MORNING BRIEFING
February 7, 2022

Another Year of Living Dangerously

Check out the accompanying chart collection.

(1) Here is how the federal government mucked up the labor market and Fed policy. (2) Subsidizing unemployment creates more unemployment. (3) Lots of workers out sick during January. (4) Earned Income Proxy at record high, but inflation erodes its purchasing power. (5) Big upward revisions in payrolls. (6) Nearing full recovery in full-time jobs. (7) Early in a productivity growth boom ignited by chronic labor shortages. (8) Through a dark mirror and things that go bump in the night. (9) The cases for several bad happenstances. (10) Another oil shock combined with wage-price spiral? (11) Axis of Evil. (12) Movie review: "Help" (+ + +).

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

US Labor Market I: The Visible (Federal) Hand. Friday's employment report for January was much better than widely expected after Wednesday's release of the ADP measure of private payrolls showing a decline of 301,000 during the month. That makes sense since the Omicron variant of Covid-19 caused lots of people to get sick, keeping them from taking new jobs. However, the month's gain of 444,000 in private payrolls, as reported by the Bureau of Labor Statistics (BLS) on Friday, also makes sense since sick workers mostly remained on payrolls and employers are desperately seeking more workers.

Debbie and I are siding with the BLS head count. That's partly because the federal government's on-again, off-again pandemic relief programs have had a significant impact on the labor market. Consider the following:

(1) President Joe Biden's American Rescue Plan (ARP) enacted on March 11, 2021 included $300 per week in federal supplemental unemployment benefits through September 6. Since they were terminated, initial unemployment claims fell below 300,000 per week and have hovered around 200,000.

(2) The ARP also expanded the child tax credit for tax year 2021. The credit reverted to previous amounts this year. That might explain why the labor force surged by 1.4 million

during January. January's household measure of employment jumped 1.2 million. The overall labor force participation rate rose 0.3ppts to 62.2% during the month.

The data certainly suggest that when the federal government stopped subsidizing unemployment with ARP benefits, the result has been less unemployment! That's not a political statement; it's just our observation. We are all for short-term state-issued unemployment benefits.

(3) In our opinion, the FOMC failed to seriously consider that last year's disappointing recovery in the labor market might have been mostly attributable to the federal support programs. The result was that the Fed kept monetary policy too easy for too long and fell well behind the inflation curve, which has been boosted by the rapidly tightening labor market in recent months!

US Labor Market II: Workers' Paradise? Omicron did have an impact on some of January's employment data reported on Friday by the BLS. The number of workers out sick jumped from 1.5 million during November to 3.6 million during January (*Fig. 1*). Average weekly hours worked in total private industries dropped 0.6% during January to 34.5 hours (*Fig. 2*). Most of the other data we track in the employment report were very strong:

(1) *Earned Income Proxy.* Our Earned Income Proxy (EIP) for wages and salaries in private industries rose 0.5% m/m to another record high during January (*Fig. 3*). The 0.6% drop in the average workweek was offset by the 0.4% increase in private payrolls and the 0.7% increase in average hourly earnings.

The problem is that inflation has been eroding some of the purchasing power of the 9.5% y/y gain in our EIP through January, as the PCED measure of consumer prices rose 5.8% y/y through December.

(2) *Revisions.* November and December payroll employment was revised up by a whopping 757,000 (*Fig. 4*). Over the past 12 months through December, revisions added 1.3 million to the total 6.7 million gain. Upward (downward) revisions typically occur during economic expansions (recessions). If the FOMC had anticipated such upward revisions, the committee might have moved faster to tighten monetary policy.

(3) *Household employment.* Payroll employment measures the number of jobs. Household employment, which counts the number of workers, jumped 1.2 million during January, led by a 1.0 million increase in full-time employment to its highest reading since December

2019 and only 0.3% below its record high during October 2019 (*Fig. 5*).

US Labor Market III: Tracking the Productivity Boom. Debbie and I continue to forecast that productivity growth will boom during the Roaring 2020s. So we were pleased to see that productivity jumped 6.6% (saar) during Q4-2021, following a drop of 5.0% during the previous quarter. The data are very volatile on a q/q basis. On a y/y basis, productivity rose 2.0% during the final quarter of 2021 (*Fig. 6*). Productivity growth will probably be weak again during the current quarter given that the data so far suggest a slowdown in real GDP and strength in employment.

Nevertheless, we believe that the economy is in the early phase of another productivity growth boom that has the potential to generate 3.5%-4.5% annual rates by the second half of the current decade. That might seem unrealistically optimistic, but growth rates that high marked the peaks of the previous three productivity booms in the US (*Fig. 7*).

Driving the productivity boom is the structural shortage of labor. The civilian working-age population rose just 0.5% y/y during December, while the civilian labor force increased only 0.7% (*Fig. 8*). Businesses are increasingly responding to the chronic labor shortages by spending more on productivity-enhancing capital equipment and technologies.

Strategy I: What Could Go Wrong? Last Monday, Joe and I lowered our year-end target for the S&P 500 from 5200 to 4800, which would be unchanged from the start of this year. We moved our 5200 target to the second half of 2023. Nevertheless, on Thursday of last week, we came up with a list of eight concerns hanging over the market that could "go right."

The flipside of that same list is that a few or some or all of them could go wrong. Let's have another look at the what-could-go-right list from the perspective of what could go wrong. The following isn't a mirror image of the happy-go-lucky list as reflected from the dark side. But it does assess the outlook from a more pessimistic perspective:

(1) *Credit crunch.* In the past, most recessions were caused by credit crunches, which occurred during the tightening phases of the Fed's monetary policy cycle. These credit crunches were typically triggered by a financial crisis (*Fig. 9*). That's unlikely to happen anytime soon given that the Fed hasn't even started to raise the federal funds rate (FFR) from zero, even though the 2-year Treasury note yield, at 1.31% on Friday, is anticipating that's where the FFR will be in a year (*Fig. 10*). Presumably, that will entail five hikes of 25 bps each. In addition, the Fed hasn't started to reduce its balance sheet, which actually rose

$116 billion ytd to a record high of $8.8 trillion during the week of February 2 (*Fig. 11*).

As we've mentioned before, it's hard to see a credit crunch with M2 currently exceeding its pre-pandemic trend by $3 trillion (*Fig. 12*). Nonfinancial corporations raised a whopping $2.5 trillion in the corporate bond market over the past two years (*Fig. 13*). They refinanced lots of their debt at record-low interest rates. And they are still sitting on a record $6.9 trillion pile of liquid assets, or $3.7 trillion excluding their holdings of equities and mutual fund shares, according to Fed data (*Fig. 14*). They are using some of that cash to buy back shares and acquire other companies. As we observed a week ago, the "Fed Put" is kaput, but it has been replaced with the "CFO Put."

Nevertheless, we can't rule out a financial crisis that might cause a credit crunch and a recession. Such crises tend to occur unexpectedly when the Fed is tightening monetary policy, which is what the Fed is about to do.

(2) *Bursting bubbles.* So what could possibly cause a recession? Bursting asset bubbles triggered the credit crunches that caused the recessions of 2000 and 2008. This time, lots of air has come out of several mini-bubbles in the stock market without any dire consequences for the financial system or the economy.

However, Jeremy Grantham, cofounder and chief investment strategist of GMO, has warned that a "superbubble" is about to burst not only in the stock market but also in the bond, housing, and commodity markets. He could be right if inflation doesn't peak soon but instead continues to soar. In this grim scenario, the Bond Vigilantes might make a forceful comeback. Money might pour out of bond funds as well as institutional and individual portfolios, sending yields shockingly high, well above current consensus forecasts of 2.00% to 2.50%. Soaring mortgage rates could cause home prices, which are up 30% over the past two years, to plunge. All that could trigger a bear market in stocks and a recession that would depress commodity prices.

Exacerbating a bear market in stocks could be panic selling of equity exchange-traded funds (ETFs)—i.e., indiscriminate selling of whatever stocks are in the ETFs, no matter their valuations or fundamentals.

(3) *Oil price spike.* And what about a significant spike in oil prices? Such spikes coincided with five of the past seven recessions (*Fig. 15*). It's possible that oil prices are about to spike significantly higher even though the price of a barrel of Brent closed at $93.36 on Friday, up 57% y/y and the highest since September 2014.

The problem that's driving prices up is that climate activists have succeeded in forcing fossil fuel producers in the US and Europe to slash their capital spending on finding and extracting oil and gas. US frackers have yet to boost their production in response to surging oil prices, suggesting that they can't—simply because their wells are increasingly less productive because they are running dry (*Fig. 16*).

This is the theme of a February 3 *WSJ* *article* titled "Oil Frackers Brace for End of the U.S. Shale Boom." It concluded: "The limited inventory [of oil] suggests that the era in which U.S. shale companies could quickly flood the world with oil is receding, and that market power is shifting back to other producers, many overseas." Sadly, that "era" lasted only a few years.

A February 1 Bloomberg *article* reported that OPEC+ agreed to increase oil deliveries by 400,000 barrels per day. However, for various reasons, the 23-nation coalition led by Saudi Arabia is running into supply constraints while global inventories remain low. Spare capacity is now largely confined to Saudi Arabia, the United Arab Emirates, Iraq, and Kuwait. Unnerving the oil market were last month's drone strike in Abu Dhabi and tensions between Russia and the West over Ukraine.

(4) *Wage-price spiral.* The number-one variable that both bond and stock investors need to go right is inflation peaking soon. That could happen assuming that a significant portion of the surge in prices since last March was largely attributable to supply-chain disruptions, which also need to abate soon. Overly stimulative fiscal and monetary policies exacerbated inflation by causing a demand shock that overwhelmed the supplies of finished goods and parts. Now that this stimulative period is ending, Debbie and I expect to see a slowdown in consumer spending on goods, especially if pent-up demands have mostly been satisfied.

Meanwhile, during the recent earnings seasons, many company managements noted that they have been able to offset their rapidly rising costs by raising prices and increasing productivity. Others, however, reported that their profit margins are getting squeezed.

The risk on the inflation front is a wage-price spiral. Average hourly earnings (AHE) of all workers rose 5.7% y/y during January to the highest pace since May 2020 (*Fig. 17*). For production and nonsupervisory workers (a.k.a. lower-wage workers), AHE rose 6.9%, the highest since April 2020. The AHE of higher-wage workers rose just 3.0% y/y (*Fig. 18*).

Keep in mind that the increase for all workers was more than offset by the 5.8% y/y increase in the PCED through December, while the PCED offset most of the increase in the wage rate for nonsupervisory workers. If price inflation doesn't peak soon, there will be more pressure put on employers to increase the wages they pay, causing them to boost their prices further. We don't expect a wage-price spiral comparable to the 1970s, but we can't rule out the possibility of it either.

(5) *Another Fed mess.* The Fed can't be blamed for causing the entire current mess, but the Fed's QE4ever certainly contributed to it. The Fed is attempting to conduct a U-turn from ultra-easy monetary policies to tighter ones. The goal is to bring inflation down without causing a recession. Good luck with that! We certainly hope it succeeds.

(6) *Axis of Evil.* Meanwhile, the totalitarian regimes running China, Iran, North Korea, and Russia have been united by their ideological and geopolitical antipathy for the US. Most recently, just before the start of the Beijing Winter Olympics, Russian President Vladimir Putin and Chinese President Xi Jinping met and agreed on closer ties and on their rejection of America's version of world order. That order would be greatly disrupted should Russia invade Ukraine and China invade Taiwan.

(7) *Bottom line.* The tug of war between the bullish and bearish fundamentals could continue for the rest of 2022, which is why Joe Abbott and I lowered our S&P 500 target last week to 4800 from 5200. For investors, this is just another year of living dangerously during the current bull market, which has included *73 panic attacks* by our count. The main differences are that inflation is a serious problem and the Fed has to tighten monetary policy as a result. In addition, valuations are still relatively high. So a year without much, if any, upside for stocks might be the price we have to pay to give earnings a chance to catch up with valuations. Then the bull market can resume in 2023.

Strategy II: Technical Comment. I checked in with Joe Feshbach, my go-to technical guru, over the weekend for an update of his views. He thinks the stock market could see more of the same with wild swings, though he does believe that a short-term low was made in the S&P 500 on Monday, January 24. He reiterated that it is no longer a momentum-driven market but rather a trading-driven one. He doesn't see much upside or downside for investors for now. Nevertheless, he doesn't like what he sees in the charts of individual Nasdaq stocks. So he reckons that the Nasdaq topped back in November and has the potential for more downside later.

In fact, Joe sent me an email on November 22, 2021 calling the Nasdaq top. He also called the recent (short-term) bottom. That's why I am paying more attention to his views to see how they jibe with our fundamental analysis.

Movie. "Help" (+ + +) (*link*) is a 2021 British television drama film about the Covid-19 pandemic in the United Kingdom. Jodie Comer does an incredible job of portraying Sarah, who finds work in a Liverpool care facility for people suffering from dementia. Then in March 2020, the Covid-19 pandemic hits. She does the best she can to protect the patients, but several die as she tries without success to get the National Health Service to send ambulances to take them to hospitals. In the US, many people died in nursing homes because the proper care either couldn't be or wasn't provided. Sadly, it isn't obvious that we have learned much about how to deal with pandemics from the current one.

Calendars

US: Mon: Consumer Credit $20.9b. **Tues:** Merchandise Trade Balance -$83.0b; NFIB Small Business Optimism Index; Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Investor Confidence 15.2; Germany Industrial Production 0.4%; Japan Leading & Coincident Indicators. **Tues:** Italy Retail Sales; Spain Industrial Production 0.6%; Canada Trade Balance $2.62b; Westpac Consumer Sentiment. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.7% last week to 6.6% below its record high on December 27. The index ranked 29th of the 49 global stock markets we follow in a week when 40 of the 49 countries rose in US dollar terms and the AC World ex-US index gained 2.3%. None of the countries traded at a record high in dollar terms during the week. BRIC was the best-performing region last week, with a gain of 3.7%, followed by EM Asia (2.8%) and EM Eastern Europe (2.3). EMEA was the biggest underperformer, albeit with a gain of 0.7%, followed by EM Latin America (1.3), EMU (2.0), and EAFE (2.1). The Czech Republic was the best-performing country last week, rising 6.3%, followed by New Zealand (5.6), Greece (5.3), and Austria (4.9). Among the 25 countries that underperformed the AC World ex-US MSCI last week, Jordan fared the worst, with a decline of 3.9%, followed by Sri Lanka (-3.1), Chile (-3.0), and Argentina (-2.3). In January, the US MSCI fell 5.7% in its third monthly decline in five months. The US MSCI ranked 38/49 in January as the AC World ex-US index outperformed with a decline of 3.7%.

Seventeen of the 49 countries moved higher in January as most regions fell. Brazil was the best performer, with a gain of 12.9%, followed by Chile (12.5), Peru (11.8), Colombia (10.6), and Hungary (9.3). The worst-performing countries in January: New Zealand (-14.9), the Netherlands (-11.6), Denmark (-11.3), Korea (-10.2), and Sweden (-10.2). EM Latin America rose 7.3% in January, ahead of EMEA (1.2), BRIC (-1.8), and EM Asia (-3.5). EM Eastern Europe (-7.0) was January's worst-performing region, followed by EMU (-4.9), and EAFE (-4.9). The US MSCI ranks 38/49 so far in 2022, with its 6.1% decline quite a bit steeper than the 2.7% drop for the AC World ex-US. EM Latin America is the best-performing region, with a gain of 6.5%, ahead of EMEA (0.9), BRIC (-0.4), and EM Asia (-2.1). The laggards: EM Eastern Europe (-6.7), EMU (-4.3), and EAFE (-3.8). The best country performers so far in 2022: Brazil (12.9), Colombia (10.8), Greece (9.4), Hungary (7.7), and Peru (7.2). The worst-performing countries: the Netherlands (-12.6), Denmark (-11.8), New Zealand (-10.2), Sweden (-9.8), and Russia (-9.1).

S&P 1500/500/400/600 Performance (*link*): Last week was the first week so far this year that all three of these indexes rose. MidCap was the biggest gainer with an increase of 1.7%, ahead of LargeCap (1.5%) and SmallCap (0.9). LargeCap is now 6.2% below its record high on January 3. MidCap ended the week out of a correction at 9.9% below its record high on November 16, and SmallCap improved to 12.4% below its November 8 record high. Twenty-four of the 33 sectors rose last week, up from 12 rising a week earlier and none the week before that. SmallCap Energy was the best performer for the week with a gain of 5.7%, followed by LargeCap Energy (4.9%), LargeCap Consumer Discretionary (3.9), LargeCap Financials (3.5), and MidCap Communication Services (3.4). MidCap Utilities was the biggest underperformer last week, with a decline of 1.7%, followed by SmallCap Industrials (-1.1), SmallCap Consumer Staples (-0.9), SmallCap Utilities (-0.9), and MidCap Consumer Staples (-0.6). During January, LargeCap fell 5.3%, less than the 7.3% declines recorded by MidCap and SmallCap. Just three of the 33 sectors rose in January compared to 31 rising in December. January's best performers: LargeCap Energy (19.0), SmallCap Energy (10.2), MidCap Energy (7.5), LargeCap Financials (-0.1), and MidCap Financials (-0.6). January's biggest laggards: SmallCap Health Care (-12.6), MidCap Health Care (-12.4), SmallCap Tech (-10.3), and SmallCap Industrials (-9.9). In terms of 2022's ytd performance, all three indexes are lower so far; LargeCap's 5.6% decline is less than those of MidCap (-7.7) and SmallCap (-8.4). Just five of the 33 sectors are positive so far in 2022. Energy dominates the top performers: LargeCap Energy (24.3), SmallCap Energy (16.4), MidCap Energy (9.7), LargeCap Financials (2.5), and MidCap Financials (1.2). The biggest ytd laggards: SmallCap Health Care (-14.2), MidCap Health Care (-12.8), SmallCap Industrials (-12.6), SmallCap Tech (-12.3), and SmallCap Consumer Discretionary (-12.1).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 S&P 500 sectors rose last week, but only three outperformed the composite index's 1.5% gain. That compares to a 0.8% gain for the S&P 500 a week earlier, when five sectors rose and three outperformed the index. Energy was the best performer with a gain of 4.9%, ahead of Consumer Discretionary (3.9%) and Financials (3.5). The worst performers: Communication Services (-0.3), Real Estate (-0.2), Materials (-0.2), Consumer Staples (0.4), Industrials (0.4), Utilities (0.8), Tech (1.1), and Health Care (1.3). The S&P 500 fell 5.3% in January as only one sector moved higher and five beat the broader index. That compares to ten rising in December, when six beat the S&P 500's 4.4% gain. The leading sectors in January: Energy (19.0), Financials (-0.1), Consumer Staples (-1.5), Utilities (-3.3), and Industrials (-4.8). January's laggards: Consumer Discretionary (-9.7), Real Estate (-8.5), Tech (-6.9), Health Care (-6.9), Materials (-6.9), and Communication Services (-6.4). The S&P 500 is down 5.6% so far in 2022, with two sectors in positive territory and five ahead of the index. The best performers in 2022 to date: Energy (24.3), Financials (2.5), Consumer Staples (-1.6), Utilities (-4.3), and Industrials (-5.4). The ytd laggards: Real Estate (-9.9), Consumer Discretionary (-9.6), Communication Services (-8.8), Tech (-8.4), Materials (-8.4), and Health Care (-6.3).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.5% last week, and improved slightly 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 fifth week and moved back above its 200-dma after being below for two weeks. It had been above its 200-dma for 81 straight weeks. The S&P 500's 50-dma moved lower for a fourth week, as the index improved to 2.6% below its falling 50-dma from 4.4% below a week earlier and a 21-month low of 5.8% below the week before that. That compares to a 27-week high of 4.9% in early November and its prior 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 moved back above its 200-dma after being below for two weeks, improving to 1.0% above its rising 200-dma from 0.3% below a week earlier and a 20-month low of 1.0% below the week before that. That's down sharply from its prior 11-month low of 5.0% above at the beginning of October and a nine-week high of 10.8% above 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*): Just three of the 11 S&P 500 sectors traded above their 50-dmas last week. That's up from two a week earlier as Financials rose above and joined Consumer Staples and Energy. Four sectors now have a rising 50-dma, up from two a week earlier as Financials and Health Care joined Consumer Staples and Energy. Looking at the more stable longer-term 200-dmas, seven of the 11 sectors were above that measure, unchanged from a week earlier. The four sectors still below their 200-dmas: Communication Services, Consumer Discretionary, Industrials, and Materials. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Nine sectors have a rising 200-dma, up from eight a week earlier as Consumer Discretionary turned up w/w and left Communication Services and Industrials as the only members of the declining 200-dma club..

US Economic Indicators

Employment (*link*): Payroll employment in January blew past forecasts—and the release included huge upward revisions to prior months' data. Total payroll employment soared 467,0000—nearly quadruple the expected 125,000 gain, while the December (to 510,000 from 190,000) and November (647,000 from 249,000) levels both were revised considerably higher for a net gain of 718,000! Private payrolls jumped 444,000 (a big difference from ADP's report of a 301,000 drop), while revisions to December (503,000 from 211,000) and November (627,000 from 249,000) added an additional 670,000 jobs! Total payroll employment has recovered 19.1 million jobs since bottoming last April, though is still 2.9 million below its pre-pandemic level. Service-providing jobs added 440,000, virtually matching December's gains, and has averaged 505,000 jobs per month the past four months. Goods-producing jobs were up only 4,000 in January—after averaging monthly gains of 71,300 the last half of 2021. Industries posting the largest gains during January were leisure & hospitality (151,000), professional & business services (86,000), retail trade (61,000), and transportation & warehousing (54,000); local government education (29,000), health care (18,000), and wholesale trade also contributed. Here's a tally of industry performances from strongest to weakest since bottoming last April and where they stand relative to February 2020's pre-pandemic levels: leisure & hospitality (+6.5 million & -1.8 million), professional & business services (+2.8 million & +511,000)—led by temporary-help services (+1.2 million & +185,400)—retail trade (+2.3 million & +60,900), health care (+1.2 million & -378,400), manufacturing (+1.1 million & -26,000), construction (+1.0 million, & -101,000), transportation & warehousing (+1.0 million & +542,100), education (+436,900 & -87,000), information services +292,000 & +31,000), financial activities (+285,000 & +5,000), wholesale trade (+279,800 & -124,800), and mining & logging (-33,000 & -104,000).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 20th increase in the past 21 months—up 0.5% in January and 24.9% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.9% over the past 11 months. The average hourly earnings component of the EIP climbed 0.7% last month though only 5.4% during the 21 months through January—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 5.7% in January—the fastest since February 2020. The yearly rate is expected to continue 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, dipped 0.2% after increasing 18 of the prior 20 months by 18.7. This measure rose 3.7% y/y.

Unemployment (*link*): January's unemployment rate ticked up to 4.0% after sinking to a 22-month low of 3.9% in December, while the participation rate began a slight move up, climbing to 62.2%—the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2020 and 2021. The number of unemployed moved up to 6.5 million last month—after falling from 9.5 million last June to 6.3 million by December—as more people entered the labor force. By race, unemployment rates were mixed in January: 1) The rate for Asian Americans fell for the seventh successive month, from 5.7% last June to 3.6% this January, the lowest since February 2020. 2) The rate for African Americans (6.9%) fell back below 7.0% in January, only the second reading below 7.0% since March 2020. 3) The rates for Whites (3.4 from 3.2) ticked slightly higher last month after sinking to a 22-month low in December. 4) The rate for Hispanics was unchanged at 4.9% last month. These rates were at 2.5%, 6.0%, 3.0%, and 4.4% before the pandemic began. By education, the rate for those with less than a high school degree (to 6.3% from 5.2%) was more than a percentage point higher than December's, while the percentage with those with a bachelor's degree and higher (2.3 from 2.1) moved slightly higher. Unemployment rates for those with a high school degree (4.6) and some college (3.6) both were unchanged.

Wages (*link*): Average hourly earnings for all workers increased for the 10th month, accelerating at a 13-month high of 0.7% in January, following gains of 0.5% and 0.4% the prior two months. Wages are up at a 20-month high of 5.7% y/y—but the acceleration in inflation is offsetting these wage gains. The wage rate for goods-producing industries are on a steep accelerating trend, rising 5.1% y/y, the highest since February 2009, and nearly quadruple April 2021's 1.5%. The rate for service-providing industries has increased from

0.4% to 5.9% y/y over the same period, though has lost some momentum. Within goods-producing, all three industries—construction (5.1% y/y), manufacturing (5.1), and natural resources (4.3)—are accelerating; manufacturing's rise was led by a 5.5% increase in durable goods wages, while nondurable goods wages are stuck around 4.5%. Within service-providing, the following industries are on accelerating trends: leisure & hospitality (13.1% y/y), professional & business services (6.9), education & health services (6.8), and transportation & warehousing (6.8), though all but professional & business services are looking a little toppy. Meanwhile, rates for information services (2.7) and utilities (4.5) are beginning their ascent, while the rate for financial activities (4.8) is bouncing around recent lows. The rates for both retailers and wholesalers are moving sideways, the former just above 5.0% and the latter just above 4.0%.

Productivity & Unit Labor Costs (*link*): Productivity during Q4 was a surprise on the upside, expanding at double consensus expectations, curbing unit labor costs. Productivity rebounded 6.6% (saar) from Q3's 5.0% decline. Output grew at a five-quarter high of 9.2% (saar), more than double Q3's 2.0%, while hours worked rose 2.4%—one-third Q3's 7.3%. Hourly compensation increased 6.9% (saar), accelerating from Q3's 3.9%, though the jump in productivity slowed unit labor costs (0.3%, saar) to a virtual standstill last quarter, following Q3's 9.3% spike. On a year-over-year basis, productivity rose 2.0% during Q4, after falling 0.5% during Q3, as output (7.0% y/y) outpaced the increase in hours worked (4.9). Unit labor costs advanced 3.1% y/y—half Q3's 6.3%—as productivity swung from negative to positive and hourly compensation slowed a bit to 5.1% from Q3's 5.7%. We track the five-year growth rate of productivity, and it's trending up despite having stalled a bit recently: Since Q4-2015, the five-year rate has tripled from 0.5% to 1.9% y/y during Q4-2021, just a tick below Q2-2021's 2.0%, which was the highest since Q2-2012.

Auto Sales (*link*): Signs of life in auto sales! Motor vehicle sales rebounded to a seven-month high of 15.2mu (saar) in January, after dropping steadily from 18.5mu last April—which was its best reading since summer 2005 when aggressive incentive boosted sales above 20.0mu—to a 16-month low of 12.3mu by June; it finished 2021 at 12.7mu. Domestic light truck sales shot up to 9.4mu (saar) in January from 7.8mu in December and a recent low of 7.3mu in September. Sales had peaked at 11.0mu last April. The recent move up in domestic car sales pales in comparison, climbing from 1.6mu last September to 2.1mu (saar) this January—not far from its record low of 1.4mu recorded at the height of the pandemic. In the meantime, sales of imports have recovered from a recent low of 2.9mu in November to 3.7mu (saar) in January, with light truck sales accounting for three-quarters of the gain.

Global Economic Indicators

US Non-Manufacturing PMIs (*link*): The spread of the Omicron variant, as well as continued supply-chain restraints, impacted both the ISM and IHS Markit NM-PMIs in January, while price pressures remain elevated. The ISM measure posted its slowest growth since February 2021, though remained robust (just a tick below 60.0), while the IHS Markit measure was the weakest since July 2020. The ISM's NM-PMI slowed for the second month to 59.9 in January after rising steadily from 62.2 in August to a record-high 68.4 in November. The new orders gauge eased from its record high of 69.0 in October to an 11-month low of 61.7 in January, while production slowed for the second month from a record-high 72.5 in November to 59.9 in January—also the lowest since last February. The employment component weakened for the second month, from 57.0 in November to a seven-month low of 52.3 in January as the Omicron variant reduced staffing levels. The supplier deliveries measure climbed to 65.7 in January after slowing from 75.7 in November to 63.9 in December, signaling extended delays in procuring materials. Meanwhile, ISM's prices paid (to 82.3 from 83.9) index was little changed from its record high at the end of last year. Switching to the IHS Market NM-PMI measure, it slowed for the third month, from 58.7 in October to an 18-month low of 51.2 in January, as the spread of the Omicron variant weakened both domestic and foreign demand. The increase in production was the slowest since August 2020, while incoming new business also lost momentum, though to a lesser extent. The report notes that while there were signs of an easing of cost pressures at the start of the year, companies were able to pass on higher costs through the fastest rise in output charges in three months.

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