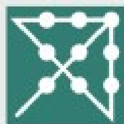
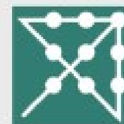


Yardeni Research



MORNING BRIEFING
February 17, 2022

Insurance, Tech & EVs

Check out the accompanying chart collection.

Executive Summary: Visions of higher interest rates to come are stoking investors' optimism about prospects for financial services companies, fueling the S&P 500 Financials sector's impressive ytd outperformance. Within the sector, the insurance industry has been faring well by both earnings and share-price measures as pricing power and strong investment returns have helped to offset higher costs and losses. … Also: Washington has guns out for Big Tech; we recap recent regulatory and (bipartisan!) legislative initiatives afoot. … And we survey the playing field for electric vehicles after their starring roles in Super Bowl ads.

Financials: Insurers Enjoy Pricing Power. For years, CEOs of financial institutions have wistfully noted that if only interest rates would rise, their bottom lines would do so much better. Now with rates turning back up, investors are starting to bet that higher rates will stick around and boost financial companies' profits.

The S&P 500 Financials' stock price index is the second-best performer in the S&P 500 ytd and one of only two sectors in positive territory. Here's the ytd performance derby of the S&P 500 and its sectors through Tuesday's close: Energy (21.9%), Financials (2.7), Consumer Staples (-2.6), Industrials (-5.1), S&P 500 (-6.2), Materials (-6.4), Health Care (-7.6), Utilities (-7.8), Information Technology (-8.7), Consumer Discretionary (-9.3), Communication Services (-10.9), and Real Estate (-12.9) (*Fig. 1*).

The Financials sector also leads on a y/y basis, with price performance through Tuesday's close that's second only to the Energy sector's: Energy (53.9%), Financials (27.7), Real Estate (18.4), Consumer Staples (16.1), Information Technology (14.6), Materials (14.2), S&P 500 (13.6), Industrials (11.4), Health Care (11.2), Consumer Discretionary (6.8), Utilities (5.7), and Communication Services (0.3).

Within the Financials sector, insurance industries are our focus today. They've been benefitting from pricing power across many coverage lines and strong investment returns last year—which in many cases have more than offset their higher costs and losses due to Covid-19 deaths, natural disasters, and our return to the open road. And like other financial companies, insurers with investment bond portfolios positioned correctly should benefit as interest rates rise.

Here's how some of the S&P 500 insurance industries' stock price indexes have fared ytd through Tuesday's close: Life & Health Insurance (10.5%), Reinsurance (9.8), Property & Casualty Insurance (5.8), Multi-line Insurance (5.2), and Insurance Brokers (-8.3).

What's been helping insurance stocks rally while the broader market languishes? Let's take a look:

(1) *Hoping for Covid's end.* The increase in death benefits paid out due to Covid-19 has taken a toll. MetLife paid out $1.06 for each $1.00 of premium it collected in its group life insurance business in Q4, up from 96.3 cents in Q4-2020, a February 2 *WSJ* *article* reported.

Optimism may be growing that losses will decrease as the Omicron wave recedes. Daily new positive cases in the US are down 80% from the January 14 peak (*Fig. 2*). Hospitalizations and deaths should continue to drop as well.

There's also growing optimism that interest rates have begun to normalize. The 10-year Treasury yield has returned to levels not seen since 2019. The short end of the yield curve has backed up sharply as well, with the two-year Treasury note yield rising to 1.52%, up from a 2021 low of 0.09% (*Fig. 3*).

"With the Fed finally accepting that inflation is a reality that is not going away anytime soon, interest rates are rising and will continue to rise," said Chubb's CEO Evan Greenberg on the company's Q4 earnings *conference call* on February 2. "QE is coming to a rapid end and spreads should begin to widen, particularly if the Fed begins to shrink their balance sheet, as they should." Chubb's investment portfolio has a duration of roughly four years, and every 100bps rise in interest rates provides $1.2 billion of additional investment income.

The S&P 500 Life & Health Insurance industry stock price index—a top performer—has recently broken out to a new high. It gained 10.5% ytd through Tuesday's close and 32.3% in 2021, after falling sharply in early 2020 (*Fig. 4*). Share prices have gained despite the industry's erratic earnings, which dropped 8.3% in 2020 and are forecast to jump 34.1% in 2021 due to portfolio gains and to drop 11.8% this year (*Fig. 5*). The industry's forward P/E of 10.2 has recovered from its 2020 low, but it's not expensive relative to multiples over the past 25 years (*Fig. 6*).

(2) *Pricing power in P&C.* Property and casualty (P&C) insurance companies report that they are successfully pushing through price increases to customers in many of their

business lines. That’s really good news, because they need to offset losses and compensate for inflation.

Auto claims are increasing as Americans have returned to the roads in the wake of receding Covid threats. Vehicle miles traveled for the past 12 months through November (the Federal Highway Administration’s most recent data) was 3.20 million miles, up 12.6% from the February 2021 low and 2.6% off the 3.29 million record high (*Fig. 7*). It’s likely that miles driven will continue to rise, as the US gasoline supplies were 8.61 million barrels per day during the February 11 week, moving back toward pre-pandemic February 2020 levels (*Fig. 8*).

But just as accidents are increasing, insurance companies are having to spend more to replace and repair crashed cars. The prices of new and used cars and their parts have risen sharply over the past year. In January, new car prices rose 12.2% y/y and used car prices jumped 40.5% (*Fig. 9*).

Higher accident volume on top of high rates of inflation in car repair and replacement costs contributed to Allstate’s 50% y/y drop in Q4 adjusted net income. The company also faced tough comparisons to results for Q4-2020, when roads were emptier and accidents fewer. The company has responded by raising premiums an average of 7.1% across 25 states, a February 9 *WSJ* *article* reported.

Companies providing homeowners’ insurance have also been hurt by inflation and Mother Nature. Inflation has made it more expensive to repair or replace homes as materials and wages have increased in the homebuilding industry. The average price of a new home has increased 16.4% using a 12-month moving average (*Fig. 10*).

Meanwhile, Mother Nature has been flexing her catastrophic muscles via fires, floods, and tornados. And rising court verdicts continue to increase insurers’ claims payouts. Again, insurers have pushed back by raising premiums. At Travelers, US renewal premiums rose 9.2% in Q4, and further pricing increases are expected this year, *said* CEO Alan Schnitzer on January 20.

Optimists might hope that P&C companies can keep raising prices, that car and home price inflation decelerates, and that travelers start using mass transit and airlines more as the pandemic abates.

The S&P 500 Property and Casualty stock price index recently hit a new all-time high,

having risen 5.8% ytd through Tuesday's close and 15.6% last year (*Fig. 11*). Investors seem more enthusiastic than analysts, who are forecasting revenue increases of 6.1% in 2021 and 7.4% this year—leading to a projected 6.3% rise in 2021 earnings but only a 1.5% improvement in 2022 (*Fig. 12* and *Fig. 13*).

The P&C industry's forward profit margins (which we calculate from analysts' forward revenue and earnings estimates), at 9.2%, are near the lows of the past 20 years (*Fig. 14*). However, the industry's forward P/E, at 15.4, is near the high of the past two decades, perhaps because earnings have been depressed in recent years (*Fig. 15*).

(3) *Reassuring reinsurer.* The S&P 500 Reinsurance industry comprises only one stock, Everest Re, and its shares have bounced back to its pre-Covid highs hit in late 2019. The industry's price index is up 9.8% ytd through Tuesday's close and 17.0% last year (*Fig. 16*).

Despite losses from the Canadian drought and US tornados, Everest Re reported Q4 net operating income of $359.2 million compared to a year-ago loss. The firm benefitted from a 24.8% jump in net written premiums and a lower loss ratio. Its combined ratio came in at 91.9% in Q4, an improvement from 109.1% in Q4-2020. Another positive sign: The company's cash and investments jumped 16.5% in Q4 y/y to $29.7 billion.

The S&P Reinsurance industry is expected to post strong revenue and earnings growth this year of 16.7% and 15.0%, respectively (*Fig. 17* and *Fig. 18*). Likewise, revenue and earnings are forecast to jump 11.4% and 16.7% in 2023. The industry's forward P/E is 8.4 (*Fig. 19*).

Technology: Drumbeats Grow Louder in DC. A few weeks ago, we highlighted the increased regulatory focus on Meta, formerly known as "Facebook." Since then, we've noticed a number of initiatives by federal agencies and members of Congress to rein in large tech players. Restrictive legislation has been proposed by members on both sides of the aisle, making the bills harder to kill.

Here are some of the recent actions that have caught our eye:

(1) *App stores targeted.* The Senate Judiciary Committee has approved two bills concerning the distribution of apps and sent them to the Senate floor to be voted on. The goals were to loosen the controlling grip of the app stores and make it easier for developers to distribute their apps and connect with their customers.

The Open App Markets Act was approved on a bipartisan basis (20 to 2) earlier this month. App stores with more than 50 million US users (think Apple and Google) cannot require developers to use the platform's payment system, a February 3 CNBC *article* reported, nor can they prevent developers from selling their apps at different prices on other platforms. And the app stores must grant the developers access to their customers for business purposes.

In January, the Senate Judiciary Committee voted 16-6 to advance the American Innovation and Choice Online Act. The bill's goal is to prevent large tech companies from giving their own businesses preferential treatment on their platforms. The bill could affect tech giants including Amazon, Apple, Google, Meta, and TikTok, among others, CNBC *reported* on January 20.

The bill would prohibit Amazon from listing its own private-label products above the products of other sellers in search rankings. It would also prevent Apple and Google from listing their apps higher than rivals' in their app stores.

(2) *Piercing the veil.* Internet companies aren't held responsible for the content posted on their platforms by third parties, thanks to Section 230 of the Communications Decency Act of 1996. They're treated more like bulletin boards, which aren't responsible for content, than newspapers that are.

That soon may change at the edges. The Senate Judiciary Committee passed the Earn It Act last week on a bipartisan basis over the objections of Google, Facebook, and other industry players, a February 10 *WSJ* *article* reported. The legislation would hold the platforms liable for child sexual abuse content appearing on their sites if they are notified about the material and fail to remove it.

This may be the first of many times that legislators and regulators look at the responsibility Internet companies should assume for content appearing on their platforms. The Earn It bill next goes to the Senate floor.

(3) *More aggressive FTC.* Federal Trade Commission (FTC) Chair Lina Khan is living up to expectations that she would aggressively police the tech giants. In just the past week, the FTC has helped put the kibosh on two large mergers: Nvidia's proposed acquisition of Arm and Lockheed Martin's acquisition of Aerojet Rocketdyne.

The FTC filed a complaint in December to block Nvidia's $40 billion acquisition of Arm,

which was announced in September 2020. The FTC argued that the deal would reduce competition and innovation. Nvidia and Arm announced that the deal would not go forward on February 8, citing “significant regulatory challenges.” The UK-based Arm, owned by Softbank, instead will pursue an IPO.

Earlier this week, defense giant Lockheed Martin ended its $4.4 billion bid for propulsion systems manufacturer Aerojet, blaming the FTC’s lawsuit against the deal filed late last month. The FTC argued that the acquisition would lead to reduced competition and higher costs for defense systems. Lockheed countered that the deal would have offered greater efficiency, speed, and costs savings to the US government.

Disruptive Technologies: EVs Star in Super Bowl Ads. Electric vehicles (EVs) may not dominate US roads, but their advertisements did make a splash at the Super Bowl. While many of the cars advertised aren’t currently available for sale, spending to advertise them anyway indicates where manufacturers’ priorities lie.

In one of our favorites, Dr. Evil showed off GM’s Cadillac InnerSpace, the Chevy Silverado EV, the Hummer EV, the Cadillac Lyriq, and the BrightDrop EV600. The funniest ad came from Nissan: It starred Eugene Levy driving the Z, a new gas-powered sports car, and Catherine O’Hara driving the Ariya, an electric crossover SUV. There were also ads for BMW’s iX SUV, the Polestar 2, Kia’s EV6, and Toyota’s Tundra.

Let’s take this opportunity to check out the current state of the EV market:

(1) *Tesla still leads the pack.* Tesla didn’t buy any advertising time at the Super Bowl. It didn’t need to: Tesla’s models landed in 1st, 2nd, 9th, and 11th place in *Car and Driver*’s 2021 *ranking* of US EV sales. Tesla sold 172,700 Model Ys last year, making it the most popular EV and the 17th best-selling vehicle—gas or electric powered—sold in the US last year. It was followed by the Model 3 (128,600 cars sold), Model S (9,100 cars), and the Model X (3,000 cars).

No other manufacturer had as many models on the list. Ford’s Mustang Mach-E landed in the 3rd spot (27,140 cars sold), followed by the Chevrolet Bolt EV and EUV (24,803 cars) and the Volkswagen ID4 (16,742 cars). This year, EVs are expected to face new competition from Ford and GM electric trucks—the F-150 Lightning and the GMC Hummer Pickup.

(2) *EVs sell faster outside of the US.* US EV sales remain paltry compared to those in the

rest of the world. US EV and plug-in hybrid car sales in 2021 amounted to only 535,000, or 4% of new cars sold in the US, compared to the 3.2 million EVs sold in China (15% of new cars sold there) and 2.3 million EVs in Europe (19%), according to Canalys *data*. In December, battery-powered cars outsold diesel cars in Europe for the first time, according to a January 17 *NYT* *article*.

Overall, Canalys estimates that 6.5 million EVs and plug-in hybrids were sold worldwide in 2021, up 109% y/y; that compares with just 4% y/y growth in the total global car market. In China, the Wuling Hongguang Mini EV is the top seller with a $4,500 base price, followed by Tesla's Model Y and Model 3. In Europe, Tesla's Model 3 is the best-selling car, but Volkswagen Group, with several car brands offering EVs, was the largest overall manufacturer of EVs.

(3) *EV SPACs crash.* Besides Tesla, traditional, old-school auto manufacturers have been dominating the EV market. Despite the initial fanfare, they haven't faced much competition from the upstarts that went public via SPACs over the past two years. The shares of Nikola, Lordstown Motors, Canoo, Faraday Future Intelligent Electric, Fisker, and Lucid Group have fallen by double digits over the past year and are trading at or near 52-week lows, a February 8 CNBC *article* reported. All but two of these companies, Fisker and Faraday Future, have disclosed federal investigations.

Our September 3, 2020 *Morning Briefing* warned that the hype surrounding new EV companies and SPACs could result in the mother of all pileups. It's time to call the tow trucks.

Calendars

US: Thurs: Initial & Continuous Jobless Claims 219k/1.605m; Housing Starts & Building Permits 1.700mu/1.760mu; Philadelphia Fed Manufacturing Index 20.0; Natural Gas Storage; Bullard; Mester. **Fri:** Leading Indicators 0.2%; Existing Home Sales 6.10mu; Baker-Hughes Rig Count; Williams; Waller; Brainard. (Bloomberg estimates)

Global: Thurs: Japan Core CPI 0.3%y/y; ECB Economic Bulletin; Lane; Schnabel. **Fri:** Eurozone Consumer Confidence -8.0; France Unemployment Rate 7.8%; France CPI; UK Headline & Core Retail Sales 1.0%m/m/8.7%y/y & 1.2%m/m/7.9%y/y; Canada Headline & Core Retail Sales -2.1%/-2.0%; Elderson.(Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) remained below 2.00 this week for the sixth straight week and the 10th time in 11 weeks. It fell this week for the fifth time in six weeks, from 2.15 to 1.21 over the six-week period—the lowest since early April 2020. Bullish sentiment fell for the fifth time in six weeks, by 16.9ppts over the period, to 33.7% this week—the fewest bulls since early April 2020—after rising 10.8ppts (to 50.6% from 39.8%) the prior three weeks. Meanwhile, the correction count dipped to 38.4% this week after climbing the prior five weeks by 14.1ppts (40.0 from 25.9) to its highest percentage since early March 2020. Bearish sentiment ticked up for the second week from 25.0% to 27.9% this week—the highest since late April 2020. The AAII Ratio increased for the second week to 40.7% last week after sliding the prior four weeks from 55.2% to 30.4%—which the lowest since late July 2020. Bullish sentiment slipped to 24.4% last week after advancing from 21.0% to 26.5% the prior two weeks, while bearish sentiment fell for the second week from 52.9% to 35.5%.

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. However, forward revenues and forward earnings per share both ticked down from their record highs a week earlier. They had 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 dropped 0.2ppt w/w to 7.5%, but remains above its 12-month low of 7.1% from early December. That's down from a record high of 9.6% growth at the end of May 2021. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth fell 0.2ppt to 8.7%. It remains above its 16-month low of 8.2% in early December. 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. Analysts' revisions to their forecasts for 2022 revenues and earnings are slowing now, and the imputed profit margin estimate that we calculate from those forecasts has stalled. They expect revenues to rise 8.2% (down 0.2ppt w/w) in 2022 and 5.5% in 2023 (down 0.1ppt w/w) compared to a

preliminary 16.5% (unchanged w/w) gain reported in 2021. They expect earnings gains of 8.7% in 2022 (down 0.2ppt w/w) and 10.0% in 2023 (down 0.1ppt w/w) compared to a preliminary earnings gain of 51.2% in 2021 (up 0.1ppt w/w). Analysts expect the profit margin to rise 0.1ppts y/y in 2022 to 13.2% (unchanged w/w) from a preliminary 13.1% in 2021 (unchanged w/w) and to improve 0.6ppt y/y to 13.8% in 2023 (up 0.1ppt w/w). The S&P 500's weekly reading of its forward P/E remained steady w/w at 20.3, up from a 21-month low of 19.5 at the end of January. 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 of 2.70 was also steady w/w. It's up from an 11-month low of 2.59 at the end of January and down from a record high of 2.88 at the end of 2021. That 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 eight of the 11 S&P 500 sectors, forward earnings increase for five sectors, and the forward profit margin go up for four sectors. 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 near its highest reading 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, all but the Utilities sector posted a y/y improvement. Four sectors are expected to see margins decline or remain flat y/y in 2022: Communication Services, Financials, Materials, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.2%, a record high this week), Communication Services (16.5, down from its 17.0 record high in October), Real Estate (17.0, down from its 19.2 record high in 2016), Utilities (15.1, a new record high this week), Materials (13.1, 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 (10.2, 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 (8.1, down from its 8.3 record high in 2018), and Energy (9.3, back at a 13-year high this week and 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 24.6% and 61.9%, respectively. That's just 0.2% and 0.1% below their respective record highs a week earlier. 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 rise for eight of the 11 S&P 500 sectors, forward earnings was up for five sectors, and the forward profit margin gained for four sectors. 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 51.1%, forward earnings up 2,345.5%), Materials (37.3, 104.8), Information Technology (32.4, 53.4), Industrials (28.6, 78.1), Communication Services (26.8, 56.5), S&P 500 (24.6, 61.9), Financials (22.3, 68.7), Health Care (19.8, 36.7), Consumer Discretionary (18.8, 105.2), Real Estate (15.9, 38.5), Consumer Staples (15.4, 22.0), and Utilities (-2.4, 6.0).

US Economic Indicators

Retail Sales (*link*): Retail sales blew past forecasts in January as a rebound in motor vehicle sales, along with higher prices, boosted headline sales to a new record high. Sales rebounded 3.8% in January (double the expected 1.8% increase), while December sales contracted by a revised 2.5%—steeper than the initial 1.9% drop. Meanwhile, the control group—which excludes autos, gasoline, building material, and food—jumped 4.8% to a new record high, more than erasing December's 4.0% shortfall. Of the 13 retail sales categories, eight fell during January while five rose. Here's a snapshot of the sales performances of the 13 categories during January, versus a year ago, and relative to their pre-Covid levels: nonstore retailers (14.5%, 8.4%, 43.7%), furniture & home furnishing stores (7.2, 2.7, 18.8), motor vehicles & parts dealers (5.7, 11.3, 25.6), building materials & garden equipment & supplies dealers (4.1, 12.2, 33.9), general merchandise stores (3.6, 7.6, 18.7), electronics & appliance stores (1.9, -2.9, -0.9), food & beverage stores (1.1, 8.0, 20.3), clothing & accessories stores (0.7, 21.9, 15.8), miscellaneous store retailers (-0.1, 15.3, 26.6), health & personal care stores (-0.7, 7.6, 11.8), food services & drinking places (-0,9, 27.0, 8.8), gasoline stations (-1.3, 33.4, 30.7), and sporting goods & hobby stores (-3.0, 1.3, 28.4).

Business Sales & Inventories (*link*): Nominal business sales in December held near November's record high, while November real business sales (reported with a lag) remained stalled around March's record high, just 1.6% below. Nominal business sales dipped 0.7% at the close of 2021, after climbing nine of the first 11 months of the year by 16.7% to a new record. Meanwhile, real business sales were more volatile over last year's

first 11 months, rising five months and falling six; they slipped 0.3% in November after climbing 2.6% during the 10 months through October. Real sales for wholesalers rose in October for a fifth time in six months, up 0.2% m/m and 4.2% over the period to a new record, while real sales for retailers have been fluctuating around recent lows, leaving November sales 6.0% below March's record high. Real manufacturing sales remain in a 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 (1.39) held around recent lows again in November, down from 1.45 in February, while the nominal ratio climbed to 1.29 in December after slipping back down to its record low of 1.24 in October.

Industrial Production (*link*): Output rebounded in January on a weather-related surge in utilities output, while manufacturing output continued to be restrained by a shortage of computer chips. Headline production rose for the third time in four months, jumping 1.4% in January (roughly triple the 0.5% expected gain) and 3.7% over the period to within 0.8% of a new record high. Utilities output jumped a record 9.9% in January—pushing the level to a new record high. Mining (1.0%) and manufacturing (0.2) output were also in the plus column last month—though the latter has stalled after a 2.4% increase during the two months through November. By market group, consumer goods production (2.2%) climbed last month to its highest level since 2008, with nondurable consumer goods (2.8) output posting its biggest monthly gain since the early 1950s, led by energy (9.6) and food & tobacco (1.0). Meanwhile, consumer durable goods output was flat during the month, with gains in appliances, furniture & carpeting (2.9), and home electronics (0.5) output offset by declines in production of miscellaneous durable goods (-0.7) and auto products (-0.5). Production of business equipment was also a mixed bag, ticking up 0.1%, as an increase in industrial equipment (0.8) was offset by declines in information processing (-0.7) and transit (-0.6) equipment.

Capacity Utilization (*link*): The headline capacity utilization rate in January jumped to its highest percentage since May 2019 on a surge in utilities. The capacity utilization rate climbed from 76.6% in December to a 32-month high of 77.6% last month, with the rate 14.2ppts above April 2020's low of 63.4%; it's currently 1.9ppts below its long-run average. The rate for utilities posted its largest monthly gain on record, soaring from 71.2% in November to 78.1% in December, while the rate for mining climbed from 78.6% to 79.1%—the highest since March 2020. Both remain below their long-term averages. Meanwhile, the manufacturing capacity utilization rate is stalled around recent highs, ticking up to 77.3% in January after falling to 77.2% in December from 77.3% in November. It's 1.8ppts above its pre-pandemic level but still 0.8ppt below its long-run average.

Import Prices (*link*): Import prices in January posted its biggest monthly increase since April 2011—led by energy, though supply bottlenecks still play a role. Import prices advanced for the fourth time in five months, by 2.0% in January and 4.3% over the period, with the yearly rate at 10.8% y/y—not far from its recent peak of 11.6% last May. Imported fuel costs rebounded 9.3% in January after plunging 8.3% in December—up 57.7% y/y—less than half its recent peak of 137.5% during April 2021. Meanwhile, nonpetroleum import prices haven't posted a decline since October 2020, climbing 13 of the 15 months, by 1.4% in January and 8.9% over the period. The yearly rate accelerated 7.5%, the fastest 12-month pace since summer 2008. The yearly rate for industrial supplies & materials imports eased again to 34.6% in January, down from May 2021'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 3.1% this January—which is the highest since fall 1992. The rate for consumer goods ex autos (2.8% y/y) is the highest since March 2012, while the rate for autos (2.3) eased from December's 2.7%—which was the highest since March 2012. The rate for food prices (15.8) is accelerating sharply, posting its highest yearly rate since July 2011 in January; the rate had been bouncing around zero over the past few years.

Global Economic Indicators

Eurozone Industrial Production (*link*): Headline production in the Eurozone ended 2021 on an up note. Production in the Eurozone, which excludes construction, climbed in December for the second month, by 1.2% m/m and 3.6% over the two-month period, following a three-month slide of 3.7%. Capital goods (2.6%) production posted the biggest gain in December, building on October and November advances; it jumped a total of 5.3% during the final three months of the year. Meanwhile, intermediate and consumer nondurable goods production both rose during the final two months of 2021, with the former up 0.5% in December and 1.4% over the period, while consumer nondurable goods production was up 0.4% and 3.9% over the comparable periods. Meanwhile, output of consumer durable goods dipped 0.3% in December after a three-month rebound of 2.8%, while energy output slipped 0.8% at the end of 2021 after jumping 4.2% during the four months through November. Production data are available for the top four economies for December—with three of the four taking a step back—Germany is the outlier. Here's how they performed during December, since bottoming last April, and relative to their pre-pandemic levels: Germany (+1.1%, +33.3%, -6.2), France (-0.2, +45.0, -5.3), Spain (-0.6, +50.3, +0.4), and Italy (-1.0, +79.7, +2.0).

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