MORNING BRIEFING
March 7, 2022

It's a Mad, Mad, Mad, Mad World

Check out the accompanying chart collection.

Executive Summary: With the whole world at the mercy of Mad Vlad, the pandemic now seems like a walk in the park. A nuclear power plant catastrophe has been narrowly averted, but Putin's war has melted down Russia's stock market and currency. … For the US economy, we now see stagflation, with persistently higher inflation and less economic growth than expected before the war. A recession can no longer be ruled out. … For stock investors, we think 2022 will continue to be one of this bull market's toughest years. We've dropped our year-end 2022 and 2023 S&P 500 targets to 4000, a 16% decline, and 5000, a 25% rebound to a new record high.

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*. The presentation lasts about 15 minutes with another 15 minutes for Q&A. You can view a replay of Dr. Ed's recent one-hour webcast on "Predicting Inflation" *here*.

Geopolitics: Sheer Madness. "It's a Mad, Mad, Mad, Mad World" is a very funny 1963 American classic comedy with an all-star cast of some of the best comedians ever. They all witness an auto accident in which the driver, played by Jimmy Durante, is killed. Just before he kicks the bucket, he tells the assembled onlookers that he buried a fortune in stolen loot under the Big W. They all lose their minds in their race to find the treasure first.

"King of Hearts" is a 1966 European comedy film starring Alan Bates as Charles Plumpick, a kilt-wearing French-born Scottish soldier, who is sent by his commanding officer to disarm a bomb placed in the town square of a French town by the retreating Germans during WWI. All the local inhabitants have fled except for the inmates of an insane asylum, which was left unlocked. Plumpick frantically tries to find the bomb, unaware that the loonies aren't the normal townspeople.

There's nothing funny about our current geopolitical plot. But there is certainly lots of madness, led by Russian czar Vlad the Mad. Looking back on the events that led up to Putin's War, one has to wonder why the Europeans (especially the Germans) decided to pollute the air with fumes from oil and gas increasingly imported from Russia rather than foul it with their own domestic sources of dirty energy? The US did the same, and as of this writing still was buying Russian oil, while scrambling to work out a nuke deal with Iran's mad mullahs involving the purchase of their oil instead. That's more sheer madness.

Furthermore: Why didn't the diplomats fashion a European security agreement that would have made Ukraine neutral? Why were sanctions imposed on Russia only after it invaded Ukraine? Why did the US stop selling Russian defense companies' sophisticated technologies only after the invasion? Why did the West do any business with Russia's kleptocracy, which has been led by a former KGB agent who already had a long rap sheet of murders and invasions?

What can't be explained as sheer madness, i.e., a delusional grasp of reality and history, can be explained as massive corruption on both sides. The result is that the whole world is quickly coming to its senses but remains at the mercy of Mad Vlad. A relatively happy outcome (considering the unhappy alternatives) hinges on the assumption that Putin isn't unhinged but rather crazy like a fox—i.e., he keeps a chunk of eastern Ukraine and settles for a neutral Ukraine. A happier outcome would be a swift coup, as even his entourage recognizes that Mad Vlad is an insane psychopath. Another Russian revolution might also do the trick.

For now, there's a wider threat with an even further-reaching potential outcome. The March 1 *Globe and Mail* *reports*, "Potassium iodide pills are suddenly in high demand across Europe as fears of radiation poisoning from a nuclear attack or accident intensify." Here's why:

(1) On Sunday, February 27, three days after Putin sent his troops into Ukraine, he put his nuclear arsenal on high alert.

(2) Also that day, the nuclear scare posed by the war in Ukraine was heightened when Russian ally Belarus voted to give up its nuclear-free status.

(3) On Friday, March 4, Russian troops occupied Ukraine's largest nuclear power plant, with managers working at "gunpoint" after a fire caused by their attack was extinguished, according to Ukrainian nuclear officials. Had the attack caused a direct hit on the emergency power supplies of the reactor, the core could have experienced a meltdown and exploded; that could have breached the containment structure and caused a substantial radioactive leak. Fortunately, that did not happen.

(4) Our highly regarded friends at BCA Research recently opined: "If the threat of nuclear

war dissipates, stocks will recover. If the threat doesn't dissipate, well, you probably won't be around to witness the aftermath. And even if you are, those VIX futures aren't going to help you very much. In the event of a global nuclear war, the price of most every asset, perhaps with the exception of gold, will go to zero, including cash which will lose its value as inflation gallops higher." They assign "an uncomfortably high 10% chance of a civilization-ending global nuclear war over the next 12 months." Yikes! Stop the world—I want to get off!

In any event, Russia's invasion of Ukraine did precipitate a meltdown of the Russian stock market and currency. Meanwhile, there has been no meltdown in the broad US stock market. The S&P 500 has held up remarkably well. It is down 9.8% since its record high on January 3 through Friday's close.

US Economy I: A More Stagflationary Outlook. Compared with the rapidly unfolding geopolitical madness, the pandemic now seems like a walk in the park. Hopefully, the Omicron variant of Covid-19 was the last hurrah of the pandemic. In the US, the case count peaked at a record 777,225 during January 14, using the 10-day moving average (*Fig. 1*). It is down 95% since then through March 2.

Prior to Putin's War, the consensus outlook for the economy was that while the Omicron wave depressed economic activity during January, economic growth was likely to rebound as the pandemic abated. Now we see a more stagflationary outlook with persistently higher inflation and less economic growth. A recession no longer can be ruled out given the latest jump in oil prices. Consider the following:

(1) *GDP.* The Atlanta Fed's *GDPNow* tracking model showed zero growth for Q1 as of March 1, but we are predicting 2.0%. On the other hand, Debbie and I are lowering our forecast for real GDP growth this year from 2.8% y/y to 2.0% (*Fig. 2*). (See *YRI Economic Forecasts*.)

(2) *Consumer spending.* The surge in commodity prices resulting from the war is likely to depress consumers' spending now that they have to spend much more on gasoline and food.

The average American household spent $3,100 (saar) on gasoline during December 2021 (*Fig. 3*). The nearby futures price of a gallon of gasoline soared 59% ytd through March 4, implying that gasoline now costs the average household almost $2,000 more (saar) (*Fig. 4*). In addition, we estimate that the average household is now spending around $1,000 (saar) more on food as a result of rapidly rising grocery prices (*Fig. 5*). That's $3,000 less money that households have to spend on other consumer goods and services, which also are experiencing rapid price increases. The GDPNow model shows real consumer spending currently tracking at 2.3% (saar), down from 3.1% during Q4-2021.

(3) *Consumer incomes.* As usual, Debbie and I started our analysis of Friday's monthly employment report by calculating our Earned Income Proxy (EIP) for wages and salaries in private industry (*Fig. 6*). Our EIP rose 0.8% m/m and 10.9% y/y through February as aggregate hours worked rose 0.8% m/m and 5.8% y/y, while average hourly earnings (AHE) was flat m/m and up 5.1% y/y. The gains in the EIP have been eroded by inflation. The real EIP rose just 3.4% y/y through January. On the other hand, the real AHE continues to track the 1.2% growth path it has been on since December 1994 (*Fig. 7*).

The good news is that payroll employment, which measures the number of part-time and full-time jobs, rose 678,000 during February to 150.4 million (*Fig. 8*).That's still 2.1 million below the pre-pandemic record high of 152.5 million during February 2020. Household employment, which measures the number of workers with jobs, is still 1.1 million below its pre-pandemic record high, but full-time household employment rose 642,000 during February to a new record high (*Fig. 9*).

(4) *Capital spending.* During February, the working-age population and the labor force rose just 0.5% and 1.1% y/y, based on the 12-month averages of each series (*Fig. 10*). We expect both growth rates will remain near zero for the foreseeable future. So labor shortages are here to stay, forcing companies to increase their capital spending to boost productivity.

We have upped our forecast for real capital spending this year to 4.4% from 3.4%. As we've previously observed, nondefense capital goods orders excluding aircraft has been soaring in record-high territory since the end of 2020 and is up 21.6% over the past 24 months through January (*Fig. 11*).

(5) *Trade.* Another reason why Debbie and I are lowering our GDP growth estimate for the US is that we expect US exports will weaken along with the global economy. The Ukraine calamity has triggered a global energy crisis, especially in Europe. In the past, oil price shocks have been associated with recessions (*Fig. 12*). Western Europe is especially vulnerable to outright shortages of oil and gas. Sanctions are quickly pushing Russia into a depression.

US Economy II: A More Inflationary Outlook. Debbie and I are raising our outlook for peak inflation to reflect the rapidly unfolding developments in world commodity markets as a result of Putin's War. The S&P GSCI commodity price index has soared 40% ytd and 59% y/y (*Fig. 13*). Oil is heavily weighted in this index. Leading the way higher are energy and grain prices (*Fig. 14*). Even core measures of inflation that exclude food and energy are likely to head higher, reflecting energy surcharges and a worsening wage-price spiral.

We are now predicting that the core PCED (personal consumption expenditures deflator) measure of inflation will peak at 7% y/y during Q2, up from 6% during Q1. Then we expect that it will moderate to 4% during Q4. Before the war, we expected to see this measure of inflation peak during Q1 at around 5% and fall to 3% by Q4. (See *YRI Economic Forecasts*.)

There's certainly no peak in sight for commodity prices or for the latest inflation indicators and inflationary bottlenecks:

(1) *Business surveys.* The prices-paid indexes in the national M-PMI and NM-PMI (the purchasing managers indexes for manufacturing and nonmanufacturing industries) were 75.6 and 83.1 during February (*Fig. 15*). Both of those are elevated levels, especially for the NM-PMI. Debbie and I also average the prices-paid and prices-received indexes of the regional business surveys conducted by five of the Federal Reserve district banks (*Fig. 16*). They remain near their recent record highs, at 81.2 and 56.6. They look toppy, but keep in mind that they are diffusion indexes and continue to signal strong inflationary momentum.

(2) *Wages.* Wage inflation continues to move higher. The AHE for all workers rose 5.1% y/y through February, while the AHE for production and nonsupervisory workers, who account for about 80% of payroll employment and can be described as "lower-wage workers," rose 6.7% (*Fig. 17*). We can use these two series to impute that "higher-wage workers" saw their AHE rise by 2.1% through February (*Fig. 18*). Recall that the headline PCED inflation rate was 6.1% through January. So lower-wage workers just barely beat inflation, while higher-wage workers fell significantly behind inflation.

(3) *Supply chains.* As we've previously observed, there are a few signs suggesting that supply-chain disruptions are easing. The business surveys conducted by five of the Fed's regional banks include indexes for unfilled orders and delivery times. The average of them is down from a peak of 28.2 during May 2021 to 11.2 during February, the lowest reading since January 2021 (*Fig. 19*). The national M-PMI survey shows a similar pattern for its supplier deliveries and backlog-of-orders indexes (*Fig. 20*).

We aren't convinced that's enough to bring inflation down anytime soon given the renewed upward pressure on commodity prices and the ongoing wage-price spiral driven by labor shortages. Nevertheless, we still expect that a significant moderation in inflation for consumer durables is likely later this year. Offsetting some of that improvement is likely to be still higher rent inflation.

Credit: The Fed and Interest Rates. Fed Chair Jerome Powell *testified* on monetary policy before two congressional committees on Wednesday and Thursday. He said "we're going to see upward pressure on inflation at least for a while" because of the war. He also said, "There's already a lot of upward inflation pressure and additional pressure does probably raise the risk that inflation expectations will start to react in a way that is negative for controlling inflation." Powell acknowledged: "Hindsight says we should have moved earlier … but there really is no precedent for this."

Powell was asked by Senator Richard Shelby (R-AL) whether he would push interest rates up to levels that would cause a recession if he had to do so in order to bring inflation down. He responded in the affirmative: "I would hope history will record that the answer to your question is 'yes.'" That certainly sounds ominous. For now, he said that he will ask the FOMC to start with a 25bps hike at the March 15-16 meeting of the policy committee. Baby steps.

We are still expecting four 25bps rate hikes in the federal funds rate this year, to 1.00%. We expect to see the 10-year Treasury bond yield at 2.50% by the end of this year. So although we see an increasing risk of a recession, that's not our most likely forecast at this time. So we don't expect that the yield curve will invert. Ask our thoughts again if the price of oil jumps to $150 a barrel and the yield curve does invert.

Stocks: The Year of Living Dangerously. The February 7 *Morning Briefing* was titled "Another Year of Living Dangerously." We reviewed a worry list of what could go wrong this year. It included an oil spike and a Russian invasion of the Ukraine. The week before, Joe and I had lowered our year-end S&P 500 target from 5200 to 4800. We concluded:

"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."

Soon after we wrote that, we had to add *Panic Attack #74*, which was triggered by the Ukraine crisis. We now think that this could turn out to be one of the most dangerous years for stock investors of the current bull market. So we are lowering our year-end target to 4000. That would be a 16% decline for the year. Our target for next year is now 5000, a 25% rebound to a new record high. In tomorrow's *Morning Briefing*, Joe and I will update our forecasts for S&P 500 revenues, earnings, and profit margin.

For now, in the S&P 500 we would continue to overweight Energy (as a hedge against inflation), Financials (as a hedge against rising interest rates), and Information Technology (as an optimistic bet on the Roaring 2020s). We would also overweight SMidCaps relative to LargeCaps, and the US relative to the rest of the world.

Calendars

US: Mon: Consumer Credit $23.8b. **Tues:** NFIB Small Business Optimism; Trade Balance -$87.1b; Wholesale Trade Inventories & Sales 0.8%/1.2%. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Confidence 5.3; Germany Factory Orders 1.0%; UK Retail Sales Monitor; Bullock. **Tues:** Eurozone GDP 0.3%q/q/4.6%y/y; Germany Industrial Production 0.5%; Italy Retail Sales; Spain Industrial Production 4.4% y/y; Japan Leading & Coincident Indicators; Canada Trade Balance $2.0b; Japan GDP 1.4%q/q/5.6%y/y; China CPI & PPI 0.8%y/y/8.7%y/y; Australia Westpac Consumer Sentiment; Lowe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 1.5% last week to 10.4% below its record high on December 27. The index ranked 22nd of the 49 global stock markets we follow in a week when 16 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 4.7% to 14.1% below its June 15, 2021 record high. None of the countries traded at a record high in dollar terms during the week. EM Latin America was the best-performing region last week with a gain of 2.5%, followed by EM Asia (-2.4%). EM Eastern Europe was the biggest underperformer with yet another record-breaking decline of 30.7%, followed by EMU (-12.9), EAFE (-6.5), EMEA (-6.3), and BRIC (-4.8).

Peru was the best-performing country last week, rising 6.9%, followed by Chile (5.6), Colombia (4.9), New Zealand (3.8), and Australia (3.6). Among the 18 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst for a second straight week, falling 38.6% in yet another record-breaking decline. Hungary (-24.7) was the second-worst performer again, followed by Austria (-19.6), Italy (-15.5), and Ireland (-14.4). In February, the US MSCI fell 3.1% in its fourth monthly decline in six months. The US MSCI ranked 32/49 in February as the AC World ex-US index outperformed with a decline of 2.1%. Eighteen of the 49 countries moved higher in February as most regions fell. Peru was the best performer, with a gain of 8.3%, followed by Indonesia (5.5), New Zealand (5.4), Colombia (5.4), and Malaysia (5.3). The worst-performing countries in February: Russia (-52.7), Hungary (-26.3), Austria (-15.0), Poland (-11.9), and Sri Lanka (-11.2). EM Latin America rose 4.7% in February, ahead of EAFE (-2.0) and the AC World ex-US (-2.1). EM Eastern Europe (-42.8) was February's worst-performing region, followed by EMEA (-14.9), BRIC (-6.3), EMU (-5.1), and EM Asia (-2.4). The US MSCI's ytd ranking improved to 26/49 from 33/49 a week earlier, and its 9.8% decline is now less than the 10.3% drop for the AC World ex-US. EM Latin America is the best-performing region ytd, with a gain of 14.3%, followed distantly by EM Asia (-8.5). The laggards: EM Eastern Europe (-54.3), EMU (-20.6), EMEA (-15.4), EAFE (-12.9), and BRIC (-11.7). The best country performers so far in 2022: Peru (28.8), Brazil (21.6), Colombia (20.9), Chile (19.9), and South Africa (11.3). The worst-performing countries: Russia (-63.7), Hungary (-33.4), Austria (-29.5), the Netherlands (-26.3), and Sweden (-26.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week. SmallCap was the best performer, albeit with a decline of 0.9%, ahead of LargeCap (-1.3%) and MidCap (-1.7). LargeCap is now 9.8% below its record high on January 3. MidCap ended the week 10.1% below its record high on November 16, and SmallCap dropped to 11.4% below its November 8 record high. Thirteen of the 33 sectors rose last week, down from 24 rising a week earlier. SmallCap Energy was the best performer for the week with a gain of 13.4%, followed by MidCap Energy (10.3), LargeCap Energy (9.3), SmallCap Utilities (6.1), and LargeCap Utilities (4.8). MidCap Consumer Discretionary was the biggest underperformer last week with a decline of 5.2%, followed by LargeCap Financials (-4.9), MidCap Financials (-4.6), SmallCap Communication Services (-4.5), and MidCap Tech (-4.3). During February, SmallCap rose 1.3%, ahead of the 1.0% rise for MidCap and the 3.1% decline for LargeCap. Seventeen of the 33 sectors rose in February compared to just three rising in January. February's best performers: SmallCap Energy (13.4), MidCap Materials (9.7), LargeCap Energy (6.4), MidCap Energy (4.0), MidCap Consumer Staples (3.7), and MidCap Communication Services (3.6). February's biggest laggards: LargeCap Communication Services (-7.0), LargeCap Real Estate (-5.1), LargeCap Tech (-5.0), LargeCap Consumer Discretionary (-4.1), and LargeCap Utilities (-2.3). In terms of 2022's ytd performance, all three indexes are down ytd. LargeCap is down 9.2% ytd, worse than the declines for SmallCap (-7.3) and MidCap (-8.0). Just four of the 33 sectors are positive so far in 2022. Energy dominates the top performers: LargeCap Energy (34.8), SmallCap Energy (34.1), MidCap Energy (19.7), MidCap Materials (2.8), and SmallCap Utilities (0.0). The biggest ytd laggards: LargeCap Consumer Discretionary (-16.2), LargeCap Communication Services (-15.2), SmallCap Tech (-14.5), LargeCap Tech (-14.1), MidCap Consumer Discretionary (-14.1), and SmallCap Consumer Discretionary (-14.1).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 S&P 500 sectors rose last week and six outperformed the composite index's 1.3% decline. That compares to a 0.8% gain for the S&P 500 a week earlier, when eight sectors rose and six outperformed the index. Energy was the top performer with a gain of 9.3% ahead of Utilities (4.8%), Real Estate (1.7), Industrials (1.2), Health Care (1.2), Consumer Staples (-0.1). The worst performers: Financials (-4.9), Tech (-3.0), Communication Services (-2.7), Consumer Discretionary (-2.6), and Materials (-1.6). The S&P 500 fell 3.1% in February as only one sector moved higher and seven beat the broader index. That compares to one rising in January, when five beat the S&P 500's 5.3% decline. The leading sectors in February: Energy (6.4), Industrials (-1.1), Health Care (-1.1), Materials (-1.4), Financials (-1.5), Consumer Staples (-1.5), and Utilities (-2.3). February's laggards: Communication Services (-7.0), Real Estate (-5.1), Tech (-5.0), and Consumer Discretionary (-4.1). The S&P 500 is down 9.2% so far in 2022, with one sector in positive territory and seven ahead of the index. The best performers in 2022 to date: Energy (34.8), Utilities (-1.5), Consumer Staples (-1.8), Financials (-5.0), Industrials (-5.4), Health Care (-6.2), and Materials (-8.6). The ytd laggards: Consumer Discretionary (-16.2), Communication Services (-15.2), Tech (-14.1), and Real Estate (-10.1).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 1.3% last week and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the third time in four weeks. The index closed below its 50-dma for a ninth week and was below its 200-dma for the sixth time in seven weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved lower for an eighth week, as the index dropped to 4.3% below its falling 50-dma from 3.7% below a week earlier. It remains above its 23-month low of 7.5% below its 50-dma in late February. 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 dropped to 3.3% below its still-rising 200-dma from 2.7% below a week earlier. That's up from a 21-month of 5.5% below in late February and is down sharply from 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*): Energy was the only one of the 11 S&P 500 sectors to trade above their 50-dmas last week, unchanged from a week earlier. Consumer Staples, Energy, and Utilities are the only three sectors with a rising 50-dma, as Financials moved below in the latest week and Utilities moved above. Looking at the more stable longer-term 200-dmas, four of the 11 sectors were above that measure, unchanged from a week earlier and up from three the week before that, which had matched the lowest count since June 2020. In the latest week, Health Care moved above and Financials moved below, with two sectors remaining above their 200-dmas, Consumer Staples and Energy. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Six sectors have a rising 200-dma, down from eight a week earlier. Consumer Discretionary and Financials turned down w/w and joined Communication Services, Industrials, and Materials as the only members of the declining 200-dma club.

US Economic Indicators

Employment (*link*): Payroll employment in February blew past forecasts again—and there were upward revisions to prior months' data. Total payroll employment soared 678,000 (vs 400,000 expected), the strongest monthly gain since last July, as the Covid-19 Omicron variant faded. Monthly increases for both January (to 481,000 from 467,000) and December (588,000 from 510,000) payrolls were revised higher, for a net gain of 92,000. Private payrolls jumped 654,000 (stronger than ADP's 475,000), while revisions to January (448,000 from 444,000) and December (561,000 from 503,000) made for a net gain of 63,000. Total payroll employment has recovered 19.9 million jobs since bottoming last April, though is still 2.1 million below its pre-pandemic level. Service-providing jobs added 549,000 in February, averaging gains of 516,000 jobs per month the past five months. Goods-producing jobs soared 105,000, more than quadruple January's gain and the most since last March. Industries posting the largest gains during February were leisure &

hospitality (179,000), professional & business services (95,000), health care (64,000), construction (60,000), transportation & warehousing (48,000), retail trade (37,000), and manufacturing (36,000). 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 (+6.7 million & -1.5 million), professional & business services (+2.9 million & +596,000)—led by temporary-help services (+1.2 million & +240,400)—retail trade (+2.3 million & +103,700), health care (+1.3 million & -305,700), manufacturing (+1.2 million & -178,000), construction (+1.1 million, & -11,000), transportation & warehousing (+1.1 million & +583,600), education (+467,800 & -56,100), financial activities (+311,000 & +31,000), wholesale trade (+292,100 & -112,500), information services (+281,000 & +20,000), and mining & logging (-15,000 & -86,000).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 21st increase in the past 22 months—up 0.8% in February and 26.0% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.9% over the past 12 months. The aggregate weekly hours (0.8%) component accounted for the entire gain in February's EIP, as the average hourly earnings component of the EIP was unchanged. Over the past 12 months, our EIP accelerated 10.9%, the fastest since last July, with aggregate weekly hours up 5.8% and average hourly earnings up 5.1%.

Unemployment (*link*): February's unemployment rate fell to 3.8%, the lowest since the pandemic, moving close to the lows of 3.5% during January and February 2020, while the participation rate has begun a slight move up, climbing to 62.3% in February—the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2020 and 2021. The number of unemployed fell 243,000 in February, the eighth decline in 10 months, falling from 9.7 million to 6.3 million over the period. By race, unemployment rates all moved lower in February, with rates for Asians (to 3.1% from 3.6%) and Hispanics (4.4 from 4.9) posting the biggest declines, followed closely by African Americans (6.6 from 6.9)—with the jobless rate for Hispanics back down at its 4.4% rate just before the pandemic began. The rate for Whites ticked down from 3.4% to 3.3%. Rates for Asians, African Americans, and Whites were at 2.5%, 6.0%, and 3.0% before the pandemic began. By education, the rate for those with less than a high school degree (to 4.3% from 6.3%) sank 2.0ppts to a new record low! Rates for those with a high school degree (4.5 from 4.6) and a bachelor's degree and higher (2.2 from 2.3) were slightly lower, while the rate for those with some college (3.8 from 3.6) moved slightly higher.

Wages (*link*): After increasing for 10 straight months, average hourly earnings for all workers were flat last month, with the yearly rate slowing from 5.5% in January to 5.1% in February, considerably below January's 7.5% increase in the CPI. The wage rate for goods-producing industries slowed to 4.6% y/y after accelerating sharply from a low of 1.5% last April to 5.1% by January—which nearly matched its record high of 5.3% recorded in spring 2009. Meanwhile, the rate for service-providing industries (5.2% y/y) has been moving in a volatile flat trend since its recent move up from 0.4% last April to 5.5% by October. Within goods-producing, yearly wage rates for both manufacturing (to 4.2% from 5.1%) and natural resources (3.1 from 4.2) eased in February, while the rate for construction workers (5.1) barely budged from January's record high of 5.2%. Within service-providing industries, yearly wage rates are all over the board: The rates for both transportation & warehousing (7.7, a new record high) and professional & business services (6.2) remain on steeply accelerating trends; the rates for education & health services (6.1) and leisure & hospitality (11.2) are looking toppy; those for retail trade (7.1), utilities (4.6), and information services (2.8) are accelerating; and the rate for financial activities (1.9) is slowing at a rapid rate.

Auto Sales (*link*): Auto sales took a step back in February after showing signs of life at the start of this year. Motor vehicle sales slumped to 14.2mu (saar) last month after climbing from 12.7mu in December to a seven-month high of 15.2mu in January. Sales had rebounded to a recent high of 18.5mu last April—which was its best reading since summer 2005 when aggressive incentive boosted sales above 20.0mu—before sinking to 12.4mu by September. The weakness was widespread in February. Domestic light truck sales fell to 8.6mu (saar) in February after shooting up from 7.8mu in December to an eight-month high of 9.4mu in January; sales had peaked at 11.0mu last April. Domestic car sales remain depressed, ticking down to 2.0mu (saar) last month after climbing from 1.6mu last September to 2.1mu this January. These sales are not far from the record low of 1.4mu recorded at the height of the pandemic. In the meantime, sales of imports dipped to 3.5mu (saar) after recovering from a recent low of 2.9mu in November to 3.7mu (saar) in January—with light truck sales accounting for three-quarters of that gain.

Global Economic Indicators

Global Composite PMIs (*link*): Global demand picked up a bit in February after slowing to an 18-month low at the start of 2022, with both the manufacturing and service sectors contributing to the improvement. The C-PMI climbed to 53.4 in February after easing from 54.8 in November to 51.1 in January, led by the service sector. The NM-PMI rebounded to 53.9 after slowing to an 18-month low of 51.0 in January, while the M-PMI edged up to 53.6

from January's 15-month low of 53.2. The C-PMI for the advanced economies rose to 54.7 after easing the prior two months from 55.8 in November to 51.3 in January, which was the weakest since July 2020, while the C-PMI for emerging economies edged up to 51.3 after slowing to 50.8 in January—the lowest since last August's 49.3. According to the report, nearly all the nations for which February data were available posted an expansion in economic activity, with the UK at the top of the leaders board, followed closely by Ireland; the US was in the number five slot. Activity in the Eurozone climbed to a five-month high, with trends improving across the four largest economies. Meanwhile, China's C-PMI (50.1) remained around the breakeven point of 50.0, while Japan's C-PMI (to 45.8 from 49.9) fell further below 50.0, as the NM-PMI (to 44.2 from 47.6) contracted at its fastest pace in six months and its M-PMI (52.7 from 55.4) showed activity continued to slow.

US Non-Manufacturing PMIs (*link*): The two NM-PMI measures were mixed, with the ISM measure posting its slowest growth since February 2021—though still robust—while the IHS Markit measure picked up after posting its weakest performance since July 2020 in January. The ISM's NM-PMI slowed for the third month to 56.5 in February after rising steadily from 62.2 in August to a record-high 68.4 in November. The new orders gauge eased for the fourth month, from a record-high 69.0 in October to a 12-month low of 56.1 in February, while the production measure slowed from November's record-high 72.5 to a 21-month low of 55.1 in February. The employment component weakened for the third month from 57.0 in November to 48.5 in February—contracting for the first time since mid-2021. Meanwhile, the supplier deliveries measure climbed for the second month to 66.2 in February, after falling from 75.7 in November to 63.9 in December, signaling extended delays in procuring materials. Meanwhile, ISM's prices paid (to 83.1 from 82.3) index remained just south of December's record high of 83.9. Switching to the IHS Markit NM-PMI measure, it accelerated to 56.5 in February, after slowing the prior three months from 58.7 in October to an 18-month low of 51.2 in January, as the Covid-19 Omicron wave slowed. Output continued to expand, led by the fastest increase in new business in seven months, as service providers got a boost from both new and existing customers. The rise in new export orders was the strongest since mid-2021, as travel restrictions eased.

Eurozone Retail Sales (*link*): Eurozone retail sales in January advanced less than expected as restrictions to end the spread of the Covid-19 Omicron variant continued. Sales edged up 0.2% at the start of 2022 after contracting 2.7% at the end of last year. Components were mixed, with sales of non-food products (excluding fuel) edging up 0.2%, sales of automotive fuel contracting 1.3%, and sales of food, drink & tobacco unchanged. Data are available for only two of the Eurozone's four largest economies: German sales rebounded 2.0% in January after contracting 4.6% in December, while sales in France contracted for the second month, by 0.9% in January and 1.4% over the two-month period. Luxembourg (4.2%) recorded the largest monthly gain among the member states. Overall sales accelerated 7.8% y/y, led by double-digit sales gains in nonfood products excluding fuel (14.8%) and automotive fuel (12.7), while sales of foods, drinks & tobacco (-1.7) contracted. Sales in Germany were up an impressive 10.3% y/y, while sales in France were up a more modest 3.7% from a year ago.

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