Yardeni Research

MORNING BRIEFING
January 10, 2022

The Markets, the Fed, and Jobs

Check out the accompanying chart collection.

(1) Investors discounting more hawkish Fed. (2) A week of rotation from Growth to Value. (3) Growth P/E down, Value up. (4) Lots of chatter, again, about a great rotation. (5) Stay away from disruptive hyped-up tech stocks. (6) FOMC agrees: “Transitory” is out, “persistent” is in until further notice. (7) Discussing normalization. (8) Powell mentioned paring Fed’s balance sheet late last year. (9) Labor market is booming. (10) More full-time jobs replacing part-time ones. (11) Real wage rate stalls at record high. (12) Alternative wage measures. (13) Movie review: “King Richard” (+).

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Strategy: The Great Rotation, Again? Investors are starting the new year by chanting the following mantra: “Don’t fight the Fed.” That’s because the latest FOMC minutes released on Wednesday indicated that the Fed will start reducing its balance sheet sooner than expected in addition to ending its bond purchasing by March, after which it will start to raise the federal funds rate. The 10-year US Treasury bond yield rose to 1.76% by the end of last week, the highest reading since early last year (*Fig. 1*).

The S&P 500 took the news badly too, but its sell-off was only 2.4% below its record high of 4793.54 on January 4. However, there was some significant rotation within the index. Since the end of last year through Friday, S&P 500 Growth is down 4.5%, while Value is up 1.0% (*Fig. 2*). Growth’s forward P/E fell to 27.0 (from 28.3 a week ago), while Value’s forward P/E rose to 17.3 (from 17.1 a week ago) (*Fig. 3*). The overall forward P/E of the S&P 500 remained relatively subdued at 21.0. The Nasdaq and the Magnificent Eight (the eight highest-capitalization stocks in the S&P 500) also fell 4.5% last week.

There has been lots of talk about a great rotation out of Growth and into Value over the past few years as the former continued to outperform the latter (*Fig. 4*). This might be the year that finally happens. Nevertheless, Joe and I aren’t big fans of the Growth-vs-Value paradigm. We prefer focusing on sectors, and we recommend overweighting Energy, Financials, and Information Technology companies, especially those with earnings. We would stay away from tech stocks that were overvalued as a result of the pandemic or because of their projected hyped-up disruptive effects on established businesses. This should be the year that widely undervalued SMidCaps outperform LargeCaps, in our opinion.

We will have more to say about this in coming *Morning Briefings*. For now, let's review the highlights of the latest FOMC minutes that rattled the markets last week:

(1) *Persistent inflation.* The *minutes* of the December 14-15 FOMC meeting were released on January 5. The word "transitory," which had previously described the Fed's outlook for inflation, was mentioned once: "As elevated inflation had persisted for longer than they had previously anticipated, members agreed that it was appropriate to remove the reference to 'transitory' factors affecting inflation in the post-meeting statement and instead note that supply and demand imbalances have continued to contribute to elevated inflation." The word was mentioned five times in the *minutes* of the previous meeting, on November 2-3.

The word "persistent" appeared five times in the latest minutes in the context of describing supply-chain disruptions and inflationary pressures.

(2) *Policy normalization.* The latest minutes included a new section titled "Discussion of Policy Normalization Considerations." The participants observed that "the current economic outlook was much stronger, with higher inflation and a tighter labor market than at the beginning of the previous normalization episode." The minutes confirmed that the widely expected policy response would be to end the Fed's bond-purchasing program by March and then commence with hiking the federal funds rate.

(3) *Balance sheet run-off.* The big surprise that unnerved investors is that the minutes noted that participants discussed "the appropriate conditions and timing for starting balance sheet runoff relative to raising the federal funds rate." Furthermore, "[a]lmost all participants agreed that it would likely be appropriate to initiate balance sheet runoff at some point after the first increase in the target range for the federal funds rate." The word "runoff" was mentioned 10 times in the minutes. It wasn't mentioned at all in the previous minutes.

However, the fact that the FOMC discussed when to start reducing the Fed's balance sheet shouldn't have come as such a market-roiling surprise. During his post-meeting *press conference* on December 15, Fed Chair Jerome Powell said outright that the FOMC had discussed it during the meeting. He added, "I was here at the Fed when we lifted off the last time" and noted that "the economy is so much stronger now" and "so much closer to full employment." He also stated that "inflation is running well above target." He concluded that there'd be no need for "a long delay in starting the runoff."

US Labor Market I: More Full-Time Jobs. The Wizard of Oz *said*, "Pay no attention to that man behind the curtain." I say, "Pay no attention to Friday's weak 199,000 payroll employment gain for December (*Fig. 5*). Any statistic that doesn't support my outlook is either a faulty one or it will be revised to confirm I was right after all." Indeed, October and November payrolls were revised upward by 141,000. The 12-month sum of payroll revisions rose to a cyclical high of 936,000 through November (*Fig. 6*). Just about every other relevant indicator shows that the labor market is booming. For example:

(1) *Household employment.* The household measure of employment (which measures job holders rather than the number of jobs) rose 651,000, led by an 803,000 jump in full-time employment (*Fig. 7*). Some of the weakness in the number of payroll jobs may reflect the fact that more people are getting full-time jobs, replacing two or more part-time jobs.

(2) *Earned Income Proxy.* Our Earned Income Proxy (EIP) for wages and salaries in the private sector rose 0.8% m/m and 9.9% y/y in December (*Fig. 8*). Our EIP reflects the 0.6% m/m increase in hourly wages and the 0.2% increase in aggregate hours worked. The EIP is outpacing the PCED inflation rate, which was 5.7% y/y in November.

(3) *Unemployment.* The unemployment rate fell to 3.9% in December (*Fig. 9*). That was a fresh pandemic-era low and near the 50-year low of 3.5% in January and February 2020. The short-term unemployment rate for those without a job for less than 27 weeks was 2.7%, matching its record low recorded during September 2019, while the long-term jobless rate was only 1.2%.

(4) *Quits.* Job quits jumped to 4.53 million during November, according to the Job Openings and Labor Turnover Survey (*Fig. 10*). That was an 8.9% increase from October and broke September's high-water mark of 4.36 million. The number of job openings totaled 10.56 million, a small decline from 11.09 million in October. There are 1.5 jobs open for every unemployed worker.

(5) *ADP payrolls.* The ADP measure of private-sector employment rose 807,000 during December. Service-producing jobs rose 669,000, while goods-producing ones rose 138,000.

(6) *Jobless claims.* In recent weeks, the number of initial unemployment claims has been hovering around 200,000 (*Fig. 11*). Just before the pandemic, jobless claims was fluctuating

around 215,000.

(7) *Job survey.* According to the Conference Board's December survey of consumer confidence, the labor market remains strong, as 55.1% of consumers said jobs were "plentiful," down from 55.5% but still a strong reading historically. In addition, 25.1% of consumers expect more jobs to be available in the months ahead, up from 22.8%.

(8) *Purchasing managers.* December's PMI surveys showed solid employment indexes, with manufacturing at 54.2 and nonmanufacturing at 54.9 (*Fig. 12*).

(9) *Small businesses.* In November, a near-record 49% of small business owners had job openings (*Fig. 13*).

US Labor Market II: Wage-Price Spiral? Over the past 12 months through December, average hourly earnings (AHE) of production and nonsupervisory workers rose 5.8%, while the PCED rose 5.7% though November. That's a wage-price spiral. However, it isn't as bad as what happened from the early 1970s through the mid-1990s when prices rose faster than wages, depressing the purchasing power of workers (*Fig. 14*). Productivity growth collapsed during the 1970s.

Since 1995, the real hourly wage for production and nonsupervisory workers has been on an upward trendline tracking a compounded annual growth rate of 1.2%. Over the past year, real wage growth has stalled but remains on the uptrend and in record-high territory. Debbie and I attribute the ups and downs in the rate of real wage growth mostly to the ups and downs in the rate of productivity growth (*Fig. 15*).

We are bullish on the outlook for productivity. We believe that demographic factors are behind the chronic shortage of labor. During December, the working-age population and the labor force rose just 0.4% and 0.3%, respectively, on a y/y basis using the 12-month average of each series (*Fig. 16*).

US Labor Market III: High and Low Wages. There is no shortage of stories about labor shortages. There are also plenty of stories about employers raising the wages they pay to keep their employees and to attract new ones. Nevertheless, as in all matters related to the US labor market, there are lots of shades of gray. Consider the following:

(1) *Wage measures.* The most widely followed measure of hourly wages is average hourly earnings for all workers. The series is released every month in the Employment Report

prepared by the Bureau of Labor Statistics (BLS). Economists typically monitor it on a y/y basis. It has been extremely volatile during the pandemic because it is very sensitive to the composition of employment (*Fig. 17*). So when lots of lower-wage workers lost their jobs during the 2020 pandemic lockdown, AHE for all workers showed a misleadingly large 8.2% increase during April because there were fewer workers reflected in AHE.

A less volatile series that has been highly correlated with AHE on a y/y basis is the wage growth tracker (WGT) compiled monthly by the Atlanta Fed. The latter isn't as sensitive to the composition of employment. It is provided as a three-month and a 12-month moving average.

During December, the AHE measure for production and nonsupervisory workers was up 5.8% y/y, while the WGT measure (on a three-month basis, yearly percent change) was 4.3%.

(2) *AHE.* When the employment report is released, Debbie and I calculate our Earned Income Proxy, as discussed above. Since the start of the pandemic, we have also been closely tracking the AHEs of lower-wage and higher-wage workers (*Fig. 18*). The BLS provides AHE series for all workers and for production and nonsupervisory workers, who account for about 80% of payroll employment. We derive a series for higher-wage workers using the two.

During December, the AHEs for lower- and higher-wage workers rose 5.8% y/y and 2.4% y/y, respectively. The PCED inflation rate during November was 5.7%. So the former were just barley keeping up with inflation, while the latter were falling behind.

Here are the December y/y percentage changes in AHEs for all workers and for production and nonsupervisory workers by major industries sorted by highest to lowest for all workers: leisure & hospitality (14.1%, 15.8%), professional & business services (6.2, 7.3), transportation & warehousing (5.6, 8.4), retail trade (5.4, 6.9), financial activities (4.9, 4.1), wholesale trade (4.8, 5.6), education & health services (4.7, 6.6), construction (4.6, 5.3), utilities (4.6, 5.0), manufacturing (4.4, 5.2), natural resources (3.3, 5.8), and information services (2.4 & 2.3). (See our *Average Hourly Earnings By Industry* chart book.)

(3) *WGT.* According to the WGT measure of wages, only the 16-24 age cohort has been beating the rate of inflation over the past year (*Fig. 19*). Their WGT rose to 10.1%. The other age groups aren't benefitting from the shortage of labor, with wages up 3.8% for the 25- to 54-year-old group and 2.2% for the 55 and older group.

The 12-month WGT rates by industries were all under 4.0% through November (*Fig. 20*). The industries with the most widely recognized labor shortages—namely, leisure and hospitality (3.8%) and trade and transportation (3.8%)—showed no signs of wage pressures in the WGT, but that's because they are 12-month moving averages. By the way, it's obvious why quits are at a record high: The three-month WGT for job switchers was 5.2% in November, but 3.8% for job stayers (*Fig. 21*).

Movie. "King Richard" (+) (*link*) is a biopic about Richard Williams, the father of tennis superstars Venus and Serena Williams. He recognized his daughters' potential for tennis greatness when they were in their teens. He trained them and mapped out a plan for their success. That included moving the family from Compton, California, where the girls trained on a public tennis court, to Florida to train with a top coach to sharpen their skills. Along the way, Williams defied convention, insisting that his daughters skip playing in the juniors and go straight to the pros, once they were old enough and ready to do so. He wanted them to enjoy their childhood. In many ways, the Williams' family story is the classic tale of the American Dream. Venus and Serena served as executive producers of the film, which stars Will Smith in the title role.

Calendars

US: Mon: Wholesale Inventories 1.2%. **Tues:** NFIB Small Business Optimism Index 98.6; MBA Mortgage Applications; EIA Short-Term Energy Outlook; Powell; Mester; George. (Bloomberg estimates)

Global: Mon: Eurozone Unemployment Rate 7.2%; Eurozone Sentix Investor Confidence 12.0; Italy Unemployment Rate 9.3%; UK Retail Sales Monitor 0.3%; Australia Retail Sales 4.0%. **Tues:** Italy Retail Sales 0.6%; Spain Industrial Production 0.6%; Japan Leading & Coincident Indicators; China CPI & PPI 1.8%/11.1% y/y; Lagarde; Weidmann; Kuroda. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 2.3% last week to 2.9% below its record high on December 27. The index ranked 43rd of the 49 global stock markets we follow in a week when 24 of the 49 countries rose in US dollar terms and the AC World ex-US index ticked down 0.4%. France and Taiwan were the only countries to trade at a record high in dollar terms during the week. EMEA was the best-performing region last week with a gain of 0.6%, followed by EMU (-0.1%), EM Eastern Europe (-0.2), and EAFE (-0.3). EM Latin America (-1.2) was the biggest underperformer, followed by BRIC (-0.8) and EM Asia (-0.7). Peru was the best-performing country last week, rising 7.1%, followed by Turkey (6.4), Hungary (5.2), Sri Lanka (4.3), and Austria (3.4). Among the 19 countries that underperformed the AC World ex-US MSCI last week, Denmark fared the worst, with a decline of 6.7%, followed by the Netherlands (-3.5), Portugal (-3.5), and Brazil (-2.4). 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 y/y, 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*): All three indexes fell last week, but SmallCap's 1.2% decline was smaller than the decreases for MidCap (-1.7%) and LargeCap (-1.9). LargeCap is now 2.5% below its record high on January 3, 2021. MidCap ended 4.0% below its record high on November 16, and SmallCap was 5.6% below its November 8 record high. Nine of the 33 sectors rose last week compared to 29 rising a week earlier. LargeCap Energy rose 10.6% and was the best performer for the week, followed by SmallCap Energy (9.5), MidCap Energy (7.0), MidCap Financials (5.7), LargeCap Financials (5.4), and SmallCap Financials (4.6). MidCap Health Care was the biggest underperformer last week with a decline of 8.1%, followed by SmallCap Health Care (-6.6), SmallCap Tech (-5.1), LargeCap Real Estate (-4.9), and LargeCap Tech (-4.7). 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*): Four of the 11 S&P 500 sectors rose last week, and six outperformed the composite index's 1.9% decline. That compares to a 0.9% gain for the S&P 500 a week earlier, when ten sectors rose and seven outperformed the index. Energy's 10.6% gain was its biggest in 14 months and made it the best performer of the week, ahead of Financials (5.4%), Industrials (0.6), Consumer Staples (0.4), Materials (-1.5), and Utilities (-1.6). The worst performers: Real Estate (-4.9), Tech (-4.7), Health Care (-4.6), Communication Services (-2.7), and Consumer Discretionary (-2.6). 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 (33.4), 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 fell 1.9% last week and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index dropped to a hair below its 50-dma and for the first time in three weeks but was above its 200-dma for an 80th straight week. The S&P 500's 50-dma moved higher for a 13th week after falling for two weeks in early October. The index dropped to less than 0.1% below its rising 50-dma from 2.2% above a week earlier and compares to 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 an 80th week last week, but dropped to a three-week low of 5.9% above its rising 200-dma from 8.4% above a week earlier. That's still above its 11-month low of 5.0% at the beginning of October and compares to a 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*): Seven of the 11 S&P 500 sectors traded above their 50-dmas, down from eight a week earlier as two sectors reversed higher and three fell below; that compares to all 11 above during the first half of November. Energy and Financials moved back above in the latest week, and these three sectors joined Communication Services in the below 50-dma club: Consumer Discretionary, Health Care, and Tech. 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 Energy and Financials turned higher and Consumer Discretionary turned lower for the first time in three months and joined Communication Services. Looking at the more stable longer-term 200-dmas, ten of the 11 sectors were above that measure. Communication Services reversed lower yet again and has flipped back in and out of the club nearly every week since the end of November. 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

Employment (*link*): Payroll employment was considerably below expectations again in December, while payrolls were once again revised higher for previous months. Total payroll employment advanced only 199,000 (half the expected 400,000 gain) in December, while revisions to November (to 249,000,000 from 210,000) and October (648,000 from 546,000) payrolls were revised higher for a net gain of 141,000. Total payroll employment has recovered 18.8 million jobs since bottoming last April, though is still 3.6 million below its pre-pandemic level. Private payrolls expanded only 211,000 (roughly one-quarter ADP's 807,000), while revisions to November (to 270,000 from 235,000) and October (714,000 from 628,000) boosted employment by 121,000. The gain in service-providing jobs slowed for the second month in December, from 614,000 in October to 198,000 in November, and 157,000 in December—the lowest since January's 129,000. These payrolls averaged monthly gains of 549,000 from December through October. Goods-producing jobs added 54,000 last month, slowing from 72,000 in November, and 100,000 in October—which was the most since October 2020. Industries posting the largest gains during December were leisure & hospitality (53,000), professional & business services (43,000), manufacturing (26,000), construction (22,000), transportation & warehousing (19,000), wholesales trade (14,000), and mining (7,000). Here's a tally of industry performances from strongest to weakest for all of 2021, since bottoming last April, and where they stand relative to February 2020's pre-pandemic levels: leisure & hospitality (+2.6 million, +7.0 million & -1.2 million), professional & business services (+884,000, +2.4 million & -35,000)—led by temporary-help services (+167,100, +840,900 & -157,100)—transportation & warehousing (+373,200, +792,800 & +218,200), manufacturing (+349,000, +1.2 million & -219,000), education (+321,200, +388,700 & -136,500), retail trade (+292,000, +2.2 million & -158,000), social assistance (+170,000, +526,100 & -175,400), construction (+160,000, +1.0 million, & -88,000), wholesale trade (+148,800, +280,000 & -129,200), financial activities (+145,000,

+323,000 & +44,000), information services (+136,000, +162,000 & -119,000), health care (+63,300, +1.2 million & -449,500), and mining & logging (+59,000, +34,000 & -34,000). Here's the same exercise for both local (+326,900, +81,400 & -376,300) and state (+161,400, +30,900 & -191,100) government education jobs.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 19th increase in the past 20 months—up 0.8% in December and 23.9% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.9% over the past 10 months. The average hourly earnings component of the EIP climbed 0.6% last month though only 4.1% during the 20 months through December—as large employment fluctuations from February 2020 through most of 2020 had complicated the analysis of recent trends in average hourly earnings. On a y/y basis, average hourly earnings rose 4.7% in December, slowing from 5.1% in November, as December 2020's spike dropped out of the calculation. The yearly rate is expected to accelerate as very weak wage growth recorded during Q1-2021 is replaced by stronger growth this quarter. Meanwhile, aggregate weekly hours, the EIP's other component, advanced for the 18th time in 20 months, by 0.2% m/m and 19.8% over the period. This measure rose 5.1% y/y.

Unemployment (*link*): December's unemployment rate sank to a 22-month low, while the participation rate remains in a flat trend. The unemployment rate dropped for the sixth successive month, from 5.9% in June to 3.9% at the end of 2021, as the number of unemployed fell 483,000 and 3.2 million over the comparable periods to 6.3 million. The former was at 3.5% before the pandemic hit, while the latter was at 5.7 million. The participation rate remained at 61.9% in December—1.5ppts below its pre-pandemic reading. By race, unemployment rates were mostly lower, though the rate for African Americans (to 7.1% from 6.5%) climbed back above 7.0%—after dropping below in November for the first time since March 2020. Meanwhile, unemployment rates for Whites (3.2 from 3.7), Hispanics (4.9 from 5.2), and Asians (3.8 from 3.9) continued to decline, posting their lowest jobless rates since February 2020. By education, the rates for those with a high school degree (4.6 from 5.2) and less than a high school degree (5.2 from 5.5) posted the biggest declines in December, while those with some college (3.6 from 3.7) and a bachelor's degree and higher (2.2 from 2.1) recorded negligible declines. These rates were the lowest since March 2020, September 2019, February 2020, and February 2020, respectively.

Merchandise Trade (*link*): The real merchandise trade deficit widened in November after narrowing to a 10-month low of $97.1 billion in October—making a round trip back to

September's record $111.1 billion deficit. Available data show the deficit averaged $104.0 billion during the first two months of Q4, matching Q3's average monthly deficit, suggesting trade will have little impact on Q4 real GDP growth—after subtracting for five successive quarters. Real exports contracted 2.5% in November after rebounding 9.6% in October to a new record high, while real imports climbed for the third time in four months, by 4.0% m/m and 5.7% over the period to yet another new record high. There was widespread weakness in real exports in November, with only foods, feed & beverages reporting a gain, up 5.2% in November and 23.6% since bottoming in August. Real exports of both capital goods excluding autos (-3.0%) and industrial supplies & materials (-2.8) declined in November, though continued to bounce around recent highs, while real exports of nonfood consumer goods ex autos dipped 3.2% from October's record high. Real exports of auto vehicles, parts, and engines declined 2.2% in November, its third drop in four months, though October's 13.6% surge held it flat over the four-month period. As for real imports, there was widespread strength, with industrial materials & supplies (7.0), nonfood consumer goods ex autos (4.3), auto vehicles, parts & engines (4.2), and foods, feeds, and beverages (3.9) all posting sizeable gains during November, while real imports of capital goods ex autos (0.1) was little changed just short of September's record high.

US Non-Manufacturing PMIs (*link*): The US service sector slowed in December but remained at a robust pace according to both surveys, with ISM's measure just north of 60.0 and IHS Markit's just south. ISM's NM-PMI slowed to 62.0 in December after rising steadily from 61.7 in August to a record-high 69.1 in November. Both the new orders (to 61.5 from 69.7) and production (67.6 from 74.6) measures eased from their record highs. The supplier deliveries' (63.9 from 75.7) gauge moved lower from its record high in November; the report notes that port shortages continued to delay deliveries and that shortages of raw materials added weeks to some orders. Meanwhile, the employment (to 54.9 from 56.5) measure eased a bit, but remained robust, helping to reduce the backlog of orders index for the second month to 62.3 in December from a record-high 67.3 in October. Price pressures remain intense, with the prices-paid gauge edging up to 82.5% in December—its third highest reading ever and not far from its record-high 83.5 recorded during September 2005. Switching to the IHS Markit NM-PMI measure, it eased for the second month, from 58.7 in October to 58.0 in November, and 57.6 in at the end of 2021—still stronger than the series average of 54.8. According to the report, output growth softened a bit, but new orders gained momentum, with service providers recording the sharpest advance in client demand since July, amid new customer acquisitions and contract gains. That being said, employment remained constrained by labor shortages as well as difficulties retaining workers, with hiring the slowest in three months. As for pricing, service providers posted their steepest increase in input prices on record (going back to 2009), while output prices held around October's series high last month.

Global Economic Indicators

Global Composite PMIs (*link*): Global demand slowed to a three-month low at the end of 2021, led by the service sector, though growth in the service sector continues to outpace manufacturing. The C-PMI eased for the first time in four months, falling to 54.3 in December, after rising steadily from 52.5 in August to 54.8 in November, as the NM-PMI dipped to 54.6 after accelerating from 52.8 in August to 55.6 by November. Meanwhile, the M-PMI continued to move sideways, posting a reading of 54.2 for the third month. The C-PMI for the emerging economies advanced for the third time since dipping below 50.0 in August (49.3) for the first time since mid-2020, climbing to 53.3 by December, while the C-PMI for the advanced economies continued to hover around 55.0, edging down to 54.8 after edging up from 55.2 to 55.8 in November. According to the report, nearly all of the countries covered registered economic growth during the final month of 2021, though signs of a slowdown were widespread. The US posted the strongest performance overall, followed by Ireland and India. Meanwhile, Germany was the only country to record a contraction—ending 17 months of sequential growth.

Eurozone Retail Sales (*link*): Eurozone retail sales just missed making a new record high in November. Sales increased for the third time in four months, up 1.0% in November and 2.0% over the period, to within 0.3% of June's record high. November's gain was led by a 1.6% increase in sales of nonfood products (excluding fuel)—its third increase in four months, for a total gain of 3.0%, and was only 1.0% shy of a new record high. Also pushing sales higher in November was spending on foods, drink & tobacco, which posted its third gain in as many months, up 0.6% m/m and 1.5% over the period—following a five-month slide of 4.6%. Meanwhile, sales of automotive fuels fell for the first time in three months by 1.5% in November, after rising five of the prior six months by a whopping 13.3%. Of the top four Eurozone economies, November retail sales data are available for three—with all in the plus column. Spain (4.9%) posted the biggest gain during November, jumping to its highest level since November 2019, while France's (1.1) measure climbed to a new record high. Sales in Germany (0.6) have been in a volatile flat trend the past few months, 3.5% below June's record high.

Germany Manufacturing Orders (*link*): German factory orders gained some traction in November, though the manufacturing sector continues to grapple with supply-chain problems. Orders rebounded 3.7% in November after sliding two of the prior three months by 12.5% from July's record high. Foreign demand led November's gain, soaring 8.0%, while domestic demand declined for the fourth time in five months since reaching a record high in June, contracting 2.5% m/m and 14.7% over the period. Meanwhile, foreign orders got a big boost from demand in countries within the Eurozone (13.1%); demand from outside the Eurozone (5.0) was solid though paled in comparison. Orders from the latter have been in a very volatile flat trend, posting double-digit swings in October (-16.8), September (15.7), August (-14.7), and July (18.2). Here's a look at movements in domestic orders along with the breakdown from both inside and outside the Eurozone for the main industry groupings during November, both m/m and y/y: consumer durable goods (7.3%, 12.4%, 5.3% m/m & -10.1%, 15.3%, 31.5% y/y), consumer nondurable goods (1.7, 10.7, -4.0 & 12.7, 21.4, 0.5), capital goods (-2.7, 18.3, 5.9 & -1.1, 9.5, -0.9), and intermediate goods (-3.2, 6.2, 5.0 & -5.8, -0.6, 9.9).

Germany Industrial Production (*link*): Germany's output unexpectedly contracted in November as manufacturers continued to face headwinds from supply bottlenecks for raw materials and intermediate goods. The headline number, which includes construction, slumped 0.2% after rising 2.4% in October and falling 4.0% during the two months ending September, while the measure excluding construction slipped 0.1% in November after a 2.8% increase in October following a two-month decline of 4.6%. Production including construction is 7.0% below pre-pandemic levels, while the measure excluding construction is 7.9% below. The main industrial groupings all lack momentum, with output of consumer durable (-2.4% in November) and nondurable (1.4) goods hovering around recent highs and that of capital (-0.6) and intermediate (0.8) goods hovering around recent lows.

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