MORNING BRIEFING
December 16, 2021

Will 2022 Be Better Than 2021?

Check out the accompanying chart collection.

(1) Outdoor gas heaters collecting dust. (2) Taking on the bears. (3) Higher buybacks mean more stock grants. (4) Coming tax hikes may be spurring insider stock sales. (5) Households own lots of stock, but are they crazy like a fox? (6) Stocks have rallied at the start of Fed tightening cycles. (7) What could go right in year ahead? (8) Covid could go from pandemic to endemic. (9) Opportunities in travel-related areas. (10) Boeing could finally fly. (11) Everyone's getting married. (12) Energy recovery should continue. (13) The year of the autonomous truck.

Strategy I: Countering the Bears. It seems like another lifetime, but only a year ago we would bundle up and gather with friends, appropriately distanced, around newly purchased outdoor gas heaters on sunny winter days. Makeshift opportunities for cautious socialization had to do. There were no extended family gatherings. There were no vacations. The Grinch stole Christmas 2020.

Things aren't perfect this year, but they're a heck of a lot better. More than 60% of Americans are fully vaccinated, and many are lining up for boosters. The S&P 500 has risen 23.4% ytd through Tuesday's close, and GDP growth looks to be on track to rise 5.0% in Q4.

We're hopeful that the economy will continue to reopen in 2022 and that the slow but steady return to normalcy will drive the market higher. However, the arrival of the Omicron variant may mean that we're about to take one step back after having taken two steps forward.

But the bears seem too pessimistic. Let's take a look at why we dismiss some of the bears' arguments before looking at which areas of the economy and the stock market appear ready to rebound:

(1) *Buybacks are at record highs.* According to the preliminary data released by S&P in early December, S&P 500 companies bought back $234.5 billion of shares in Q3-2021, topping the previous record of $223 billion purchased in Q4-2018 (*Fig. 1*). The record amount marks a rebound from the meager repurchasing done during the height of Covid-19's rampage in 2020, when economic uncertainty compelled companies to conserve cash.

Rather than being a bearish signal, we believe buybacks often rise with the markets because rising markets increase the attractiveness of paying employees with stock grants. The dilution from the grants then is offset by buying back shares, we observed in our 2019 Topical Study "*Stock Buybacks: The True Story*."

(2) *Insider sales break records too.* CEOs and corporate insiders have sold $69 billion of stock in 2021 through the end of November. Insider sales are up 30% from 2020 and up 79% above their a 10-year average according to InsiderScore/Verity data quoted in a December 1 CNBC *article*. Amazon's Jeff Bezos, Tesla's Elon Musk, Facebook's Mark Zuckerberg, and Walmart's Walton family account for 37% of this year's sales. Microsoft CEO Satya Nadella's sales were also notable: $285 million, or nearly half of his Microsoft shares.

While high stock prices undoubtedly were one reason insiders sold, taxes may be another. The CNBC article noted that by selling now, Nadella and Bezos will save on taxes because the state of Washington is imposing a 7% tax on capital gains over $250,000 starting in 2022. And there are also threats of higher taxes on high earners coming from Washington DC.

(3) *Households own lots of stock*. Equities represented 24% of household assets at the end of Q3, topping the last peak hit in Q4-2000, reported a December 13 *Money* *article* citing Wells Fargo data. That amount of exposure to stocks may suggest that individuals are acting rationally this time, unlike during 2000's tech bubble frenzy. The S&P 500 dividend yield is 1.38%, almost as much as the 10-year Treasury bond yield of 1.47%, and stocks are one of the few assets considered to be a hedge against inflation (*Fig. 2*).

(4) *The Fed is on the move.* The Federal Reserve has done a good job preparing the market for higher interest rates. Even after it accelerated the end of its asset purchases and implied that there could be three interest rate hikes next year, the stock market managed to rally yesterday. There have been instances historically when stocks have rallied during parts of Fed tightening cycles. The S&P 500 rallied throughout 2016, when the Fed began a tightening phase that started on December 16, 2015 and lasted until August 1, 2019. The S&P 500 climbed 43.8% from December 16, 2015 through July 31, 2019 (*Fig. 3*).

Strategy II: What Could Go Right in 2022? Looking ahead, there seems to be plenty of room for the economy to continue to reopen, though different industries and sectors may benefit in 2022 than did so this year. Many employees still need to return to offices, where they'll buy lunches and go out for happy hour. Business travel and trade shows have just

started to resume. And the number of weddings this spring and summer is expected to surge.

Now let's lay out some of the reasons why the stock market's rally should continue:

(1) *Covid is under control.* We are in a much better position regarding Covid than we were even a few months ago. The Centers for Disease Prevention and Control (CDC) *finds* that 72.2% of all Americans have at least one Covid vaccine dose, 61.0% are fully vaccinated, and 27.2% have booster shots. But the situation is even better than those figures imply in the sense that "all Americans" includes children under five, who can't receive a vaccination. Among Americans 18 or older, 84.5% have had at least one vaccine dose. Even more importantly, among those considered most at risk—folks who are 65 years or older—95.0% have had one dose, 87.2% are fully vaccinated, and 51.9% have received booster shots.

That said, Covid cases have risen as we've headed indoors for the winter. The seven-day *average* was 117,890 as of December 13, up from a low of 64,152 in October but less than half of January's case load. Those who are vaccinated appear to be getting mild cases and staying out of the hospital.

The CDC tracked 43 cases of Covid-19 attributed to the Omicron variant in a December 10 *report*. The bad news is that 34 of the cases (79%) occurred in people who were vaccinated, and 14 of those infected (33%) had received an additional or booster dose. The good news is that only one patient was hospitalized, for two days, and no deaths were reported. The most common symptoms were cough, fatigue, and congestion or runny nose. More data is certainly needed to draw conclusions about vaccination efficacy against the variant; but so far, so good.

In the same vein, Pfizer reported that laboratory studies suggest that its anti-Covid pill should work against the Omicron variant. In studies before the emergence of Omicron, hospitalization and deaths were reduced by nearly 90% in patients who took the Pfizer pill within three to five days of the onset of symptoms.

(2) *Still pockets of opportunity.* The S&P 500 has had a great year, with every sector up by percentages in the double digits. Here's the S&P 500 and its sectors' ytd performance derby through Tuesday's close: Energy (45.8%), Real Estate (34.6), Financials (31.4), Information Technology (29.6), S&P 500 (23.4), Materials (20.4), Consumer Discretionary (20.2), Health Care (18.7), Communication Services (18.5), Industrials (16.2), Consumer Staples (12.0), and Utilities (10.1) (*Fig. 4*).

Where could there possibly be room for improvement? Traveling, particularly among the business set, hasn't entirely rebounded yet with Covid still circulating, and many travel-related stocks have not recovered, as shown by the ytd performances of these S&P 500 travel-related industry price indexes: Casino & Gaming (-17.5%), Airlines (-7.6), and Hotels Resorts & Cruise Lines (8.3).

American Airlines plans to hire 18,000 workers in 2022 after hiring about 16,000 employees this year to bring its workforce up to about 130,000 currently, a December 14 CNBC *article* reported. Southwest plans to hire more than 8,000 employees in addition to the 5,000 hired this year.

The S&P 500 Restaurant index gained 17.9% ytd, but if restaurant companies can manage wage and goods inflation, their businesses should keep improving over the next year.

(3) *Will Boeing finally revive?* The S&P 500 Aerospace and Defense industry stock price index gained only 8.0% ytd, dragged down by Boeing's 8.7% decline (*Fig. 5*). The company has started to fly straight again after a terrible few years when plane crashes weighed on its operations.

Boeing delivered roughly 302 planes this year, almost twice the 157 it delivered in 2020 but still below the 380 delivered in 2019. Deliveries of its giant 787 Dreamliner are still suspended due to manufacturing flaws. And while the 737 Max has returned to the air in the US and most other countries, it remains grounded in China.

Wall Street analysts see the company's earnings moving from a loss this year to $4.59 a share in 2022 and $7.67 in 2023. As for the entire industry, analysts are calling for revenue growth of 10.7% and earnings growth of 30.3% in 2022 (*Fig. 6* and *Fig. 7*). And the industry's forward P/E, which topped out at 22.3 in early June, has fallen to 17.3 (*Fig. 8*). (The forward P/E is the multiple based on forward earnings, or the time-weighted average of analysts' consensus earnings estimates for this year and next.)

(4) *2022: The year of the wedding.* Covid-19 meant putting event plans on hold, and weddings were no exception. The number of weddings fell from 2.1 million in 2019 to 1.3 million in 2020 before climbing to 1.9 million this year. But get ready to party next year, when pent-up demand is expected to push the count to 2.5 million, the most since 1984, according to *The Wedding Report*.

This wedding bubble is good news for catering venues, florists, limo rental companies,

wedding planners, jewelry stores, and, of course, dress makers. It might even help out companies that provide wedding registries, like Tiffany, Macy's, Amazon, Target, Bed Bath & Beyond, Crate & Barrel, Pottery Barn, and others listed in this October 26 *Brides'* registry *ranking*.

As large events like weddings and trade shows resume, we are going to need new clothes. Yet the S&P 500 Apparel Retail industry's stock price index has risen only 8.1% ytd, while the S&P 500 Apparel, Accessories & Luxury Goods index has climbed even less, 4.8% ytd.

We'd also expect the masses to see a movie or two and throw back a pint or more next year. Yet this year, the associated industries have been decidedly out of favor: The S&P 500 Movies & Entertainment stock price index is down 4.9% ytd, and Brewers is up only 1.5%.

(5) Another good year for energy? The rise of Omicron could slow the recovery in oil demand; but with broad economic shutdowns not expected, further improvement in the demand picture should continue.

"The impact of the new Omicron variant is expected to be mild and short-lived, as the world becomes better equipped to manage COVID-19 and its related challenges. This is in addition to a steady economic outlook in both the advanced and emerging economies," OPEC said in a recent report, according to a December 14 Oilprice.com *article*. OPEC kept its demand growth forecasts for 2021 and 2022 unchanged.

World crude oil production remains 8.4% below year-end 2019 levels (*Fig. 9*). And US inventories are far below 2019 and 2020 levels (*Fig. 10*).

Meanwhile, US supply remains below pre-pandemic levels. "For the U.S. to bring supply back up to levels that we saw pre-pandemic, it's going to take to July of 2023. So I think there's going to continue to be upward pressure on the price of oil," Nancy Tengler, CEO of Laffer Tengler Investments, *told* CNBC on December 9.

Disruptive Technologies: Autonomous Trucks Arrive. In the upcoming year, it looks like autonomous trucking may roll into the mainstream. Walmart is testing autonomous trucks using Gatik software, UPS is testing autonomous truck routes in Texas, and TuSimple's autonomous trucks are cruising across the southern US states. Progress in autonomous trucking may even be passing progress in autonomous passenger vehicles, in part because trucks often drive predictable routes and can avoid the tricky situations cars may encounter.

Venture capitalists are watching. “In the year through Dec. 6, total investment activity for self-driving logistics vehicles leapt fivefold to $6.5 billion from $1.3 billion in the same period in 2020, according to startup data platform PitchBook. Investment activity for robotaxi firms, meanwhile, fell 22% to $8.4 billion from $10.8 billion over the same period,” a December 9 Reuters *article* reports.

Here's Jackie’s look at some of the autonomous truckers hitting the road:

(1) *Walmart tests last-mile autonomy.* Walmart announced last month that it has been using two autonomous box trucks on a seven-mile loop in Bentonville, Arkansas—without a safety driver behind the wheel since August. The trucks shuttle between a fulfillment center and a Walmart store.

The retailer is working with Gatik, a startup company that focuses on the business-to-business market and short-haul routes like transporting retail goods from warehouses to stores. Gatik’s autonomous trucks drive day and night as they’re being tested on dense urban roads with traffic lights and intersections, a November 8 *press release* stated. Unlike autonomous taxis, they generally are able to avoid left turns across oncoming traffic, blind turns, and any other complicated driving, as well as schools, hospitals, and fire stations.

Founded in 2017, Gatik has raised $114.5 million and is backed by Koch Disruptive Technologies, Innovation Endeavors, Wittington Ventures, and others, and it has partnered with Ryder, Goodyear, Isuzu, and others, the press release stated.

(2) *UPS tests handsfree trucking.* UPS plans to test Waymo’s Class 8 autonomous trucks for long-haul deliveries between Dallas-Fort Worth and Houston, but the truck will have humans behind the wheel. The two companies have been working together, with UPS testing Waymo’s self-driving minivans for local deliveries, a November 17 *article* in *The Verge* reported.

Waymo announced this summer that it’s working with JB Hunt Transport Services on hauling goods in a Class 8 autonomous truck for one of JB Hunt’s customers between Fort Worth and Houston. The trucks will be supervised by Waymo employees in the cab. Waymo is also working with Daimler, which plans to use Waymo’s autonomous technology in its heavy-duty Freightliner Cascadia semi-trailer trucks, a June 10 *article* in *The Verge* reported.

Waymo is perhaps best known for the trials of its autonomous taxis in the suburbs of

Phoenix without a safety driver and in San Francisco with one. A December 8 Reuters *article* questioned whether the company was losing its lead over others with similar ambitions. Ford Motor's Argo AI says it will partner with Lyft to run robotaxis in Miami before year-end with a safety driver present, and General Motors' Cruise hopes to have permits next year for a middle-of-the-night driverless taxi offering.

(3) *Texas welcomes autonomous trucks*. Waymo isn't alone in Texas. Embark Trucks, another autonomous trucking software developer, next year plans to haul freight in its autonomous trucks between Houston and San Antonio, a December 9 *FreightWaves* *article* reported. The trucks will have backup drivers in the cabs.

Embark is working with development program members Werner Enterprises, Mesilla Valley Transportation, and Bison Transport. The company, which didn't say how many trucks were involved, went public through a merger with Northern Genesis Acquisition Corp. in a November deal that valued Embark at roughly $5 billion.

TuSimple also has autonomous trucks on the Texas roads. Its 50 trucks with safety drivers on board are driving across the southern US. The company plans to have a national network crossing US highways by 2024.

Calendars

US: **Thurs:** Headline & Manufacturing Industrial Production 0.7%/0.7%; Capacity Utilization Rate 75.8%; Housing Starts & Building Permits 1.576mu/1.638mu; Philadelphia Fed Manufacturing Index 24.0; Kansas City Manufacturing Index; US C-PMI, M-PMI & NM-PMI Flash Estimates. **Fri:** None. (Bloomberg estimates)

Global: **Thurs:** Eurozone Trace Balance €6.5b; Germany C-PMI, M-PMI & NM-PMI Flash Estimates 51.0/56.9/51.5; France C-PMI, M-PMI & NM-PMI 53.6/53.0/56.0; ECB Interest Rate Decision; BOE Interest Rate Decision & Deposit Facility Rate 0.10%/-0.50%. **Fri:** Eurozone CPI 4.1%y/y; European Car Registrations; Germany PPI 1.9%m/m/16.2%y/y. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) climbed to 1.80 this week after falling the prior three weeks from 2.67 to 1.57 (which was the weakest since late April 2020). Bullish sentiment rose to 43.9% after sinking the prior three weeks by 17.4ppts, from 57.1% to 39.8%—which was the lowest percentage since April 2020. Meanwhile, the correction count dropped to 31.7% this week after increasing from 21.2% to 34.9% the previous four weeks. Bearish sentiment dropped to 24.4% after a 3.9ppts, three-week gain, from 21.4% to 25.3%—which was the most bears since May 2020. The AAII Ratio rebounded to 49.3% last week after slumping the prior three weeks from 66.7% to 38.6%. Bullish sentiment increased for the first time in four months to 29.7% last week, after declining from 48.0% to 26.7% the prior three weeks, while bearish sentiment fell to 30.5% after rising from 24.0% to 42.4% over the comparable periods.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady last week at a new record high of 13.3%. Since the end of April, it has exceeded its prior record high of 12.4% in September 2018. It's now up 3.0ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings per share both rose w/w. They've both been making new record highs since the beginning of March and for the first time since February 2020. Since the Q2-2021 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown period. Prior to this catch-up period, consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.1ppt w/w to 7.8% from a 13-month low of 7.7%. That's down from a record high of 9.6% growth at the end of May and should continue to move lower as base effects subside. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.1ppt to 8.3% from a 16-month low of 8.2% and should also continue to move lower due to base effects. That's down from its 23.9% reading at the end of April, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. On a positive note, this year analysts have been raising their consensus forecasts for 2021 and 2022 revenues and earnings growth; the imputed profit margin estimate that we calculate from those forecasts has been rising too. They expect revenues to rise 16.1% in 2021 (up 0.1ppt w/w) and 7.3% (up 0.1ppt w/w) in 2022 compared to the 2.1% decline reported in 2020. They expect earnings gains of 49.8% in 2021 (down 0.1ppt w/w) and 8.3% in 2022 (up 0.1ppt w/w) compared to a 13.4% decline in 2020. Analysts expect the profit margin to rise 2.9ppts y/y in 2021 to 13.1% (unchanged w/w) from 10.2% in 2020 and to improve 0.1ppt y/y to 13.2% in 2022 (unchanged w/w). The

S&P 500's weekly reading of its forward P/E rose 0.8pt to 21.3 from a five-week low of 20.5. That's down from a five-month high of 21.5 in mid-November and up from a 17-month low of 20.4 in mid-October. That compares to 23.1 in early September 2020, 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 weekly price-to-sales ratio rose 0.12pt w/w to 2.84 from a seven-week low of 2.72. That's up from its four-month low of 2.69 in mid-October and compares to its record high of 2.86 at the end of November 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 for seven of the 11 S&P 500 sectors and forward earnings rise for six sectors. Nearly all sectors are at or near record highs in their forward revenues, earnings, and profit margin. Energy still has forward revenues and earnings well below record highs, but its profit margin is the highest since August 2008. Financials, Real Estate, and Utilities have forward earnings at or near record highs, but their forward revenues and margins are lagging. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. For 2021, a y/y improvement is expected for all but Utilities. Five sectors are expected to see margins decline or remain flat y/y in 2022: Communication Services, Financials, Health Care, Materials, and Real Estate. The forward profit margin was at record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.0%, a record high this week), Communication Services (16.7, down from its 17.0 record high in early October), Real Estate (16.3, down from its 19.2 record high in mid-2016), Utilities (14.6, down from its 14.8 record high in early May), Materials (13.4, back at a record high this week), S&P 500 (13.3, record high this week), Health Care (11.2, back at a record high for the first time since April 2018), Industrials (10.3, down from its record high of 10.5% in mid-December), Consumer Staples (7.6, down from its 7.7 record high in early June), Consumer Discretionary (8.1, down from its 8.3 record high in mid-2018), and Energy (9.1 [near a 13-year high], down from a record-high 11.2 in mid-2007).

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 21.8% and 57.8%, respectively, since then to new record highs. The forward profit margin has risen 3.2ppts to a record high of 13.3%, which exceeds its prior pre-Covid record of 12.4% in late 2018. During the latest week, all 11 sectors posted gains in either their forward revenues, earnings, or profit margin. Here's how the S&P 500 and its 11 sectors rank by their changes in forward

revenues and forward earnings since May 28, 2020: Energy (forward revenues up 41.4%, forward earnings up 2,147.2%), Materials (33.0, 101.8), Information Technology (27.8, 47.3), Industrials (26.0, 77.6), Communication Services (24.5, 56.0), S&P 500 (21.8, 57.8), Financials (19.2, 66.3), Health Care (17.9, 31.9), Consumer Discretionary (16.6, 101.3), Real Estate (13.8, 30.2), Consumer Staples (13.5, 20.3), and Utilities (0.2, 5.5).

US Economic Indicators

Retail Sales (*link*): Retail sales were weaker than expected in November, after being stronger than expected in October, as supply shortages made consumers begin their holiday shopping early this year. Retail sales rose 0.3% in November to yet another record high, following October's 1.8% jump, which was the strongest since March's weather-related surge. Sales are up for the fourth consecutive month, and the eighth time this year, soaring 19.8% ytd. Meanwhile, the control group—which excludes autos, gasoline, building materials, and food—dipped 0.1% in November, after jumping 1.8% in October to a new record high, and is up 17.0% ytd. Of the 13 retail sales categories, six categories rose during November, five fell, while two were unchanged. Here's a snapshot of the sales performances of the 13 categories during November, versus last April's bottom and relative to their pre-Covid levels: gasoline stations (1.7%, 110.0%, 31.8%), food & beverage stores (1.3, 8.8, 20.0), sporting goods & hobby stores (1.3, 151.0, 39.8), food services & drinking places (1.0, 146.4, 11.4), building materials & garden equipment & supplies dealers (0.7, 26.1, 23.3), clothing & accessories stores (0.5, 834.1, 17.4), nonstore retailers (0.0%, 20.3%, 40.5%), furniture & home furnishing stores (0.0, 199.2, 19.0), motor vehicles & parts dealers (-0.1, 85.5, 19.9), miscellaneous store retailers (-0.3, 102.2, 27.2), health & personal care stores (-0.6, 22.0, 8.9), general merchandise stores (-1.2, 23.8, 16.4), and electronics & appliance stores (-4.6, 126.8, 8.4).

Business Sales & Inventories (*link*): Nominal business sales in October climbed to another record high, while September real business sales (reported with a lag) remained stalled around March's record high, just 2.0% below. Nominal business sales advanced for the eighth time this year, climbing 2.1% during October and 15.5% ytd. Meanwhile, real business sales have been more volatile, rising four months and falling five months for a ytd increase of 1.9%; real sales edged up 0.2% in September after falling 0.2% during August. Real sales for wholesalers rose 0.5% in September after slipping 0.9% during August, climbing back to within 0.4% of July's record high, while real sales for retailers rebounded 1.1% during the two months through September after a four-month slide of 6.3%, leaving

September sales 5.3% below March's record high. Real manufacturing sales is in a volatile flat trend around recent lows after falling 6.1% from its recent peak at the start of this year through May. Meanwhile, the real inventories-to-sales ratio (1.38) held around recent lows again in September, down from 1.45 in February, while the nominal ratio was back down at its record low of 1.24.

Import Prices (*link*): The increase in import prices slowed to 0.7% in November, after accelerating from -0.2% in August to 1.5% in October. Petroleum prices climbed 0.4% last month after accelerating from -2.3% in August to 10.6% in October, while nonpetroleum import prices accelerated for the third month from 0.0% during August to a five-month high of 0.7% by November. The yearly rate for import prices accelerated in November for the third month, up 11.7% y/y (one of the fastest rates since its record high 21.4% in mid-2008, after slowing steadily from 11.6% in May to 9.0% by August). The yearly gain in petroleum prices slowed to 85.8% y/y last month, after accelerating steadily from August's 55.5% to October's 89.8%; the rate has eased considerably since the recent high of 137.5% in April. The rate for nonpetroleum picked up for the second month to 7.0% y/y—the highest since summer 2008—after slowing from 6.9% in June to 5.4% in September. The yearly rate was negative for all of 2019 and the first half of 2020. The yearly rate for industrial supplies & materials imports has accelerated steadily to 43.6% y/y in November after easing from 55.2% in May to 34.5% in August; it had turned positive in January for the first time in a year. The rate for capital goods had been on an accelerating trend since bottoming at -2.0% y/y in November 2019, climbing to 2.3% in November—which is the highest since spring 2008. The rate for consumer goods ex autos (1.9% y/y) is the highest since May 2012, while the rate for autos (2.6) is the highest since March 2012. The rate for food prices (13.2) is accelerating sharply, last month posting its highest yearly rate since September 2011 last month; the rate had bounced around zero the past few years.

Regional M-PMI (*link*): The New York Fed has provided the first glimpse of manufacturing activity in December and shows growth in the New York regions remained robust, while there was a slight easing in inflationary pressures. December's composite index advanced for the second month to 31.9 after slowing from 34.3 to 19.8 during October; it was at a record-high 43.0 in July. Growth in both new orders (to 27.1 from 28.8) and shipments (27.1 from 28.2) remained around November's robust pace. The unfilled orders index (19.0 from 12.7) showed an acceleration in backlogs this month, while delivery times (23.1 from 32.2) lengthened noticeably, though less than in November. Labor market measures showed employment (21.4 from 26.4) held around November's record growth, with the average workweek (12.1 from 23.1) increasing at roughly half November's rate. Meanwhile, the prices-paid (80.2) measure was just shy of its record high of 83.5 in May, while the prices-

received (44.5) reading eased from November's record high of 50.8. Looking ahead, firms were less optimistic about the six-month outlook again this month. The future conditions index slumped to a nine-month low of 36.4, after climbing four of the prior five months from 36.6 in May to a 16-month high of 52.0 during October. Both the orders and shipments measures eased for the second month this month to 30.0 and 31.5, respectively, from 51.0 and 52.3 during October. The report notes that longer delivery times (10.7 from 12.7), increases in employment (32.6 from 30.6), and higher prices all are expected in the months ahead—with the prices-received (60.3 from 55.9) measure accelerating at a record rate, while the prices-paid (66.1 from 72.0) measure remained high but below its record high of 75.3 during September 2005.

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