



MORNING BRIEFING

December 13, 2021

Santa's Sleigh & Biden's Helicopters

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

(1) Stocking stuffer idea. (2) Two Grinches: the Omicron variant and the hawkish Powell variant. (3) Believing in Santa. (4) S&P 500 makes another record high ... *Ho-Ho-Ho!* (5) Good tidings for Tech. (6) A happy holiday yield-curve story. (7) Bidenflation: Dropping cash from helicopters works all too well. (8) Larry Summers was right. (9) Inflation likely to persist, but moderate later next year. (10) How real are S&P 500 earnings? (11) Real earnings yield says sell. We say don't sell. (12) Movie review: "West Side Story" (+ +).

Great Stocking Stuffer. May I suggest the perfect gift for your family members and friends? Why not give them a copy of my new book, [In Praise of Profits!](#)? I wrote it for liberals, who may be surprised to find that I share some of their views and shed new light on others. Whether you are a liberal or a conservative, you will be praising profits and entrepreneurial capitalism more than ever. Complimentary downloads of the book are available [here](#).

YRI Monday Webinar. Join Dr. Ed's live Q&A webinar on Mondays at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays are available [here](#).

Santa Watch. Joe and I believe in Santa Claus. In our December 1 [Morning Briefing](#), we wrote: "The Santa Claus rally started early this year. The question is whether it is over already." The rally started on October 4 with the S&P rising 9.4% to a new record high on November 18. Just after Thanksgiving, investors started to worry that two Grinches were about to steal the Santa Claus rally, i.e., the Omicron variant of Covid-19 and the more hawkish variant of Fed Chair Jerome Powell. Like true believers, we wrote: "We aren't giving up on Santa Claus."

The S&P 500 bottomed on December 1 at 4513.04, down 4.1% from its recent high. Santa was back at the reins on Friday when the S&P 500 rose to a new record high of 4712.02 ([Fig. 1](#)). *Ho-Ho-Ho!*

Having the merriest time last week was the S&P 500 Tech sector, which rose 6.0% to a new

record high ([Fig. 2](#)). Joe reports that it was the only sector to beat the S&P 500's 3.8% gain. Looking at the available weekly data since 1991, that has happened only twice before, i.e., the weeks of February 4, 2000 and January 19, 2001. (Don't spoil our merriment by reminding us that those years are associated with the bursting of the tech bubble.) Consider the following related developments:

(1) *Performance derby*. Here is the festive performance derby of the S&P 500 and its 11 sectors last week: Information Technology (6.0%), S&P 500 (3.8), Energy (3.7), Consumer Staples (3.5), Materials (3.5), Health Care (3.2), Industrials (3.0), Communication Services (2.9), Real Estate (2.7), Financials (2.6), Utilities (2.6), and Consumer Discretionary (2.5). (See [table](#).) Besides Tech, the only other sector to hit a new record high on Friday was Consumer Staples.

(2) *Valuation multiples*. The forward P/E of the S&P 500 remains above 20.0, bouncing back to 21.3 on Friday. The forward P/Es of the S&P 400/600 remained relatively depressed at 16.1 and 14.8 ([Fig. 3](#)). The forward P/Es of S&P 500 Growth and Value rose to 29.4 and 16.0 on Friday ([Fig. 4](#)).

(3) *Yield curve*. The Tech rally to a new record high is especially impressive given that the 2-year US Treasury yield rose to 0.67% last week, implying three 25-bps hikes in the federal funds rate next year ([Fig. 5](#)). However, the 10-year US Treasury bond yield remained below 1.50%. The "10-2" yield-curve spread has narrowed dramatically from a 2021 peak of 159bps on March 29 to 81 bps on Friday ([Fig. 6](#)).

The "5-2" yield-curve spread has been relatively flat around 70 bps over the same period. Both suggest that investors don't expect the federal funds rate to rise by much more than the 75 bps currently expected for next year during the upcoming monetary tightening cycle. In other words, right or wrong, they expect that inflation will abate! That would be more "*Ho-Ho-Ho!*" for stocks!

Inflation: Biden's Helicopter Money. "Bidenflation" was unleashed by the \$1.9 trillion American Rescue Plan (ARP), which was signed by President Joe Biden on March 11, 2021. It was passed in Congress by Democrats using the process of reconciliation, which did not require support from Republicans. In the House, all but one Democrat voted for the bill and all Republicans voted against the bill. In the Senate, the final vote was 50-49, with all Republicans voting against the measure and all members of the Senate Democratic caucus supporting it.

The ARP in combination with the Fed's QE4 has been a textbook example of "helicopter money." The ARP package provided direct stimulus payments of \$1,400 to individuals, extended unemployment compensation, continued eviction and foreclosure moratoriums, and increased the Child Tax Credit while making it fully refundable. It provided \$350 billion to state and local governments.

The ARP was entirely deficit financed. The Fed added to the inflationary consequences of the ARP by monetizing \$80 billion per month of the federal government's debt during the first 10 months of the year. The Fed continues to do so but at a slower pace since November.

In a February 4 *Washington Post* [op-ed](#), economist Larry Summers, who served as a top economist in the Clinton and Obama administrations, trashed Biden's plan. He said it's too stimulative and too inflationary and includes overly generous unemployment benefits that would disincentivize the unemployed from taking jobs. Sure enough, the ARP created a demand shock that overwhelmed and disrupted the global supply chain. It exacerbated labor shortages, which clearly are structural. The ARP has been a major cause of the rebound in inflation in the US.

In congressional testimony on November 30, Fed Chair Jerome Powell pivoted by conceding that inflation isn't transitory, but persistent. This increases the odds that the Fed will speed up the tapering of its asset purchases and start raising the federal funds rate before mid-2022. Surging inflation also increases the odds that Biden's American Families Plan might not have enough votes to pass.

Debbie and I expect that tightening monetary policy and an amelioration of the supply-chain disruptions will reduce inflationary pressures by the second half of 2022. We also expect that businesses will respond to chronic labor shortages by spending more on technology to boost productivity. So we are predicting that the headline PCED inflation rate will hover between 4.0% and 5.0% through mid-2022 and then decline to 3.0%-4.0% during the second half of next year ([Fig. 7](#)). Now, consider the following related developments:

(1) *Jobless claims and job openings*. There now is mounting evidence, including the latest initial unemployment claims, that Summers was right about the ARP's effect on the labor market. The federal jobless benefits provided by the plan, which was enacted on March 18, did provide a disincentive to work. The overly generous federal unemployment benefits (an extra \$300 per week) did keep many of the unemployed from taking jobs. Initial unemployment claims fell below 300,000 in early October after the benefit was terminated.

Jobless claims fell to 184,000 during the December 4 week ([Fig. 8](#)). That's the lowest in 52 years!

Total job openings remained in record-high territory at 11.0 million during October, while the number of unemployed fell to 6.9 million in November. Quits remained near September's record high at 4.2 million during October.

(2) *Demand and supply shocks*. November's 6.8% y/y CPI reading was the highest in nearly 40 years ([Fig. 9](#)). Leading the way higher has been the CPI durable goods component, which was up 14.9% during November, while the CPI nondurable goods component rose 10.7% and the CPI services component rose 3.8% ([Fig 10](#)).

Durable goods prices have a long history of mostly deflating. This suggests that the rebound in inflation isn't all Biden's fault. The pandemic clearly disrupted global supply chains. Nevertheless, the ARP exacerbated inflationary pressures by boosting the demand for goods well above trend ([Fig. 11](#)). The demand shock overwhelmed the production and transportation systems for goods, thus causing the supply shock and boosting inflation.

As we noted above, improvements in the global supply chain, tighter monetary policy, less fiscal stimulus (assuming as we do that the American Families Plan doesn't have enough votes to pass), and satiated pent-up demand collectively should moderate the pace of inflation by the second half of next year.

(3) *Latest CPI and next PCED*. The next important inflation data point will be November's PCED inflation rate, which will be released on December 23 along with personal income and consumption. The core PCED inflation rate tends to be lower than the core CPI inflation rate ([Fig. 12](#)). That's mostly because the PCED durable goods inflation rate and the medical care services inflation rate tend to be lower than the comparable CPI components ([Fig. 13](#) and [Fig. 14](#)).

(4) *Powell's inflation*. Again, Biden doesn't deserve all the blame for the rebound in inflation. The Fed has made a major contribution with record-low mortgage rates that caused the median single-family existing home price to soar 30.3% from January 2020 (just before the pandemic) through October of this year. Many would-be home buyers have been priced out of the housing market and have boosted the demand for rental units. The CPI's rent-of-shelter component was up 3.9% y/y during November, the highest since April 2007 ([Fig. 15](#)). It bottomed at 1.5% during February.

(5) *Global inflation.* Another reason that all the blame for the recent surge in inflation can't be pinned on Biden is that other countries are also reflatting. The OECD CPI inflation rate was 5.2% y/y through October, with the core rate at 3.5% ([Fig. 16](#)).

Here are the headline and core CPI inflation rates for some of the major Eurozone countries during November: Germany (6.0%, 4.1%), Eurozone (4.9, 2.6), Italy (4.0, 1.4), and France (3.4, 2.1). Policymakers in Germany haven't provided as much fiscal and monetary stimulus as those in the US. Germany's high inflation rate suggests that supply disruptions are contributing to global inflationary pressures.

(6) *Yellen defends Build Back Better.* Treasury Secretary Janet Yellen recently sent members of the US Senate a [memo](#) titled "Fiscal Responsibility and the Build Back Better Act." She reassured them that the American Families Plan (AFP), if passed, won't be fiscally irresponsible. On the contrary, it "will leave our nation's budget in an improved position." Moreover, AFP "will not add to near-term inflationary pressures." Then again, she didn't anticipate the near-term inflationary consequences of ARP.

By the way, a December 10 [letter](#) from the director of the Congressional Budget Office (CBO) responded to questions from a couple of members of Congress about BBB. They wondered what the impact would be if "specified modifications ... would make various policies permanent rather than temporary." The response stated that it would increase the deficit by \$3.0 trillion over the 2022–31 period.

Strategy I: Real Earnings. Q3 revenues and earnings are out for the S&P 500. Joe and I will examine the data closely tomorrow. For now, we can report that revenues per share rose 13.9% y/y and earnings rose 39.3%. Most impressive is that the profit margin (which we calculate from the revenues and earnings data) ticked down only 0.1pt to 13.6% from Q2's record high of 13.7% notwithstanding rapidly rising costs, labor shortages, and supply disruptions. That implies that companies overcame these problems by raising their prices and/or by boosting their productivity.

In other words, the increases in revenues and earnings are somewhat less impressive when adjusted for rapidly rising prices. During Q3, on a y/y basis, the CPI, PCED, and nonfarm business price deflator (NFBID) rose 5.3%, 4.3%, and 4.4%. We prefer the NFBID as a measure of the prices received by businesses, but it doesn't differ much from the PCED ([Fig. 17](#)). We prefer not to use the CPI because it has a well recognized upward bias ([Fig. 18](#)).

In any event, using S&P 500 reported earnings-per-share data (which are available since 1935), we find that the series has tended to grow in a volatile fashion at a compound annual growth rate around 6.0% since 1947 ([Fig. 19](#)). Adjusting for inflation using the PCED (which is available since 1947), the rate tends to be around 3.0%.

While pricing power in an inflationary environment is a positive attribute for individual companies, collectively it tends to perpetuate wage-price spirals, creating a lose/lose/lose situation for companies, workers, and consumers.

Strategy II: Real Earnings Yield. Run for the hills! The real earnings yield turned negative during Q3 ([Fig. 20](#)). Since 1945, eight of the 11 bear markets in the S&P 500 were associated with declines in the real earnings yield (using reported earnings per share). It dropped to -0.84% during Q3. It is clearly something to add to investors' worry list given its track record. However, Joe and I aren't ready to give up on either the Santa Claus rally or a continuation of the bull market through 2022 and 2023.

Historically, the nominal earnings yield has always been positive with the exception of during Q4-2008. In other words, rising inflation has been the swing factor that caused the real rate to turn negative. In the past, rising inflation has also caused the Fed to tighten monetary policy in an effort to bring inflation down. That process won't even start until the spring of next year, assuming that the FOMC ends QE4 by March of next year and votes to start raising interest rates during the May 3-4 meeting of the committee. It's premature to conclude that the Fed's next round of monetary tightening will end in tears and a recession.

Strategy III: Valuation and ETFs. There's lots of controversy about the stock market's valuation multiple. Everyone agrees that stocks aren't cheap. The forward P/E of the S&P 500 is high. It has been hovering between 20 and 23 since the second half of 2020. On Friday, December 10, it was 21.3.

The debate is whether it is overdue for a fall. The question is: Why it has stayed so high in 2021 despite the surge in inflation and increasingly hawkish guidance from the Fed? There are many possible answers. The one that makes the most sense to us is that ultra-easy monetary and fiscal policies have produced at least \$2 trillion of excess liquidity, which is boosting valuation multiples. (See the November 29 [Morning Briefing](#).)

Some of that excess liquidity has been flowing into equity funds. They've attracted \$385.5 billion over the past 12 months through October, with net inflows of \$707.4 billion into ETFs and net outflows of 321.8 billion from mutual funds ([Fig. 21](#)). Buyers of equity ETFs tend to

be much less focused on valuations than are mutual fund portfolio managers whose mandates force rebalancing out of stocks that gain too much market weight. This may explain why valuation multiples have been so high and might remain so in 2022 despite Fed tightening.

Movie. “West Side Story” (+ +) ([link](#)) is based on the classic 1957 musical conceived by Jerome Robbins with music by Leonard Bernstein and lyrics by Stephen Sondheim. This film is fondly directed by Steven Spielberg. I have fond memories of the play because it marked the beginning and end of my acting career. I played Chino in the 1967 production at New Rochelle High School. The music is eternally great, and the choreography is really wonderful in this remake of the original 1961 film starring Natalie Wood.

Calendars

US: Mon: OPEC Monthly Report. **Tues:** Headline & Core PPI 0.6%/0.5%, NFIB Small Business Optimism Survey. (Bloomberg estimates)

Global: Mon: Japan Industrial Production. **Tues:** Eurozone industrial Production - 0.5% m/m/4.1% y/y, UK Employment Change & Unemployment Rate 185k/4.4%, UK Average Earnings Including & Excluding Bonus 5.6%/5.0%, China Industrial Production 3.0% y/y, China Retail Sales 3.5% y/y, China Fixed Asset Investment 6.2% y/y, Australia Consumer Sentiment. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance ([link](#)): The US MSCI index rose 3.7% last week for its biggest gain since early February, and is now 0.5% below its record high on November 16. The US MSCI ranked eighth of the 49 global stock markets that we follow in a week when 27 of the 49 countries rose in US dollar terms. The AC World ex-US index rose 2.0% for the week to 5.5% below its June 15 record high, as most regions rose. EM Latin America was the best-performing region last week with a gain of 3.0%, ahead of EMU (2.8%) and EAFE (2.4). EM Eastern Europe was the biggest underperformer, with a decline of 2.5%, followed by EMEA (-0.4), EM Asia (1.3), and BRIC (1.3). Sri Lanka was the best-performing country last week, with a gain of 8.5%, followed by Turkey (6.4), Ireland (5.3), the Czech Republic

(5.2), and Denmark (5.1). Russia was the worst performer, with a decline of 3.7%, followed by Pakistan (-2.3), Colombia (-1.5), Chile (-1.2), and South Africa (-0.7). The United States ranks third ytd of the 49 countries and is still the top-performing region ytd with a gain of 23.9%, ahead of EMEA (19.0) and easily beating EM Eastern Europe (13.0), EMU (8.6), EAFE (6.6), and the AC World ex-US (4.1). The following regions are lagging the AC World ex-US: EM Latin America (-13.3), BRIC (-11.1), and EM Asia (-5.8). The top-performing countries ytd: the Czech Republic (41.6), Austria (33.4), the United States (23.9), India (23.4), and Argentina (23.0). The biggest laggards of 2021 so far: Pakistan (-31.6), Turkey (-28.0), Peru (-25.9), Brazil (-21.7), and New Zealand (-20.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week. MidCap and SmallCap posted their first gains in five weeks, while LargeCap was up after falling for two weeks. LargeCap surged 3.8% higher, better than the gains for MidCap (2.9%) and SmallCap (2.7). LargeCap ended the week at its first record high since November 18, and MidCap improved to 4.5% below its November 16 record. SmallCap is the biggest laggard, trading 6.0% below its record on November 9. Thirty-two of the 33 sectors were higher for the week, up from just four sectors rising a week earlier. SmallCap Energy was the best performer of the week with a gain of 9.6%, ahead of LargeCap Tech (6.0), MidCap Energy (5.3), and SmallCap Communication Services (3.8). MidCap Communication Services was the worst performer, with a decline of 1.1%, followed by SmallCap Health Care (1.4), SmallCap Industrials (1.7), SmallCap Financials (2.0), and SmallCap Real Estate (2.0). LargeCap remains the leader in the 2021 derby with a gain of 25.5% ytd, ahead of SmallCap (23.1) and MidCap (20.5). Thirty-two of the 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (71.5), MidCap Energy (64.5), LargeCap Energy (50.5), SmallCap Consumer Discretionary (38.1), and LargeCap Real Estate (34.6). The biggest laggards so far in 2021: MidCap Communication Services (-6.2), SmallCap Health Care (0.4), MidCap Health Care (4.6), MidCap Consumer Staples (4.7), and LargeCap Utilities (9.5).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week, but Tech was the ONLY sector to outperform the composite index's 3.8% gain. That has happened only twice since 1991; during the weeks ending February 4, 2000 and January 19, 2001. Last week's gain compares to a 1.2% decline for the S&P 500 a week earlier, when two sectors rose and seven outperformed the index. Tech's 6.0% gain for the week was its biggest in 13 months. Here's how the remaining sectors performed: Energy (3.7%), Consumer Staples (3.5), Materials (3.5), Health Care (3.2), Industrials (3.0), Communication Services (2.9), Real Estate (2.7), Financials (2.6), Utilities (2.6), and Consumer Discretionary (2.5). With respect to 2021's performance, the S&P 500 has risen

25.5% so far, with all 11 sectors higher ytd and four beating the broader index. Energy remains in the top spot as the leading sector with a gain of 50.5% ytd, followed by Real Estate (34.6), Tech (33.9), and Financials (32.1). This year's laggards to date, albeit with gains: Utilities (9.5), Consumer Staples (10.8), Health Care (18.2), Industrials (18.5), Communication Services (20.0), Materials (21.3), and Consumer Discretionary (23.9).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 3.8% last week, and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index moved back above its 50-dma after dropping below a week earlier for the first time in eight weeks, and was above its 200-dma for a 76th straight week. The S&P 500's 50-dma moved higher for a ninth week after falling for two weeks for the first time since last October. The index improved to 2.9% above its rising 50-dma from an eight-week low of 0.2% below its rising 50-dma a week earlier. That compares to a 27-week high of 4.9% in early November and an 11-month low of 2.0% below in early October. The index had been mostly 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 76th week last week, and improved to 8.6% above its rising 200-dma from a nine-week low of 5.1% above a week earlier. That's up from an 11-month low of 5.0% at the beginning of October and below its nine-week high of 10.8% in early November. That also compares to 17.0% above in December 2020, 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](#)): Eight of the 11 S&P 500 sectors traded above their 50-dmas, down from five a week earlier; that compares to all 11 above during the first half of November. Health Care, Industrials, and Materials all moved back above in the latest week, leaving these three sectors below their 50-dma: Communication Services, Energy, and Financials. That compares to just two sectors above in early October. Ten sectors now have a rising 50-dma, up from eight a week earlier, as Financials and Health Care reversed higher. Communication Services is the only sector with a falling 50-dma. Looking at the more stable longer-term 200-dmas, all 11 sectors were above again as Communication Services and Industrials reversed higher in the latest week. All 11 sectors have had rising 200-dmas for 39 straight weeks. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Notably, Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Consumer Price Index ([link](#)): Inflation reached nearly a four-decade high during the 12 months ending November. The CPI advanced 0.8% last month after a 0.9% increase in October, which matched June's increase—which was the largest since mid-2008. Core prices rose 0.5%, holding near October's 0.6% gain. The yearly rate for the headline CPI accelerated 6.8% y/y, the largest 12-month increase since June 1982, while the core rate rose 4.9% y/y, the highest since mid-1991. On a three-month basis (annualized), the rates for both the headline and core CPI picked up to 8.6% and 5.5%, respectively, after slowing recently to 4.7% and 2.7% during the three months through September. Here's a look at yearly rates across the spectrum: Food (6.1% y/y) costs are accelerating at their fastest rate since October 2008, with the rate for food away from home (5.8) the highest since the start of 1982 and the rate for food at home (6.4) the highest since the end of 2008. Energy (33.3) costs are climbing at the fastest pace since September 2005, with gasoline (58.1), fuel oil (59.3), natural gas (25.1), and electricity (6.5) costs all up dramatically and gasoline's rate the highest since 1980. Consumer durable goods (14.9) inflation rate accelerated to a new record high, while the consumer nondurable goods (10.7) rate is the highest since summer 2008. The rate for furniture & bedding (11.8) held near October's 12.0% record high, while the rate for new vehicles (11.1) accelerated at its fastest pace April 1975. Meanwhile, the rate for used cars & trucks (31.4) is eye-popping, though is down considerably from June's record rate of 45.2%, while apparel (5.0) prices are also down from recent highs, though heading up again. The yearly rate for medical care commodities (0.2) was positive for the first time in 14 months. Within services, owners' equivalent (3.5) and tenant-occupied (3.0) rents are accelerating, up from recent lows of 2.0% and 1.8%, respectively, while the rate for lodging away from home (22.4) reached a new record. Meanwhile, the rate for hospitals' (3.5) services eased slightly, while the physicians' (4.3) services rate moved slightly higher. The yearly rate for airfares has dropped precipitously, from 24.6% in June to -3.7% in November; airfares fell 10.6% (saar) during the three months through November, narrowing sharply from the 62.0% drop during the three months through October.

Consumer Sentiment Index ([link](#)): The Consumer Sentiment Index (CSI) unexpectedly rose in early December, boosted by a 23.6% improvement among households in the lower one-third of the survey's income distribution—which was the largest monthly increase for that group since 1980. Sentiment continued to fall for the middle (-3.8%) and upper (-4.3) thirds this month. "While it is usually assumed that such extreme changes represent an erroneous result due to small samples, in 1980 it was the households in the bottom income

third that initially signaled the end of the first part of the double recession in 1980-82, with upper income households following in subsequent months,” Richard Curtin, survey director, noted. The CSI climbed to 70.4 in mid-December after slumping from 72.8 in September to 67.4 by November—which was the lowest since November 2011. Both the present situation (to 74.6 from 73.6) and expectations (67.8 from 63.5) components rose from their November levels, which were the lowest since August 2011 and October 2013, respectively. The expected inflation rate held at 4.9% in December, which is the highest since summer 2008. The survey notes that 76% of respondents selected inflation as a more serious problem than unemployment (just 21%) and that inflation concerns dominated unemployment “for all income, age, education, region, and political subgroups.”

Global Economic Indicators

UK GDP ([link](#)): Growth in the UK barely budged in October—even before the emergence of the Omicron coronavirus variant. Real GDP inched up 0.1%, after accelerating steadily from -0.2% during July to 0.6% in September, falling short of the expected 0.4% October gain. The three-month rate eased for the fourth month from 5.5% in June to a seven-month low of 0.9% during October. ONS attributes October’s slowdown to a combination of variants. Growth in service industries slowed to 0.4% as a drop in restaurant business, after a strong summer, triggered a 5.5% drop in accommodation & food service activity. Meanwhile, boosting services output during October was an 8.1% jump in the sector that includes wholesale & retail trade and repair of motor vehicles & motorcycles, along with a 3.5% rise in human health services—as people returned to face-to-face appointments with their doctors. ONS reports that service output overall is back at pre-pandemic levels, though consumer-facing services output is still 5.2% below. Meanwhile, supply shortages pushed construction activity down 1.8% in October after rising in September (1.3%) for the first time since June, and continued to impact manufacturing activity, which was flat in October, posting only one increase since April.

UK Industrial Production ([link](#)): Output fell 0.6% in October, led by declines in mining and quarrying (-5.0%) and electricity & gas (-2.9); manufacturing output barely budged for the second month, edging down 0.1% in both October and September. Looking at the main industrial groups, output of consumer nondurable goods has increased six of the eight months since bottoming in February, jumping 3.1% in October and 9.9% over the period to a new record high. Meanwhile, intermediate goods production in October remained in a volatile flat trend just 1.6% below its record high posted in April, while output of consumer

durable goods continued its up-and-down pattern since reaching a nine-month high last November. Capital goods output, on the other hand, has been moving lower since peaking last November, down 8.6% over the period.

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