



MORNING BRIEFING

May 24, 2021

Not That '70s Show

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

(1) Inflation was so 1970s! (2) Comparing the 2020s to the 1970s. (3) Wages soared while productivity crashed during the Great Inflation. (4) This time, productivity may be making a comeback. (5) The risk is a wage-price spiral. (6) Dopamine demand shock plus policy stimulus shock boosting inflation now. (7) No shortage of shortages. (8) Buddy, can you spare a house? (9) Rent inflation could make a comeback. (10) US provides the world's economy with a shot in the arm. (11) Brief world tour. (12) Movie review: "Godfather of Harlem" (+ + +).

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

Inflation I: Productivity Now & Then. Mali, Debbie, and I have been spending lots of time putting together lots of chart books on inflation so we can carefully monitor the current situation. Our latest is titled [The Great Inflation of the 1970s](#). We are using it to track the similarities and differences between the 2020s and the 1970s. We've done so before but want to focus now on one of the most important differences: Productivity growth collapsed during the 1970s, while it is showing signs of rebounding in recent years and could fuel a productivity-led boom if our Roaring 2020s scenario pans out. Consider the following:

(1) *Streak of inflationary bad luck.* As we've previously noted, everything that could go wrong on the inflation front did so in the 1970s. President Nixon closed the gold window on August 15, 1971. During the decade, the foreign-exchange value of the dollar plunged by 53% relative to the Deutsche mark, and the price of gold soared 1,402% ([Fig. 1](#) and [Fig. 2](#)).

The CRB raw industrials spot price index, which was relatively flat during the 1950s and 1960s, jumped 165% during the decade as a result of the weaker dollar. A supply shock in late 1972 through early 1973 sent soybean prices soaring ([Fig. 3](#)). As a result of the oil crises of 1973 and 1979, the price of a barrel of West Texas Intermediate crude oil rose 870% from \$3.35 at the start of the decade to \$32.50 by the end of the decade ([Fig. 4](#)). Cost-of-living adjustment clauses in labor union contracts caused these price shocks to be passed through into wages, resulting in an

inflationary wage-price spiral ([Fig. 5](#)). (For more on the Great Inflation, see the [excerpt](#) of my 2018 book.)

(2) *When the cost of labor soared.* We can see what happened more clearly by focusing on the 20-quarter percent change, at an annual rate, in hourly compensation, which includes wages, salaries, and benefits ([Fig. 6](#)). This measure rose from a low of 3.5% through Q2-1965 to a high of 11.4% through Q1-1982. Meanwhile, productivity growth, measured on a comparable basis, dropped from a peak of 4.6% through Q1-1966 to zero through Q3-1982. Unit labor cost (ULC), which is the ratio of hourly compensation to productivity, soared from about zero per year during the first five years of the 1960s to over 10.0% during the late 1970s and early 1980s ([Fig. 7](#)).

(3) *Rise and fall of inflation.* The core PCED inflation rate is closely tied to the trend growth rate in ULC. Both rose dramatically during the 1970s as a result of the wage-price spiral, which was exacerbated by the collapse of productivity. During the 1980s, both fell sharply as hourly compensation growth slowed dramatically while productivity growth improved. Since the mid-1990s, both the ULC and core PCED inflation rates hovered in a range between zero and 2.0%.

(4) *Where are we now?* During Q1-2021, the 20-quarter growth rates, at an annual rate, in hourly compensation, productivity, and ULC were 4.3%, 1.9%, and 2.2%, respectively. The core PCED was up 1.8% y/y during March. Severe labor shortages suggest that hourly compensation growth is likely heading higher in coming quarters. We expect that productivity growth will keep pace with hourly compensation, resulting in ULC growth remaining around 2.0%.

If so, then the PCED inflation rate should settle around there as well following the current base-effect pickup in the price inflation rate. More specifically, we expect that inflation will run around 3.0%-4.0% through the summer and fall back to around 2.5% later this year.

(5) *What could go wrong with this benign outlook?* The decade of the 1970s offers the most plausible cautionary tale. Over the past year, both food and nonfood commodity prices have risen sharply, and the dollar has fallen. Soon, there should be more signs that wage inflation is picking up. In recent weeks, Amazon and Walmart have announced plans to boost compensation for their workers. On May 18, Bank of America said that it will raise the hourly minimum wage of its US employees from \$20 to \$25 by 2025. The bank will also require its vendors and suppliers to pay their employees at least \$15 an hour, with 99% of vendors already doing so, [according](#) to CEO Brian Moynihan.

Nevertheless, we don't expect a wage-price spiral. We do expect that rising wages will be justified by rising productivity.

Inflation II: More of It in NY and Philly. While we are waiting to see how this all plays out over the next 12-24 months and over the rest of the decade, there's no doubt that for the here and now, post-pandemic inflationary pressures continue to build. As the pandemic abates, consumers have been treating their cabin fever with heavy doses of dopamine, released in the brain by shopping, particularly on goods.

Now they are likely to do more of the same by spending more on services that were constrained by social-distancing restrictions. The resulting "dopamine demand shock" has been amplified by the fiscal and monetary "policy stimulus shock." The result has depleted inventories of goods, lengthened delivery times, and boosted both prices paid and prices received. Consider the following:

(1) *The malls are packed again.* Personal consumption expenditures plunged during March and April of 2020 as a result of lockdowns mandated by state governors. To help relieve the resulting cabin fever, Sandy and I provided links to a selection of YouTube [songs](#) parodying the pandemic. When the lockdown restrictions were gradually lifted after April, Americans got their dopamine rushes by going shopping, especially for goods, since many services remained limited ([Fig. 8](#)). In fact, consumer spending on goods rose to a record high during June 2020. Spending on services remained below its pre-pandemic peak through March of this year.

(2) *More services.* Now that services are restoring their normal operations, spending on them is likely to soar. The rebound in demand for services is already showing up in April's y/y increases in the CPIs for lodging (7.4%), airfares (9.6), and car & truck rentals (82.2). So far, most of these increases are a result of the base effect.

(3) *Shortages.* Anecdotally, many services businesses are reporting that finding workers to meet their rebounding demand is a challenge. Shortages are also a problem for many retailers, wholesalers, and manufacturers. That's evident in the record highs in the most recent delivery-time and unfilled-orders indexes in business surveys for the NY and Philly Fed districts ([Fig. 9](#)). The averages of their prices-paid and prices-received indexes continued to soar in May as well ([Fig. 10](#)).

Readings on inflation-adjusted business inventories-to-sales ratios are available through February. The overall ratio was 1.37 that month, down from 1.43 during February 2020, just before the lockdowns ([Fig. 11](#)). Here are the comparable readings for February this year and a year ago: manufacturers (1.71, 1.68), wholesalers (1.25, 1.28), and retailers (1.16, 1.34) ([Fig. 12](#)). So inventories are particularly lean among retailers, especially auto dealers.

(4) *Hot houses*. Speaking of shortages, the inventories of new homes and existing homes for sale are both at record lows. Demand has been booming. The median price of existing single-family homes was up 20.3% y/y during April ([Fig. 13](#)). That's a record high.

The prices of homes are not included in measures of consumer price inflation because they are viewed as assets rather than goods. Our concern is that the shortage of homes for sale combined with soaring home prices is depressing sales. First-time homebuyers might decide to continue to rent rather than to keep running into a brick wall in the housing market. If so, then the rent inflation components of both the CPI and the PCED could start moving higher again after falling for the past year ([Fig. 14](#)). Here are the weights of tenant-occupied rent and owners' equivalent rent in the CPI (7.76%, 23.99%), core CPI (9.81, 30.32), PCED (4.29, 11.67), and core PCED (4.85, 13.20).

Global Economy I: Shot in the Arm. The global economy has received a big shot in the arm from all the fiscal and monetary stimulus in the US over the past year. Some of that stimulus leaked to the rest of the world through the US trade deficit. During 2018 and 2019, the inflation-adjusted merchandise trade deficit hovered around \$1.0 trillion (saar). During March, it had reached a record high of \$1.24 trillion ([Fig. 15](#)).

Inflation-adjusted merchandise imports soared \$0.7 trillion (saar) from \$2.3 trillion last April to a record \$3.0 trillion during March of this year. The 12-month sum of inbound container traffic at the West Coast ports is up 20.6% y/y through April, also to a record high.

Global Economy II: Growing or Slowing? Notwithstanding the strength in the trade data cited above, we are hearing more chatter about a slowdown in the global economy, especially in the US and China. Let's go on a quick world tour:

(1) *US*. The Citigroup Economic Surprise Index has come back down to Planet Earth from a record high of 270.8 on July 16 to 14.7 on Friday ([Fig. 16](#)). Fewer upside surprises suggests an economic slowdown, but that's happening from unsustainably fast growth. The downside surprise in housing starts last week caused the Atlanta Fed's [GDPNow](#) tracking model to lower its Q2 real GDP projection from 10.5% to 10.1%. That's still red-hot growth. As Debbie discusses below, the Index of Leading Economic Indicators jumped 1.6% m/m during April to another record high ([Fig. 17](#)). Markit's flash PMIs soared to fresh record highs in May, led by the NM-PMI (70.1) and followed by the M-PMI (61.5).

(2) *Europe*. While Europe has had some significant setbacks in distributing vaccines, requiring renewed lockdowns this year, the Eurozone's M-PMI remained elevated at 62.8 during May, while

its NM-PMI rose to 55.1 ([Fig. 18](#)). The region's Economic Sentiment Indicator, which is highly correlated with the y/y growth rate in real GDP, jumped to 110.3 during April, the best reading since September 2018 ([Fig. 19](#)). Europe's recovery is underway but lagging that of the US.

(3) *China*. China's real GDP rose 18.3% y/y during Q1 ([Fig. 20](#)). However, it was up only 2.3% during Q1 (q/q, saar). While CPI inflation remained subdued at 0.9% y/y during April, the PPI was up 6.8%, which might prod the government to ease off on easing. Any slowdown in China is likely to be reflected in commodity markets, which remain strong. Then again, China's MSCI share price index (in dollars), which has been highly correlated with the price of copper since 2015, is down 18.1% from this year's peak on February 17 ([Fig. 21](#)).

(4) *Stay Home vs Go Global*. Notwithstanding the weakness in the dollar this year, the ratios of the US MSCI stock price index to the All Country World ex-US stock price index (in both dollars and local currencies) remain on their uptrends that started back in 2009. (See our [Stay Home vs Go Global](#).)

Movie. "Godfather of Harlem" (+ + +) ([link](#)) is a television miniseries based on the life and times of a black gangster named "Bumpy Johnson," who defends his turf in Harlem from the Italian Mafia during the 1960s. He does so by skillfully forming alliances with some of the families. Forest Whitaker, who plays Bumpy, stands out in an outstanding cast of actors, who portray Malcolm X, Mohammed Ali, Congressman Adam Clayton Powell, Vincent Gigante, Frank Costello, and Joe Bonanno. Like *The Sopranos*' character Tony Soprano, Bumpy is a likeable family man but involved in a dirty business. The civil rights movement of the 1960s features prominently in the series. A great deal of progress was made legislatively during the 1960s, but today there is still plenty of room for everyone to do more to get along respectfully and peacefully with one another.

Calendars

US: Mon: Chicago Fed National Activity Index, Braindard, Bostic. **Tues:** Consumer Confidence 119.0, New Home Sales 975k, Richmond Fed Manufacturing Index, S&P Case-Shiller Home Price Index 12.3%/y/y, Quarles. (DailyFX estimates)

Global: Mon: Kuroda. **Tues:** Germany GDP -1.7%q/q/-3.3%/y/y, Germany Ifo Business Climate Headline, Current Conditions, and Expectations 98.1/95.5/101.0, Japan CPI, Tenreyro. (DailyFX estimates)

Strategy Indicators

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index drop 0.3% for its fourth decline in five weeks. The US ranked 35th of the 49 global stock markets that we follow in a week when 33 of the 49 countries rose in US dollar terms and the AC World ex-US index rose 1.2% as nearly all regions moved higher. BRIC was the best-performing region last week with a gain of 2.3%, ahead of EM Asia (2.1%) and EM Eastern Europe (2.0). EM Latin America was the biggest underperformer, with a decline of 1.3%, followed by EMU (0.7), EAFE (1.0), and EMEA (1.1). Hungary was the best-performing country last week, with a 6.0% gain, followed by Jordan (5.4), Denmark (5.0), and the Czech Republic (4.6). Chile was the worst performer with a decline of 13.0%, followed by Peru (-7.7), Colombia (-5.1), and Egypt (-4.2). EMEA is now the top-performing region so far in 2021 with a gain of 12.1%, ahead of EMU (11.7), EM Eastern Europe (11.1), the US (9.7), EAFE (7.8), and the AC-World ex-US (7.0). The following regions are lagging, albeit with gains: BRIC (0.6), EM Latin America (0.7), and EM Asia (1.8). The top-performing countries ytd: Austria (27.5), the Czech Republic (21.4), Canada (18.8), Sweden (17.8), and Hungary (17.3). The biggest laggards of 2021 so far: Colombia (-22.8), Turkey (-19.3), the Philippines (-13.0), New Zealand (-12.3), and Indonesia (-11.2).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell for a second straight week. LargeCap dropped 0.4% for the week, less than the declines for SmallCap (-0.8%) and MidCap (-1.2). LargeCap and MidCap ended the week 1.8% and 2.9% below their respective record highs on May 7, while SmallCap was 3.9% below its March 12 record. Fifteen of the 33 sectors were higher for the week, up from just eight a week earlier. MidCap Tech rose 1.9% in the best performance for the week, followed by MidCap Energy (1.6), SmallCap Tech (1.2), SmallCap Health Care (1.1), and LargeCap Real Estate (0.9). MidCap Consumer Staples (-3.6) was the worst performer, followed by MidCap Consumer Discretionary (-3.5), SmallCap Industrials (-3.0), LargeCap Energy (-2.8), and MidCap Industrials (-2.7). SmallCap continues to lead so far in 2021 with a gain of 20.1%, ahead of both MidCap (16.6) and LargeCap (10.6). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (58.3), MidCap Energy (51.0), SmallCap Consumer Discretionary (39.3), LargeCap Energy (36.3), and MidCap Materials (28.8). The biggest laggards so far in 2021, albeit with gains: MidCap Communication Services (0.4), LargeCap Consumer Discretionary (3.6), MidCap Tech (3.7), LargeCap Tech (4.3), and LargeCap Consumer Staples (4.6).

S&P 500 Sectors and Industries Performance ([link](#)): Five of the 11 S&P 500 sectors rose last week and the same five outperformed the composite index's 0.4% decline. That compares to a

1.4% decline for the S&P 500 a week earlier when three sectors rose and eight outperformed the index. Real Estate rose 0.9% for the biggest gain of the week, ahead of Health Care (0.7%), Utilities (0.3), Tech (0.1), and Consumer Staples (0.1). The worst performers this week: Energy (-2.8), Industrials (-1.7), Materials (-1.4), Consumer Discretionary (-1.2), Financials (-0.9), and Communication Services (-0.6). With respect to 2021's performance, the S&P 500 has risen 10.6% so far, with all 11 sectors higher ytd and six beating the broader index. The leading sectors so far in 2021: Energy (36.3), Financials (27.1), Materials (19.4), Real Estate (16.0), Industrials (16.0), and Communication Services (13.2). This year's laggards to date, albeit with gains: Consumer Discretionary (3.6), Tech (4.3), Consumer Staples (4.6), Utilities (4.9), and Health Care (9.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 0.4% last week and weakened relative to its 50-day (50-dma) and 200-day moving averages (200-dma). It was above its 50-dma for a 12th week after dropping below for a week at the end of February for only the second time since early November. It was above its 200-dma for a 47th straight week last week after being below for 13 weeks through late May. The S&P 500's 50-dma rose last week for a 29th week after falling for a week at the end of October for the first time in six months. The price index dropped to 1.6% above its rising 50-dma from 2.6% a week earlier and is down from its 19-week high of 5.8% during mid-April. That compares to 0.1% below its rising 50-dma the week at the end of February and is down from a 13-week high of 6.0% above its rising 50-dma in mid-November. The index mostly has been trading above its 50-dma since late April 2020; in June 2020 it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—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 47th week, but dropped to 11.2% above its rising 200-dma from 12.3% a week earlier. That compares to a 14-week high of 15.4% in mid-April and a 17-week low of 9.7% above at the end of February. It's down from 17.0% above 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](#)): Nine S&P 500 sectors traded above their 50-dmas last week, unchanged from the prior week and down from all 11 sectors above in the week before that; that compares to four above at the end of January. Consumer Discretionary and Tech were below their 50-dmas for a second straight week. Looking at the longer-term 200-dmas, all 11 sectors traded above them for a 12th week. During April 2020, just one sector (Health Care) was above its 200-dma. Energy's 50-dma turned down in the latest week for the first time since early November, ending a six-week string where the 50-dma had been rising for all 11 sectors. That compares to just six sectors with a rising 50-dma in mid-March, which had been the lowest count

since early November. All 11 sectors have had rising 200-dmas for the past 11 weeks. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Leading Indicators ([link](#)): “With April’s large monthly gain to start the second quarter, the U.S. LEI has now recovered fully from its COVID-19 contraction—surpassing the index’s previous peak, reached at the very onset of the global pandemic in January 2020,” according to The Conference Board. April Leading Economic Indicators (LEI) advanced for the 11th time in 12 months, jumping 1.6% in April and 17.1% since bottoming last April. Eight of the 10 components increased last month, with the average workweek and real core capital goods orders unchanged. The biggest positive contributors were jobless claims (0.81pt), S&P 500 (0.23), new orders diffusion index (0.18), the interest rate spread (0.17), leading credit index (0.15), and consumer expectations (0.12); real consumer goods orders (0.02) and building permits (0.01) were small contributors. The Conference Board notes that while employment and production have yet to recover to their pre-pandemic levels, the LEI suggests “the economy’s upward trend should continue and growth may even accelerate in the near term.”

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) has increased in nine of the 12 months since bottoming last April, with the only decline occurring this February (-0.7%); it was unchanged the last two months of 2020. The CEI climbed 0.3% in April and 12.2% y/y to within 3.1% of its pre-Covid level. All four components of the CEI contributed positively, with both employment and industrial production contributing 0.10ppt and real personal income less transfer payments and real manufacturing & trade sales each contributing 0.05ppt. Here’s a look at how the four components performed in April: 1) The payroll employment gain for April was dramatically lower than forecasts, adding only 266,000 jobs (vs close to 1,000,000 expected). Payrolls actually fell by 65,000 if the 331,000 gain in leisure & hospitality jobs is excluded. 2) Industrial production in April expanded for the 10th month since bottoming a year ago, climbing 0.7% m/m and 16.4% y/y, though is still 2.7% below its pre-pandemic level. Manufacturing output advanced 0.4% and 23.0% over the comparable periods, and was 1.6% short of its pre-Covid reading. 3) Real personal income less transfer payments increased for the third successive month in April, by 0.3% m/m and 1.5% over the period; it had dropped 1.0% during the three months through January. 4) Real manufacturing & trade sales is stalled around recent highs, climbing 0.4% in April following a 0.3% gain in March; sales rebounded 3.2% in January but fell by the same amount in February. (Note: Latest data for both real personal income less transfer payments and real manufacturing & trade sales are estimated using statistical imputations to address the problem of lags in available data.)

Regional M-PMIs ([link](#)): Two Fed districts have now reported on manufacturing activity for May (Philadelphia and New York) and show the manufacturing sector expanded at a slower, though still near record, pace, while their prices-paid and -received measures continued to accelerate at a rapid rate. The composite index eased to 27.9 this month, after accelerating steadily from 8.0 at the end of last year to a record high 38.3 in April, as the Philadelphia (to 31.5 from 50.2) measure slowed from April's explosive rate, while New York's (to 24.3 from 26.3) held around last month's pace. The new orders (to 30.7 from 31.5) measure saw billings not far off April 2004's 33.0 record rate, with orders in the New York (28.9 from 26.9) region slightly faster than last month and Philadelphia's (32.5 from 36.0) slightly slower—though outpacing New York. In May, manufacturers hired (to 16.5 from 22.4) at a slower, though still solid clip, with New York (13.6 from 13.9) factories adding to payrolls at virtually the same pace as last month, while Philadelphia's (19.3 from 30.8) eased, though still beat New York. Price pressures are mounting. Both New York's prices-paid (to 83.5 from 74.7) and prices-received (37.1 from 34.9) measures accelerated at record rates, while Philadelphia's prices-paid (76.8 from 69.1) index was the highest since March 1980, while its prices-received (to 41.0 from 34.5) measure was just shy of the record books.

Existing Home Sales ([link](#)): "Despite the decline, housing demand is still strong compared to one year ago, evidenced by home sales from this January through April, which are up 20% compared to 2020," said Lawrence Yun, NAR's chief economist. "The additional supply projected for the market should cool down the torrid pace of price appreciation later in the year," he added. Existing home sales—tabulated when a purchase closes—fell for the third month, by 2.7% in April and 12.2% over the period, to a 10-month low of 5.85mu (saar). Single-family sales declined for the fifth time in six months, dropping 3.2% m/m and 14.6% over the period to 5.13mu (saar), the lowest since mid-2020. Multi-family sales increased for the second month, by 1.4% in April and 2.9% over the period, to 720,000 units (saar) after slumping 6.7% in February from January's cyclical high of 750,000 units. Regionally, total sales fell in three of the four regions in April, but remain above year-ago levels in all: Northeast (-3.9% m/m & +30.4% y/y), South (-3.7 & +39.0), West (-3.1 & +53.8), and Midwest (+0.8 & +13.2). Inventories for both total (to 1.16mu from 1.05mu) and single-family homes (990,000 from 890,000) held near February's record lows in April—down 20.6% and 23.3% y/y. The lack of inventory has boosted existing home prices at a double-digit pace in all regions since April 2020: Northeast (22.0% y/y), West (19.9), South (15.8), and Midwest (13.5). Yun is optimistic about the housing market going forward: "At least half of the adult population has received a COVID-19 vaccination, according to reports, and recent housing starts and job creation data show encouraging dynamics of more supply and strong demand in the housing sector."

Global Economic Indicators

US PMI Flash Estimates ([link](#)): According to flash estimates, both goods producers and service providers noted record growth midway through Q2. The C-PMI (to 68.1 from 63.5), NM-PMI (70.1 from 64.7), and M-PMI (61.5 from 60.5) all reached new record highs in May, with the service sector experiencing explosive growth, beating all prior records by a wide margin, as the economy continued to reopen from Covid-related restrictions. The manufacturing sector reached a new high, though lacked the fanfare, with manufacturers continuing to face headwinds as raw material shortages caused the biggest backlog of orders since data collection began 14 years ago. The report notes average selling prices for both goods & services are “rising at unprecedented rates, which will feed through to higher consumer inflation in coming months.”

Eurozone PMI Flash Estimates ([link](#)): Eurozone business activity in May accelerated at its best pace in over three years, according to flash estimates, led by the service sector; manufacturing was stalled around April's record rate. The Eurozone's C-PMI advanced five of the past six months, from 45.3 in November to a 39-month high of 56.9 this month, as the NM-PMI jumped from 41.7 to a 35-month high of 55.1 over the comparable period. The M-PMI dipped to 62.8 this month after rising from 54.8 in January to an all-time high of 62.9 in April. Looking at the top two Eurozone economies, Germany's C-PMI (to 56.2 from 55.8) showed only a slight pickup in growth this month, while France's C-PMI (57.0 from 51.6) showed the fastest growth in 10 months. Germany's NM-PMI (to 52.8 from 49.9) saw its service sector accelerate at a 10-month high after dipping back into contractionary territory in April, while its M-PMI (64.0 from 66.2) showed manufacturing activity at a slower but still robust rate. Meanwhile, France's NM-PMI (to 56.6 from 50.3) showed its service sector accelerating at a 10-month high, while its M-PMI (59.2 from 58.9) was just shy of March's 20-year high of 59.3. According to the report, outside of Germany and France, the rest of the region recorded the fastest rate since the start of 2018—reflecting the largest increase in service-sector activity since February 2018.

Japan PMI Flash Estimates ([link](#)): Japan's private-sector economy contracted in May, according to flash estimates, after returning to growth in April for the first time since January 2020—as the service sector moved further into contractionary territory. The C-PMI fell to 48.1 this month after climbing in 11 of the prior 12 months from 25.8 last April to 51.0 this April, with May's NM-PMI (to 45.7 from 49.5) sinking to a nine-month low. It was the 16th month in contractionary territory for the service economy, after nearing the breakeven point of 50.0 last month. Survey members widely attributed the deterioration in business conditions to a resurgence in Covid-19 cases and the re-imposition of state of emergency measures. Meanwhile, the M-PMI dipped to 52.5 in May after climbing every month but one from last May's bottom of 38.4 to this April's three-year high of 53.6. Japanese private-sector companies were optimistic that business conditions would improve in the

year ahead, on expectations that the currently sluggish vaccine rollout would pick up, triggering a recovery in demand in both domestic and external markets.

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