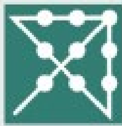
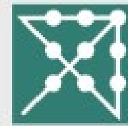
 Yardeni Research 

MORNING BRIEFING
January 3, 2022

Happy 2022!

Check out the accompanying chart collection.

(1) Santa outpunched the two Grinches. (2) Omicron spreading like wildfire, and could burn out quickly. (3) Biden hands the pandemic back to state governors. (4) The Fed should be done tapering by March. (5) Whose afraid of 75bps? (6) Yield curve says don't fight the bond market. (7) Santa's earnings-led meltup. (8) Fewer kinks in supply chain. (9) Lots of booming economic indicators. (10) Plenty of liquidity, which is more liquid than it was before the pandemic. (11) The case against Volcker 2.0. (12) Durable goods prices soaring after deflating for many years. (13) Rent inflation will remain troublesome. (14) Inflation may be peaking according to regional business surveys. (15) Movie review: "Being the Ricardos" (+ +).

YRI 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*.

Strategy I: Santa Delivered the Goods. At the end of last year, Santa outpunched the Grinch tag team of the rapidly spreading Omicron variant of Covid and the more hawkish variant of the Fed. The S&P 500 rose to a new record high of 4793.06 on Wednesday, December 29 (*Fig. 1*). On an intraday basis, it slightly exceeded our year-end target of 4800. Consider the following:

(1) *Omicron takes charge of the pandemic.* The number of new positive Covid results soared to 247,844 on December 29, based on the 10-day moving average, the highest since January 15, 2021 (*Fig. 2*). Hospitalizations rose to 74,235 on December 31, based on the 10-day moving average, the highest since October 1, 2021.

Apparently, investors believe that Omicron, which is spreading like wildfire, may flame out sooner rather than later and provide widespread herd immunity. There are *reports* that Omicron, which tends to have milder symptoms than previous variants of Covid, may also provide immunity against its predecessors. (This potential upbeat outlook has been confirmed by a few of my doctor friends.)

Investors were also relieved that President Joe Biden backed off from even suggesting that another round of social-distancing restrictions, especially lockdowns, would be mandated by the federal government. Instead, on Monday, December 27, he *said*: "Look, there is no

federal solution. This gets solved at a state level.” That very same day, the Centers for Disease Control and Prevention (CDC) issued the following *statement*: “Given what we currently know about COVID-19 and the Omicron variant, CDC is shortening the recommended time for isolation from 10 days for people with COVID-19 to 5 days, if asymptomatic, followed by 5 days of wearing a mask when around others.”

(2) *The Fed hasn’t spooked the bond market so far.* The December 15 *statement* of the FOMC announced that starting this month, the Fed’s purchases of Treasury and agency mortgage-backed securities will be reduced by $30 billion per month from $120 billion per month (which has been the pace since the start of 2021) to $90 billion this month, $60 billion in February, $30 billion in March, and zero in April.

The end of tapering will set the stage for three 25bps hikes in the federal funds rate over the rest of this year, according to the FOMC’s latest *dot plot*. At the end of last week, the two-year US Treasury note yield was 0.73% and the 12-month federal funds rate futures was 0.70%, confirming that investors are expecting to see a 0.75% federal funds rate a year from now (*Fig. 3*).

At the end of last year, stock investors seemed remarkably calm about this outlook. That’s because the prospects of a federal funds rate only 75bps above zero later this year doesn’t seem like a showstopper for economic growth. Of course, much will depend on how the bond market reacts to tighter monetary policy. The 10-year US Treasury yield was remarkably subdued around 1.50% last year despite the jump in inflation (*Fig. 4* and *Fig. 5*).

At the start of 2021, Debbie and I were predicting 2.00% for the bond yield at year-end. It got as high as 1.74% on March 31. In mid-2021, we reeled in our year-end target to 1.50%. Now 2.00% is our year-end 2022 target. The yield-curve spreads between the 10-2 years and 5-2 years notes suggest that bond investors believe that a federal funds rate of 0.75% might be enough to slow down both inflation and economic growth (*Fig. 6*). For now, we are inclined to agree, though we admit we are doing so mostly because we don’t want to fight the bond market.

(3) *Santa’s earnings-led meltup.* We started last year with a target of 4300 for the S&P 500 price index. It got there well ahead of schedule on July 1. By mid-2021, we had raised that target to 4800. We reckon that the Santa Claus rally started early this year, i.e., well before Thanksgiving, when the index bottomed at 4300.46 on October 4. It is up 10.8% since then through the end of last year and up 113.0% from its March 18, 2020 bottom. *Ho-ho-ho!*

The initial meltup from 2021's bottom was led by an explosive jump in the forward P/E of the S&P 500 from 12.9 at the end of March 2020 to a high of 23.2 during September 2020. Since then, the meltup has been led by forward earnings, i.e., the time-weighted average of analysts' consensus earnings estimates for this year and next. As shown by our Blue Angels framework, forward earnings continued to rise to a new record high during the December 28 week, while the forward P/E has remained surprisingly elevated in the 20.0-22.0 range since mid-2021 (*Fig. 7*).

The forward P/E of the S&P 500 has remained remarkably high, mostly because the valuation multiple of the S&P 500 Growth stock price index has been amazingly steady, at around 28.0 since mid-2020 (*Fig. 8*). That's very unusual given the surge in the inflation rate and the increasingly hawkish stance of the Fed. We attribute that resilience to the ample liquidity provided by excessively stimulative monetary and fiscal policies since the start of the pandemic, as we discuss after the next section.

US Economy I: 2021 Ended with a Bang. US economic growth ended 2021 with a boom. The boom might continue into this year if the Omicron variant of Covid continues to spread like wildfire, causing the fourth wave of the pandemic to peak within the next few weeks and resulting in widespread herd immunity, as we discussed in the first section. That would boost consumer spending, particularly on services.

Another positive in the outlook is a prospective rebound in motor vehicle production (and sales), assuming that the shortage of semiconductor chips that has weighed on the auto industry eases. Inventory restocking of autos and other durable goods should also fuel economic growth. So should strong capital spending. Here are the latest booming indicators:

(1) *US consumers were born to shop.* According to *Mastercard SpendingPulseTM*, holiday retail sales excluding automotive increased 8.5% y/y this holiday season, which ran from November 1 through December 24. Online sales grew 11.0%. Mastercard SpendingPulse measures in-store and online retail sales across all forms of payment. Of course, some of the increase was attributable to inflation.

(2) *Q4 real GDP boomed.* In any event, the Atlanta Fed's *GDPNow* model shows real GDP tracking at a booming annual rate of 7.6% (saar) during Q4, as of December 23. Real consumer spending is tracking at 5.5%, while real gross domestic investment growth is a whopping 16.9%.

(3) *Fewer kinks in the supply chain.* Supply-chain disruptions don't seem to be a serious obstacle to growth. In any event, they seem to be receding. In the US, Debbie and I monitor the average of the unfilled orders and delivery times indexes of the regional business surveys conducted by five of the Federal Reserve Banks. This average index peaked at a record 27.3 during May (*Fig. 9*). It was down to 16.3 during December, the lowest reading since February.

Over in Japan, auto production plunged during the summer and fall as a result of parts shortages. Output soared during November (*Fig. 10*). Toyota Motor Corp. last week said its global output had bounced back in November to just 1% below last year's level.

(4) *Consumers were happier during the holidays.* The Conference Board Consumer Confidence Index increased again in December after an upward revision in November. The Index now stands at 115.8, up from 111.9 in November (*Fig. 11*). The labor market remains strong, as 55.1% of consumers said jobs were "plentiful," down from 55.5%—still a strong reading historically (*Fig. 12*). In addition, 25.1% of consumers expect more jobs to be available in the months ahead, up from 22.8%.

Interestingly, concerns about inflation declined after hitting a 13-year high last month, as did concerns about Covid-19, despite reports of continued price increases and the emergence of the Omicron variant.

(5) *Purchasing managers remain upbeat.* Markit's flash US Composite PMI posted 56.9 in December, down slightly from 57.2 in November. Service-sector business activity (57.5) remained strong, with manufacturers (57.8) registering a slight downtick in the pace of expansion in production (*Fig. 13*).

(6) *CEOs are upbeat too.* The Business Roundtable's survey of CEOs shows that their confidence index rose to a record high of 123.5 during Q4 (*Fig. 14*). This series is a very good coincident indicator of the y/y growth rates of both nominal and real capital spending in GDP. Clearly, CEOs aren't fretting much about supply-chain disruptions, labor shortages, or rising labor and commodity costs. Instead, they are likely to do what they can to overcome these challenges by spending more on productivity-enhancing capital equipment and technologies. We believe that they are rising to the challenges they face!

US Economy II: More Liquid Liquidity. Why is the economy booming? Why are consumer and asset prices soaring? Since the start of the pandemic, fiscal and monetary policies have been flooding the economy and financial markets with unprecedented liquidity. Debbie

and I aren't worrying that the economy will fall off "fiscal and monetary cliffs" because there still is ample liquidity to keep the economy growing and to boost stock prices to new record highs in 2022. Consider the following:

(1) Since February 2020 through November 2021, M2 is up $6.0 trillion to $21.4 trillion. M2 is now equivalent to almost a year's worth of nominal GDP. That's a record. Leading the way higher has been M2's demand deposit component, which is up $3.1 trillion over this same period to $4.8 trillion (*Fig. 15*). Demand deposits now account for 22.2% of M2, up from 10.5% during February 2020 (*Fig. 16*). The M2 measure of liquidity is the most liquid it has been since March 1975!

(2) We estimate that the amount of excess liquidity resulting from pandemic stimulus policies is currently around $3.0 trillion. That's the difference between the actual level of M2 during November and our extrapolation of the pre-pandemic trend in M2.

(3) Fiscal pandemic stimulus policies swelled the federal government deficit. In fiscal year 2021, which ended on September 30, the federal budget deficit totaled nearly $2.8 trillion—about $360 billion less than the deficit in 2020 but nearly triple the shortfall incurred in 2019, before the pandemic (*Fig. 17*). This reflected three rounds of "Economic Impact Payments" and lots of other relief and support programs.

(4) The Fed's balance sheet has expanded by almost $5.0 trillion since the start of the pandemic to a record $8.7 trillion at the end of last year (*Fig. 18*). Over the past 11 months through November, the Fed purchased $120 billion per month in bonds. It started to taper that pace during December but won't stop this purchase program until March.

The end of this program and the likely commencement of rate hiking by the Fed could cause the bull market in stocks to stall for a short while. However, there is ample liquidity left from all the rounds of pandemic stimulus to drive stock prices higher next year. The Fed is widely expected to raise the federal funds rate three times next year to 0.75%. That won't be a surprise, and it's only 75bps above zero.

US Inflation: Volcker 2.0? We expect the PCED inflation rate, on a y/y basis, to range between 4.0%-5.0% through mid-2022 and to fall into the 3.0%-4.0% range during the second half of 2022 through all of 2023 (*Fig. 19*). We may have to raise these ranges given that the headline PCED inflation rate rose to 5.7% y/y during November. However, for now, we are sticking with them.

Our relatively optimistic outlook for inflation isn't based on a Volcker 2.0 scenario, which would be pessimistic for the economy. In 1979 and 1980, Fed Chair Paul Volcker broke the back of the Great Inflation of the 1970s by letting the federal funds rate soar, thus triggering a severe recession. In our Roaring 2020s scenario, rebounding productivity growth should help to avert the kind of inflation problem that occurred during the 1970s, when productivity growth collapsed (*Fig. 20*). Here are some other disinflationary considerations:

(1) *Nondurable goods prices.* The core PCED inflation rate at 4.7% y/y during November was still within our range. Food and energy are the main items in the nondurable goods component of the PCED, which rose 7.9% y/y during November, the highest reading since September 2008 (*Fig. 21*). It tends to be quite volatile along with food and energy prices.

We aren't expecting the kind of energy-led shock now as occurred twice during the 1970s. We are encouraged to see that US crude oil field production continues to recover (*Fig. 22*). We are also assuming, of course, that the worst of the pandemic will be over within the next couple of months, or even weeks. A prolongation of the pandemic in 2022 could disrupt the availability of workers in the food processing industry, which would exacerbate shortages and cause food prices to move even higher.

(2) *Durable goods prices.* The current bout of inflation was triggered by a demand shock caused by excessively stimulative fiscal and monetary policies that, in turn, overwhelmed supplies. The resulting supply shock was especially intense in the markets for durable goods, which rose to 9.7% y/y during November, the highest pace since September 1980.

Durable goods prices have been mostly falling since the mid-1990s. Lots of pent-up demand for durable goods has been satisfied since the end of last year's lockdown during March and April. That's not the case for autos, however, where production has been depressed by parts shortages. New and used car prices in the PCED rose 10.8% and 54.0% y/y during November (*Fig. 23*). As noted above, the sharp rebound in Japanese auto production during November suggests that the auto industry's parts shortage problem may be abating.

(3) *Services prices.* In the PCED, services prices rose 4.3% y/y in November, the highest since February 1991. These admittedly are harder to forecast, especially in the medical care sector. We do know that historically PCED medical services prices have risen at a slower pace than CPI medical services prices (*Fig. 24*). That's because the former includes prices that are influenced by government health care programs, while the latter reflects mostly out-of-pocket medical services expenses.

Less hard to predict is rent inflation. Over the past 12 months through November, rent of shelter in the PCED rose 3.4%, with tenant-occupied rent up 3.0%, owners' equivalent rent up 3.5%, and lodging away from home up 25.5% (*Fig. 25*). Given that the new median single-family home price has soared 25.6% since February 2020 through November 2021, it is likely that rent inflation will be moving higher.

(4) *Supply chains.* Also helping to bring inflation down should be fewer supply-chain disruptions. As noted above, the five Fed regional business surveys are showing that these problems may have peaked. These five surveys also show that in the past few months through December, prices-paid and prices-received indexes remained at or near previous record highs but have stopped climbing (*Fig. 26*). We are expecting to see them mostly decline in 2022.

Movie. "Being the Ricardos" (+ +) (*link*) is about one week in the life of Lucille Ball and Desi Arnaz, whose sitcom I Love Lucy aired on CBS for six years from 1951 to 1957. It was the most-watched show in the US in four of its six seasons. Their company Desilu Productions also produced The Dick Van Dyke Show, The Untouchables, Mission: Impossible, and Star Trek. However, their marriage was tumultuous, and they split in 1960. They managed their business much better than their marriage. Ironically, Lucy was falsely accused of being a communist even though she was married to Desi, who was a fierce anti-Marxist after communists forced his aristocratic family to flee Cuba. Nicole Kidman is great as Lucy; her performance should earn her an Oscar nomination. Javier Bardem does a good job of playing Desi.

Calendars

US: Mon: IHS Markit M-PMI 57.8; Construction Spending 0.6%. **Tues:** ISM M-PMI & Price Index 60.2/85.5; Job Openings; Motor Vehicle Sales; OPEC Meeting. (Bloomberg estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 58.0/57.9/54.9/61.5/56.2; China Caixin M-PMI 50.0; RBA Interest Rate Decision 0.10%. **Tues:** Germany Retail Sales -0/5%m/m/-2.0%y/y; Germany Unemployment Change & Unemployment Rate -15k/5.3%; France CPI 2.8% y/y; UK M-PMI 57.6. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 0.7% and end the year 0.6% below its record high on December 27. The index ranked 31st of the 49 global stock markets we follow in a week when 39 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 0.9%. Switzerland and Taiwan also traded at a record high in dollar terms during the week. BRIC was the best-performing region last week with a gain of 1.5%, followed by EM Latin America (1.4%), EMU (1.3), EM Asia (1.1), and EM Eastern Europe (1.0). EMEA was the biggest underperformer, albeit with a gain of 0.2%, followed by EAFE (0.9). Jordan was the best-performing country last week, rising 4.6%, followed by Malaysia (3.9), Hungary (3.5), Poland (3.2), and India (2.9). Among the 21 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst with a decline of 14.2%, followed by the Philippines (-2.6), Argentina (-2.0), Korea (-1.8), and Sri Lanka (-1.6). In December, the US MSCI rose 3.8% for its ninth monthly gain of the year. The US MSCI ranked 28/49 in December as the AC World ex-US index outperformed with a gain of 4.0%. Forty-one of the 49 countries moved higher in December as most regions rose. Sri Lanka was the best performer, with a gain of 16.8%, followed by Mexico (12.9), the Czech Republic (12.8), Ireland (9.3), and Switzerland (7.8). The worst-performing countries in December: Chile (-9.3), Pakistan (-4.7), Russia (-3.2), China (-3.2), and Hungary (-3.1). EMU rose 6.0% in December, ahead of EAFE (5.1), EM Latin America (4.6), and the AC World ex-US (4.0). EM Eastern Europe (-1.4) was December's worst-performing region, followed by BRIC (-1.2), EM Asia (1.3), and EMEA (1.4). During 2021, the US MSCI ranked an outstanding 4/49 for the year, with its 25.2% gain well ahead of the AC World ex-US (5.5) and beating all regions as 34 of the 49 countries rose for the year. EMEA was the best performing region with a gain of 19.7%, ahead of EM Eastern Europe (12.9), EMU (11.7), and EAFE (8.8). The laggards: EM Latin America (-13.1), BRIC (-13.0), and EM Asia (-6.6). The best country performers for 2021: the Czech Republic (49.3), Austria (37.5), the Netherlands (26.0), the US (25.2), and India (25.1). The worst-performing countries: Turkey (-31.2), Pakistan (-30.0), Brazil (-23.5), China (-22.8), and Peru (-21.7).

S&P 1500/500/400/600 Performance (*link*): MidCap's 1.7% gain last week easily bested the increases for SmallCap (1.0%) and LargeCap (0.9). LargeCap ended the year 0.6% below its record high on December 29. MidCap ended 2.4% below its record high on November 16, and SmallCap was 4.4% below its November 8 record high. Twenty-nine of the 33 sectors rose last week compared to all 33 rising a week earlier. LargeCap Real Estate rose 3.7% and was the best performer for the week, followed by SmallCap Utilities

(3.1), MidCap Consumer Staples (2.9), SmallCap Real Estate (2.8), and MidCap Materials (2.7). SmallCap Communication Services was the biggest underperformer last week with a decline of 2.5%, followed by SmallCap Health Care (-1.1), SmallCap Energy (-1.0), LargeCap Communication Services (-0.8), and MidCap Health Care (0.2). During December, MidCap rose 4.9% and was slightly ahead of the 4.4% gains for LargeCap and SmallCap. Thirty-one of the 33 sectors rose in December compared to just four rising in November. December's best performers: SmallCap Utilities (12.4), MidCap Utilities (10.1), LargeCap Consumer Staples (10.0), LargeCap Real Estate (9.7), and LargeCap Utilities (9.4). December's biggest laggards: SmallCap Energy (-0.9), LargeCap Consumer Discretionary (-0.3), MidCap Consumer Discretionary (1.3), SmallCap Consumer Discretionary (1.4), and SmallCap Communication Services (1.7). In terms of 2021's performance, all three indexes ended the year with gains; LargeCap was up by 26.9%, followed by SmallCap's 25.3% rise and MidCap's 23.2% gain. Thirty-two of the 33 sectors were positive in 2021, up from 18 rising during 2020. Energy dominated the best-performing sectors in 2021: MidCap Energy (62.7), SmallCap Energy (59.2), LargeCap Energy (47.7), LargeCap Real Estate (42.5), and SmallCap Consumer Discretionary (36.6). MidCap Communication Services (-3.9) was the only sector to fall in 2021, followed by these underperformers: SmallCap Health Care (5.8), MidCap Consumer Staples (9.2), MidCap Health Care (11.2), and MidCap Tech (13.3).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 0.9% gain. That compares to a 2.3% gain for the S&P 500 a week earlier, when all 11 sectors rose and four outperformed the index. Real Estate's 3.7% gain made it the best performer of the week, ahead of Utilities (2.6%), Materials (2.6), Consumer Staples (2.5), Industrials (1.9), Health Care (1.1), and Energy (1.0). The worst performers: Communication Services (-0.8), Consumer Discretionary (0.4), Tech (0.5), and Financials (0.5). The S&P 500 rose 4.4% in December as ten sectors moved higher and six beat the broader index. That compares to just two rising in November, when three beat the S&P 500's 0.8% decline. The leading sectors in December: Consumer Staples (10.0), Real Estate (9.7), Utilities (9.4), Health Care (8.8), Materials (7.3), and Industrials (5.2). December's laggards: Consumer Discretionary (-0.3), Communication Services (2.5), Energy (2.9), Financials (3.1), and Tech (3.3). During 2020, the S&P 500 soared 26.9% as all 11 sectors moved higher and four outperformed the index. The best performers in 2021: Energy (47.7), Real Estate (42.5), Tech (33.5), and Financials (32.5). The seven underperformers: Utilities (14.0), Consumer Staples (15.6), Industrials (19.4), Communication Services (20.5), Consumer Discretionary (23.7), Health Care (24.2), and Materials (25.0).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.9% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index remained above its 50-dma for a fourth week after dropping below in early December for the first time in eight weeks, and was above its 200-dma for a 79th straight week. The S&P 500's 50-dma moved higher for a 12th week after falling for two weeks in early October. The index improved to 2.5% above its rising 50-dma from 1.9% above a week earlier and an eight-week low of 0.2% below in early December. 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 79th week last week, and improved to 8.7% above its rising 200-dma from 8.0% 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*): Nine of the 11 S&P 500 sectors traded above their 50-dmas, up from seven a week earlier; that compares to all 11 above during the first half of November. Communication Services and Industrials moved back above in the latest week, leaving only two sectors below their 50-dma: Energy and Financials. That compares to just two sectors above in early October. Nine sectors now have a rising 50-dma, up from eight a week earlier as Communication Services turned higher. Energy and Financials are the only sectors with a falling 50-dma. Looking at the more stable longer-term 200-dmas, all 11 sectors were above that measure for a second straight week. Communication Services and Industrials had reversed higher a week earlier. 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 2020 after mostly falling since October 2018.

US Economic Indicators

Consumer Confidence (*link*): "Economic Expansion Likely to Continue into 2022, Despite

Serious Headwinds" was the heading of December's Conference Board report. Consumer confidence climbed for the third successive month in December, by 3.9 points m/m and 6.0 points over the period, to a five-month high of 115.8, boosted by gains in the expectations component of 6.7 points and 10.2 points over the comparable periods—to 96.9. The present situation measure was basically flat over the final three months of 2021, finishing the year at a relatively high level of 144.1 in December, though below its recent high of 159.6 in June. According to December's report, "Concerns about inflation declined after hitting a 13-year high last month [November] as did concerns about Covid-19, despite reports of continued price increases and the emergence of the Omicron variant. Looking ahead to 2022, both confidence and consumer spending will continue to face headwinds from rising prices and an expected winter surge of the pandemic." Consumers' appraisal of current business conditions improved in December as the percentage saying conditions are good (to 19.9% from 17.9%) rose for the first time in six months and the percentage saying conditions are bad (26.8 from 27.3) fell for the first time in six months. Meanwhile, consumers' assessment of the labor market was only slightly less favorable: The percentage saying jobs are plentiful (55.1 from 55.5) slipped slightly, though remained just south of September's record high of 56.5%, while the percentage saying jobs are hard to get (12.5 from 10.8) wasn't far from its record low of 9.6% recorded during July 2000. Meanwhile, the percentage of consumers expecting business conditions to improve (26.7% from 25.6%) over the next six months continued to move up from recent lows, while the percentage that expects conditions to worsen (17.9 from 19.6) continued to fall from recent highs. Consumers were also more optimistic about the short-term labor market outlook, with the percentage expecting jobs to be more available (25.1 from 22.8) moving up for the second time in three months and the percentage expecting fewer jobs (14.8 from 19.0) sinking to an eight-month low.

Regional Prices Paid & Received Measures (*link*): Prices-paid and -received data for December from the Philadelphia, New York, Richmond, Kansas City, and Dallas Federal Reserve Bank districts show inflationary pressures have likely peaked. The Philadelphia, New York, Kansas City, and Dallas 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). The average of the five regions shows the prices-paid (to 85.1 from 86.8) measure eased for the third month since reaching a record high of 88.7 in September; by region, prices-paid measures in the Philadelphia (66.1 from 80.0), Dallas (66.2 from 82.1), and Kansas City (to 73.0 from 77.0) areas have slowed considerably from their recent highs, while Richmond's (139.8 from 111.9) has rebounded back toward September's record pace of 140.1 and New York's (80.2 from 83.0) gauge has held below its record high of 83.5 in May. The prices-received measure (to 52.6 from 55.0) eased for the third month since reaching a record high of 58.3 in August, with New York's

prices-received (to 44.6 from 50.8) gauge easing from November’s record high and Philadelphia’s (50.4 from 62.9) from November’s cyclical high. Prices-received measures in the Dallas (42.3 from 42.2) and Kansas City (43.0 from 50.0) regions slowed from their record highs of 49.8 and 61.0 during October and August, respectively. Meanwhile, Richmond’s (82.6 from 69.1) gauge rebounded back toward its record high of 94.2 in October.

Pending Home Sales (*link*): “There was less pending home sales action this time around, which I would ascribe to low housing supply, but also to buyers being hesitant about home prices,” said Lawrence Yun, NAR's chief economist. “While I expect neither a price reduction, nor another year of record-pace price gains, the market will see more inventory in 2022 and that will help some consumers with affordability.” The Pending Home Sales Index (which tracks sales when a contract is signed, but the transaction has not yet closed) contracted 2.2% in November to 122.4, after rebounding 7.5% in October; these sales were 2.7% below last November’s level. In every region, sales declined on a month-to-month basis in November. Sales in the Midwest did eke out a slight year-over-year gain—the only region to do so—though that region posted the sharpest monthly decline. Here’s a regional look at pending home sales in November: Northeast (-0.1% m/m & -8.5% y/y), South (-0.7 & -1.3), West (-2.2 & -4.6), and Midwest (-6.3 & +0.2). Yun notes that supply-chain disruptions and labor shortages have also been drags on housing activity, and warns the countrywide surge in the Omicron variant of Covid poses another risk for the housing market.

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