MORNING BRIEFING
February 3, 2022

Coming Home

Check out the accompanying *chart collection*.

(1) Looking at positive possibilities. (2) An end to Covid, an unkinked supply chain, and peaking inflation. (3) More US manufacturing bulks up at home. (4) Billions earmarked for new semi plants. (5) Auto companies retooling old plants, building new ones. (6) Bills would offer enticements to onshore. (7) Small manufacturers jump on the trend, too. (8) Robots counter rising labor costs. (9) Stretch helps DHL in warehouses. (10) Introducing Elon Musk's Optimus robot. (11) Robots pouring coffee and mixing cocktails at the Olympics.

Strategy: What Could Go Right? In January, we learned that the Fed's U-turn from easy to tight monetary policy is spooking stock investors. And of course, the Fed hasn't even started to raise the federal funds rate or reduce the size of its balance sheet yet. In other words, the Fed will probably continue to spook investors.

So what could possibly calm them down? The following would help:

(1) *A retreat by Covid-19 and its Teenage Ninja Warrior Mutants.* The latest wave of the pandemic does seem to be abating faster than the previous waves (*Fig. 1*). The 10-day moving average of US Covid-19 cases peaked at a record high of 755,428 on January 14. It was down 41% to 442,791 on January 28. Covid-related deaths are also starting to decline (*Fig. 2*). Let's cross our fingers.

(2) *Fewer supply-chain disruptions.* Yesterday, we observed that we are making some progress in getting the kinks out of the supply chain. That's apparent in declining unfilled orders and delivery times according to the available January surveys of regional and nation businesses (*Fig. 3* and *Fig. 4*).

(3) *A peak in inflation.* January data for prices-paid and prices-received indexes in five of the Fed districts aren't getting any worse, on balance; meanwhile, the national manufacturing prices-paid index rose in January but remains well below its 2021 peak (*Fig. 5* and *Fig. 6*).

Strength in Japan's auto production in November and December suggests that the auto industry may be finding the semiconductor chips needed to build more cars, which should bring soaring used and new car prices back down (*Fig. 7*).

(4) *A diplomatic solution of the Ukraine crisis.* That would help to bring oil prices down. The problem is that Russian President Vladimir Putin has a history of invading his neighbors right after the Winter Olympics. He grabbed Crimea right after the games ended in 2014. So let's see whether at the end of this month he sends his tanks over the still-frozen ground to mount a blitzkrieg against Ukraine.

(5) *Lots of M&A activity.* As we discussed on Tuesday, January was a great month for M&A, especially in the beat-down tech sector. Tech deals more than doubled from a year earlier to hit $156 billion. That's the biggest month for the sector since January 2000 and the second-highest tally on record, according to data compiled by Bloomberg. The "Fed put" may be kaput, but maybe the "CFO put" will take its place.

(6) *More buybacks.* Following the latest earnings season, buybacks are bound to be strong again. Corporations have plenty of cash not only for M&A, but also for buybacks. They rose to a record high during Q3-2021 (*Fig. 8*).

(7) *No more fiscal follies.* Odds are there won't be any more trillion-dollar fiscal extravaganzas anytime soon. Key swing vote Senator Joe Manchin of West Virginia offered a grim pronouncement on the status of President Joe Biden's remaining domestic agenda, saying on Tuesday that the Build Back Better act is "dead."

(8) *Possibility that valuation correction may be over.* Slower economic growth and peaking inflation this year could lower expectations for the number of rate hikes by the Fed in 2022. Interestingly, the 2-year US Treasury note yield peaked at 1.228% on January 28 at 7:55 a.m. EST. It was back down to 1.145% yesterday at 4.25 p.m. EST. If market expectations of the number of rate hikes stop rising or even go down a bit more, we reckon the valuation correction might be over.

(9) *Bottom line.* That's what could go right. Of course, the flipside of these represents what could go wrong if the happy outcomes don't unfold.

Industrials: US Manufacturing Gains Steam. Covid-19 royally screwed up supply chains. In 2020, we were scouring shelves for toilet paper and face masks. In 2021, a drought of semiconductors crimped the production of new cars and counting container ships at sea became a cottage industry. The holiday Covid surge found us scrambling for at-home test kits. And just a few weeks ago, there were no chicken pieces on the shelves of Jackie's local grocery store. As one TV announcer joked, "Where are we—Russia?"

Manufacturers are responding by adding manufacturing capacity in the US, either moving some from overseas or adding brand new capacity. Announcements about plans to build large manufacturing plants in the US have come fast and furiously in recent weeks from the likes of Intel, GM, Toyota, Micron Technology, Samsung, and US Steel. It continues the trend we first highlighted in the February 11, 2021 *Morning Briefing*.

Supporting the expansion of US manufacturing capacity are some important trends: Soaring shipping costs and delays are minimized by sourcing supplies and manufacturing products closer to end customers. Less shipping helps companies pitch themselves as "green" to ESG investors. The falling cost of electronics has made it cheaper to automate manufacturing lines even as robots grow increasingly sophisticated. The result: smaller payrolls that help the US compete with low-wage countries. In addition, the US government is working on offering financial incentives to manufacturers that build plants in the US to promote production of goods that are important to national security. Meanwhile, the hostile attitude of China's President Xi toward some major domestic businesses doesn't exactly encourage US companies to set up shop there.

Some 83% of manufacturers *surveyed* by Thomas in July 2021 said they are likely, very likely, or extremely likely to add North American suppliers to their supply chains within a year, up sharply from 54% in March 2020. The economic impact could be substantial. If 83% of the 579,811 manufacturers in the US bring on one new US supplier at an average of $921,247 per contract, it could inject $443 billion into the economy, Thomas calculates. The study found that 94% of the manufacturers surveyed cited availability and lead times as the most important factors when choosing new suppliers. However, 40% of respondents said that price was a barrier to sourcing in the US and Canada.

Here's Jackie's recap of the recent announcements about new manufacturing US plants:

(1) *Semis hedging their bets.* Several large semiconductor manufacturers have announced plans to produce chips in the US. The most recent came from Intel, which plans to spend $20 billion to build two fabs set to open in Ohio in 2025. The state shelled out more than $2 billion in incentives to lure the company to the heart of the Rust Belt. In addition, the city of New Albany offered Intel a 30-year, 100% property tax abatement on new buildings in the city's business park. In return, the state gets plants that are expected to employ thousands of workers at an average annual salary of $135,000, a January 31 Axios *article* reported.

Former President Donald Trump made bringing manufacturing back to the US a theme of his presidency, focusing on tariffs. Several bills working their way through Congress would provide financial incentives to build plants in the US. President Biden supports the America COMPETES Act in the House. It includes $52 billion to subsidize US semiconductor manufacturing and research and may be up for a vote on Friday, a February 1 Reuters *article* reported. The Senate has already passed the US Innovation and Competition Act, which includes the $52 billion semiconductor production subsidy and also authorizes $190 billion to enhance US research and technology to compete with China.

Samsung announced in November that it plans to build a $17 billion semiconductor fab near Austin, Texas. When the plant was announced, Samsung Electronics' Device Solutions Division CEO Kinam Kim "thanked the Biden Administration and U.S. lawmakers for bipartisan support to swiftly enact federal incentives for domestic chip production and innovation. Samsung did not disclose the details on the incentives," a November 24 EE Times *article* reported. The plant is expected to ramp production in late 2024.

Taiwan Semiconductor Manufacturing kicked off the trend in May 2020, when it agreed to build a $12 billion manufacturing plant in Arizona to make 12-inch wafers using 5-nanometer technology. It should be up and running by 2024.

Micron Technology is considering various states for its new $40 billion plant, a January 6 *article* in *Idaho Statesman* reported. The company also reportedly plans to shut a DRAM memory design operation in Shanghai by year-end, with 150 Chinese engineers asked to relocate to the US or India, a January 26 *article* in the *South China Morning Post* reported. Micron said it plans to focus instead on NAND technology and solid-state drive memory at its Shanghai office, but the article speculated that the company was hoping to prevent talent loss—and technology leaks—to competitors in China.

(2) *Autos loving the US of A, too.* Auto manufacturers are spending billions to restructure their production capacity to make electric vehicles (EVs) and batteries. In late January, General Motors announced plans to spend almost $7 billion to build plants to produce EVs and batteries in Michigan; the company will receive $824.1 million in incentives from the state. The project involves both converting an existing truck factory and building a battery factory with partner LG Energy Solution. The company will also spend $500 million on two assembly plants. GM has committed to spending a total of $35 billion on EVs and autonomous vehicles through 2025. Yesterday, the company announced it would accelerate its transition to EV production and will establish a third factory to build EV trucks.

Ford also reportedly plans to increase its spending on EVs by $20 billion over the next decade, converting factories worldwide to EV production from gas-powered-car production, a February 1 Bloomberg *article* stated. This is in addition to the $30 billion the company has already committed to spend on EVs through 2025. Ford previously had announced plans to spend $11.4 billion to build three battery factories with SK Innovation and an EV truck plant in Kentucky and Tennessee.

And in December, Toyota announced it would build a new $1.3 billion battery plant in North Carolina.

Notably, EVs have fewer parts than gas-powered engines. These announcements fail to discuss what plants run by the manufacturers or their parts suppliers will be mothballed if consumers switch to buying EVs.

(3) *Smaller manufacturers expanding in US, too.* Anecdotal tales of smaller companies increasing their manufacturing presence in the US abound these days. Brecher Manufacturing, which specializes in sheet metal fabrication and plastic molding, is expanding in Riverside, California. The company "has worked with partners in China, but has seen a 'huge spike' in demand for the convenience of U.S. manufacturing," a January 5 Plastics News *blog post* stated.

Carey Manufacturing in Cromwell, CT outsourced its manufacturing to China in the early 2000s. It reversed the flow in 2017 when the US began placing tariffs on Chinese imports. The move cost about $5 million but saved Carey the logistical problems of shipping from China many importers are facing. Soon, 100% of Carey's production will be back in Connecticut, a November 15 *article* in the Hartford Business Journal reported.

Luxury kitchen and bath fabricator Italkraft opened its first US-based manufacturing facility in Miami in December. And trade furniture brand Sherrill spent almost $3 million to convert a warehouse into a plant for custom upholstery production. mDesign has been moving Chinese production to the US, which it will continue to do in 2022. The CEO told *Business of Home* in a January 5 *article*, "Until last year, it would never have been cost-effective to move operations like these out of China … It's not just about the cost anymore. The goal now is to get production closer to distribution and meet the surging demand. Every company wants that capability."

(4) *Impact on real estate.* E-commerce tenants have dominated demand for industrial real estate as they look for warehouse space. But if more manufacturers expand in the US or

onshore their overseas operations, expect demand for industrial real estate to increase.

"Demand for U.S. manufacturing space was strong in 2021, with close to 40 million sq. ft. of positive net absorption for the year, more than double the 17 million sq. ft. absorbed in 2020 and the most since 2016," reported a January 13 Wealth Management *article* citing data from CBRE. Vacancy rates for industrial properties in the coastal markets are close to zero, so demand should shift to the Midwest where there's more raw land for development. Commercial real estate services firm Savills *projects* that over the next five years, 68 metro markets in the US and Canada will add 10 million square feet or more of industrial space.

Disruptive Technologies: Robots in Factories and at the Olympics. The trend of onshoring manufacturing is undoubtedly helped by the increasing dexterity and falling costs of robots. The use of industrial robots in factories around the world has almost doubled over the past five years, according to an International Federation of Robotics *report*. There were 126 robots per 10,000 employees on average in manufacturing in 2020, up from 66 in 2015. The greatest robot density is in Korea (932 per 10,000 workers), followed by Singapore, Japan, Germany, Sweden, Hong Kong, US, Taiwan, and China.

Let's take a look at Stretch, Optimus, and the many robots serving Olympics goers:

(1) *Robots in warehouses.* DHL Supply Chain announced last month that it was investing $15 million to buy "Stretch" from Boston Dynamics for its North American warehouses. Stretch will unload boxes from trucks initially and subsequently do other warehouse jobs, a January 31 Transport Topics *article* reported. Stretch may not dance like Boston Dynamics' *robot dogs*, but it will start working this spring.

(2) *Robots at Tesla.* Of course, the robot we can't wait to see is the one Tesla CEO Elon Musk is cooking up. On Tesla's recent earnings call, he said, "This I think has the potential to be more significant than the vehicle business over time." The understated leader calls his humanoid robot "Optimus." It will stand five feet eight inches tall, weigh 125 pounds, and be able to carry 125 pounds, a January 28 CNN Business *article* reported. Musk plans to put Optimus to good use in Tesla factories.

(3) *Robots at the Olympics.* Robots are becoming more interactive with humans. At the 2022 Winter Olympics in Beijing, a robot bartender is serving up drinks, a robot barista is whipping up cups of coffee, and yet another machine is delivering perfect cups of soft-serve ice cream, a January 31 *article* in *The Cut* reported. Food is delivered via a mobile shelf that drops down from the ceiling to a diner's location. And room service is the specialty of a

short, rectangular mobile robot. Check out the article's video of the robots in action.

Calendars

US: Thurs: Initial & Continuous Jobless Claims 245k/1.62m; ISM & IHS Markit NM-PMIs 59.5/50.9; Motor Vehicle Sales; Factory Orders -0.2%; Productivity & Unit Labor Costs 3.2%/1.5%; Natural Gas Storage. **Fri:** Payroll Employment Total, Private, and Manufacturing 150k/150k/25k; Average Hourly Earnings 0.5%m/m/5.2%y/y; Unemployment Rate 3.9%; Average Weekly Hours 34.7; Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone, Germany, and France C-PMIs 52.4/54.3/52.7; Eurozone, Germany, and France NM-PMIs 51.2/52.2/53.1; UK C-PMI & NM-PMI 53.4/53.3; ECB Interest Rate Decision 0.00%; BOE Interest Rate Decision 0.50%; RBA Monetary Policy Statement; Bailey. **Fri:** Eurozone Retail Sales -0.5%m/m/5.1%y/y; Germany Manufacturing Orders 0.5%; France Industrial Production 0.5%; Canada Employment Change & Unemployment Rate -117.5k/6.2%; Broadbent. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) remained below 2.00 for the fourth week this week, though ticked up to 1.43 this week, after falling the prior three weeks from 2.15 to 1.31—which was the lowest since mid-April 2020. Bullish sentiment rose for the first time in four weeks to 35.7% after sliding 15.7ppts (to 34.9% from 50.6%) the prior three weeks. The correction count climbed for the fourth successive week by 13.4ppts (39.3 from 25.9) over the period—to its highest percentage since March 2020. Bearish sentiment slipped to 25.0% after climbing from 23.0% to 26.7% the prior two weeks. The AAII Ratio dropped for the fourth week last week to 30.4%—the lowest since late July 2020—after rebounding the prior two weeks from 39.1% to 55.2%, as bearish sentiment rose from 30.5% to 52.9% over the period. Bullish sentiment ticked up last week to 23.1% after falling the prior three weeks from 37.7% to 21.0%.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was steady at a record high of 13.3% last week. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 3.0ppts from 10.3%

during April 2020, which was the lowest level since August 2013. Forward revenues and forward earnings per share were also at record highs. They've both been making new highs since the beginning of March 2021 after peaking just before Covid-19 in February 2020. Since the Q2-2021 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown period. Prior to this catch-up period, consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth rose 0.3ppt w/w to 7.6%, just above its 12-month low of 7.1% in early December. That's down from a record high of 9.6% growth at the end of May 2021 and should continue to move lower as base effects subside. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.2ppt to 8.8%. It remains above its 16-month low of 8.2% in early December, but should also continue to move lower due to base effects. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. On a positive note, this year analysts have been raising their consensus forecasts for 2021 and 2022 revenues and earnings growth; the imputed profit margin estimate that we calculate from those forecasts has been rising too. They expect revenues to rise 16.2% in 2021 (down 0.1ppt w/w) and 8.0% (up 0.3ppt w/w) in 2022 compared to the 2.1% decline reported in 2020. They expect earnings gains of 50.5% in 2021 (down 0.1ppt w/w) and 8.8% in 2022 (up 0.2ppt w/w) compared to a 13.4% decline in 2020. Analysts expect the profit margin to rise 3.0ppts y/y in 2021 to 13.1% (unchanged w/w) from 10.1% in 2020 and to improve 0.1ppt y/y to 13.2% in 2022 (unchanged w/w). The S&P 500's weekly reading of its forward P/E fell 0.8pt to a 21-month low of 19.5. That's down from an eight-month high of 21.7 at the end of 2021 and compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio fell 0.11pt w/w to an 11-month low of 2.59, and is down from a record high of 2.88 at the end of 2021. That's up from its four-month low of 2.69 in mid-October and compares to its prior record high of 2.86 at the end of November and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for nine of the 11 S&P 500 sectors, forward earnings move higher for seven sectors, and the forward profit margin rise for two sectors and fall for three. Nearly all sectors are at or near record highs in their forward revenues, earnings, and profit margin. Energy still has forward revenues and earnings well below record highs, but its profit margin is the highest since November 2008. Financials, Real Estate, and Utilities have forward earnings at or near record highs, but their forward revenues and margins are lagging. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. For 2021, a y/y improvement is expected for all but Utilities. Four sectors are expected to see margins decline or remain flat y/y in 2022: Communication Services, Financials, Information Technology, and Real Estate. The forward profit margin was at record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.0%, down from its 25.1% record high in December), Communication Services (16.6, down from its 17.0 record high in October), Real Estate (16.6, down from its 19.2 record high in 2016), Utilities (14.6, down from its 14.8 record high in April), Materials (13.3, down from its 13.4 record high in December), S&P 500 (13.3, a record high this week), Health Care (11.4, a record high this week), Industrials (10.1, down from its 10.5 record high in December 2019), Consumer Staples (7.6, down from its 7.7 record high in June), Consumer Discretionary (8.0, down from its 8.3 record high in 2018), and Energy (9.3 [13-year high], down from a record-high 11.2 in 2007).

S&P 500 Sectors Forward Revenues and Earnings Recovery from Covid-19 Trough (*link*): The S&P 500's forward revenues and earnings as well as its implied forward profit margin bottomed at cyclical lows on May 28, 2020 after 14 weeks of Covid-19-related declines. Forward revenues and earnings have risen 23.5% and 59.9%, respectively, since then to new record highs. The forward profit margin has risen 3.3ppts to a record high of 13.3%. That exceeds its prior pre-Covid record of 12.4% in late 2018. During the latest week, consensus forward revenues rose for nine of the 11 S&P 500 sectors, forward earnings moved higher for seven sectors, and the forward profit margin rose for two sectors and fell for three. Here's how the S&P 500 and its 11 sectors rank by their changes in forward revenues and forward earnings since May 28, 2020: Energy (forward revenues up 44.8%, forward earnings up 2,257.5%), Materials (34.8, 104.0), Information Technology (29.9, 49.1), Industrials (27.8, 76.3), Communication Services (25.9, 56.4), S&P 500 (23.5, 59.9), Financials (21.6, 67.5), Health Care (19.5, 36.3), Consumer Discretionary (18.4, 103.0), Real Estate (14.9, 34.1), Consumer Staples (14.7, 21.2), and Utilities (0.5, 5.9).

S&P 500 Q4 Earnings Season Monitor (*link*): With nearly 43% of S&P 500 companies finished reporting revenues and earnings for Q4-2021, revenues have beat the consensus forecast by 2.8% and earnings by 5.0%. The earnings surprise is substantially weaker than those seen since Q1-2020. At the same point during the Q3 season, revenues were 2.3% above forecast and earnings beat by 12.8%. For the 214 companies that have reported Q4 earnings through mid-day Wednesday, the aggregate y/y revenue and earnings growth rates have slowed considerably from their readings during Q2 and Q3. The sample of Q4 reporters so far collectively has a y/y revenue gain of 18.1% and an earnings gain of 30.4%. Just 78% of the Q4 reporters so far has reported a positive earnings surprise, not much higher than the 77% that has beaten revenues forecasts. However, fewer companies have reported positive y/y earnings growth in Q4 (81%) than positive y/y revenue growth (89). These figures will change markedly as more Q4-2021 results are reported in the coming weeks, but the early read on the earnings surprise is disappointing compared to the previous six quarters. We expect the y/y growth rates to continue easing in Q4 compared to Q2 and Q3. We think the revenues and earnings surprises will moderate q/q as well due to missed deliveries, higher costs, and increased company guidance ahead of the earnings season.

US Economic Indicators

ADP Employment (*link*): "The labor market recovery took a step back at the start of 2022 due to the effect of the Omicron variant and its significant, though likely temporary, impact to job growth," said Nela Richardson, chief economist, ADP. "The majority of industry sectors experienced job loss, marking the most recent decline since December 2020. Leisure and hospitality saw the largest setback after substantial gains in fourth quarter 2021, while small businesses were hit hardest by losses, erasing most of the job gains made in December 2021." Private payroll employment plunged 301,000 in January, following a downwardly revised 776,000 (from 807,000) gain in December—which was the second strongest reading last year. Private payrolls are up 15.5 million since the recovery began though are still 4.1 million short of pre-Covid 19 levels. ADP's employment report was a sea of red in January, with service-providing companies cutting 274,000 jobs and goods-producers 27,000—with only professional & technical services (4,000) adding jobs in the service sector and natural resources & mining (4,000) in the goods-producing sector. Leisure & hospitality (-154,000) posted the biggest decline—accounting for half the decline in total job losses last month—followed by trade, transportation & utilities (-62,000), other services (-23,000), and manufacturing (-21,000); cuts in the remaining industries ranged from 2,000 to 10,000. Here's a tally of industry performances from strongest to weakest since bottoming in April 2020 and relative to February 2020 levels: leisure & hospitality (+5.8 million, -1.9 million), trade transportation & utilities (+2.4 million, -684,000), health care & social assistance (+1.9 million, -222,000), manufacturing (+1.1 million, -230,000 construction (+1.1 million & +137,000), other services (+1.0 million, -246,000), administrative & support services (+994,000, -554,000), professional & technical services (+604,000, +71,000), education (+352,000, -97,000), financial activities (+237,000, -28,000), natural resources & mining (+46,000, -6,000), information services (+8,000, -255,000), and management of companies & enterprises (+5,000, -77,000). Here's the same exercise by company size: large (+6.3 million, -3.0 million), small (+4.9 million, -438,000), and medium (+4.3 million, -646,000).

JOLTS (*link*): Job openings continued to bounce around record highs in December, while the number of quits were within 161,000 of November's record high. Job openings increased 150,000 at the end of last year to 10.925 million, after falling 316,000 in November from October's 11.091 million—which virtually matched July's record high of 11.098 million. There were 6.3 million unemployed in December, so there were 1.7 million available jobs for each unemployed person—the most on record going back two decades. December's increase in job openings was led by accommodation & food services (133,000), information services (40,000), nondurable goods manufacturing (31,000), and state & local government education (also 31,000). Meanwhile, the biggest declines occurred in the finance & insurance (-89,000) and wholesale trade (-48,000) industries. Turning to quits, this measure is generally voluntary separations initiated by the employee and therefore can be viewed as the workers' willingness and ability to leave jobs. The number of quits remained on a sharp accelerating trend in December. Quits dipped a bit in December, by 161,000 to 4.3 million, albeit after soaring five of the prior six months by a total of 869,000 to a record-high 4.5 million. Before the pandemic, quits hovered around 3.5 million. Many employers are raising wages and incentives amid a severe labor shortage, which gives workers confidence that they can get better pay elsewhere. Meanwhile, hirings fell 333,000 in December to 6.264 million—the largest monthly decline in a year—reflecting a surge in Omicron cases during the month.

Global Economic Indicators

Eurozone CPI Flash Estimate (*link*): The headline CPI is expected to accelerate for the seventh month, from 1.9% last June to a record-high 5.1% y/y in January. The rate was at -0.3% at the end of 2020. Looking at the main components, once again energy is expected to post the largest gain, accelerating for the 13th time in 14 months to a record-high 28.6% y/y, up from -8.3% in November 2020. The rate for food, alcohol & tobacco is forecast to reach a 21-month high of 3.6% y/ in January, rising steadily from June 2021's 0.5%, while the rate of non-energy industrial goods is expected to ease to 2.3% y/y after rising steadily from 0.3% last March to 2.9% by the end of the year—which was the highest since the early 1990s. The services rate is forecast to hold at 2.4% y/y in January; it had soared to 2.7% in November—which was the highest since summer 2008. The core rate is predicted to slow to 2.3% y/y in January from 2.6% the final two months of 2021—which was the highest since the mid-1990s. Of the top four Eurozone economies, rates for Spain (6.1% y/y) and Italy (5.3) are expected to be above the headline rate of 5.1%, while France's (3.3) is expected to be below; Germany's is predicted to match the headline rate of 5.1%.

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