MORNING BRIEFING
January 18, 2022

Mega Valuation

Check out the accompanying chart collection.

(1) The valuation question, especially about the MegaCap-8. (2) Buffett Ratio off the charts. (3) Forward P/S well exceeds forward P/E because forward profit margin has been rising to new record highs. (4) MegaCap-8 forward P/S and forward P/E are elevated, but so are their margins relative to the rest of S&P 500. (5) Only three MegaCap-8 stocks are in tech sector of S&P 500. (6) Record worldwide demand for semiconductors. (7) US computer output at record high. (8) A whiff of stagflation last week. (9) Omicron less lethal, but spreads faster and disrupts business. (10) Retail sales weakness should be offset by inventory restocking. (11) Durable goods inflation not likely to persist, while rent inflation could do so. (12) Movie review: "Ray Donovan: The Movie" (+ + +).

YRI Webinar. Join Dr. Ed's live Q&A webinar on Tuesday at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays are available *here*. Dr. Ed's presentation lasts about 15 minutes with another 15 minutes for Q&A.

Strategy I: The Valuation Question. Joe and I have been receiving lots of follow-up questions about our ongoing analysis of the MegaCap-8, i.e., the eight stocks in the S&P 500 with the highest market capitalization. We are frequently asked about the impact of their elevated valuation multiples on the S&P 500. They certainly have had a significant impact. The question is whether their high valuations are reminiscent of the tech bubble of 1999 or not. The answer is yes and no. There are similarities, but there are important differences too. Consider the following:

(1) *Quarterly Buffett Ratio.* One of the most alarming valuation metrics is the Buffett Ratio showing the market cap of all US equities (excluding foreign issues) divided by nominal GNP (*Fig. 1*). Another similar ratio is the market cap of the S&P 500 divided by S&P 500 revenues. Both are quarterly series and track each other very closely. They both peaked just below 2.0% during 2000 just before the tech bubble burst, triggering significant bear markets in the S&P 500 and the Nasdaq, led by plunging tech stock prices.

During Q3-2021, both ratios were in record-high territory at 2.9 and 2.7, respectively. Both most likely rose close to 3.0% during Q4. We will know the exact numbers when Q4 nominal GDP is released on January 27.

(2) *Weekly Buffett Ratio.* Joe and I found that the weekly price-to-sales ratio (P/S)—i.e., the S&P 500's stock price index divided by its forward revenues—tracks the quarterly P/S ratio very closely. ("Forward revenues" is the time-weighted average of analysts' consensus revenues estimates for this year and next.) The weekly P/S series was at 2.8 during the January 14 week, well above the 2.0 peak on the quarterly P/S ratio hit during Q4-1999.

(3) *Weekly P/S versus P/E.* Not surprisingly, the weekly forward P/E of the S&P 500 has been highly correlated with the comparable P/S ratio since the start of the latter series in 2004. However, they've increasingly diverged since mid-2020. The forward P/E rose to a post-pandemic high of 23.6 during the September 2, 2020 week. It was down to 20.9 last week. Both readings are below the record high of 24.5 set during July 1999. Nevertheless, the recent readings remain high on a historical basis, instilling fears of a bubble that could be followed by a bear market.

By the way, the reason that the weekly forward P/E and forward P/S have diverged is that the forward profit margin (i.e., the imputed margin we derive from forward earnings and revenues) has been rising to record highs since the start of the pandemic, so earnings have been rising faster than revenues (*Fig. 2*). That should ease some concern about the record highs in the P/S ratio.

(4) *MegaCap-8 valuation.* I asked Joe to construct weekly MegaCap-8 forward P/S and forward P/E ratios. The available data since 2013, after Facebook went public on May 18, 2012, show that their P/S ratio rose from about 2.7 at the start of the period to 6.6 during the January 14 week of this year (*Fig. 3*). During that week, the P/S of the S&P 500 was 2.8 with the MegaCap-8 and 2.3 without them.

During the January 14 week, the forward P/E of the MegaCap-8 was 32.3, and the forward P/E of the S&P 500 was 21.1 with them and 18.7 without them (*Fig. 4*).

(5) *Forward profit margin comparisons.* Again, the rapidly rising forward profit margin of the MegaCap-8 explains why their forward P/S has trended higher since mid-2020, while their forward P/E has trended lower. Here are the relevant forward profit margins during the January 14 week: MegaCap-8 (20.4%), S&P 500 (13.3), and S&P 500 ex-MegaCap-8 (12.5). By the way, the margin of the MegaCap-8 excluding Amazon is 27.8 (*Fig. 5*).

Here are the latest forward profit margins for each of the MegaCap-8 stocks: Nvidia (41.2%), Microsoft (35.7), Meta (Facebook) (29.3), Alphabet (Google) (27.8), Apple (25.6), Netflix (17.6), Tesla (13.1), and Amazon (4.8).

Strategy II: The Case for Tech. Only three of the MegaCap-8 stocks actually are in the S&P 500 Information Technology sector—Apple, Microsoft, and Nvidia. They currently account for 52% of the sector's market cap. Accounting for 46% of the Communication Services sector are Alphabet, Meta, and Netflix. Amazon and Tesla account for 47% of the Consumer Discretionary sector currently. This sector dispersion makes it hard to compare the magnitude of the current MegaCap-8 bubble (if that's what it is) to the all-tech bubble during the late 1990s. Recognizing that we are comparing apples and oranges, consider the following:

(1) *Tech's market cap and earnings shares.* During the tech bubble of the late 1990s, the market-cap share of the S&P 500 Information Technology sector rose from 12.1% during March 1998 to a record high of 33.7% during March 2000 (*Fig. 6*). Back then, the sector's earnings share peaked at 18.2% during September 2000.

During the first week of the current year, the sector's market-cap share was 28.6%, and its earnings share was 22.4%. In other words, the difference between the two shares isn't as inflated as it was during the 1990s tech bubble.

(2) *Semiconductors are in demand.* Meanwhile, worldwide semiconductor sales rose to another record high during November (*Fig. 7*). This series is highly correlated with the forward earnings of the S&P 500 Semiconductor industry, which also rose to a record high during the November 29 week. That's a good omen for the overall fundamentals of the IT sector.

Of course, just before the 1990s tech bubble burst, both series also achieved record highs. However, the bubble burst in 2000 as Y2K-led demand for technology hardware and software plunged at the start of the new millennium. This time, it's hard to see what might cause demand for technology to drop. It's easier to see more demand, arising from the need to increase productivity in response to chronic labor shortages. And of course, the transition to electric vehicles also bodes well for technology spending.

(3) *Computer output at record high.* By the way, the 1990s bubble was led by inflated demand for communications equipment, which led the subsequent tech wreck (*Fig. 8*). The current tech boom has been led by industrial production of computers and peripheral equipment, which increased 1.8% m/m and 7.8% y/y during December to a new record high. Output of semiconductors and other electronic components edged up last month to a new record high as well. Output of communications equipment declined during December but remains on a solid uptrend.

US Economy: A Whiff of Stagflation. There was a strong whiff of stagflation in last week's economic reports. December's CPI was up 7.0% y/y, the highest since June 1982, and the month's PPI for final demand was up 9.7% y/y. Meanwhile, December's retail sales and industrial production fell 1.9% and 0.1%, respectively, on a m/m basis.

Contributing to this downbeat scenario is the Omicron phase of the pandemic. While it is less deadly than the Delta variant, it has been spreading much more quickly, resulting in more and more workers calling in sick to work. This development may prolong the period of supply-chain disruptions, which could depress economic growth while further boosting inflation. Let's have a closer look at the relevant data:

(1) *Pandemic.* The number of new Covid cases in the US hit a record-high 673,735 on January 10, using the 10-day moving average (*Fig. 9*). New cases may have peaked, as they since have edged down. Meanwhile, the number of Covid hospital patients rose to a new record high of 134,281 on January 14, also using a 10-day moving average.

Over in Europe, the sum of new cases in France, Germany, Italy, Spain, and the UK rose to a record of 843,623 on January 14, on a 10-day basis. The number of hospital patients in just France, Italy, and the UK rose to 56,000 on January 13. On Thursday, Jackie and I reviewed the extreme quarantine measures that the Chinese government is taking to achieve their zero-Covid policy—including shutting down factories, which could seriously disrupt global supply chains and boost prices further.

(2) *Economic indicators.* December's drop in retail sales was from a record high during November (*Fig. 10*). Rapidly spreading Omicron and rapidly rising inflation undoubtedly explain some of the weakness in retail sales at the end of last year. In addition, thanks to three rounds of government stimulus checks, consumers have more than satisfied their pent-up demand for goods, with the exception of autos, which remain in scarce supply as a result of parts shortages.

Eyeballing the chart, the retail sales level seems to be about $1 trillion (saar) above its pre-pandemic trend. The gap is less so on an inflation-adjusted basis. On the other hand, there isn't much of a gap anymore on an inflation-adjusted basis—real retail sales are back down to the pre-pandemic trend.

A slowdown in consumer demand for goods would be a very good opportunity for businesses to restock their depleted inventories. If that's what happens, then weakness in consumer spending would be offset by inventory accumulation in the GDP accounts. In

October, the real business inventories-to-sales ratio remained at its recent low of 1.38, which was the lowest since May 2013 (*Fig. 11*).

December's drop in industrial production reflected 0.3% and 1.5% m/m drops in manufacturing and utilities output. A 1.3% decline in auto manufacturing reflected the industry's supply-chain problems, especially shortages of crucial computer chips. Nevertheless, industrial production rose at a 4.0% annual rate during Q4-2021.

(3) *Inflation indicators.* There are a few signs that inflation may be peaking, but numerous other ones suggesting that it remains a persistent problem. Debbie and I are still targeting a core PCED inflation rate of 4.0%-5.0% through mid-year, then 3.0%-4.0% during H2-2022 and into 2023. We may have to raise the first target range depending on how December's PCED plays out when it is released on January 28.

We are still expecting that consumer durables prices will either stop going up or even fall in coming months. They've led the CPI's jump with one-year and two-year gains of 16.8% and 21.3% through December (*Fig. 12*). Here are the two-year price gains for specific durable goods categories: used cars (51.1%), new cars (13.9), motor vehicle parts (11.8), furniture & bedding (16.3), and appliances (12.5). Prior to the pandemic and since 1995, these prices tended to fall.

On the other hand, rent inflation is likely to move persistently higher during 2022. That's because the median price of an existing single-family home is up a whopping 32.3% over the past 24 months through November (*Fig. 13*). As a result, many would-be first-time homebuyers have been priced out of the market, boosting the demand for rental units. Rising mortgage rates will only reduce the affordability of housing. That will push rents higher too.

In the CPI, rent of shelter rose 4.2% y/y, the highest pace since February 2007 (*Fig. 14*). Here are the increases in its three components over the same period: owners' equivalent rent (3.8%, highest since April 2007), tenant-occupied rent (3.3%, highest since May 2020), and lodging away from home (24.2%, highest on record).

Movie. "Ray Donovan: The Movie" (+ + +) (*link*) is the final installment of the American crime drama series *Ray Donovan*, with a great performance by Liev Schreiber as Donovan. In February 2020, Showtime canceled the series after seven seasons. The movie does a great job of answering open questions left by the series, much more so than the "Many Saints of Newark" did for the TV series *The Sopranos*. Donavan is a professional "fixer." He uses bribes, payoffs, threats, and other illegal activities to protect his Hollywood celebrity clients. He has had a very challenging relationship with his father since he was a teenager, which helps to explain his chosen profession as well as his brooding and often violent personality. Like that of the Tony Soprano character, Donovan's family life is full of drama.

Calendars

US: Tues: Empire State Manufacturing Index 25.0; NAHB Housing Market Index 84; TIC Net Long-Term Transactions; API Weekly Cruse Oil Inventories; OPEC Monthly Report. **Wed:** Housing Starts & Building Permits 1.650mu/1.701mu; MBA Mortgage Applications; EIA Monthly Report. (Bloomberg estimates)

Global: Tues: European Car Sales; Eurozone ZEW Economic Sentiment 29.2; Germany ZEW Economic Sentiment 32.7; UK Employment Change (3M/3M) & Unemployment Rate 128k/4.2%; UK Claimant Count Change -38.6k; UK Average Earnings Including & Excluding Bonus 4.2%/3.8%. **Wed:** Eurozone Current Account; Germany CPI 0.5%m/m/5.3%y/y; UK Headline & Core CPI 0.3%m/m/5.2%y/y & 0.2%m/m/4.0%y/y; UK PPI Input & Output 0.7%m/m/13.7%y/y & 0.6%m/m/9.6%y/y; Canada Headline & Core CPI 4.7%/3.6% y/y; China PBOC Loan Price Rate; Japan Trade Balance; Australia Employment Change 30k; Australia Unemployment & Participation Rates 4.5%/66.2%; Bailey; Cunliffe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 0.4% last week to 3.2% below its record high on December 27. The index ranked 41st of the 49 global stock markets we follow in a week when 38 of the 49 countries rose in US dollar terms and the AC World ex-US index rose 1.0%. India and Taiwan were the only countries to trade at a record high in dollar terms during the week. EM Latin America was the best-performing region last week, with a gain of 5.0%, followed by BRIC (2.6%), EM Asia (2.4), and EMEA (1.3). EM Eastern Europe (-3.1), was the biggest underperformer, followed by EMU (0.0) and EAFE (0.2). Peru was the best-performing country last week, rising 7.7%, followed by Chile (7.1), Greece (6.8), Brazil (6.4), and Colombia (5.7). Among the 17 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst, with a decline of 5.4%, followed by Denmark (-3.2), Sweden (-1.9), Ireland (-1.8), and Switzerland (-1.7). The US MSCI ranks a depressing 44/47 so far in 2022, with its 2.7% decline well behind the 0.6% gain for the AC World ex-US. EM Latin America is the best-performing region, with a gain of 3.7%, ahead of EMEA (1.9), BRIC (1.8), and EM Asia (1.8). The laggards: EM Eastern Europe (-3.3), EMU (-0.2), and EAFE (-0.1). The best country performers so far in 2022: Peru (15.3), Turkey (9.4), Chile (9.2), Hungary (8.8), and Greece (8.2). The worst-performing countries: Denmark (-9.7), Russia (-6.6), the Netherlands (-4.5), Switzerland (-3.5), and Sweden (-3.5).

S&P 1500/500/400/600 Performance (*link*): SmallCap was the only index to move higher last week, posting a 0.3% gain compared to a 0.3% decrease for LargeCap and a 0.4% decline for MidCap. LargeCap is now 2.8% below its record high on January 3. MidCap ended 4.4% below its record high on November 16, and SmallCap improved to 5.3% below its November 8 record high. Nine of the 33 sectors rose last week, the same as a week earlier. SmallCap Energy rose 7.8% and was the best performer for the week, followed by MidCap Energy (5.9), LargeCap Energy (5.2), SmallCap Materials (1.1), and SmallCap Financials (1.0). SmallCap Utilities was the biggest underperformer last week, with a decline of 3.2%, followed by MidCap Consumer Discretionary (-2.1), LargeCap Real Estate (-2.0), MidCap Consumer Staples (-2.0), and LargeCap Consumer Discretionary (-1.5). In terms of 2022's ytd performance, all three indexes are lower so far; SmallCap's 1.0% decline is less than those of MidCap (-2.1) and LargeCap (-2.2). Just seven of the 33 sectors are positive so far in 2022. Energy and Financials dominate the top performers: SmallCap Energy (18.1), LargeCap Energy (16.4), MidCap Energy (13.3), MidCap Financials (6.6), SmallCap Financials (5.7), and LargeCap Financials (4.5). The biggest ytd laggards: MidCap Health Care (-9.2), SmallCap Health Care (-7.6), LargeCap Real Estate (-6.8), SmallCap Utilities (-6.0), MidCap Communication Services (-5.0), and LargeCap Health Care (-4.9).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 0.3% decline. That compares to a 1.9% decline for the S&P 500 a week earlier, when four sectors rose and six outperformed the index. Energy was the best performer, with a gain of 5.2%, ahead of Communication Services (0.5%), Tech (-0.1), and Health Care (-0.3). The worst performers: Real Estate (-2.0), Consumer Discretionary (-1.5), Utilities (-1.4), Financials (-0.8), Industrials (-0.6), Materials (-0.6), and Consumer Staples (-0.4). The S&P 500 is down 2.2% so far in 2022, with two sectors in positive territory and four ahead of the index. The best performers in 2022 to date: Energy (16.4), Financials (4.5), Industrials (0.0), and Consumer Staples (0.0). The ytd laggards: Real Estate (-6.8), Health Care (-4.9), Tech (-4.8), Consumer Discretionary (-4.0), Utilities (-3.0), and Communication Services (-2.2).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 0.3% last week, and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index closed below its 50-dma for a second week but above its 200-dma for an 81st straight week. The S&P 500's 50-dma is lower for the first time in 14 weeks, as the index dropped to 0.4% below its now-falling 50-dma from less than 0.1% below its rising 50-dma a week earlier. That compares to a 27-week high of 4.9% in early November and an 11-month low of 2.0% below in early October. The index had been mostly trading above its 50-dma since late April 2020; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for an 81st week last week, but dropped to a four-week low of 5.2% above its rising 200-dma from 5.9% 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*): Six of the 11 S&P 500 sectors traded above their 50-dmas last week, down from seven a week earlier, as Real Estate fell below that measure for the first time in 12 weeks. The other four sectors below their 50-dmas are Communication Services, Consumer Discretionary, Health Care, and Tech. That compares to just two sectors above in early October. Seven sectors have rising 50-dmas, down from nine a week earlier, as Industrials and Tech turned lower last week and joined Communication Services and Consumer Discretionary. Looking at the more stable longer-term 200-dmas, ten of the 11 sectors were above that measure. Communication Services was below for a second week, but 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

Retail Sales (*link*): Retail sales contracted sharply in December from November's record high, as fears of supply shortages ahead of the holiday season likely borrowed from future sales. Sales sank 1.9% in December—the steepest drop in 10 months—following a four-month surge of 3.9%. Despite December's loss, sales were up a whopping 19.3% from December 2020. Meanwhile, the control group—which excludes autos, gasoline, building materials, and food—fell for the second month, plunging 3.1% in December and 3.6% over the period, following a three-month jump of 4.8% to a new record high. Of the 13 retail sales categories, 10 categories fell during December; the only ones in the plus column were miscellaneous store retailers, building material & garden equipment & supplier dealers, and health & personal care stores. Here's a snapshot of the sales performances of the 13 categories during December, versus a year ago, and relative to their pre-Covid levels: miscellaneous store retailers (1.8, 20.6, 30.5), building materials & garden equipment & supplies dealers (0.9, 12.5, 26.9), health & personal care stores (0.5, 8.4, 11.4), motor vehicles & parts dealers (-0.4, 10.2, 19.7), food & beverage stores (-0.5, 8.4, 18.4), gasoline stations (-0.7%, 41.0%, 31.3%), food services & drinking places (-0,8, 41.3, 9.6), general merchandise stores (-1.5, 14.6, 14.7), electronics & appliance stores (-2.9, 14.6, 0.2), clothing & accessories stores (-3.1, 29.5, 15.5), sporting goods & hobby stores (-4.3, 18.1, 35.0), furniture & home furnishing stores (-5.5, 11.1, 12.8), and nonstore retailers (-8.7%, 10.7%, 25.9%).

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) dipped from 70.6 in December to 68.8 in early January—its second-lowest level in a decade, with November's 67.4 the lowest—averaging just 70.3 the past six months. The CSI averaged 82.9 during the first half of 2021. Both the present situation (to 73.2 from 74.2) and expectations (65.9 from 68.3) components declined in early January—the former the lowest since August 2011, and the latter falling back toward November's 63.5, which was the lowest since October 2013. The report notes that while the Delta and Omicron variants have contributed to this downshift in sentiment, rising inflation is also an important factor. Three-quarters of consumers ranked inflation, compared with unemployment, as the more serious problem facing the country. December's CPI jumped to 7.0% y/y—the highest since 1982—outstripping the increase in wages. When asked about their finances, 33% reported being worse off than a year ago—a percentage nearly matching April 2020's shutdown percentage of 32%. According to the report, "It's even starker among cash-strapped families; twice as many households with incomes in the bottom third as in the top third reported worsening finances."

Business Sales & Inventories (*link*): Nominal business sales in November climbed to another record high, while October real business sales (reported with a lag) remained stalled around March's record high, just 1.5% below. Nominal business sales advanced nine of the first 11 months of 2021, climbing 0.7% during November and 16.5% over the period. Meanwhile, real business sales have been more volatile, rising five months and falling five months through October, for a 10-month gain of 2.5%; real sales rose 0.3% in October, following a 0.5% gain in September—the first increases since June. Real sales for wholesalers rose in October for a fourth time in five months, up 0.2% m/m and 3.7% over the period to a new record, while real sales for retailers rebounded 1.4% during the three months through October after a four-month slide of 6.3%, leaving October sales 5.0% below March's record high. Real manufacturing sales remain in a volatile flat trend around recent lows after falling 6.1% from its recent peak at the start of 2021 through May. Meanwhile, the real inventories-to-sales ratio (1.38) held around recent lows again in October, down from 1.45 in February, while the nominal ratio edged up to 1.25 in November, after slipping back down to its record low of 1.24 in October.

Industrial Production (*link*): Output unexpectedly fell in December (from November's two-year high) as manufacturing production was hindered by supply shortages and unseasonably warm weather triggered a drop in utilities output. Headline production slipped 0.1% following a two-month jump of 2.0%, as declines of 0.3% and 1.5% in manufacturing and utilities output, respectively, more than offset a 2.0% advance in mining production. Pushing manufacturing output lower was a 1.3% drop in motor vehicle production in December, due to a shortage of computer chips, following wide swings of +12.8% during the two months ending November and -9.2% during the two months ending September. Motor vehicle production fell 5.9% y/y in December, while the overall manufacturing sector rose 3.5% y/y. By market group, consumer goods production (-0.2% y/y) was little changed from a year ago, with durable consumer goods (-1.0) output falling due to a drop in auto (-6.4) production, while nondurable consumer goods output was flat. Meanwhile, business equipment (3.7) production rose over the comparable period, as gains in information processing (7.9) and industrial (6.8) equipment more than offset a drop in transit (-5.9) equipment output.

Capacity Utilization (*link*): The headline capacity utilization rate ticked down to 76.5% in December after climbing the prior two months from 75.2% in September to a two-year high of 76.6% by November. The rate is 13.1ppts above April 2020's low of 63.4% and is currently 3.1ppts below its long-run average. The manufacturing rate slipped to 77.0% after a two-month climb from 75.7% in September to a 37-month high of 77.2% in November. It was within 1.2ppts of its long-run average. The capacity utilization rate for mining advanced for the third month, from 74.0% in September to 79.1% in December—the highest since March 2020—while the utilities rate edged down from 72.2% to 71.0% in December; the capacity utilization rates for both remained well below their long-run averages.

Producer Price Index (*link*): December saw the producer price index for final demand post its smallest monthly increase since November 2020 as core prices matched its smallest gain—posted in both September and February—with the former increasing 0.2% and the latter 0.5%. They both averaged monthly gains of 0.8% during the first 11 months of 2021. The yearly rate for the headline (9.7% y/y) measure barely budged from November's record-high 9.8%, while the core rate (9.4) held at November's record high. During December, final demand goods prices (-0.4) posted the first monthly decline since April 2020, led by a 3.3% drop in energy prices, with food prices 0.6% lower. The yearly rate eased to 13.4% y/y after accelerating steadily from -5.2% y/y in April 2020 to a record-high 14.9% by November 2021. Prices for final demand services increased 0.5% in December, slowing from November's 0.9% though faster than October and September gains of 0.2% and 0.1%, respectively. The yearly rate accelerated to a new record high of 7.9%. Looking at pipeline prices, pressures remain very high, though have eased. The yearly rate for intermediate goods prices slowed to 24.3% from November's 26.5% y/y—which was its highest rate since the mid-1970s—while the rate for crude prices slowed to 38.1% from 49.4% in November and its record-high 59.4% during April.

Import Prices (*link*): Import prices fell 0.2% in December, its first decline in four months and only the second during all of last year, as petroleum prices fell in December and the increase in nonpetroleum prices was cut in half from prior months. Petroleum prices dropped 6.0% in December after a 72.3% surge the first 11 months of the year, with the yearly rate slowing for the second month to 62.0% y/y in December from 89.8% in October; it peaked at 137.5% in April. Meanwhile, nonpetroleum prices increased 0.3% following gains of 0.7% in each of the prior two months, with the yearly rate at 6.8%, easing a bit from November's 7.0%—which was the highest since summer 2008. The yearly rate for industrial supplies & materials imports eased to 36.2% in December, down from May's record-high 55.2%. The rate for capital goods has been on an accelerating trend since bottoming at -2.0% y/y in November 2019, climbing to 2.3% in December 2021—which is the highest since spring 2008. The rate for consumer goods ex autos (2.2% y/y) is the highest since April 2012, while the rate for autos (2.8) is the highest since March 2012. The rate for food prices (13.7) is accelerating sharply, posting its highest yearly rate since September 2011 in December; the rate had been bouncing around zero over the past few years.

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