MORNING BRIEFING
April 25, 2022

The Forces of Inflation vs the Forces of Deflation

Check out the accompanying chart collection.

Executive Summary: The stock market is correcting again, fear is rising again, and valuations are sagging under the weight of a hawkish Fed and rising bond yields. Yet consensus expected S&P 500 earnings continues breaking records. With 2022 shaping up as a volatile year for stocks, we anticipate a rally following the current selloff. … Also: Might "stayflation" frustrate the Fed's 2.0% inflation goal? … We explain our view of inflation as a tug-of-war between four inflationary forces and four deflationary ones. … And: Treasury Secretary Yellen calls for a new world order featuring a "unified coalition of sanctioning countries," the exclusion of pariah nations, and the "friend-sharing" of supply chains. Movie: "Inventing Anna" (+ + +).

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: Back in Correction Territory. The S&P 500 last rose to a record high of 4796.56 on January 3, the first trading day of this year. It proceeded to fall 13.0% to 4170.70 on March 8. It then rebounded 11.1% to 4631.60 through March 29. Since then, it is down 7.8%. The S&P 500 is back in correction territory, with a drop of 10.9% since January 3 (*Fig. 1* and *Fig. 2*). On Friday alone, the index plunged 2.8%.

The investment climate has definitely been risk-off since late March, mostly as a result of the increasingly hawkish squawking of various Fed officials, including former longstanding doves. The 10-year Treasury bond yield rose sharply from 2.32% on March 31 to 2.90% on Friday, which also unsettled the stock market.

Here is the performance derby of the 11 sectors of the S&P 500 since March 29: Consumer Staples (4.3%), Utilities (0.5), Real Estate (0.4), Energy (-0.6), Health Care (-3.3), Materials (-4.4), Industrials (-6.0), S&P 500 (-7.8), Financials (-8.5), Consumer Discretionary (-8.8), Information Technology (-12.8), and Communication Services (-14.4).

Weighing heavily on Communication Services have been big drops in the share prices of

Alphabet, Meta, and Netflix. Joe Feshbach, our go-to guy for market trading analysis, observes that fear is back, as evidenced by a big jump in the equity put/call volume ratio on Friday (*Fig. 3*). The Investors Intelligence Bull-Bear Ratio is back under 1.00 (*Fig. 4*). Consistent with our view that the stock market will be volatile this year, we think a rally may occur soon, led by the biggest losers since March 29 (*Table 1*).

The increasingly hawkish Fed and the backup in bond yields have weighed on valuation multiples, particularly on Friday following Fed Chair Jerome Powell's remarks on Thursday (discussed below). While the forward earnings of the S&P 500 rose to yet another record high during the April 14 week, the forward P/Es of the indexes and its major subindexes took a dive on Friday:

(1) *Growth vs Value.* On Friday, the forward P/E of the S&P 500 fell to 18.3, just above the March 8 low and the lowest since just before the pandemic (*Fig. 5*). Leading the way down were the MegaCap-8 stocks—i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla—as their collective forward P/E fell to 26.1, which also depressed the multiple for the S&P 500 Growth index, down to 22.1.

(2) *LargeCaps vs SMidCaps.* Meanwhile, the forward P/Es of the SMidCaps held up much better around 13.0-13.5 on Friday (*Fig. 6*).

(3) *MegaCap-8.* Joe reports that the MegaCap-8 index is on the verge of a bear market, having lost 19.8% since the December 27 peak, using daily data for total market capitalization.

Inflation I: From Transitory to Persistent to 'Stayflation'? During most of last year, Fed officials believed that the surge in inflation was "transitory." They thought it was mostly attributable to a "base effect": Prices had been depressed by the lockdown recession of 2020; so naturally, prices rebounded in 2021.

By the fall of that year, Fed officials started to concede that inflation might be more persistent than "transitory" implies, and they blamed that on supply-chain disruptions. On November 30, Fed Chair Jerome Powell said he wanted to stop using the word "transitory" to describe inflation. It wasn't doing its job, he explained while testifying to the Senate Banking Committee: "It's probably a good time to retire that word and explain more clearly what we mean."

Then Russia invaded Ukraine on February 23 of this year, sending energy and food

commodity prices soaring and disrupting more supply chains. There was mounting evidence that a wage-price-rent spiral was underway in the US. The CPI inflation rate rose from 2.6% during March 2021 to 8.5% during March 2022, on a y/y basis. Over this same period, wages jumped from 3.4% to 6.0% and rents increased from 1.8% to 4.4% (*Fig. 7*).

In an important March 21 speech titled *Restoring Price Stability*, Powell reiterated that he and his colleagues had pivoted from the goal of attaining full employment (which has been achieved) to bringing down inflation. He said: "The labor market is very strong, and inflation is much too high."

Last week, on Thursday, April 21, Powell joined a panel *discussion* on the global economy at an International Monetary Fund (IMF) seminar. He made some key points about inflation and the outlook for monetary policy:

(1) Powell asserted that "getting inflation back to the 2% goal" is a key policy imperative right now. He added that it is "absolutely essential to get price stability" in order to assure labor market stability and overall economic stability. He said, "So it is appropriate, in my view, to be moving a little more quickly." He added, "I also think there's something in the idea of front-end loading whatever accommodation one thinks is appropriate. So … that points in the direction of 50 basis points being on the table" for the May meeting of the FOMC. He noted that several FOMC members support one or more hikes of 50bps, but he did not disclose his own opinion.

(2) In response to a question from the panel's moderator about whether inflation has peaked in the US, Powell responded, "Inflation is really a global problem," while adding that the US has "higher core inflation than Europe." He continued, "We had expected that inflation would peak around this time ... but we have been disappointed in the past." Even though the US economy is more shielded from the Ukraine conflict than Europe's economies, the geopolitical situation will still put upward pressure on US inflation, Powell said.

"Our goal is to use our tools to get supply and demand back in sync," Powell said. Economists, including those at the Fed, expected inflation to have peaked in the first few months of the year. "These expectations have been disappointed in the past," said Powell. Maybe March was the inflation peak, he added, "but we don't know that" yet.

(3) It sounds like Powell is worrying that inflation has morphed from transitory to persistent to something more permanent, i.e., "stayflation." Previously, Debbie and I explained that

although inflation should peak this summer, it is unlikely to fall back to the Fed's 2.0% target anytime soon. We reckon inflation will be more like 3.0%-4.0% next year (*Fig. 8*). That's what we call stayflation.

(4) By the way, earlier on Thursday, Powell called former Fed boss Paul Volcker, who battled high inflation in the 1970s and 1980s and was the greatest economic public servant of the era. Volcker raised interest rates to a record 20% in the 1980s in response to the nation's double-digit inflation. Volcker had known that to save the economy, he needed to stay that controversial course and couldn't be swayed by political opinion, Powell said in pre-recorded remarks at a special briefing of the Volcker Alliance and Penn Institute for Urban Research.

Inflation II: The 4-DFs vs the 4-IFs. From the early 1980s until 2020, four deflationary forces were keeping a lid on inflation, as I've often discussed. The 4Ds are détente, technological disruption, demographics, and debt. For an explanation of each, see my *Four Deflationary Forces Keeping a Lid on Inflation*.

Over the past year, however, the 4Ds have met their match: The four deflationary forces, which I've renamed "the 4-DFs," are engaged in an epic tug-of-war with the four forces of inflation, i.e., "the 4-IFs." The 4-IFs are deglobalization, decarbonization, demography, and debt:

(1) *Deglobalization.* The collapse of the Berlin Wall in late 1989 marked the start of globalization. The second major event propelling globalization was China's entrance into the World Trade Organization (WTO) on December 11, 2001. American manufacturers moved to China, where labor was very cheap. As a result, both manufacturing production and capacity have flatlined in the US since China joined the WTO (*Fig. 9*). Along the way, companies like Amazon and Walmart imported the "China price" to America. The result was significant disinflation (*Fig. 10*).

Globalization started to come unglued when President Donald Trump started his trade war against China during 2018 and 2019 in retaliation for the country's flagrant violations of the WTO rules of free and fair trade. Then the pandemic disrupted global supply chains, particularly during 2021. Russia's invasion of Ukraine and the West's severe sanctions against Russia have exacerbated deglobalization. All these events have put pressure on companies around the world to move supply chains closer to home. Just-in-case is replacing just-in-time management practices.

(2) *Decarbonization.* Climate change activists have been very successful in convincing politicians that saving the globe from CO2 pollution is a winning political strategy. The problem is that none of them took the time to do a cost-benefit analysis of the transition from fossil fuels to renewable energy. So they rushed it in a grand learning-by-doing switch from the former to the latter sources of energy. It has been a very costly mistake with grave geopolitical consequences.

Nevertheless, climate-change zealots are convinced that shortages of fossil fuels and higher prices for them will force a faster transition to renewables, even though they are not reliable and have adverse environmental consequences too. Decarbonization, or at least the rapid pace at which it might happen, is clearly inflationary.

(3) *Demography.* How can demography be a force of both deflation and inflation? I've promoted it as a deflationary force based on the experience of Japan. As in Japan, populations are aging in most of the world. Older people's consumption habits tend to be less inflationary than younger ones. Inflation has remained near zero in Japan for many years despite highly stimulative fiscal and monetary policies (*Fig. 11*). This thesis tends to be supported by the Age Wave in the US (*Fig. 12*).

The problem is that populations are aging both because people are getting older and because a collapse in fertility rates around the world has weighed on birth rates for many years (*Fig. 13*). As a result, the growth rate of the world's working-age population is rapidly slowing (*Fig. 14*).

In the US, the civilian labor force grew at an average annual rate of just 0.5% over the past 60 months through March (*Fig. 15*). The comparable growth rate of the working-age population (16-64 years old) is also very low at 0.4% over the same period. I'm expecting that the chronic shortage of labor will induce businesses to spend more on capital equipment and technologies to boost productivity. While I'm waiting for that to happen, labor shortages are driving wage inflation higher, thus contributing to the wage-price-rent spiral.

So now Amazon and Walmart are distributing inflation rather than disinflation, by raising their wages and their prices.

(4) *Debt.* Finally, debt is also a force that can be either inflationary or deflationary. Prior to the pandemic, I argued that central banks' efforts to boost inflation up to their 2.0% targets had mostly failed because they assumed that easier credit conditions would boost borrowing and put upward pressure on prices (*Fig. 16*). That approach had lost much of its

effectiveness over the years as consumers' debt loads became increasingly burdensome. Instead, easy money enabled zombie companies to borrow more, causing their excess supply to weigh on inflation. Debt was disinflationary.

Once the pandemic hit, the fiscal and monetary authorities resorted to "helicopter money" to boost the economy. The Treasury sent out checks to millions of Americans, while the Fed monetized much of the resulting federal deficits (*Fig. 17* and *Fig. 18*).

The result was a demand shock that caused a supply shock, sending inflation straight up. Now the Fed's pivot to tightening monetary policy could weigh on heavily indebted suppliers, reducing supply relative to demand and resulting in higher-for-longer inflation.

Inflation III: Yellen's New Deglobalized World Order. On April 13, just a few days before the annual meeting of the IMF and the World Bank, US Treasury Secretary Janet Yellen presented an important *speech* at the Atlantic Council on the "Way Forward for the Global Economy." It suggests that the Biden administration wants to reconstitute the world order in light of recent geopolitical developments.

Yellen described a new world order that it is dominated by countries that play by the same rules. Countries that choose not to play by the rules will be treated as pariahs by the abiders. By invading Ukraine in an unprovoked war by choice, Russia has turned itself into a pariah nation among the "unified coalition of sanctioning countries" (UCSC). This league of rules-based countries "imposed an unprecedented suite of financial sanctions and export controls on Russia." Yellen declared: "We, the sanctioning countries, are saying to Russia that, having flaunted the rules, norms, and values that underpin the international economy, we will no longer extend to you the privilege of trading or investing with us."

By acting in concert against Russia, the UCSC has demonstrated that the sanctions are not driven by the foreign policy objectives of any one nation. Rather, "we are acting in support of our principles—our opposition to aggression, to widespread violence against civilians, and in alignment with our commitment to a rules-based global order that protects peace and prosperity."

To those countries sitting on the fence, Yellen warned that the UCSC "will not be indifferent to actions that undermine the sanctions we've put in place." She specifically called on China, which "recently affirmed a special relationship with Russia… [to] make something positive of this relationship and help to end this war."

Yellen then presented a set of propositions for a new and better world order. Here are a few key points:

(1) Yellen called for “free but secure trade.” That means trading mostly with countries “we can count on.” She wants to see the “friend-shoring” of global supply chains to trusted countries. She added: “We cannot allow countries to use their market position in key raw materials, technologies, or products to have the power to disrupt our economy or exercise unwanted geopolitical leverage.”

(2) Yellen wants to move forward with last year’s tax deal agreed to by 137 countries to impose a global minimum tax on corporate foreign earnings.

(3) Yellen wants to provide the IMF with more “tools” so that it can handle the next global crisis more effectively. In effect, she seems to be calling for the IMF to be granted more power to support poorer countries with a flood of liquidity, much as the major central banks provided to their economies during the pandemic.

(4) Yellen favors more investments in education, healthcare, and infrastructure in the developing countries. She seeks to make capital markets more responsive to the needs of the people in these countries. Needless to say, she added the obligatory call to “redouble our efforts to decarbonize our economies.” Finally, she said that more must be done to prepare for the next pandemic.

Movie. “Inventing Anna” (+ + +) (*link*) is a really interesting Netflix miniseries. The docudrama is about Anna Sorokin. Born in Russia, she came to New York in her 20s during 2013 and for four years pretended to be a German heiress by the name of “Anna Delvey.” She was a con artist who was very good at paying for long stays at fancy hotels with wire transfers that never arrived. She befriended several movers and shakers in the City’s social scene, who helped her apply for multimillion-dollar loans to fund her dream of a foundation for the arts. She would have gotten away with her scheming but for the due-diligence processes of the lenders, who turned her down. She was arrested for stiffing the hotels and others. She put on a fashion show during her trial; it was a media circus. Nowadays, the media is a circus always looking for the next big act and often enabling fraudsters to flourish—until they self-destruct.

Calendars

US: Mon: Dallas Fed Manufacturing Index; Chicago Fed National Activity Index**. Tues:** Consumer Confidence 108.0; Durable Goods Orders Total, Core, and Core Nondefense Capital Goods 1.0%/0.6%/0.4%; S&P/CS HPI 20-City Composite Index 1.5%m/m/18.9%y/y; Richmond Fed Manufacturing Index; New Home Sales 765k. (Bloomberg estimates)

Global: Mon: Germany Ifo Business Climate Index, Current Assessment, and Business Expectations 89.1/95.8/83.5; Japan Unemployment Rate 2.7%; Japan Leading & Coincident Indexes; UK CB Industrial Trends Orders 21; Panetta; Rogers. **Tues:** Japan CPI, Japan Industrial Production -5.0%m/m/2.2%y/y; Australia CPI 1/7%q/q/4.6%y/y; China Industrial Orders; Mauderer. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index posted its biggest drop in six weeks, falling 2.9% last week as it fell back into a correction at 11.8% below its record high on December 27. The index ranked 31st of the 48 global stock markets we follow in a week when just eight of the 48 countries rose in US dollar terms and the AC World ex-US index dropped 2.3% to 14.5% below its June 15, 2021 record high. EMU was the best-performing region last week, albeit with a decline of 0.2%, ahead of EMEA (-1.1%) and EAFE (-1.6). BRIC was the biggest underperformer with a decline of 5.2%, followed by EM Latin America (-4.8), EM Eastern Europe (-3.6), and EM Asia (-3.3). Greece was the best-performing country last week, rising 2.5%, followed by Hungary (2.0), Indonesia (2.0), and Ireland (1.7). Among the 23 countries that underperformed the AC World ex-US MSCI last week, Argentina's 8.5% decline was the worst, followed by South Africa (-7.3), China (-6.8), and Pakistan (-6.6). The US MSCI's ytd ranking dropped one spot to 30/49, with its 11.2% decline now worse than the 10.7% drop for the AC World ex-US. EM Latin America has risen 15.8% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-80.3), EMEA (-23.3), BRIC (-19.2), EMU (-15.3), EM Asia (-14.3), and EAFE (-10.9). The best country performers so far in 2022: Colombia (27.4), Brazil (22.8), Turkey (20.0), Jordan (19.4), and Chile (18.8). Apart from Russia, in which investors have lost 100.0%, here are the worst-performing countries ytd: Sri Lanka (-63.9), Egypt (-31.4), Hungary (-26.8), and Austria (-23.8).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week, with LargeCap and MidCap slipping enough to join SmallCap in correction territory. LargeCap had its worst decline in five weeks, with its 2.8% drop bigger than the declines for SmallCap (-1.9%) and MidCap (-1.7). LargeCap is now 10.9% below its record high on January 3. MidCap ended the week 11.3% below its record high on November 16, and SmallCap weakened to 14.0% below its November 8 record high. Just five of the 33 sectors rose last week, down from 18 rising a week earlier. LargeCap Real Estate was the best performer for the week with a gain of 1.2%, followed by MidCap Real Estate (1.1%), SmallCap Industrials (0.7), MidCap Utilities (0.4), and LargeCap Consumer Staples (0.4). LargeCap Communication Services and SmallCap Energy were the biggest underperformers last week with declines of 7.7% each, followed by MidCap Energy (-5.6), MidCap Health Care (-5.5), and SmallCap Communication Services (-5.4). In terms of 2022's ytd performance, all three indexes are down ytd as LargeCap's ranking dropped below SmallCap's. MidCap is down 9.1% ytd, less than the declines for SmallCap (-10.1) and LargeCap (-10.4). Seven of the 33 sectors are positive so far in 2022, down from eight a week earlier. Energy continues to dominate the top performers: SmallCap Energy (44.1), LargeCap Energy (37.2), MidCap Energy (35.2), MidCap Materials (4.6), and LargeCap Utilities (3.8). The biggest ytd laggards: LargeCap Communication Services (-22.8), SmallCap Consumer Discretionary (-19.0), SmallCap Tech (-18.1), LargeCap Tech (-17.9), MidCap Consumer Discretionary (-17.4), and MidCap Tech (-15.9).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 2.8% decline. That compares to a 2.1% decline for the S&P 500 a week earlier, when four sectors rose and seven outperformed the index. Real Estate was the top performer with a gain of 1.2%, ahead of Consumer Staples (0.4%), Industrials (-1.6), Consumer Discretionary (-1.8), Financials (-2.0), Utilities (-2.4), and Tech (-2.5). The worst performers: Communication Services (-7.7), Energy (-4.6), Materials (-3.7), and Health Care (-3.6). The S&P 500 is down 10.4% so far in 2022, with three sectors in positive territory and eight ahead of the index. That compares to just two sectors positive ytd and seven ahead several weeks ago. The best performers in 2022 to date: Energy (37.2), Utilities (3.8), Consumer Staples (2.9), Real Estate (-4.9), Health Care (-5.3), Materials (-5.5), Industrials (-7.0), and Financials (-7.5). The ytd laggards: Communication Services (-22.8), Tech (-17.9), and Consumer Discretionary (-14.3).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.8% last week and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the eighth time in 11 weeks. The index's 200-dma turned down as well. The index closed

below its 50-dma for a second week after four weeks above and closed below its 200-dma for the ninth time in 11 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 second week as the index fell to a four-week low of 3.0% below its falling 50-dma from 0.5% below 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 fell to a four-week low of 5.1% below its now-falling 200-dma from 2.4% below its barely 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*): Five of the 11 S&P 500 sectors traded above their 50-dmas last week, down from six a week earlier. Health Care fell below its 50-dma in the latest week, joining the Communication Services, Consumer Discretionary, Financials, Industrials, and Tech sectors. During late February, Energy had been the only sector above its 50-dma. Six sectors have a rising 50-dma, unchanged from a week earlier. The five members of the falling 50-dma club: Communication Services, Consumer Discretionary, Financials, Industrials, and Tech. Looking at the more stable longer-term 200-dmas, six sectors are above, unchanged from a week earlier. The five sectors trading below their 200-dma: Communication Services, Consumer Discretionary, Financials, Industrials, and Tech. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Seven sectors have a rising 200-dma, unchanged from a week earlier. The four members of the declining 200-dma club: Communication Services, Consumer Discretionary, Industrials, and Tech.

US Economic Indicators

Leading Indicators (*link*): "The US LEI rose again in March despite headwinds from the war in Ukraine," noted Ataman Ozyildirim, senior director of economic research at The

Conference Board. “This broad-based improvement signals economic growth is likely to continue through 2022 despite volatile stock prices and weakening business and consumer expectations.” Leading indicators increased 0.3% in March, following an upwardly revised 0.6% advance in February (double the initial 0.3% increase) and a 0.4% decline in January—which was only its second decline since April 2020 and the first since February 2021. April’s increase pushed the LEI up to a new record high, with seven of the 10 component increasing and three decreasing. The interest-rate spread (+0.24ppt) once again was the biggest positive contributor to the LEI, followed by jobless claims (+0.18) and the leading credit index (+0.09), while the average workweek (+0.06), real core capital goods orders (+0.04), real consumer goods orders (+0.01), and building permits (+0.01) more modest contributors. Meanwhile, consumer & business expectations (-0.26) was the major drag again last month, with stock prices (-0.04) and the ISM orders index (-0.04) exerting minor drags. The Conference Board growth projection for the US economy remains at 3.0% for this year, down from 2021’s 5.6%, but still well above its pre-Covid trend. “However, downside risks to the growth outlook remain, associated with intensification of supply chain disruptions and inflation linked to lingering pandemic shutdowns and the war, as well as with tightening monetary policy and persistent labor shortages,” Ozyildirim warned.

Coincident Indicators (*link*): The Coincident Economic Index (CEI) climbed to yet another record high in March, advancing for the fifth time in six months, by 0.4% m/m and 2.2% over the period, after showing no growth last August and September. All four components of the CEI contributed positively again in March: 1) Industrial production (+0.18ppt) reached its highest level in more than 100 years—going back to the January 1921 start of the data! Despite supply-chain disruptions and shortages driven by the war, headline production rose for the fifth time in six months, by 0.9% (more than double expectations) and 4.7% over the six-month period, with manufacturing output up 0.9% and 4.5% over the comparable periods to its highest level since summer 2008. 2) Payroll employment (+0.09) 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 and January payrolls were revised higher for a net three-month gain of 95,000. 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. 3) Real personal income less transfer payments (+0.07) increased 0.2%, following a 0.1% uptick in February to a new record high—with February’s increase the first since October. 4) Real manufacturing & trade sales (+0.03) advanced for the sixth time in seven months, up 0.2% in March and 2.8% over the period to a new record high.

Regional M-PMIs (*link*): Two Fed districts (New York and Philadelphia) have reported on manufacturing activity for April and show the manufacturing sector accelerated for the first time in five months. The composite index rebounded to 21.1 this month, after slowing steadily from 35.0 in November to a 22-month low of 7.8 in March, as growth in the New York (to 24.6 from -11.8) region moved from contraction to expansion while growth in the Philadelphia (17.6 from 27.4) area slowed, though remained robust. The new orders (21.5 from 7.3) measure also picked up steam this month, expanding at triple March's pace, also led by a swing in New York (25.1 to -11.2) orders growth from contraction to expansion, while Philadelphia's (17.8 from 25.8) followed a pattern similar to the composite measure's. Meanwhile, jobs' (24.4 from 26.7) growth continued at a healthy pace, with factory hirings in the Philadelphia (41.4 from 38.9) region accelerating at a record rate and those in New York (7.3 from 14.5) growing at roughly half March's pace and one-third of recent highs. Turning to prices, the prices-paid measure in the New York (to 86.4 from 73.8) area shot up to a new record high, while Philadelphia's (84.6 from 81.0) accelerated at its fastest pace since 1980—closing in on its record high of 91.1 during March 1974. Meanwhile, New York's (49.1 from 56.1) prices-received index eased this month from March's record high, while Philadelphia's (55.0 from 54.4) accelerated for the third month, moving back toward November's 62.9, which was close to its record high of 63.8 in the mid-1970s.

Global Economic Indicators

Eurozone CPI (*link*): The headline CPI rate for March accelerated to a new record high of 7.4% y/y (a tick below the flash estimate of 7.5%), 6.1ppts 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 13th consecutive month to a record-high 44.4% y/y, up from -8.3% in November 2020. The rate for food, alcohol & tobacco climbed 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 increased at a record 3.4%. The services rate picked up 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, two beat the Eurozone's 7.4% rate, Spain (9.8% y/y) and Germany (7.6), though Germany's barely, while two lagged, Italy (6.8) and France (5.1); France's rate was the second lowest of all the Eurozone economies' rates.

Eurozone PMI Flash Estimates (*link*): April saw a two-speed Eurozone economy, according to S&P Global's report: Manufacturing came close to stalling due to ongoing supply restraints, rising prices, and signs of spending being hit by risk aversion due to the war, while the service sector got a boost from an easing of Covid restrictions. Meanwhile,

prices charged for goods and services accelerated at a record rate in April amid another near-record rise in firms' costs, suggesting inflation has further to rise. The C-PMI climbed to a seven-month high of 55.8 in April, according to flash estimates, after slowing from 55.5 to 54.9 in March. The NM-PMI (to 57.7 to 55.6) rose to an eight-month high, while the M-PMI (55.3 from 56.5) sank to a 15-month low. Looking at the two largest Eurozone economies, France's C-PMI (57.5 from 56.3) accelerated to a 51-month high, led by the NM-PMI (58.8 from 57.4)—which also climbed to a 51-month high. They were at 52.7 and 53.1, respectively, at the start of this year. In the meantime, the M-PMI (55.4 from 54.7) moved slightly higher this month, though virtually matched its reading of 55.5 in January. Germany's C-PMI (54.5 from 55.1) slipped to a three-month low this month, as the M-PMI (54.1 from 56.9) sank to a 20-month low. Meanwhile, the NM-PMI (57.9 from 56.1) improved for the fourth month this month, climbing to an eight-month high; it was at 48.7 in December. Growth across the rest of the Eurozone as a whole reached a five-month high, led by the service sector.

Japan PMI Flash Estimates (*link*): Activity in Japan's private sector improved for the second month, according to flash estimates, with the C-PMI climbing from 45.8 in February to 50.3 in March and 50.9 in April, as the NM-PMI climbed from 44.2 to 50.5 over the two-month period. It was the first reading above 50.0 for the latter measure since the end of last year. Japan's M-PMI fell for the second time in three months since peaking at 55.4 in January, slipping to 53.4 this month. According to the report, cost pressures were sustained and remained more severe at manufacturers, though the rate of input cost inflation at service providers accelerated to the highest since August 2008, pushing input cost inflation up for the third month running. Firms passed these price rises to clients through the steepest rise in output charges in eight years.

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