MORNING BRIEFING
April 4, 2022

Inflating Earnings

Check out the accompanying chart collection.

Executive Summary: Crosscurrents should continue to buffet the S&P 500's forward P/E multiple in both directions, but the earnings portion of the equation should rise in the higher-for-longer inflationary environment we project. The S&P 500 is a good inflation hedge provided that the downward-blowing crosswinds continue to be offset by inflating earnings. … Today, we detail all the variables that go into our stock market assessment—including our stagflationary economic outlook; our estimates for corporate revenues, earnings, and profit margins; our target ranges for the S&P 500's forward P/E and price levels this year and next; and the assumptions we've made to derive those targets. ... Movie review: "The Dropout" (+ + +).

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*.

Strategy I: Volatile Crosscurrents. Today, Joe and I are raising our outlook for S&P 500 revenues and earnings for this year and next year. This reflects our conclusion that inflation is likely to be higher for longer than previously expected. We also discuss the crosscurrents that will likely continue to cause volatility in the S&P 500's valuation multiple (*Fig. 1*). These crosscurrents currently include higher-for-longer inflation, tightening monetary policy, excess liquidity, the replacement of the "Fed Put" with the "CFO Put," stagflation, and geopolitical uncertainties.

Despite all these crosscurrents, which have mostly weighed on the valuation multiple so far this year, we note that the S&P 500 is only 5.2% below its record high on January 3 (*Fig. 2* and *Fig. 3*). After its 13.0% correction through March 8, it is up 9.0%—and back above both its 50-day and 200-day moving averages.

Last week in the March 30 *Morning Briefing*, Joe and I reiterated: "Our conclusion is that it's still a bull market." However, instead of a year-end point estimate for the S&P 500 target, we switched to estimating a target range for the S&P 500 for this year and next year: "For now, given the market's volatility, we are going to provide you with upside and downside

targets for the S&P 500. For this year, the downside might have occurred on March 8 around 4200, while the upside might be at 5000 … For next year, our range is 5000-6000” (*Fig. 4*). (Below, we tweak the 2023 range slightly to make it consistent with our outlook for earnings and valuations.)

In a bull market, the source of the volatility, both up and down, in the S&P 500 tends to be mostly attributable to the forward P/E, while forward earnings remains relatively stable and tends to rise. In a bear market, the volatility is mostly to the downside, with both the forward P/E and forward earnings dropping. There can be occasional bear market rallies attributable to the forward P/E.

All this is confirmed by our weekly and monthly Blue Angels framework, which graphically shows the S&P 500’s performance relative to actual forward earnings multiplied by hypothetical forward P/Es (*Fig. 5* and *Fig. 6*).

Strategy II: Inflating Revenues & Earnings. The revenues of a company that makes widgets are determined by both the number of widgets sold and the price of those units. In other words, inflation is reflected in revenues growth to the extent that the price of widgets increases at the same pace as overall inflation.

With a broad measure of revenues, such as the one for the S&P 500, it should certainly be the case that revenues growth fully reflects the pace of overall inflation. The same can be said about a broad measure of earnings, such as S&P 500 earnings, as long as rising costs are offset by price increases and/or productivity gains.

S&P 500 dividends growth likewise should reflect the pace of inflation as long as the dividend payout ratio isn’t reduced as a result of higher inflation. However, dividends could be cut in situations where profit margins get squeezed because costs are rising faster than prices.

Therefore, the S&P 500 should be a good inflation hedge as long as the downward pressure on its forward P/E (caused by higher inflation and interest rates) is more than offset by inflating earnings. Consider the following:

(1) *Aggregate revenues and GDP.* S&P 500 revenues-per-share data are available since Q1-1992 (*Fig. 7*). We convert this series to aggregate S&P 500 revenues by multiplying it by the S&P 500 divisor for each quarter. The resulting series has the same trend and cycle as nominal GDP, particularly the goods component of nominal GDP (*Fig. 8*). The growth rates

of these three series, on a y/y basis, are highly correlated, especially the revenues and the nominal GDP of goods series (*Fig. 9* and *Fig. 10*).

(2) *Aggregate revenues and inflation.* Revenues growth since the start of the data in 1993 has been mostly driven by the growth rate of real GDP since inflation was very subdued until the past year, as measured by the nonfinancial business price deflator (NFBD) (*Fig. 11*). The NFBD fluctuated around 2.5% through 2020. It rose to 6.1% on a y/y basis through Q4-2021, the highest since Q2-1982. This partly explains why aggregate S&P 500 revenues jumped 16.1% over this same period. S&P 500 aggregate revenues divided by the NFBD has had the same trend and cycle as real GDP (*Fig. 12*).

(3) *Inflation.* In response to Russia's invasion of Ukraine, we raised our outlook for inflation in the March 7 *Morning Briefing*. We now expect that the core PCED inflation rate will peak between 6.0% and 7.0% during H1-2022 and fall to 4.0%-5.0% during H2-2022. We expect it will slide to a range of 3.0%-4.0% next year, remaining stubbornly above the Fed's 2.0% target, mostly because of rising rent inflation (*Fig. 13*).

(4) *Revenues per share.* In the March 8 *Morning Briefing*, we raised our outlook for S&P 500 revenues per share to reflect our higher-for-longer inflation outlook. We are raising it again to $1,790 (from $1,710, and up 14% from 2021) and $1,945 (from $1,850, and up 9% from 2022) (*Fig. 14*). This reflects our increasing concern about a higher-for-longer inflation scenario.

(5) *Margins and earnings.* The annual S&P 500 profit margin peaked at a record high of 13.4% during 2021. We expect that companies will continue to offset rising costs by raising their prices and boosting their productivity. So we are raising our operating profit margin projection for this year to 13.4% (from 13.2% previously) and now project a 13.4% operating profit margin for next year as well (*Fig. 15*).

So our new estimates for 2022 and 2023 S&P 500 operating earnings per share are $240 and $260 (up from our previous estimates of $225 and $250) (*Fig. 16*). Again, these upward revisions reflect our higher-for-longer inflation outlook.

(6) *Forward earnings.* We are raising our outlook for S&P 500 forward operating earnings per share to reflect our new estimates for 2022 and 2023 earnings per share. By the end of this year and next year, we are projecting forward earnings per share will be $265 and $300. (These numbers are our projections of analysts' consensus expectations at the end of 2022 for 2023 and at the end of 2023 for 2024.)

(7) *Valuation.* Now for the hardest part of this forecasting exercise, i.e., estimating the outlook for the forward P/E. It was 19.5 at the end of last week. This year's low was 18.1 on March 14. Higher-for-longer inflation implies tightening-for-longer monetary policy. That should weigh on valuation multiples.

On the other hand, we've previously estimated that excess M2 liquidity is around $3.0 trillion—measured as the difference between M2 currently and where it might have been now extrapolating the pre-pandemic uptrend. We've also observed that corporate balance sheets are flush with liquidity and corporate cash flow is at a record high. That's why we continue to expect that the "CFO Put" (resulting from lots of buybacks, dividends, and M&A activity) can replace the "Fed Put," as explained in our March 21 *Morning Briefing*.

Let's apply a reasonable (though admittedly wide) forward P/E target range of 16.0-19.0 to our forward earnings estimates for the end of this year and next year. That would result in the S&P 500 stock price index ending this year at 4240-5035. Let's round it to 4200-5000 for this year. Next year's range is 4800-5700.

Strategy III: Lots of Assumptions. We've clearly made lots of assumptions along the way in deriving these ranges:

(1) *The Fed and interest rate.* The Ukraine war led us to raise our inflation outlook. We are also raising our year-end target for the federal funds rate and the 10-year Treasury bond yield to 2.00% and 3.00%, respectively. Next year's federal funds rate peak could be 2.75% with the bond yield remaining around 3.00%.

We expect that the moderation in inflation we are forecasting later this year will be enough to keep the Fed from slamming on the monetary brakes. In other words, the federal funds curve is likely to remain behind the inflation curve, so real interest rates will remain negative but less so through next year (*Fig. 17*). Also on the stimulative side is about $3.0 trillion in excess M2 liquidity (*Fig. 18*).

(2) *Recession risk.* Before the war, we reckoned that a recession wasn't likely this year or next year, pegging the odds at around 15%. Now we think the odds are 30%. While the recession odds have increased, our stagflationary outlook assumes continued real GDP growth, at around a 2.0% (saar) per quarter.

Weaker consumer spending poses the biggest risk of causing a recession. Price increases are reducing the purchasing power of aggregate personal income, which is weighing on real

personal consumption expenditures (*Fig. 19* and *Fig. 20*).

The Consumer Optimism Index (COI, which is the average of the Consumer Sentiment Index and the Consumer Confidence Index) fell in March to the lowest reading since January 2021 (*Fig. 21*). Even more concerning is that the COI's expectations component dropped to the lowest reading since January 2013, and it happens to be one of the 10 components of the Index of Leading Economic Indicators.

On the other hand, the labor market remains very strong. According to Friday's employment report for March, the unemployment rate fell to 3.6%. The payroll and household measures of employment rose 431,000 and 736,000 during the month. The number of full-time employed workers rose 912,000 to a record high (*Fig. 22*). Our Earned Income Proxy rose 0.5% in current dollars (*Fig. 23*).

(3) *On the margin.* We haven't left ourselves any margin for error with our assumption that the profit margin should remain at its current record level of 13.4% this year and next year. Our sense is that so far, companies are facing very little resistance from their customers to price increases, which are mostly attributable to cost increases. In addition, we believe that companies are working hard to increase productivity to offset some of the labor cost increases they are experiencing.

(4) *On valuation.* We've left ourselves plenty of room for where the S&P 500 forward P/E might range in 2022 and 2023. However, the top of that range is 19.0, which might seem unrealistic given the higher-for-longer inflation outlook and the tightening-for-longer monetary policy outlook. We are assuming that the MegaCap-8 stocks (the eight highest-capitalization stocks in the S&P 500) will continue to be highly valued (*Fig. 24*). We note that the S&P 500 forward P/E excluding them is currently around 17.0 (*Fig. 25*). That might still seem high, but keep in mind that stocks are a good hedge against inflation.

Movie. "The Dropout" (+ + +) (*link*) is a Hulu docudrama series about Elizabeth Holmes, who dropped out of Stanford University to create Theranos, a multibillion dollar startup, based on the idea that her company was developing a medical device that could quickly provide lots of life-saving medical information on people based on just one drop of their blood. It was a great idea that came to naught even though it attracted hundreds of millions of dollars from an all-star cast of investors, including Larry Ellison, George Schultz, and Rupert Murdoch. Holmes was a serial fraudster; even national pharmacy and retail chain Walgreens was duped. She convinced lots of smart people that her device would make the world a better place. Undoubtedly, they also expected to make a fortune doing so. Startups

fail all the time, but it's not often they end up as a cautionary tale as big as this one. Amanda Seyfried does an amazing job of portraying Holmes, even speaking with her baritone voice, which Holmes also faked.

Calendars

US: Mon: Factory Orders -0.5%. **Tues:** Trade Balance -$88.5b; S&P Global C-PMI & NM-PMI 58.5/58.9; ISM NM-PMI 58.0; API Crude Oil Inventories; Williams; Brainard. (Bloomberg estimates)

Global: Mon: Japan C-PMI & NM-PMI 49.3/48.7; Japan Household Spending 2.7%; Bailey; Mann; Cunliffe. **Tues:** S&P Global C-PMI Eurozone, Germany, and France 54.5/54.6/56.2; S&P Global NM-PMI Eurozone, Germany, France, and Italy 54.5/55.0/57.4; European Car Registrations; France Industrial Production 0.5%; UK C-PMI & NM-PMI 59.7/61.0; RBA Rate Decision 0.10%. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index posted its third straight weekly gain, rising 0.2% last week to 5.8% below its record high on December 27. The index ranked 37th of the 48 global stock markets we follow in a week when 38 of the 48 countries rose in US dollar terms and the AC World ex-US index gained 0.8% to 10.2% below its June 15, 2021 record high. Canada was the only country to trade at a record high in dollar terms during the week. EM Eastern Europe was the best-performing region last week with a gain of 5.3%, followed by BRIC (3.4%), EM Latin America (2.7), EMU (1.9), EM Asia (1.8), and EMEA (1.6). EAFE was the biggest underperformer, albeit with a gain of 0.5%. The Czech Republic was the best-performing country last week, rising 6.6%, followed by Greece (6.2), Denmark (5.5), and Hungary (5.2). Among the 17 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka dropped 22.7%, followed by Egypt (-4.6), Japan (-2.5), and Peru (-2.1). In March, the US MSCI rose 3.4% for its first gain in three months. The US MSCI ranked 17/49 in March as the AC World ex-US index underperformed with a decline of 0.3%. Twenty-five of the 49 countries moved higher in March as most regions fell. Argentina was the best performer, with a gain of 15.5%, followed by Colombia (13.8), Brazil (13.8), and Peru (10.9). The worst-performing countries

in March: Russia (-100.0), Sri Lanka (-45.4), Egypt (-15.3), Ireland (-10.1), and China (-8.0). EM Latin America rose 12.2% in March, ahead of EAFE (0.1) and the AC World ex-US (-0.3). EM Eastern Europe (-59.4) was March's worst-performing region, followed by EMEA (-11.9), BRIC (-6.0), EM Asia (-3.3), and EMU (-1.7). The US MSCI's ytd ranking dropped to 26/49 from 24/49 a week earlier, though its 5.2% decline is less than the 6.2% drop for the AC World ex-US. EM Latin America has risen 28.3% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-78.3), EMEA (-24.0), BRIC (-12.5), EMU (-11.7), EM Asia (-8.7), and EAFE (-7.1). The best country performers so far in 2022: Brazil (37.4), Peru (35.3), Colombia (32.9), Chile (30.2), and Argentina (22.7). Apart from Russia, in which investors have lost 100.0%, here are the worst-performing countries ytd: Sri Lanka (-54.3), Egypt (-23.4), Ireland (-21.6), Austria (-19.7), and Hungary (-19.6).

S&P 1500/500/400/600 Performance (*link*): These three indexes were little changed last week. LargeCap was the best performer with a gain of 0.1%, ahead of SmallCap (0.0%) and MidCap (-0.1). LargeCap is now 5.2% below its record high on January 3. MidCap ended the week 6.9% below its record high on November 16, and SmallCap remained steady at 9.2% below its November 8 record high. Eighteen of the 33 sectors rose last week, down from 23 rising a week earlier. LargeCap Real Estate was the best performer for the week with a gain of 4.4%, followed by MidCap Health Care (4.0%), SmallCap Health Care (3.7), LargeCap Utilities (3.7), SmallCap Utilities (3.5), and SmallCap Consumer Staples (3.4). LargeCap Financials was the biggest underperformer last week with a decline of 3.3%, followed by LargeCap Energy (-2.4), SmallCap Financials (-2.1), MidCap Financials (-2.1), and SmallCap Consumer Discretionary (-2.1). During March, LargeCap rose 3.6%, ahead of the 1.2% rise for MidCap and the 0.2% gain for SmallCap. Twenty-six of the 33 sectors rose in March compared to 17 rising in February. March's best performers: MidCap Energy (20.4), SmallCap Energy (14.5), LargeCap Utilities (10.1), LargeCap Energy (8.8), and MidCap Materials (7.5). March's biggest laggards: SmallCap Consumer Discretionary (-6.6), MidCap Consumer Discretionary (-5.6), SmallCap Financials (-3.6), MidCap Financials (-2.4), and SmallCap Consumer Staples (-1.7). In terms of 2022's ytd performance, all three indexes are down ytd. LargeCap is down 4.6% ytd, relatively close to the declines for MidCap (-4.6) and SmallCap (-5.0). Eight of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: SmallCap Energy (48.1), LargeCap Energy (38.8), MidCap Energy (38.2), MidCap Materials (8.7), and LargeCap Utilities (5.5). The biggest ytd laggards: SmallCap Consumer Discretionary (-16.8), MidCap Consumer Discretionary (-14.9), LargeCap Communication Services (-11.3), SmallCap Tech (-10.1), and LargeCap Consumer Discretionary (-9.0).

S&P 500 Sectors and Industries Performance (*link*): Six of the 11 S&P 500 sectors rose last week and six outperformed the composite index's 0.1% rise. That compares to a 1.8% gain for the S&P 500 a week earlier, when 10 sectors rose and five outperformed the index. Real Estate was the top performer with a gain of 4.4%, ahead of Utilities (3.7%), Consumer Staples (2.3), Health Care (1.2), Consumer Discretionary (0.9), and Tech (0.1). The worst performers: Financials (-3.3), Energy (-2.4), Industrials (-1.5), Materials (-0.3), and Communication Services (-0.1). The S&P 500 rose 3.6% in March as 10 sectors moved higher and six beat the broader index. That compares to one rising in February, when seven beat the S&P 500's 3.1% decline. The leading sectors in March: Utilities (10.1), Energy (8.8), Real Estate (7.3), Materials (5.8), Health Care (5.4), and Consumer Discretionary (4.8). March's laggards: Financials (-0.4), Communication Services (0.9), Consumer Staples (1.4), Industrials (3.3), and Tech (3.4). The S&P 500 is down 4.6% so far in 2022, with two sectors in positive territory and seven ahead of the index. That compares to three sectors positive ytd a week earlier. The best performers in 2022 to date: Energy (38.8), Utilities (5.5), Consumer Staples (-0.4), Materials (-1.7), Health Care (-2.1), Financials (-2.1), and Industrials (-3.4). The ytd laggards: Communication Services (-11.3), Consumer Discretionary (-9.0), Tech (-8.7), and Real Estate (-5.0).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.1% last week but weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the first time in three weeks. The index closed above its 50-dma for a third week after being below for nine weeks, and closed above its 200-dma for a second week after six weeks below. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved higher for the first time in 12 weeks, but the index edged down to 3.0% above its rising 50-dma from 3.1% above its falling 50-dma a week earlier. That's up from a 23-month low of 7.5% below its 50-dma in late February and compares to a 27-week high of 4.9% in early November. 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 edged down to 1.1% above its rising 200-dma from 1.2% above its rising 200-dma a week earlier. That's up from a 23-month low of 6.8% below its falling 200-dma on March 14 and is down sharply from 10.8% above its rising 200-dma 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 during the Great Virus Crisis on March 23, 2020—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*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, down from 10 a week earlier as Financials fell below. During late February, Energy had been the only sector above its 50-dma. Ten sectors have a rising 50-dma, up sharply from four a week earlier. Communication Services is the only sector in the falling 50-dma club. Looking at the more stable longer-term 200-dmas, Financials and Industrials fell below that measure last week, and joined Communication Services and Consumer Discretionary as the only sectors in that club. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Nine sectors have a rising 200-dma, down from ten a week earlier, as Industrials turned down in the latest week and joined Communication Services in the declining 200-dma club.

US Economic Indicators

Employment (*link*): Payroll employment in March fell slightly short of expectations, though there was a sizeable upward revision to prior months. Total payroll employment climbed 431,000 (vs 490,000 expected), while job gains for both February (to 750,000 from 678,000) and January (504,000 from 481,000) payrolls were revised higher, for a net gain of 95,000. Private payrolls advanced 426,000 (slightly weaker than ADP's 455,000), while revisions to February (739,000 from 654,000) and January (492,000 from 448,000) made for a net gain of 129,000. Total payroll employment has recovered 20.4 million jobs since bottoming in April 2020, though is still 1.6 million below its pre-pandemic level. Service-providing industries added 366,000 jobs in March, the slowest in six months, after averaging gains of 540,800 jobs per month the prior five months. Goods-producing jobs advanced 60,000, following February's 102,000 jump; the past six months have seen an average monthly gain of 78,000. Industries posting the largest gains during March were leisure & hospitality (112,000) and professional & business services (102,000), followed by retail trade (49,000), manufacturing (38,000), and social assistance (25,000). Here's a tally of where industries stand relative to their February 2020 pre-pandemic levels: professional & business services (+723,000)—led by temporary-help services (+247,100)—transportation & warehousing (+607,500), retail trade (+278,300), financial activities (+41,000), information services (+26,000), nondurable goods manufacturing (+16,000), construction (+4,000), education (-31,700), mining & logging (-86,000), wholesale trade (-103,900), durable goods manufacturing (-144,000), health care (-298,100), and leisure & hospitality (-1.5 million).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer

incomes and spending closely, recorded its 22nd increase in the past 23 months—up 0.5% in March and 26.8% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.8% over the past 13 months. The average hourly earnings index (+0.4%) accounted for virtually all of March's gain as aggregate weekly hours barely budged. Over the past 12 months, our EIP was up 9.9%, with aggregate weekly hours up 4.3% and average hourly earnings up 5.6%; that's a slowdown from February's 11.0%—which was the fastest since mid-2021.

Unemployment (*link*): March's unemployment rate fell to 3.6%, just shy of its pre-pandemic low of 3.5% during January and February 2020, while the participation rate has begun a slight move up, climbing to 62.4% in March—the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. The number of unemployed fell 318,000 in March, the ninth decline in 11 months, falling from 9.72 million to 5.95 million over the period. By race, unemployment rates all moved lower in March, with the rate for African Americans (to 6.2% from 6.6%) posting the largest decline, followed by Asians (2.8 from 3.1), Hispanics (4.2 from 4.4), and Whites (3.2 from 3.3)—with the rate for Hispanics below its pre-pandemic rate of 4.4%. The rates for African Americans, Whites, and Asians are not far from their pre-pandemic rates of 6.0%, 3.0%, and 2.5%, respectively. By education, the rate for those with some college or associates degree (to 3.0% from 3.8%) posted the biggest decline, falling to its lowest rate since January 2020, while the rates for those with a high school degree (4.0 from 4.5) and a college degree and higher (2.0 from 2.2) posted their lowest readings since February 2020's 3.7% and 1.9%, respectively. Meanwhile, the rate for those with less than a high school degree (5.2 from 4.3) moved higher; the rate was at 5.7% during February 2020.

Wages (*link*): Average hourly earnings for all workers in March increased for the 14th straight month, climbing 0.4% m/m and 5.6% y/y, considerably below February's 7.9% increase in the CPI. The wage rate for goods-producing industries remains on an accelerating trend, climbing to 5.0% y/y—back near January's 5.2%—which nearly matched its record high of 5.3% recorded in spring 2009. Meanwhile, the rate for service-providing industries had been fluctuating in a volatile flat trend, though moved above the top of that range in March, to 5.7%—the highest rate since February 2021. Within goods-producing, the rate for construction workers (5.7% y/y) accelerated to a new record high in March, while the wage rates for natural resources (4.2) and manufacturing (4.6) looked toppy, though the former did move within a tick of its recent high. Within service-providing industries, yearly wage rates were a mixed bag: The rates for both transportation & warehousing (7.9, a new record high) and professional & business services (6.6) remain on steeply accelerating trends, while the rates for education & health services (6.0) and leisure

& hospitality (11.8) are looking toppy. Meanwhile, wage rates for retail trade (6.5), utilities (5.6), and information services (2.5) are accelerating, while the rate for financial activities (3.6) is slowing at a rapid rate.

Personal Income & Consumption (*link*): Both personal income and consumption rose in February, though fell in real terms as the PCED rose 0.6% during the month. Personal consumption expenditures edged up 0.2% in February as a 0.9% increase in services consumption more than offset by a 1.0% drop in goods consumption—which was driven by a 4.0% drop in motor vehicles spending. In real terms, consumer spending slipped 0.4%, as declines in durable (-2.5%) and nondurable (-1.9) goods consumption more than offset a 0.6% increase in services spending. Turning to income, personal income rose 0.5% in February, as gains in wages and salaries more than offset a decline in government social benefits. Wages & salaries continued to reach new record highs, increasing for the 21st month since bottoming in April 2020; it was up 0.8% m/m in February and 25.7% over the period. In real terms, personal income edged down 0.1% in February, with real DPI slipping 0.2% and 1.6% y/y. The headline PCED increased 6.4% y/y in February, with core prices up 5.4%—both the highest since the early 1980s.

Auto Sales (*link*): Auto sales took an additional step back in March after showing signs of life at the start of this year. Motor vehicle sales slumped to 13.4mu (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 incentives boosted sales above 20.0mu—before sinking to 12.4mu by September. The weakness has been widespread the past two months, with domestic light truck sales falling to 8.5mu (saar) in March, after shooting up from 7.8mu in December to an eight-month high of 9.4mu in January, though nearly all the recent decline occurred in February. These sales had peaked at 11.0mu last April. Domestic car sales remain depressed, ticking down to 1.9mu (saar) in March, 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 slumped for the second month to 3.0mu (saar) in March, after recovering from a recent low of 2.9mu in November to 3.7mu (saar) in January—with light truck sales accounting most of the recent movement.

Construction Spending (*link*): Total construction spending in February rose less than expected, though continued its streak of new record highs; this measure has posted only one decline in the past 20 months! Total spending climbed 0.5% in February and 18.8% since bottoming in mid-2020. Private construction spending continues to lead the recovery,

also reaching another record high in February, as residential investment climbed 1.1% and 44.1% over the comparable periods to new highs. Within private residential investment, single-family construction climbed 2.5% in February and 11.4% over the four months ending February, boosting it to a new cyclical high—and within 1.0% of a new record high. Meanwhile, multi-family construction was little changed since reaching a new record high at the end of 2021—and was only a tick below in February. Home-improvement spending slipped 0.7% in February after soaring 10.7% during the six months through January to a new record high. Private nonresidential spending remains on an upward trend, climbing for the ninth time in 10 months, by 0.2% m/m and 10.1% over the period. Meanwhile, public construction spending fell for the third time in four months, down 0.4% in February, though only 0.6% over the period; it's up 3.6% from its recent low in mid-2021.

Global Economic Indicators

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for March is expected to accelerate to a new record high of 7.5% y/y, 6.2ppts above last March's 1.3%. The rate was at -0.3% at the end of 2020. Looking at the main components, once again energy recorded the largest gain, accelerating for the 15th time in 16 months to a record-high 44.7% y/y, up from -8.3% in November 2020. The rate for food, alcohol & tobacco is forecast to climb to 5.0% y/y in March (the highest since September 2008), rising steadily from June 2021's 0.5%, while the rate of non-energy industrial goods is expected to increase 3.4%—just shy of the record high of 3.5% recorded in the early 1990s. The services rate is expected to accelerate for the second month from 2.3% in January to 2.7% in March—matching November's 2.7%, which was the highest since summer 2008. Of the top four Eurozone economies, the rates for Spain (9.8% y/y) and Germany (7.6) are forecast to be above the Eurozone's 7.5% rate, while the rates for Italy (7.0) and France (5.1) are forecast to be below—with France's the second lowest of the Eurozone economies' rates.

Global Manufacturing PMIs (*link*): Global manufacturing activity slipped to an 18-month low in March, facing headwinds of "ongoing Covid disruptions, stretched global supply chains, rising inflationary pressures, and elevated geopolitical tensions," according the March Report. The JP Morgan Global M-PMI (to 53.0 from 53.7) sank to its lowest level since September 2020, as production expanded at the slowest pace during the current 21-month sequence of increases. The M-PMI for advanced economies (56.5 from 56.6) was little changed again in March—averaging 56.6 the past six months—while the M-PMI for emerging economies (49.2 from 50.9) contracted for the first time since last August and only

the second time since the height of the pandemic. In March, 23 of the 30 countries for which data were available were in expansionary territory, with six of the top 10 countries from the Eurozone, while the US and Canada finished in the fourth and third positions, respectively, and the UK and Australia rounded out the top 10. China, Turkey, Mexico, Myanmar, Kazakhstan, Malaysia, and Russia were the only countries in the red—with Russia recording the lowest M-PMI. Here's a country ranking of March M-PMIs from highest to lowest: Ireland (59.4), Austria (59.3), Canada (58.9), USA (58.8), Netherlands (58.4), Australia (57.7), Germany (56.9), EUROZONE (56.5), Italy (55.8), UK (55.2), France (54.7), Czech Republic (54.7), Greece (54.6), Spain (54.2), Japan (54.1), Taiwan (54.1), WORLD (53.0), Poland (52.7), Brazil (52.3), Colombia (52.1), Thailand (51.8), Vietnam (51.7), South Korea (51.2), Turkey (49.4), Mexico (49.2), China (48.1), Myanmar (47.1), Kazakhstan (46.8), and Russia (44.1).

US Manufacturing PMIs (*link*): Manufacturing activity in March remained robust, according to both M-PMI measures, with growth in the S&P Global measure accelerating and the ISM's decelerating, though both were in the same neighborhood. ISM's M-PMI dipped to 57.1 in March after climbing from 57.6 in January to 58.6 in February—averaging 57.8 for Q1. It peaked at 63.7 last March and averaged 60.6 for all of 2020. The new orders index (to 53.8 from 61.7) was the lowest since May 2020, while the production measure (54.5 from 58.5) also slowed, though not as dramatically. Meanwhile, the employment (56.3 from 52.9) gauge was robust, recording its best performance in a year, while the inventory (55.5 from 53.6) measure also moved up. The supplier deliveries (65.4 from 66.1) gauge showed deliveries slowed but slightly less than they did than in February—continuing to reflect suppliers' difficulties in meeting demand. Inflationary pressures are intensifying, with ISM's price index accelerating from a recent low of 68.2 at the end of 2021 to 87.1 in March—back near last year's high of 92.1 in June—which was the fastest since summer 1979. Looking at IHS Markit's M-PMI, it picked up for the second month to 58.8 in March, after slowing steadily from a record-high 63.4 last July to 55.5 this January—which was the slowest pace since October 2020. March saw faster increases in both production and new orders, with both foreign and domestic demand improving. Meanwhile, manufacturers are still reporting widespread production constraints due to supply-chain bottlenecks, though the incidence of these delays is the lowest since January of last year. Price pressures remain elevated, though both input costs and average selling prices have eased from the record highs posted late last year.

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