MORNING BRIEFING
May 26, 2021

Earnings-Led Meltup!

Check out the accompanying chart collection.

(1) S&P 500 forward earnings go from lagging to leading the market. (2) Forward revenues, earnings, and profit margin all at record highs. (3) S&P 500 operating earnings up 47% during Q1. (4) No sign that rising costs are squeezing profit margins. (5) Solid productivity pop during Q1. (6) An update on sausage making in Washington. (7) There's still some hope that checks and balances will rein in progressives' wish list.

Strategy I: Stocks Flying with Blue Angels. The S&P 500/400/600 stock price indexes all soared to record highs earlier this month since bottoming last year on March 23. Our Blue Angels framework shows that initially their ascent was fueled by their rapidly rebounding forward P/Es, while their forward earnings were in freefalls after the World Health Organization officially declared that a pandemic was underway on March 11, 2020 (*Fig. 1*).

(As a reminder, "forward" P/Es and earnings reflect the time-weighted average of analysts' consensus estimates for this year and next year. Our "Blue Angels" analysis charts show the implied courses of the stock price indexes at various valuation levels, using actual 52-week consensus expected forward earnings times hypothetical forward P/Es.)

The freefalling forward earnings of all three bottomed during May and June of last year and proceeded to stage V-shaped recoveries. Since the second half of last year, all three stock price indexes have been melting up along with their forward earnings. The result has been respective Blue Angels paths tracking at forward P/Es of about 22 for the S&P 500 and around 20 for both the S&P 400/600.

The bottom line is that while valuation multiples are elevated for the S&P 500/400/600, they've been relatively stable (*Fig. 2*). That's part of the big story. The other part is the incredible rebound in forward earnings, which has been powering the bull market in stocks since last summer. Consider the following:

(1) *Forward earnings.* The stock market has been melting up along with forward earnings (*Fig. 3*). Since their 2020 bottoms, the forward earnings of the S&P 500/400/600 are up 40.3%, 77.3%, and 121.1% through the May 20 week of this year.

(2) *Forward revenues.* The recovery in the forward revenues of the S&P 500/400/600 has been less impressive but solid nonetheless, with gains of 13.0%, 16.7%, and 18.5% to record highs from last year's troughs through the May 20 week (*Fig. 4*).

(3) *Forward profit margins.* Joe and I are particularly impressed with the V-shaped recoveries of the S&P 500/400/600 forward profit margins to 12.8%, 8.3%, and 6.1% during the May 20 week (*Fig. 5*). Those are new record highs for LargeCap and MidCap, while SmallCap is just 0.1pt below its March 2006 record. We derive these series by dividing forward earnings by forward revenues per share.

(For a thorough guide to our Blue Angels analysis and how we calculate forward revenues, earnings, and profit margins, see our *Topical Study*, "*S&P 500 Earnings, Valuation & the Pandemic*.")

Strategy II: Awesome Earnings. Joe reports that S&P has released the results of the Q1 earnings reporting season for the S&P 500. They are just as impressive as the S&P 500 forward metrics examined above. That's because the weekly forward data series are great coincident indicators of their comparable actual quarterly results (*Fig. 6*).

The only surprise to us was that Q1's S&P 500 revenues declined 2.6% q/q. However, they were still up 7.7% y/y (*Fig. 7*). Joe reports that the q/q growth rate for Q1/Q4 has been negative every year since 2005. So it's a seasonal phenomenon that isn't captured by the 52-week forward revenues series, which suggests that quarterly revenues should be at a record high during Q2. In any event, both operating earnings and the profit margins were awesome during Q1:

(1) *Q1 earnings.* S&P 500 operating earnings per share rose 47.4% y/y during Q1 to a record high (*Fig. 8* and *Fig. 9*). That's impressive considering that a year ago during Q1, the lockdown recession started during the last two weeks of March. This suggests that Q2's earnings growth rate will be even greater than Q1's.

(2) *Q1 profit margin.* Joe and I are particularly impressed by the blowout rebound in the profit margin. As the recovery in earnings well exceeded the recovery in revenues, the S&P 500 margin based on I/B/E/S' operating earnings rebounded from a low of 8.9% during Q2-2020 to an unprecedented 13.6% during Q1-2021 (*Fig. 10* and *Fig. 11*). By the way, last year's trough in the margin, at 8.9%, was well above the 2.4% during Q4-2008 of the Great Financial Crisis.

The record high in the profit margin is even more impressive when we consider that both labor and nonlabor costs have been rising. Yet instead of getting squeezed, profit margins are soaring. That's because companies are passing their costs through to their selling prices or because productivity is rebounding significantly—or both. We attribute most of the rebound in the profit margin to productivity, which rose 4.1% y/y during Q1 (*Fig. 12*). Of course, productivity pops typically occur during economic recoveries. What isn't typical is the record high in the profit margin.

Strategy III: S&P 500 Sectors. We can get a better understanding of the results above by slicing and dicing the comparable data for the 11 sectors of the S&P 500. The bottom line is that the q/q revenues dip was fairly widespread, yet most of the y/y comparisons were positive. All but the Real Estate sector contributed to Q1's earnings strength. The same can be said about Q1's profit margins. Let's have a closer look:

(1) *Sector revenues.* Here are Q1's y/y revenues growth rates for the S&P 500 and its 11 sectors: S&P 500 (7.7%), Communication Services (11.3), Consumer Discretionary (-2.2), Consumer Staples (2.3), Energy (-4.3), Financials (20.4), Health Care (8.7), Industrials (-0.5), Information Technology (21.6), Materials (11.4), Real Estate (-0.7), and Utilities (4.7) (*Fig. 13*).

(2) *Sector earnings.* Here are Q1's y/y growth rates for the index and its 11 sectors based on I/B/E/S' operating earnings data: S&P 500 (47.4%), Communication Services (52.8), Consumer Discretionary (136.7), Consumer Staples (10.3), Energy (18.4), Financials (138.8), Health Care (26.1), Industrials (-0.3), Information Technology (44.2), Materials (74.5), Real Estate (28.0), and Utilities (-34.3) (*Fig. 14*).

You might be wondering why there's a big discrepancy between Q1's operating earnings growth rate based on I/B/E/S (up 47.4%) and S&P (144.4%). The former isn't as conservative as the latter about write-offs, especially for Financials and Energy. We prefer the I/B/E/S data since it tends to reflect the numbers that companies report and industry analysts analyze.

(3) *Sector profit margins.* Finally, here are profit margins for the S&P 500 and its 11 sectors during Q1 and a year ago based on earnings data from I/B/E/S: S&P 500 (13.6%, 10.0%), Communication Services (18.7, 13.7), Consumer Discretionary (8.0, 3.3), Consumer Staples (7.5, 6.9), Energy (4.5, 3.6), Financials (22.8, 11.5), Health Care (11.6, 10.0), Industrials (6.9, 6.8), Information Technology (24.6, 20.7), Materials (11.9, 7.6), Real Estate (42.1, 27.3), and Utilities (9.4, 15.0) (*Fig. 15*).

US Fiscal Policy I: Red Lines. Next up on President Joe Biden's big spending agenda are two companion infrastructure bills of roughly $2 trillion each: the infrastructure-focused *American Jobs Plan* and the childcare- and education-focused *American Families Plan*. This time, the administration is looking to "pay for" its proposed investments, unlike the previous pandemic-related plans that significantly added to the federal deficit.

How to pay for the spending is a major issue on the table, discussed at a bipartisan meeting of congressional leaders in the Oval Office on May 12. The elements of the administration's plans that would raise funds include changes to the 2017 Tax Cuts and Jobs Act (TCJA). Congressional Republican leaders told the President and Vice President Kamala Harris in the meeting that they would not accept tax increases as a part of an infrastructure proposal, *reported* the *WSJ*. Republicans have their own separate, roughly $600 billion infrastructure proposal—focused on hard infrastructure, rural broadband, and transit—and are willing to support infrastructure spending up to $800 billion.

Republicans say they'd prefer raising funds by charging fees on those who use the infrastructure. Democrat leaders, including the President, do not like the idea of user fees, which they say would unduly burden the working class. Another unpopular idea among Democrats is the Republicans' suggestion to repurpose federal aid granted to the states for infrastructure investments.

Also discussed at the May 12 meeting was the possibility of paying for some of the proposals by funding an Internal Revenue Service effort to recover $700 billion in taxes owed, according to House Speaker Nancy Pelosi (D-CA), reported the *WSJ*.

Biden has said that his only red line on infrastructure is inaction. On May 21, the Biden administration countered the Republicans' counterproposal by reducing the $2.3 trillion spending initially proposed in the American Jobs Plan to $1.7 trillion. Among the cuts in Biden's counteroffer are spending for some areas of infrastructure that made it into the Republicans' version of the bill. Biden said he hoped that the cuts would spur bipartisan support.

But as CNBC *reported* that day, "little progress had been made over the past week on the central elements of the bill," including how to pay for it and what kinds of infrastructure it would address (e.g., would elder care "infrastructure" be included, as Democrats would have it?). In our view, Biden's spending compromises probably have more to do with appealing to centrist Democrats than gaining support from across the aisle, as we discuss below.

Here's more on likely points of opposition in Biden's proposals (none sufficiently addressed in preliminary negotiations thus far):

(1) *Corporate "pay for."* Biden previously had floated the higher federal statutory corporate tax rate of 28%, up from the TCJA's 21% level (down from the prior 35%). However, on May 6, he showed

willingness to compromise at 25%, *reported* CNBC. It was the first time that the President suggested the level of the rate was up for negotiation. But Republican leaders have drawn a red line on any corporate tax increases. The administration also wants to raise taxes on the foreign earnings of US multinationals, as we discussed in our April 20 *Morning Briefing*.

(2) *Wealthy "pay for."* Biden's American Families Plan aims to raise new revenues of $1.5 trillion via higher taxes on the top 1% of taxpayers, *reported* CNBC on May 19. However, taxes on the highest income group could rise anyway by 2025 when TCJA provisions expire (unlike the law's corporate tax rate reduction, which is permanent absent intervention). Automatically, the top marginal income tax rate would then increase from 37.0% to 39.6%, for example. Additionally, at that time, the estate tax threshold would be slashed in half. The Tax Foundation *estimates* that the combined tax increases from Biden's proposals could add up to more than a 61% effective tax rate on the wealth of some of high-earning taxpayers.

(3) *Capital-gains "pay for."* The American Families Plan would raise the top tax rate to 39.6% potentially sooner than it was expected to expire. It would also about double the top capital-gains tax rate to 43.4% from 23.8% and impose a new capital-gains tax on some transfers at death, taxing them as if sold upon death while exempting $1 million per person and excluding principal residences, *explained* the *WSJ*.

In a May 6 *letter* to House leaders, 13 members of Congress said that they are concerned about the unintended impact on family farms. Although there is a proposed carve-out on the taxes for family farms, land-rich and cash-poor farmers could be impacted by a change to limit real-estate investors' ability to defer capital gains when exchanging property—another element of the proposal that could slow its passage. The *WSJ* *observed* that it would be difficult to satisfy farm-district Democrats "without leaving gaps for others to exploit." Taking a harsher stance, a Republican *letter* said that it would oppose any changes to the capital-gains tax.

(4) *Shareholder "pay for."* The corporate tax increase could raise up to $2 trillion, but who ultimately would pay? It is highly debatable exactly what the split between labor and capital from tax changes could be. The Biden administration says that greater tax burden would fall largely on high-income shareholders of profitable companies. "The reasoning is that a company would react to a decline in after-tax profit by reducing payouts to shareholders in the form of stock buybacks and dividends. The company's share price could also be lower than it otherwise would be, hurting shareholders," *reported* the May 4 *WSJ*.

The Republicans' side of this classic argument says that increasing corporate taxes could hurt wages and growth in the long run. Some say that Biden could be breaking his pledge to not raise taxes on American households making less than $400,000 a year indirectly through the corporate tax increases. Individuals earning less than $400,000 could also face a "marriage penalty," as a May 3 CNBC article *discussed*.

(5) *SALT dispute.* Unless the Biden tax plan restores the deduction for state and local taxes (SALT), which was repealed by the TCJA, 20 House Democrats from high-tax states have said that they will not support any income-tax hikes, reported an April 30 *article* in *Investor's Business Daily* (*IBD*). But that would cost about $360 billion through 2025, adding to the cost of the Biden plan and requiring more offsets.

For what it's worth, hard-leaning progressives may not like that the American Families Plan "is partly notable for what it doesn't include," *IBD* pointed out, namely student loan forgiveness, Medicare expansion, and drug price negotiation.

(By the way, fewer than 3% of small business owners are likely to see tax rate increases under Biden's plan, *reported* Reuters on May 14, as the administration targets larger corporations for tax revenues. "Pass through" entities, such as LLCs, would be spared by the proposed changes in the corporate tax rate and most would be unaffected by the proposed individual income-tax rate changes, a senior administration official said. However, a temporary 20% pass-through deduction implemented under TCJA would be repealed in 2025, absent congressional intervention.)

US Fiscal Policy II: Show Time. Two outcomes are likely for the Biden administration's companion American Jobs Plan and American Families plan, as we see it. Either neither piece of legislation will make it past a House vote or some significantly pared-down version of the infrastructure bill will make it through the House with a slim majority and possibly the Senate, either with bipartisan support or via reconciliation. The American Families Plan may be a harder sell. Consider the following:

(1) *Razor-thin margin.* First off, House Speaker Nancy Pelosi needs to hold a House vote on the administration's proposed plans. She plans to do so on infrastructure by July 4. Our friend Jim Lucier at *Capital Alpha Partners* explained in a May 7 note that this means Pelosi needs to get committee work done by Memorial Day, and her margin is thin, with a slim House majority of 218-212. "That's a net of 6 seats, which means that Pelosi can afford to lose no more than two members, without having the president's infrastructure plan fail on a tie vote. Two votes is less than 1% of her caucus," he explained. Jim added that because of the latest Census results, Republicans "could pick up seven seats and a Congressional majority from redistricting alone, even without the usual gains that come for the out party in a first midterm election."

(2) *Reconciliation not guaranteed.* Senate Majority Leader Chuck Schumer (D-NY) needs to get the bill passed in his chamber by the August recess if he wants to beat the mid-term elections and satisfy the appropriate timeframe for a reconciliation. Unless the legislation is pared down enough for enough Republicans to support it, reconciliation—a process we detailed in our *March 9* and *March 31* *Morning Briefings*—would be needed to pass it in the Senate. Biden told MSNBC in an interview after the Oval Office meeting: "[L]et's see if we can get an agreement to kick start this, and then fight over what's left, and see if I can get it done without Republicans if need be."

But even reconciliation is not a guarantee. Senator Joe Manchin (D-WV), the influential moderate Democrat, has *expressed* concern about the size of the proposals. Nevertheless, he *reportedly* supports raising the corporate tax rate, albeit to lower than Biden initially proposed. In other words, the progressive Democrats may need to further compromise with the more centrist ones before reconciliation can succeed.

(3) *Jim's take.* Jim Lucier wrote on April 28 that "while passing some version of Biden's American Jobs Plan through Congress seems likely, the American Families Plan will be a heavier lift." He reckons that the infrastructure buildouts and corporate pay-fors in the American Job Plan appear to have more political support than the more progressive proposals in the American Families Plan. And it's unclear whether the individual tax increases proposed under the latter would raise enough revenue to pay for the plan's spending, based on independent analyses.

Jim also kindly advised us that Schumer's clock is ticking. Biden is set to release his first detailed budget on Friday for the next fiscal year, beginning in October. "Once this happens, we should see things develop rapidly," Jim explained, "Congress has been in a holding pattern, waiting three months for a budget proposal that normally comes in the first week of March. That's why the outlook is murky right now." We are staying tuned.

Calendars

US: Wed: MBA Mortgage Applications, EIA Crude Oil Inventories. **Thurs:** Initial & Continuous Jobless Claims 425k/3.68m, Headline & Core Durable Goods Orders 0.7%/0.8%. (DailyFX estimates)

Global: Wed: France Consumer & Business Confidence 97/106, Japan Leading & Coincident Indicators, China Industrial Profits. **Thurs:** Eurozone Business Climate Index, Italy Consumer & Business Confidence 104.4/106.4. (DailyFX estimates)

Strategy Indicators

S&P 500 Sectors Net Earnings Revisions (*link*): The S&P 500's NERI was at a 38-month high of 21.4% in May from 14.6% in April as it rose for the first time in four months, and was positive for a tenth month following 13 straight negative readings. May's reading was its second highest on record dating back to 1985 and compares to a tax-cut-induced record high of 22.1% in March 2018 and an 11-year low of -37.4% in May 2020. All 11 sectors had positive NERI in May, up from nine in April. Real Estate's NERI was positive for the first time in 16 months and Utilities' for the first time in three. Communication Services was the only one of the 11 sectors to have NERI weaken m/m, but that's up from just six sectors improving in April. Many sectors had NERIs at multi-year or record highs during May. Among them, Industrials and Consumer Discretionary moved up in the rankings, and Communications Services moved down. Here are the sectors' May NERIs compared with their April readings: Financials (36.1% in May [record high], up from 35.0% in April), Energy (33.3 [16-year high], 30.0), Materials (30.2 [record high], 17.6), Industrials (26.2 [38-month high], 13.3), Information Technology (23.6 [11-year high], 16.5), S&P 500 (21.4 [38-month high], 14.6), Consumer Discretionary (18.5 [38-month high], 9.8), Communication Services (12.0, 13.2), Consumer Staples (8.2, 7.5), Health Care (14.9, 6.6), Utilities (0.6, -2.5), and Real Estate (5.7 [17-month high], -6.9).

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin continues to improve to new record highs and reached 12.8% this week. That exceeds its prior record high of 12.4% during September 2018 and is up 2.5ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings also rose again. They've been making new record highs since the beginning of March and for the first time since February 2020. Since the Q2-2020 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown. Consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth remained steady w/w at a record high of 9.4%. That's up from 0.2% during April 2020, which was the lowest reading since June 2009. Forward earnings growth gained 0.2ppt w/w to 23.1%. That's just below its 23.9% reading at the end of April, which had been its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts continue to boost their 2021 forecasts for revenues and earnings growth and the profit margin. They now expect revenues to rise 11.9% in 2021 and 6.6% in 2022 compared to the 2.2% decline reported in 2020. They expect earnings gains of 36.5% in 2021 and 11.9% in 2022 compared to a 13.3% decline in 2020. Analysts expect the profit margin to rise 2.3ppts y/y in 2021 to 12.5%—from 10.2% in 2020—and to improve 0.6ppt y/y to 13.1% in 2022. Valuations ticked up this week for the first time in four weeks. The S&P 500's weekly forward P/E was up 0.2pt to 21.0 from a 28-week low of 20.8. That 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 March 2020. The S&P 500 price-to-sales ratio gained 0.03pt to 2.68 from a seven-week low of 2.65. That compares to a record high of 2.77 in late April and a 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 just five of the 11 S&P 500 sectors, but forward earnings rose for nine sectors. 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. Four sectors are currently at record highs. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (24.2%, a record high), Financials (19.3, a new record high), Communication Services (15.9, matches its prior record high three weeks earlier), Utilities (14.4, down from its 14.8 record high two weeks ago), Real Estate (14.9, down from 17.0), S&P 500 (12.8, a new record high), Materials (12.6, a new record high), Health Care (11.0, down from 11.2), Industrials (9.4, down from its record high of 10.5% in mid-December), Consumer Staples (7.7, matches its prior high in May 2018), Consumer Discretionary (7.4, down from 8.3), and Energy (6.2, 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 12.9% and 40.4%, respectively, since then to new record highs. The forward profit margin has risen 2.7ppt to 12.8%, which now exceeds its prior record high of 12.4% in late 2018. During the latest week, all 11 sectors posted gains to new highs in either their forward revenues, earnings, or profit margin. Consumer Discretionary has been particularly strong in recent weeks and has 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 20.4%, forward earnings up 71.6%), Communication Services (18.2, 41.0), Information Technology (18.4, 31.8), Energy (17.6, 1168.3), Industrials (15.3, 47.1), Financials (13.5, 62.0), S&P 500 (12.8, 40.4), Health Care (11.0, 21.9), Consumer Discretionary (7.2, 70.4), Consumer Staples (6.7, 14.5), Real Estate (5.0, 9.8), and Utilities (-1.7, 2.2).

US Economic Indicators

Consumer Confidence (*link*): Consumer confidence in May was little changed at 117.2 after climbing steadily from 87.1 in January to a 13-month high of 117.5 in April. The present situation (to 144.3 from 131.9) component posted another sizeable gain this month, and is up 58.8 points since its 85.5 reading at the start of this year. Meanwhile, the expectations component retreated for the second month, to 99.1 in May, after climbing 27.6 points (to 111.9 from 84.3) during the four months through March. Consumers' appraisal of current conditions improved this month, with the percentage of consumers claiming business conditions are good (to 18.7% from 19.4%) holding near April's percentage, while those claiming business conditions are bad (21.8 from 24.5) continued to fall from last May's peak of 51.2%—sinking to a 14-month low this May. Consumers' assessment of the labor market also continued to improve—with those saying jobs are plentiful (to 46.8% from 36.3) up 10.5ppts this month and 25.8ppts year to date and those saying jobs are hard to get down 2.5ppts (12.2 from 14.7) this month and 10.7ppts since the end of 2020. May's reading was the highest since January 2020 for the former and the lowest since January 2020 for the latter. In the meantime, the percentage of consumers expecting business conditions to improve slipped a bit (to 30.3% from 33.1%) this month, while the percentage expecting business conditions to worsen rose (14.8 from 12.1), though the former held near recent highs and the latter near recent lows. Consumers' outlook regarding the job market deteriorated a bit, with the percentage expecting more jobs (to 27.2% from 31.7%) 4.5ppts lower than April and the percentage expecting fewer jobs (17.3 from 14.4) 2.9ppts higher.

Regional M-PMIs (*link*): Three Fed districts have now reported on manufacturing activity for May (Philadelphia, New York, and Richmond) and show the manufacturing sector expanding at a slower, though near record, pace. The composite index eased to 24.6 this month, after accelerating from 11.7 at the end of last year to a record 31.2 in April, as the Philadelphia (to 31.5 from 50.2) measure slowed from April's explosive rate, while both New York's (to 24.3 from 26.3) and Richmond's (18.0 from 17.0) held around last month's pace. The new orders measure has accelerated steadily this year, from 9.9 at the end of last year to 26.5 this month—not far from its record high of 30.4 posted during March 2004. Orders growth in the New York (28.9 from 26.9) and Richmond (18.0 from 16.0) regions were slightly faster than last month, while Philadelphia's (32.5 from 36.0) was slightly slower—though outpaced both New York and Richmond billings. In May, manufacturers hired (to 19.3 from 21.2) at a slower, though still solid, clip, with Richmond (25.0 from 19.0) factories just shy of August 2018's record rate of 26.0, while New York (13.6 from 13.9) manufacturers added to payrolls at virtually the same pace as last month; Philadelphia's (19.3 from 30.8) hiring rate eased, though was still robust.

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for May from the Philadelphia, New York, and Richmond regions. The Philadelphia and New York measures are diffusion indexes, while Richmond's measures are average annualized inflation rates (which we multiply by 10 for easier comparison to the other regional measures). All three regions are showing a sharp acceleration in prices. The New York prices-paid measure shot up from a recent low of 4.1 last May to a new record high of 83.5 this May, while the prices-received gauge jumped from -7.4 to a record high 37.1 over the same period. The Philadelphia region saw its prices-paid and -received measures accelerating to 76.8 and 41.0, respectively, this month—the highest since the early 1980s. They were at 3.2 and -3.1 last May. Meanwhile, Richmond's prices-paid measure is in the stratosphere, jumping to a record-high 98.2 from 12.2 a year ago, with the prices-received gauge accelerating from 12.6 last May to 54.1 this May, the fastest since mid-2008.

New Home Sales (*link*): New home sales (counted at the signing of a contract) continued its up-and-down pattern prevalent so far this year, falling 5.9% in April to 863,000 units (saar)—holding in a volatile flat trend around cyclical highs. April's decline followed a rebound of 7.4% in March from February's weather-related drop of 14.0%; sales had climbed 5.3% in January to 993,000 units (saar)—which was the highest level since the end of 2006. Here's a regional snapshot of how new home sales fared on both a monthly and yearly basis in April: West (+7.9% m/m & +11.6% y/y), South (-8.2% m/m & +61.2 y/y), Midwest (-8.3 & +46.7), and Northeast (-13.7 & +100.0). Low inventory remains a challenge for the housing market, as the number remained low at 316,000 in April—1.6% below year-ago levels. The months' supply rose from 4.0 to 4.4 in April; a six-month supply is generally indicative of a balanced market. According to NAHB's chairman, "Builder confidence in the market remains strong due to a lack of resale inventory, low mortgage interest rates, and a growing demographic of prospective home buyers." NAHB's May Housing Market Index (HMI) shows builders' confidence was unchanged at 83—and has been in a relative flat trend since the beginning of this year. It's 7 points below November's record high of 90. All the components have been in flat trends not far from their November record highs: traffic of prospective homebuyers (to 73 from 77 in November), current sales (88 from 96), and future sales (81 from 89).

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): "Companies were more satisfied with their current business situation. They are also more optimistic regarding current months. The German economy is picking up speed," said Ifo President Clemens Fuest. Ifo's Business Climate Index in May rose for the third time in four months, from 90.2 in January to a two-year high of 99.2 this month. The present situation (to 95.7 from 89.3 in January) component climbed 6.4 points over the four-month period, while the expectations component soared 11.7 points (102.9 from 91.2); it was the highest for the former since February 2020 and since November 2017 for the latter. By sector, May's manufacturing index advanced for the 12th time in 13 months, by 67.2 points (to 25.7 from -41.5)—which was the highest level since May 2018—with the present situation (31.9 from -44.1) climbing for the 12th straight month, by 76.0 points, to its highest level since the end of 2018. The expectations component dipped for the second month to 19.7 in May, after climbing 11.3 points the first three months of this year to 25.2 in March—which was the highest since November 2010. The service sector, which was hardest hit by the pandemic, jumped 10.2 points (to 13.7 from 3.5) in May alone to a 15-month high. The expectations (to 16.4 from -0.3) component was the biggest contributor to May's gain, though the present situations (11.0 from 7.5) measure also contributed; the former was the highest since August 2018, the latter since last September. The business climate index for construction continues to bounce around zero, rising to 2.8 this month after falling from 2.5 to 0.7 last month. The present situation (to 23.9 from 23.7) component continues to move sideways in positive territory, while the expectations (-16.3 from -20.0) is in a relative flat trend in negative territory.

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