sequentially but below the company's long-term target of 95 days. "[I]t will take several quarters before we are able to rebuild on-hand and channel inventories to our long-term target levels," said NXP CFO Peter Kelly.

ON Semiconductor's CEO Hassane El-Khoury said during the company's May 3 *conference call* that demand went beyond the auto industry. "While the strength in the automotive market is well publicized, we also see strength in the industrial market as global industrial activity is gaining momentum." ON is working with its "strategic customers to secure long-term agreements to provide better supply and price visibility over the next few years." And El-Khoury estimated that supply and demand would return to balance later this year.

Oversupply could hit in two or three years when semiconductor companies are expected to have built new plants. Taiwan Semiconductor Manufacturing announced in May 2020 plans to build a $12 billion plant in Arizona, and the company's ambitions may be much, much larger. A May 4 Reuters *article* quoted three sources who said the company plans to build five additional plants in Arizona. Taiwan Semi said last month that it planned to invest $100 billion over the next three years to increase production capacity but didn't specify where those dollars would be spent.

The Taiwan Semi report follows Intel's proclamation in March that it would spend $20 billion to expand its chip production in Arizona. Intel's CEO Pat Gelsinger told *60 Minutes* on Sunday that he expects the chip shortage to last "a couple of years." German semiconductor company Infineon concurred.

"While Asian contract manufacturers should be able step up their output next year, these are just improvements around the edges. Any material increase will first come once all-new clean rooms are built from scratch," a May 4 *Fortune* *article* reported. "The foundries are investing now, but the lead times to get this new capacity will be easily into 2023," said Infineon Operations Chief Jochen Hanebeck according to *Fortune*. If that's the case, semiconductor investors can rest easy for a while longer.

**Disruptive Technologies: Tech To Tackle Drought.** Before Taiwan Semi and Intel start building their fabs, they should double check that they'll have access to enough water. Weather pros are expecting a drought-fraught summer for the western US. It would just be the latest in many years

of dry summers that started in 2000, which some scientists are calling a megadrought.

Scientists at the Lamont-Doherty Earth Observatory of Columbia University used tree-ring data to identify four periods of megadrought: during the late 800s, the mid-1100s, the 1200s, and the late 1500s, an April 2020 CBS *article* reported. Soil moisture records from 2000 to 2018 indicate that this period is the second driest in history, on par only with a megadrought from 1575 to 1606.

“Going back over a thousand years, there’s evidence that naturally driven megadroughts have devastated the region several times in history. These droughts led to upheavals among indigenous civilizations in the Southwest,” the CBS article states. Today’s drought could be exacerbated by temperatures that have risen in the West by 2.2 degrees Fahrenheit in the past 20 years, as warmer air draws moisture from the ground, intensifying the soil’s drying.

Weather watchers are concerned about this summer because last winter’s rainfall across the Southwest and California was just 25% to 50% of normal levels, an April 21 CBS *article* reported. And while Washington and Northern Oregon had normal to above-normal snowfall this winter, snowfall in the rest of the Northwest was below the median levels from 1981 to 2010.

That could prove problematic because in the West melting snowpack becomes water used for drinking, agriculture, and industry. The Colorado River, which runs from Colorado to Northern Mexico, provides water for about 40 million people in the US and five million acres of farmland, the April CBS article reported.

One way to understand the impact is to look at Lake Mead, which was formed by the Hoover Dam on the Colorado River east of Las Vegas. The water surface elevation of Lake Mead is about 145 feet lower since the onset of drought 20 years ago. The shrinking lake has a ribbon of light-colored soil around it, which indicates where water once stood. News reports warn boaters to check the National Park Service’s website to see which boat ramps are open and which no longer reach water.

Residents in many western states may be facing a tough fire season and water-use restrictions this summer. Here is where tech geniuses come in. Many companies are working out ways to reduce water consumption at home, at work, and on the farm. Here are some of the developments that have caught our attention:

(1) *Old MacDonald adopts IoT.* For the past decade, PepsiCo and the farmers that supply it with the raw materials for snacks have been working with iCrop, a software application that helps farmers know more about their crops. With this information, farmers can more precisely apply water and fertilizer as well as monitor for pests and disease. In areas of drought, it calculates the optimal time to water, aiming to preserve water. In field trials in Spain, iCrop improved water accuracy from 48% to 90%, an April 26 *article* in Food Navigator reported.

iCrop is told the location of the farm, the soil type, and the soil moisture, among other variables. It tracks via satellite the current and forecasted weather in the area and tells the farmer when and how much to water crops in the most sustainable way. ICrop is part of a Netherlands-based company, AppsforAgri, which specializes in providing farmers with agri tech that enables smart farming. The Internet of Things has come to the farm.

AppsforAgri software can also be used in livestock management, with tools like ear tags to detect respiratory diseases and track cows' locations. Sensors in ag facilities such as silos, dairies, and stables can track baseline norms and alert farmers to changes in temperature, vibration, humidity and other conditions, a October 2018 *primer* by the company explains.

(2) *Farming goes indoors.* As the outdoors becomes less hospitable, some farmers are moving indoors. Plenty is a company that grows leafy green vegetables vertically, in a building located in an industrial area of San Francisco. The operation uses LED lights powered by renewable energy for lighting. Robots plant seedlings onto large vertical walls, and plants are harvested every 10 days all year round, according to an April 14 *article* by ABC7.

The company claims that by going vertical, the equivalent of 700 acres of farmland can fit into a building the size of a big box retailer. The Plenty facility uses 1% of the land of traditional farming and saves huge amounts of water—1 million gallons per week. Plenty also saves on transportation costs. The indoor farm is closer to consumers' tables, eliminating the energy expenditure needed to transport foods across the country and the world. Plenty plans a larger indoor farm in Compton, CA that will supply 400 grocery stores across California.

(3) *Old MacDonald goes solar.* Farmers and scientists are trying to combine solar panels and farmland to come up with a system, dubbed "agrivoltaics," that could offer many benefits, including reduced water usage. The solar panels are installed several meters above crops and spaced to let sunshine reach the ground. They shield the crops from harsh weather—providing shade on hot days to reduce water evaporation, protecting the crops from hail, and keeping them warm in the cold, an April 30 *article* in *Energy Industry Review* reports. And farmers can use the power they generate for irrigation, to run mills, to purify water, or to sell for profit. The crops also help the solar panels by lowering the ground temperature, which improves the panels' performance in high temperatures.

There are drawbacks to the panels, however. Among them: greater ground humidity, installation height requirements, and risk of wind damage.

Europe and Asia appear further along in experimenting with agrivoltaics, perhaps because they have less land than the US. But the ability to use the soil under solar panels is also being studied in the US by a group called InSPIRE (Innovative Site Preparation and Impact Reductions on the Environment). It includes researchers from the US Department of Energy's National Renewable Energy Laboratory (NREL), Argonne National Laboratory, universities, industry, clean energy groups and others. They're studying the impact of "low impact solar development" on everything from bees to farmland, according to a *report* on NREL's website.

"Agrivoltaics probably won't be feasible for large-scale, single-crop farms that rely on heavy machinery," the NREL report states. "But preliminary results already suggest it can significantly boost the yields of certain plants in hotter-than-average years. … The solar energy generation also offers farmers a steady, additional source of income—a valuable assurance in a potentially volatile agriculture industry." Sounds like a win-win.

## Calendars

**US: Thurs:** Initial & Continuous Jobless Claims 540k/3.62m, Nonfarm Productivity & Unit Labor Costs 4.3%/-1.0%, EIA Natural Gas Inventories, Williams. Bostic, Mester. **Fri:** Payroll Employment Total, Private, and Manufacturing 978k/893k/55k, Unemployment Rate 5.8%, Average Hourly Earnings 0.0%m/m/-0.4%y/y, Average Weekly Hours 34.9, Consumer Credit $20b, Wholesale Inventories 1.4%, Baker-Hughes Rig Count. (DailyFX estimates)

**Global: Thurs:** Eurozone Retail Sales 1.5%m/m/9.6%y/y, Germany Factory Orders 1.7%, UK C-PMI & NM-PMI 60.0/60.1, China Balance of Trade $28.1b, UK Interest Rate Decision & Quantitative Easing 0.1%/ £875b, RBA Statement on Monetary Policy, Guindos, Schnabel, Mauderer, Debelle. **Fri:** Germany Industrial Production 2.3%, Germany Balance of Trade €19.5b, France Industrial Production 2.0%, Italy Retail Sales, Canada Employment Change & Unemployment Rate -175k/7.8%, China Foreign Reserves $3.2t, Lagarde. (DailyFX estimates)

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## Strategy Indicators

**Stock Market Sentiment Indicators** (*link*): The Bull/Bear Ratio (BBR) edged up this week, after falling last week for the first time in seven weeks. The BBR ticked up to 3.60 this week after sinking to 3.59 last week; it had advanced the prior six weeks from 2.48 (lowest since early October 2020) to 3.81. Bullish sentiment (to 60.4% from 59.2%) moved back above 60.0% after slipping below last week following three weeks above. It had climbed five of the prior six weeks by 12.7ppts (to 63.7% from 51.0%), with most of the moves occurring between the bullish and correction camps. The correction count dipped to 22.8% this week after climbing to 24.3% last week; it had declined five of the prior six weeks by 8.8ppts (to 19.6% from 28.4%). Meanwhile, bearish sentiment ticked up to 16.8% this week after falling six of the prior seven weeks by 4.1ppts (to 16.5% from 20.6%); it's fluctuated in a narrow range between 16.5% and 16.8% the past five weeks. The AAII Ratio fell to 62.4% last week after rebounding the prior week from 68.6% to 72.0%, continuing its recent up-and-down pattern, as bullish sentiment slipped from 52.7% to 42.6% and bearish sentiment climbed from 20.5% to 25.7%.

**S&P 500 Earnings, Revenues, Valuation & Margins** (*link*): The S&P 500's forward profit margin rose 0.2ppt to a new record high of 12.6% this week. That exceeds its prior record high of 12.4% during September 2018 and is up 2.3ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings have been making new record highs since the beginning of March and for the first time since February 2020. Analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown ever since the Q2-2020 earnings season came in way better than expected. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.3ppt w/w to a new record high of 9.2%. Forward revenues growth has come a long way from the 0.2% to which it had dropped in April 2020, which was the lowest reading since June 2009. Forward earnings growth gained 1.0ppt w/w to 23.9%. That's its highest level since June 2010 and up substantially from its record low of -5.6% at the end of April. Analysts continue to boost their 2021 growth forecasts. They now expect revenues to rise 10.8% in 2021 and 6.7% in

2022 compared to the 2.2% decline reported in 2020. They expect an earnings gain of 33.4% in 2021 and 12.6% in 2022 compared to a 13.3% decline in 2020. Analysts expect the profit margin to rise 2.1ppts y/y in 2021 to 12.3%—from 10.2% in 2020—and to improve 0.7ppt y/y to 13.0% in 2022. Valuations fell last week. The S&P 500's weekly forward P/E was down 0.4pt w/w to 22.0 and compares to a 17-week low of 21.3 at the beginning of March. That also compares to 23.1 in early September, which was the highest level since July 2000 and up from a 77-month low of 14.0 in mid-March. The S&P 500 price-to-sales ratio lost 0.02pt w/w to 2.76 from a record high of 2.78, which compares to its 49-month low of 1.65 in March 2020.

**S&P 500 Sectors Earnings, Revenues, Valuation & Margins** (*link*): Last week saw consensus forward revenues rise w/w for all 11 S&P 500 sectors. Forward earnings increased for all but the Utilities sector. Forward P/E ratios for nearly all sectors now are back above their record or cyclical highs prior to the Covid-19 bear market. During 2019, just two sectors' margins improved y/y: Financials and Utilities. Consumer Staples, Tech, and Utilities were the only sectors with an improved profit margin in 2020. For 2021, all but Real Estate and Utilities are expected to improve y/y. Back in 2018, the forward profit margin was at record highs for 8/11 sectors, all but Energy, Health Care, and Real Estate. Now, only five sectors are at record highs—Materials, Tech, and Utilities welcomed Communication Services and Financial Services to the record-high profit margin club this week. Consumer Staples remains close. The forward profit margin rose for eight of the 11 sectors last week and was steady for three. Communication Services' margin surged 0.8ppts last week; Real Estate's has been improving since December's lowest level since January 2012; and Energy's is up from its record low in April 2020. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (23.9%, a new record high), Financials (19.2, now matches its prior record high), Communication Services (15.6, a new record high), Utilities (14.7, down from its record high of 14.8% in mid-April), Real Estate (14.2, down from 17.0), S&P 500 (12.6, a new record high), Materials (11.9, a new record high), Health Care (10.9, down from 11.2), Industrials (9.0, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, down from 7.7), Consumer Discretionary (7.0, down from 8.3), and Energy (5.8, down from 8.0).

**S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough** (*link*): The S&P 500's forward revenues and earnings as well as its implied forward profit margin bottomed at cyclical lows on May 28, 2020 after 14 weeks of Covid-19-related declines. Forward revenues and earnings have risen 11.2% and 36.3%, respectively, since then to new record highs. The forward profit margin has risen 2.5ppt to 12.6%, which now exceeds its prior record high of 12.4% in late 2018. During the latest week, all but Utilities posted gains in either their forward revenues, earnings, or profit margin. Energy, Financials, and Materials have been particularly strong in recent weeks and have moved up in the forward revenues performance leaderboard. Here's how the 11 sectors rank by their changes in forward revenues and forward earnings since May 28: Materials (forward revenues up 17.9%, forward earnings up 62.9%), Information Technology (17.0, 28.7), Communication Services (16.6, 30.0), Energy (14.4, 1059.9), Industrials (13.5, 39.9), Financials (12.6, 60.5), S&P 500 (11.2, 36.3), Health Care (10.3, 20.2), Consumer Staples (5.9, 12.7), Consumer Discretionary (4.2, 56.7), Real Estate (3.7, 3.3), and Utilities (-2.1, 4.0).

**S&P 500 Q1 Earnings Season Monitor** (*link*): With 71% of S&P 500 companies finished reporting revenues and earnings for Q1-2021, revenues are beating the consensus forecast by a well-

above-trend 4.0%, and earnings have crushed estimates by 23.4% due to loan loss reversals at the banks and stellar results from the Mag-5 stocks. Both of these surprise figures are on pace to match or exceed their prior record highs. At the same point during the Q4 season, revenues were 3.1% above forecast and earnings beat by 18.0%. The S&P 500's Q1 earnings surprise excluding Financials drops to 19.9% from 23.4%. For the 355 companies that have reported through mid-day Wednesday, aggregate y/y revenue and earnings growth and the percentage of companies reporting a positive revenue and earnings surprise have improved from their Q4 measures. The Q1 reporters so far have a y/y revenue gain of 11.1% and an earnings gain of 52.3%, which rises to 11.3% and drops to 34.1%, respectively, when Financials are excluded. A whopping 88% of the Q1 reporters so far has reported a positive earnings surprise, and 79% has beaten revenues forecasts. Both measures are on pace to be record highs. Slightly more companies have reported positive y/y earnings growth in Q1 (79%) than positive y/y revenue growth (78%). These figures will change less markedly than they have recently as more Q1-2021 results are reported in the coming weeks.

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## US Economic Indicators

**ADP Employment** (*link*): "The labor market continues an upward trend of acceleration and growth, posting the strongest reading since September 2020," said Nela Richardson, chief economist, ADP. Employment has increased 1.3 million (742,000 in April & 565,000 in March) in just the past two months, after adding only about 1.0 million jobs the prior five months—with service-providing jobs up 1.1 million (636,000 & 468,000) during April and March—accounting for 85% of the latest two-month surge in private payroll employment. Service providers have the most to gain as the economy opens up. Here's a tally of industry performances from strongest to weakest over the past two months, since bottoming last April, and where they stand relative to last February's levels: leisure & hospitality (+430,000, +4.1 million, -3.5 million), trade transportation & utilities (+248,000, +2.0 million, -1.2 million), health care & social assistance (+138,000, +1.4 million, -650,000), administrative & support services (+120,000, +787,000, -770,000), manufacturing (+102,000, +819,000, -483,000), construction (+88,000, +813,000 & -140,000), other services (+65,000,+811,000, -464,000), professional & technical services (+54,000, +307,000, -226,000), education (+27,000, +231,000, -218,000), financial activities (+20,000, +132,000, -133,000), natural resources & mining (+13,000, zero, -52,000), management of companies & enterprises (+8,000, -12,000, -94,000), information services (-9,000, -47,000, -310,000). Here's the same exercise by company size: large (+445,000, +4.3 million, -5.0 million), medium (+434,000, +3.0 million, -1.9 million), and small (+429,000, +4.0 million, -1.4 million).

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## Global Economic Indicators

**Global Composite PMIs** (*link*): "Global economic growth accelerates to 11-year high as new orders and international trade rise at stronger rates" is the headline of the IHS Markit report. Inflationary pressures continued to build, with rising costs pushing the rate of increase in selling prices to a record high. The JP Morgan Global Composite Output Index (C-PMI) climbed for the

third month to a 132-month high of 56.3 in April, after easing from 53.3 in October to 52.3 by January; it had increased steadily from April's low of 26.2 through October. For the first time since the current upturn in global activity began last July, the NM-PMI (to 56.6 from 54.7) outpaced the M-PMI (55.8 from 55.0) during April. The report notes that both output and new orders reached 11-year highs last month, while international trade in goods and services are showing signs of life, as lockdown restrictions eased across a number of key markets. The C-PMI for the advanced economies has increased the first four months of this year, from 52.0 in December to 58.2 last month, while the C-PMI for the emerging nations edged up to 52.6 in April after falling the prior three months, from 54.1 during December to 52.0 by February. According to the report, April's upturn was led by solid expansions in both the US (63.5) and the UK (60.0)—with the former posting its sharpest upturn in private-sector output since data collection began in October 2009; Germany (55.8) and Spain (55.2) are also enjoying robust growth. Meanwhile, Japan (50.2) moved to the breakeven point after living in contractionary territory for 14 months; Brazil (44.5) was the only country—for which data were available—to continue to contract.

**US Non-Manufacturing PMIs** (*link*): The US service sector accelerated in April at its fastest pace on record according to IHS Markit's NM-PMI and was only marginally below March's record pace according to ISM. Both surveys showed a sharp acceleration in prices! April's ISM's NM-PMI ticked down to 62.7—the second fastest rate on record—after soaring from 55.3 in February to a record-high 63.7 in March. Both the new orders (to 63.2 from 67.2) and production (62.7 from 69.4) measures slowed from March's record pace during April, while the employment (58.8 from 57.2) gauge is fast approaching its record rate of 60.2. The supplier deliveries' (to 66.1 from 61.0) gauge moved further above 60.0, though has been volatile, with recent increases reflecting the difficulties suppliers continue to experience due to the Covid-19 impact. In the meantime, price pressures intensified, with the price index (to 76.8 from 74.0) soaring further above 70.0 in March to its highest reading since July 2008. Switching to the IHS Markit NM-PMI measure, it climbed for the fourth month, from 54.8 at the end of 2020 to 64.7 by April—its best performance since data collection began in late 2009. Many companies reported the expansion was linked to stronger client demand along with an increase in new sales, though some businesses mentioned output had not yet recovered to pre-pandemic levels. Meanwhile, new business expanded at the best pace on record, with the upturn attributed to the relaxation of lockdown measures. On the price front, input costs for the service sector accelerated at an unprecedented pace last month, with companies passing on some of these costs to clients—boosting the rate of output-price inflation to its steepest since data collection for the series began near the end of 2009.

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