MORNING BRIEFING
March 14, 2022

Inflation, Liquidity & Valuation

Check out the accompanying chart collection.

Executive Summary: The big question before stock investors now is: With inflation likely to remain troublesome, are valuations still too high or will ample M2 liquidity keep them elevated? We examine a handful of indicators that shed light on the relationship between inflation and valuation. … Will chronic labor shortages fuel a wage-price spiral over the rest of the decade, as predicted by Charles Goodhart? Our money remains on businesses deploying productivity-enhancing technology to get around their labor-supply challenges. … And: Putin's War should mean more gradual interest-rate increases ahead, for now. …Also: Dr. Ed reviews "Vikings: Valhalla" (+ + +).

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

Valuation I: The Big Question. In his famous December 5, 1996 *speech*, then-Fed Chair Alan Greenspan raised the valuation issue when he asked, "But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions . . . ?" That sounded like he was concerned about a bubble in the stock market. However, he was just asking the question, not answering it. He was thinking out loud, essentially. Indeed, right before posing the question, he suggested that stocks were not irrationally exuberant given that "sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets."

Today, we face a similar valuation question. However, this time the question is whether valuations are too lofty given that inflation is much more troublesome now than it was during the second half of the 1990s. In response to the pandemic, excessively stimulative fiscal and monetary policies in the US boosted demand, which caused a supply shock, thus boosting inflation last year. The invasion of Ukraine by Russian President Vladimir Putin's army on February 24 exacerbated the global inflationary outlook.

In the months before Putin attacked Ukraine, Joe and I recognized that the forward P/E of

the S&P 500 was lofty, having ranged between 20 and 23 since May 2020 (*Fig. 1*). However, we argued that $3 trillion in excess M2 liquidity might continue to support those elevated levels (*Fig. 2*). In addition, we expected that the core PCED (personal consumption expenditures deflator) inflation rate would peak before mid-year around 5.0%-6.0% and fall to 3.0%-4.0% by the end of this year, which would be a positive development for valuations as well.

The notion that elevated valuations would remain that way, as they had from mid-2020 through the end of 2021, started to come unglued this year during January's taper tantrum, as both stock and bond investors began to discount a more aggressive monetary tightening stance by the Fed than we expect, i.e., four 25bps hikes in the federal funds rate this year. The forward P/E of the S&P 500 fell to the month's low of 19.2 on January 27. Last month's low of 18.5 occurred on February 23, just after Putin's invasion. This past Friday, it was down to 18.3.

At the beginning of last week, Debbie and I raised our inflation forecast as a result of the Ukraine crisis. We now expect that the core PCED inflation rate will peak at 6.0%-7.0% around mid-year and fall to 4.0%-5.0% by the end of the year (*Fig. 3*). Then it might decline to 3%-4% in 2023, maybe.

Last week, Joe and I lowered our year-end S&P 500 target from 4800 to 4000, as we had lowered our forward P/E estimate to 16.0 while maintaining our outlook for earnings per share. We are concerned that higher and more persistent inflation will trump excess M2 liquidity this year. Nevertheless, our target for the S&P 500 by the end of next year is 5000. So, in our opinion, we are still in a bull market that should be led by Energy (as a hedge against inflation), Financials (as a hedge against rising interest rates), and Information Technology (as a bet on the Roaring 2020s).

Now let's review the relationship between inflation and valuation:

(1) *P/E vs inflation.* We have two sources of data for the S&P 500's P/E: a quarterly series based on four-quarter-trailing reported earnings from 1935 through 1978 and a monthly series based on forward earnings from 1979 to now (*Fig. 4*). When we plot a composite series from the two and compare it to the CPI inflation rate, on a y/y basis, we can see an inverse relationship, though not a very tight one. The same can be said when we compare our composite P/E series to the 10-year Treasury bond yield since 1953 (*Fig. 5*).

The relationship between the S&P 500 stock price index and inflation is a complex one. On

the one hand, stocks are a good inflation hedge because the growth rate of S&P 500 revenues tends to outpace the inflation rate (*Fig. 6*). While rising costs could offset rising revenues, squeezing profit margins, S&P 500 reported earnings divided by the CPI has tended to grow mostly between 2%-3% at a compounded annual growth rate since the end of WWII (*Fig. 7*). This suggests that productivity has been growing at this pace, making stocks a very good hedge against inflation.

On the other hand, rising inflation tends to boost the 10-year Treasury bond yield, which should weigh on the stock market's valuation multiple (*Fig. 8*). However, the relationship between inflation and the bond yield is also not a very tight one. During February, the spread between the bond yield and the inflation rate was -5.9%, the most negative reading since the start of the data (*Fig. 9*).

(2) *Real earnings yield.* Another way to study the relationship between the valuation multiple and inflation is to subtract the annual CPI inflation rate from the nominal earnings yield (i.e., the reciprocal of the P/E based on S&P 500 quarterly reported earnings) to calculate the real earnings yield of the S&P 500 (*Fig. 10*). The data start in 1935.

The real earnings yield is an eye-opener. Since WWII, there have been 12 bear markets in the S&P 500. The real earnings yield coincidently turned negative during eight of those bear markets. The real earnings yield has been negative again since Q3-2021, raising a caution flag about a possible bear market.

Another reason to pay attention to the S&P 500's real earnings yield is that it tends to turn negative when the Treasury yield curve inverts, and inversions of the Treasury yield curve often have turned out to be good leading indicators of recessions and bear markets (*Fig. 11*). While the yield-curve spread between the 10-year Treasury bond and the federal funds rate has been widening, the yield-curve spread between the 10-year bond and the 2-year note narrowed to just 24bps on Friday, moving it closer to inversion (*Fig. 12*).

(3) *Misery Index.* The Misery Index rose to 11.7% during February as the unemployment rate fell to 3.8% while the CPI inflation rate rose to 7.9%, a fresh 40-year high (*Fig. 13* and *Fig. 14*). Americans still aren't as miserable as we were during the lockdown recession of 2020, and much less so than the high level of misery experienced during the 1970s.

Nevertheless, the Misery Index has been rising rapidly since early 2021 as the rebound in inflation more than offset the drop in the jobless rate. The index tends to rise just before or during bear markets in the S&P 500. However, it isn't a very useful market-timing tool. A

more useful indicator is the unemployment rate, which tends to fall to its cyclical lows around the start of bear markets. It was down to 3.8% during February. Given that the labor market is so tight, the jobless rate may have further to fall before it bottoms.

The Misery Index is also inversely correlated with the forward P/E of the S&P 500 (*Fig. 15*). Again, the relationship between the two is not a tight one. However, the increase in the Misery Index over the past 12 months has coincided with the decline in the S&P 500 forward P/E over the same period. The Misery Index seems likely to continue rising in coming months, consistent with our view that the forward P/E has more downside.

Notwithstanding the strong improvement in the labor market over the past year, the Consumer Sentiment Index (CSI) dropped to 59.7 in mid-March, the lowest reading since September 2011 (*Fig. 16*). That's because inflation has soared over the past year, as reflected in both the CSI and the Misery Index. The CSI is correlated with our composite P/E series, though this relationship isn't a tight one either. In any event, the sharp drop in the CSI is another negative for valuation.

Valuation II: Other Metrics. There are plenty of other metrics suggesting that lots of air has already come out of stock market valuations. Consider the following:

(1) *LargeCaps vs SMidCaps.* The forward price-to-sales ratio (using forward revenues for sales) of the S&P 500 peaked at the start of this year at 2.88 (*Fig. 17*). It was down to 2.45 on Friday. Just before the pandemic, it peaked at 2.29. So it is still relatively high. The forward P/E of the S&P 500 peaked at 21.5 at the start of the year and was down to 18.3 on Friday.

The forward P/Es of the S&P 400/600 indexes both were around 20.0 early last year (*Fig. 18*). They've fallen significantly since then, to 13.9 and 13.5 on Friday.

(2) *Growth vs Value.* The forward P/E of the S&P 500 Value index rallied at the end of last year to peak at 17.4 at the beginning of this year (*Fig. 19*). By Friday, it had retreated to 15.7, almost down to its low of 15.3 late last year. The forward P/E of the S&P 500 Growth index declined from 29.7 at the start of this year to 22.3 on Friday, below the pre-pandemic high of 24.2. Leading the way down was the forward P/E of the MegaCap-8, which fell from 33.8 to 26.5 over this period.

Valuation III: Longer Correction. Joe observes that the latest correction lasted 64 calendar days, from January 3, when the S&P 500 peaked at a record 4796.56, through

March 8, when the index closed at 4170.70. That's a 13.0% decline. And it may not be over yet.

Our good friend and go-to technician Joe Feshbach says his charts show that "a break of the low is coming." He is surprised that the put/call ratio hasn't moved higher despite the fact that "chatter is uniformly bearish." He adds, "However, my expectation is a break of the low will not lead to a big decline as the bearish call is becoming too universal. The next trading rally could occur after that break." Joe also observes that all the calls for $200-a-barrel oil may be making a top now.

Inflation I: Are Labor Shortages Inflationary? Will the current decade be remembered as the Roaring 2020s or the Great Inflation 2.0? Right now, there clearly are more similarities with the Great Inflation 1.0 of the 1970s. Commodity prices soared during that period, led by agricultural commodities at the start of the decade. There were two oil price shocks in 1973 and 1979. The former included the Arab–Israeli War. The latter year included three geopolitical shocks: (1) Khomeini's revolution in Iran; (2) the 1979 siege of the Grand Mosque at Mecca in Saudi Arabia; and (3) the invasion of Afghanistan by Russia. Soaring food and energy prices triggered a wage-price spiral, which caused consumer prices to soar in the US.

This time isn't much different. The pandemic led to excessively stimulative fiscal and monetary policies, which caused a demand shock that triggered a supply shock, as evidenced by supply-chain disruptions. Consumer price inflation has been soaring since March 2021. As a result of Putin's War against Ukraine, commodity prices are rising rapidly.

The big difference between the 1970s and the 2020s is the availability of labor. The Baby Boomers boosted the growth of the labor force during the 1970s to between 2%-3% y/y (*Fig. 20*). Now they are retiring, and the labor force growth is around 1.0% y/y.

The March 9 *WSJ* included an interesting *article* titled "Will Inflation Stay High for Decades? One Influential Economist Says Yes." It reported that economist Charles Goodhart predicts that global labor shortages will result in high inflation around the world for the foreseeable future. Businesses will be forced to raise wages and to pass their higher labor costs on to their customers via prices. The resulting wage-price spiral could last for decades unless central banks step on the brakes, causing recessions that will depress labor demand.

That's depressing!

I first started writing about the coming labor shortages in my 2018 book *Predicting the Markets*. However, I've been arguing that businesses will respond to these shortages by spending more on capital equipment and technological innovations to boost their productivity. If so, "the Roaring 2020s" could still turn out to best describe the current decade when all is said and done.

Inflation II: Inflating and Persisting. US Treasury Secretary Janet Yellen said on January 20 that she was confident the Federal Reserve and the Biden administration would take the steps needed to bring down inflation over the course of 2022. She blamed inflation on the effects of the pandemic. On March 10, Yellen said that Americans will likely see another year of "very uncomfortably high" inflation. She blamed the effects of Russia's invasion of Ukraine.

At his January 26 *press conference*, before the invasion, Fed Chair Jerome Powell said "there are multiple forces which should be working over the course of the year for inflation to come down." He acknowledged that "inflation has persisted longer than we thought." But he declared that the Fed is "prepared to use our tools to assure that higher inflation does not become entrenched."

It will be interesting to hear Powell's March 16 presser. He undoubtedly will discuss the impact of the invasion on the Fed's policymaking process. Like Yellen, he will blame Putin's War for higher and more persistent inflation. While he and his colleagues must recognize how far behind the inflation curve they are, Melissa and I think that they will opt for a gradual course of rate hikes for now as a result of the uncertainties attributable to geopolitical developments. So we expect a 25bps rather than a 50bps hike in the federal funds rate on Wednesday.

Movie. "Vikings: Valhalla" (+ + +) (*link*) is a Netflix series that chronicles the legendary adventures of some of the most famous Vikings who ever lived, including Leif Eriksson, Freydís Eiríksdóttir, Harald Hardrada, and the Norman king of England William the Conqueror. The series starts in the early 11th century and reminds us that humans have a very long history of waging war on one another. The conflicts usually have been about land, scarce resources, religion, and/or power. The consequences always have been terrible and often have set the stage for the next war. Just when the world thought we had made progress toward creating a more peaceful world order, Mad Vlad reminded us that we haven't.

Calendars

US: Mon: None. **Tues:** Headline & Core PPI 0.9%m/m/10.0%y/y & 0.6%m/m/87%y/y; Empire State Manufacturing Index 7.25; TIC Net Long-Term Transactions; Weekly Crude Oil Inventories; OPEC Monthly Report. (Bloomberg estimates)

Global: Mon: China Retail Sales 3.0% y/y; China Industrial Production; China Fixed Asset Investment 5.0% y/y; NBS Press Conference; Eurogroup Meetings; Elderson. **Tues:** Eurozone Industrial Production 0.2%m/m/-0.5%y/y; Eurozone ZEW Economic Sentiment; Germany ZEW Economic Sentiment & Current Conditions 10.0/-22.5; France CPI 0.7%m/m/3.6%y/y; UK Average Earnings Including & Excluding Bonus 4.6%/3.7%; UK Claimant Count Change -28k; UK Employment Change 3m/3m -65k; UK Unemployment Rate 4.0%; Enria. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index registered its worst decline in seven weeks, falling 3.0% last week to 13.1% below its record high on December 27. The index ranked 40th of the 49 global stock markets we follow in a week when 27 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 1.2% to 12.6% below its June 15, 2021 record high. None of the countries traded at a record high in dollar terms during the week. EMU was the best-performing region last week with a gain of 3.9%, followed by EAFE (0.4%). Russia lost all of its value in the latest week, contributing heavily to the record-breaking 57.2% decline for EM Eastern Europe, the 13.6% drop for EMEA, and the 8.3% decline for BRIC. Also underperforming were EM Asia (-4.9) and EM Latin America (-1.3). Hungary was the best-performing country last week, rising 11.4%, followed by Poland (7.4), Sweden (6.8), Portugal (6.6), and Argentina (6.4). Among the 17 countries that underperformed the AC World ex-US MSCI last week, Russia's 100% loss was followed by Sri Lanka (-22.5), Egypt (-12.0), China (-9.2), and Japan (-4.4). The US MSCI's ytd ranking dropped to 31/49 from 26/49 a week earlier, and its 12.5% decline is now trailing than the 11.4% drop for the AC World ex-US. EM Latin America has risen 12.8% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-80.4), EMEA (-26.9), BRIC (-19.1), EMU (-17.6), EM Asia (-12.9), and EAFE (-12.5). The best country performers so far in 2022: Peru (29.8), Colombia (21.0), Chile (19.8), Brazil (18.9), and South Africa (14.2). The worst-performing countries: Russia (-100.0), Sri Lanka (-33.3), Austria (-25.9), Hungary (-25.8), and the Netherlands (-25.1).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week and posted their biggest declines in seven weeks. SmallCap was the best performer, albeit with a decline of 1.1%, ahead of MidCap (-1.7%) and LargeCap (-2.9). LargeCap is now 12.3% below its record high on January 3. MidCap ended the week 11.7% below its record high on November 16, and SmallCap dropped to 12.4% below its November 8 record high. Four of the 33 sectors rose last week, down from 13 rising a week earlier. MidCap Energy was the best performer for the week with a gain of 3.9%, followed by SmallCap Energy (3.3), LargeCap Energy (1.9), SmallCap Industrials (0.0), and SmallCap Financials (0.0). SmallCap Consumer Staples was the biggest underperformer last week with a decline of 7.5%, followed by LargeCap Consumer Staples (-5.8), LargeCap Tech (-3.8), and MidCap Health Care (-3.7). In terms of 2022's ytd performance, all three indexes are down ytd. SmallCap is down 8.3% ytd, less than the declines for MidCap (-9.5) and LargeCap (-11.8). Just three of the 33 sectors are positive so far in 2022. Energy dominates the top performers: SmallCap Energy (38.5), LargeCap Energy (37.3), MidCap Energy (24.3), MidCap Materials (-0.1), and LargeCap Utilities (-2.2). The biggest ytd laggards: LargeCap Consumer Discretionary (-18.3), LargeCap Communication Services (-17.9), LargeCap Tech (-17.4), MidCap Consumer Discretionary (-17.2), and SmallCap Consumer Discretionary (-16.4).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, but eight outperformed the composite index's 2.9% decline. That compares to a 1.3% decline for the S&P 500 a week earlier, when five sectors rose and six outperformed the index. Energy was the top performer with a gain of 1.9% ahead of Utilities (-0.7%), Materials (-1.6), Real Estate (-1.8), Financials (-2.2), Industrials (-2.5), Consumer Discretionary (-2.6), and Health Care (-2.8). The worst performers: Consumer Staples (-5.8), Tech (-3.8), and Communication Services (-3.1). The S&P 500 is down 11.8% so far in 2022, with one sector in positive territory and eight ahead of the index. The best performers in 2022 to date: Energy (37.3), Utilities (-2.2), Financials (-7.1), Consumer Staples (-7.5), Industrials (-7.7), Health Care (-8.8), Materials (-10.0), and Real Estate (-11.7). The ytd laggards: Consumer Discretionary (-18.3), Communication Services (-17.9), and Tech (-17.4).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.9% last week and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the fourth time in five weeks. The index closed below its 50-dma for a tenth week and was below its 200-dma for the seventh time in eight 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 a ninth week, as the index dropped to 5.8% below its falling 50-dma from 4.3% 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 6.1% below its now-falling 200-dma from 3.3% below its rising 200-dma a week earlier. That's up slightly from Wednesday's 23-month low of 6.8% 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*): Among the 11 S&P 500 sectors, Energy and Utilities were the only ones to trade above their 50-dmas last week, unchanged from a week earlier. Energy is the only sector with a rising 50-dma, as Consumer Staples and Utilities moved below in the latest week. Looking at the more stable longer-term 200-dmas, Energy and Utilities were the only sectors above that measure last week as Consumer Staples and Health Care fell below. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Six sectors have a rising 200-dma, unchanged from a week earlier. The members of the declining 200-dma club include Communication Services, Consumer Discretionary, Financials, Industrials, and Materials.

US Economic Indicators

Consumer Price Index (*link*): Inflation accelerated in February at its fastest pace since January 1982, outpacing wage gains by nearly 3 ppts. The CPI advanced 0.8% last month, averaging monthly gains of 0.7% the past five months, pushing its yearly rate to 7.9%, which is 2.8ppts above the 5.1% gain in average hourly earnings for all employees that month. Core prices climbed 0.5% in February and fluctuated between 0.5% and 0.6% the past five months, pushing the yearly rate up to 6.4%—the most since August 1982. Here's a look at yearly rates across the spectrum: food (7.9% y/y) costs are accelerating at their fastest rate since July 1981, with the rate for food away from home (6.8) the highest since the end of 1981 and the rate for food at home (8.6) the highest since April 1981. Energy (25.6) costs eased a bit for the third month from November's 33.3% y/y—which was the

fastest pace since September 2005—with the slowdown broad based: Both gasoline (to 38.0% from 58.1% y/y in November) and natural gas (23.8 from 28.1) rates have slowed over the past few months; the rate for electricity slowed to 9.0% y/y in February from 10.7% at the start of the year (the fastest pace since September 2005); and fuel oil price gains slowed to 43.6% y/y in February, down from 59.3% in November (the highest since July 2008), though has been moving sideways just above 40.0% the past three months. The consumer durable goods (18.7) inflation rate accelerated to its highest percentage since the record high of 20.2% in the early 1940, while the consumer nondurable goods (10.7) rate was the highest since summer 2008. The rate for furniture & bedding (17.1) climbed to its highest reading on record, while the rate for new vehicles (12.4) accelerated at its fastest pace since April 1975. Meanwhile, the rate for used cars & trucks (41.2) accelerated for the third month from November's 31.4%, moving back up toward June 2021's record rate of 45.2%, while apparel (6.6) prices accelerated at its fastest rate since the end of 1980. The yearly rate for medical care commodities (2.5) was positive for the fourth month, posting its highest rate since December 2019, after being in negative territory for 13 successive months. Within services, owners' equivalent (4.3) and tenant-occupied (4.2) rents accelerated last month—up from recent lows of 2.0% and 1.8%, respectively—while the rate for lodging away from home (25.1) soared to a new record high. Meanwhile, the yearly rate for hospitals' (3.4) services has been moving sideways, while the physicians' (0.5) services rate slowed noticeably from 2.6% in January and 4.3% in December; it peaked at 5.3% last March. The yearly rate for airfares (12.7) moved further above zero in February after nosediving last year, from 24.6% in June to -3.7% by November, then recovering altitude in December (1.4).

Consumer Sentiment Index (*link*): The Consumer Sentiment Index (CSI) in mid-March sank to its lowest level since 2011, with the highest-ever share of consumers expecting their finances to worsen in the coming year (going back to the mid-1940s), as expected inflation accelerated to its highest percentage since 1981 and expected gas prices posted their largest upward surge in decades. The CSI tumbled to 59.7 in mid-March from 70.6 at the end of 2021—and 28.6 points below its recent peak of 88.3 last April. The expectations component has plunged 13.9 points (to 54.4 from 68.3 in December) the first three months of 2022, to its lowest reading since fall 2011, while the present situation component is down 6.4 points (67.8 from 74.2) over the period to its lowest level since spring 2009. They were at recent peaks of 83.5 and 97.2 during June and April of last year. Mid-March's expected inflation rate soared to 5.4% y/y—its highest percentage since November 1981—up from 3.1% last March and 2.2% during March 2020. The expected inflation rate over the next five years is holding steady around 3.0%. According to the report, "The greatest source of uncertainty is undoubtedly inflation and the potential impact of the Russian invasion on

Ukraine. In the March survey 24% of all respondents spontaneously mentioned the Ukraine invasion in response to questions about the economic outlook." It's hard to find any encouraging news in the March report except for this: Consumers remained relatively optimistic on the job market, with slightly more consumers anticipating declines than increases in the unemployment rate.

Global Economic Indicators

UK GDP (*link*): Real GDP in January bounded back as the Omicron disruption eased, after the Omicron variant and Plan B restrictions sent GDP south during the final month of last year. Economic activity expanded a larger-than-expected 0.8% in January, on widespread strength, boosting real GDP 0.8% above its pre-pandemic peak. The service sector was the main contributor to January's increase in real GDP, growing 0.8% in January and 11.1% y/y, pushing it 1.3% above its pre-pandemic level. The report notes that output in consumer-facing services increased 1.7% in January, driven by a 6.8% jump in food and services activities, while all other services collectively saw output increase 0.6% during the month. Meanwhile, the manufacturing sector grew for the third straight month, climbing 0.8% in January and 1.8% over the period, though is still 1.6% below its pre-Covid reading, as supply bottlenecks have restrained growth. Meanwhile, construction output rose 1.1% in January and 5.1% during the three months through January—boosting it 1.4% above its pre-Covid level.

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