MORNING BRIEFING
May 2, 2022

The Big Leak

Check out the accompanying chart collection.

Executive Summary: Spooked investors have driven valuation multiples down to the low end of our projected range and deposited the Nasdaq in a bear market and the S&P 500 back in correction territory. … Today we examine the causes and effects of global inflation. … Excessive US fiscal and monetary stimulus ignited the US inflation conflagration by triggering a demand shock that triggered a supply shock. When much of the stimulus leaked abroad (confirmed by trade data), it fueled global inflation. … Inflation has been deflating consumer spending on goods but not on services. But soon we expect durable goods inflation to peak and drop. Inflation has a history of being spikey. ... Finally, movie review: "WeCrashed" (+ + +) is about WeWork, not the stock market.

YRI Monday Webcast. View Dr. Ed's PRE-RECORDED webinar for Monday, May 2, available *here*.

Strategy: Seeking a Bottom. The Thursday before last, investors were spooked by hawkish remarks by Fed Chair Jerome Powell. At the end of last week, they were spooked by disappointing earnings from Amazon, supply-chain issues at Apple, the news of a 1.4% decline in real GDP during Q1, and elevated PCED and ECI inflation rates. Sentiment was quite bearish at the start of last week and even worse at the end. Despite the carnage in stocks, the 10-year and 2-year Treasury bond yields rose to 2.93% and 2.72% at the end of trading on Friday.

The Nasdaq is down 23.2% from its record high on November 19. So it's officially in a bear market. The S&P 500 is down 13.9% since it peaked at a record high of 4796.56 on January 3. Given that Friday's close of 4131.93 is now the low for the year (so far), the correction since January 3 has transpired over 116 calendar days.

The air continues to come out of valuation multiples. Here are the forward P/Es of the major indexes at the start of this year and on Friday: S&P 500 (21.4, 17.6), S&P 500 Growth (28.3, 21.0), S&P 500 Growth's MegaCap-8 (33.8, 25.5), S&P 500 Value (17.1, 15.1), S&P 400 (15.9, 13.0), and S&P 600 (15.1, 12.5).

We've been thinking that the S&P 500's forward P/E might range between 16.0 and 19.0 this year. Looks like it's moving quickly toward the bottom end of this range. Now let's examine some of the major issues spooking investors.

US Economy I: Stimulus Leaks Overseas. Debbie and I have been writing about how inflation is inflating the economy. That is, the values of lots of economic indicators in current dollars have been increasing much faster than their inflation-adjusted versions.

The latest example of this phenomenon is the merchandise trade data. More specifically, the value of US merchandise imports has been soaring relative to the volume of imports. Even so, real imports have been rising to record highs since November 2020. This strongly confirms our thesis that the inflation shock of the past year was caused by excessively stimulative fiscal and monetary policies (a.k.a. "helicopter money"). That stimulus triggered a demand shock, which caused a supply shock, as evidenced by record real consumer spending on goods and record real imports.

Another consequence of the imbalance between booming demand and capacity-constrained supply has been the inflation surge of the past year. The trade data confirm that a significant portion of the stimulus "leaked" abroad and contributed to the global inflation surge of the past year. Let's have a close look at the latest relevant data:

(1) *Imports and exports.* The Census Bureau released the monthly *advance report* for merchandise trade on Wednesday of last week. It showed an 11.5% m/m jump in imports and a 7.2% increase in exports during March (*Fig. 1* and *Fig. 2*). On a y/y basis, they were up 25.6% and 18.1%, respectively (*Fig. 3*). Data available through February show that the price deflators of imports and exports rose 10.4% and 14.7% y/y (*Fig. 4*).

(2) *Imports by category.* In current dollars during March on a y/y basis, imports soared for consumer goods ex-autos (25.8%), capital goods ex-autos (18.3), automobiles & parts (8.0), and industrial materials & supplies (48.1) (*Fig. 5*). Interestingly, the value of auto imports rebounded during March, matching its record high just after the lockdown recession of 2020. Some of the recent increase undoubtedly reflected higher prices, but it does suggest that the overseas auto industry is facing fewer supply-chain challenges than last year.

(3) *Importing inflation.* US economic policymakers sowed the seeds of rampant inflation over the past two years, and now we are all paying higher prices. Following the Great Inflation of the 1970s until the start of the pandemic, globalization was a major contributor to keeping a lid on inflation in the US thanks to plentiful cheap imports. Now deglobalization and supply-chain disruptions are boosting import prices amid shortages. That's happening

even though the US Dollar Index is up 7.2% ytd through the end of last week (Fig. 6).

The US import price index rose 12.5% y/y through March (Fig. 7). Excluding petroleum, it was up 8.1%. Petroleum was up 66.5% in March.

(4) *Trade in real GDP.* Trade was a major drag on real GDP growth during Q1 as US policy stimulus leaked abroad. Real GDP fell 1.4% (saar) during the quarter. However, final sales to domestic purchasers rose 2.6%, with real consumer spending up 2.7%. Net exports of goods and services in real GDP plunged to a record low of -$1.5 trillion during Q1, down from -$0.8 trillion during Q4-2019, just before the pandemic (Fig. 8).

(5) *The dollar.* By the way, why is the dollar so strong given that the current-dollar trade deficit was at a record-low $1.2 trillion during Q1? The US Treasury's data tracking net capital flows into the US show that on a net basis, they totaled a record $1.4 trillion over the past 12 months through February (Fig. 9).

It's no wonder that the dollar has been strong with the net capital account surplus exceeding the current account deficit. In recent weeks, the dollar has been strong relative to all the major currencies including the euro, yen, pound, and yuan.

That's partly because Fed officials have been talking more hawkishly than their counterparts at the other major central banks. The European Central Bank's balance sheet is still growing. The Bank of Japan remains committed to pegging the 10-year government bond yield around zero. In addition, China's pandemic situation is forcing the People's Bank of China to provide monetary stimulus.

Furthermore, the war in Ukraine poses a greater recession risk for European countries than for the US. Global investors clearly view the US financial markets as a safe haven during these troubled times.

US Economy II: Inflation Is Deflating Consumers. The Bureau of Economic Analysis released March data for personal income and consumption on Friday. Excluding government social benefits to persons, personal income rose 8.6% y/y to a record high. Personal consumption also rose to a record high, with a 9.1% y/y gain (Fig. 10 and Fig. 11).

The bad news was that the headline and core PCEDs rose 6.6% y/y and 5.2% y/y through March (Fig. 12). Real core personal income rose just 2.6%. Real consumer spending on goods remained near its 2021 record high, but was down 4.6% y/y. Meanwhile, real consumer spending on services was back above its pre-pandemic level, rising 6.3% y/y to a new record high.

Collectively, these numbers paint a stagflationary picture. We expect that increases in real spending on services will continue to offset weakness in real spending on goods, which should lead to some moderation in the trade deficit and ease the upward pressure on consumer durable goods prices.

US Economy III: Inflation Tends To Be Spikey. Why is the 10-year Treasury bond yield only around 3.00% when the latest headline CPI and PCED inflation rates were 8.5% y/y and 6.6% y/y? Why would bond investors willingly lock in such a painful negative real return? The return would be even worse if the yield were to climb to 4.00% or even higher, narrowing the gap with inflation but subjecting current bondholders to a significant capital loss.

Alternatively, the gap would narrow if inflation were to come down. Historically, inflation in the US since 1921 has been very spikey, except during the Great Inflation period from 1965 through 1980. The faster it has gone up, the faster it has come down (*Fig. 13*).

The current inflation spike has been led by soaring consumer durable goods prices, much like the inflation spike during the second half of the 1940s. Back then, household formation surged as the soldiers returned home, and so did the demand for housing and consumer durables (*Fig. 14*). Debbie and I continue to expect that durable goods price inflation will soon peak and moderate as rapidly as it jumped up over the past year (*Fig. 15*).

Now consider the following related observations:

(1) *The Great Inflation.* While there are several similarities between now and the Great Inflation (including bad policies and bad luck), one difference is that the dollar was very weak back then, while it is very strong now. However, both now and then, commodity prices soared. Productivity growth collapsed during the 1970s, whereas it has been rising since 2015 and should continue to do so.

(2) *Consumer durable goods vs rent.* The PCED's durable goods inflation rate might have peaked during January at 11.5% y/y. It edged down to 10.2% during March (*Fig. 16*). The problem is that rent inflation is likely to continue rising over the next 12-24 months (*Fig. 17*). Tenant rent was up 4.4% y/y through March, the highest pace since May 2007. On a three-month basis at an annual rate, it was 6.2%. During the Great Inflation, tenant rent inflation

on a y/y basis soared from around 1.0% during 1965 to about 10.0% during 1980.

(3) *Regional price surveys.* We now have April results of the regional business surveys conducted by five of the Federal Reserve System's district banks. The averages of both the prices-received and price-paid indexes remained elevated in record-high territory (*Fig. 18*). The good news is that the average of the indexes for unfilled orders and delivery times fell in April to the lowest since December 2020, suggesting that supply-chain disruptions may be easing (*Fig. 19*).

(4) *Employment Cost Index.* There was a hint of a peak in Q1's Employment Cost Index (ECI) released on Friday. The wages and salaries component of the ECI showed an increase of 5.0% y/y, the same as at the end of 2021 (*Fig. 20*). Nevertheless, that reading was the highest since Q1-1984. The overall index rose to 4.8%, boosted by a big jump in benefits from 2.9% during Q4 to 4.1% during Q1. The data suggest that employers are trying to hold onto their workers, and attract new ones, by offering better benefits on top of better pay.

The ECI data start during Q4-1979. So we get a better historical sense of wage inflation using average hourly earnings (AHE) for production and nonsupervisory workers, which starts during January 1964. The y/y percent change in the AHE series tends to be just as spikey as the core PCED inflation rate (*Fig. 21*).

The question is whether a recession is necessary for price and wage inflation to spike down. Stock investors apparently have concluded that it is. We aren't so sure given that we still see a 30% risk of a recession and a 70% chance of a soft landing with real GDP growing slowly, say by 2.0%, and with PCED inflation peaking soon between 6.0%-7.0% and moderating to 3.0%-4.0% next year. Such a soft-landing scenario seems to be an increasingly contrary outlook.

Movie. "WeCrashed" (+ + +) (*link*) is about the rise and fall of Adam Neumann, the cofounder of WeWork, which was one of the world's most valuable startups. It almost failed because he and his wife believed that the company was destined to save the world. They were zealots, who burned through their investors' cash at a remarkable pace. Neumann was a great and visionary entrepreneur; he simply wasn't qualified to be the CEO of a publicly traded company. Jared Leto is great as Neumann, and so is Anne Hathaway as his wife Rebekah. Their relationship is a fascinating part of this story. Hollywood has discovered that there's lots of melodramatic content available in the stories of child-like entrepreneurs and their venture capitalists providing adult supervision. I also thoroughly enjoyed “Super Pumped” about Uber and “The Dropout” about Theranos.

Calendars

US: **Mon:** ISM M-PMI & Price Index 57.6/87.5, Construction Spending 0.7%. **Tues:** Job Openings 11.266m; Factory Orders 1.1%; Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: **Mon:** Eurozone Business & Consumer Survey 108.0; Eurozone, Germany, France, Italy, and Spain M-PMIs 55.3/54.1/55.4/55.0/54.0; Germany Retail Sales 0.3%m/m/6.1%y/y; Japan Household Confidence. **Tues:** Eurozone Unemployment Rate 6.7%; Eurozone PPI 4.9%m/m/36.2%y/y; Germany Unemployment Change & Unemployment Rate -15k/5.0%; UK M-PMI 55.3; Australia Retail Sales 0.5%; RBA Interest Rate Decision 0.25%; Eurogroup Meetings, Rogers. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index posted its biggest drop in 14 weeks, falling 3.3% last week as it fell deeper into a correction at 14.7% below its record high on December 27. The index ranked 29th of the 48 global stock markets we follow in a week when just four of the 48 countries rose in US dollar terms and the AC World ex-US index dropped 1.7% to 16.0% below its June 15, 2021 record high. BRIC was the best-performing region last week with a gain of 2.0%, ahead of EM Asia (0.9%) and EMEA (-0.5). EM Eastern Europe was the biggest underperformer with a decline of 7.5%, followed by EM Latin America (-6.1), EMU (-3.1), and EAFE (-2.3). Egypt was the best-performing country last week, rising 5.4%, followed by China (5.1), Indonesia (1.8), and Denmark (0.4). Among the 34 countries that underperformed the AC World ex-US MSCI last week, Poland’s 9.2% decline was the worst, followed by Colombia (-8.8), Sri Lanka (-7.3), and Brazil (-7.0). In April, the US MSCI tumbled 9.1% for its third decline in four months and its worst monthly performance since March 2020. The US MSCI ranked 35/48 in April and underperformed the 6.5% decline for the AC World ex-US index. Most regions fell in April as just three of the 48 countries moved higher. Jordan was the best performer, with a gain of 8.8%, followed by Turkey (6.0), Indonesia (3.6), and Greece (-1.0). The worst-performing countries in April: Sri Lanka (-31.6), Poland (-19.1), Peru (-17.4), and Brazil (-14.9). EMEA rose 0.5% in April, ahead of Russia-less BRIC (-4.8), EM Asia (-5.1), and the AC World ex-US (-6.5). EM Eastern Europe (-15.7) was April's worst-performing region, followed by EM Latin America (-13.9), EMU (-7.5), and EAFE (-6.8). The US MSCI's ytd ranking remained steady w/w at 30/49, with its 14.2% decline worse than the 12.2% drop for the AC World ex-US. EM Latin America has risen 8.6% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-81.8), EMEA (-23.7), EMU (-17.9), BRIC (-17.6), EM Asia (-13.6), and EAFE (-12.9). The best country performers so far in 2022: Jordan (18.2), Turkey (16.6), Colombia (16.2), Brazil (14.2), and Chile (12.4). Apart from Russia, in which investors have lost 100.0%, here are the worst-performing countries ytd: Sri Lanka (-66.5), Hungary (-29.3), Egypt (-27.7), and Poland (-27.0).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week deeper into correction territory. LargeCap had its worst decline in 14 weeks, but its 3.3% drop was between the declines for SmallCap (-3.6%) and MidCap (-3.2). LargeCap is now 10.9% below its record high on January 3. MidCap ended the week 14.1% below its record high on November 16, and SmallCap weakened to 17.1% below its November 8 record high. All 33 sectors fell last week, compared to just five rising a week earlier. LargeCap Materials was the best performer, albeit with a decline of 0.8%, ahead of LargeCap Tech (-1.3%), LargeCap Energy (-1.3), and MidCap Consumer Discretionary (-1.8). LargeCap Consumer Discretionary was the biggest underperformer last week with a decline of 7.9%, followed by SmallCap Communication Services (-6.2), SmallCap Utilities (-5.7), LargeCap Real Estate (-5.7), and MidCap Utilities (-5.7). During April, LargeCap fell 8.8%, greater than the declines posted by SmallCap (-7.9) and MidCap (-7.2). Just two of the 33 sectors rose in April, the lowest count since February 2020 and down from 26 rising in March. April's best performers: LargeCap Consumer Staples (2.4), SmallCap Consumer Staples (0.5), LargeCap Energy (-1.6), SmallCap Energy (-1.8), and MidCap Energy (-2.5). April's biggest laggards: LargeCap Communication Services (-15.8), LargeCap Consumer Discretionary (-13.0), SmallCap Communication Services (-11.9), LargeCap Tech (-11.3), and MidCap Communication Services (-10.9). In terms of 2022's ytd performance, all three indexes are down ytd as LargeCap's ranking moved to less than a hair back above SmallCap's. MidCap is down 12.0% ytd, less than the declines for LargeCap (-13.3) and SmallCap (-13.3). Five of the 33 sectors are positive so far in 2022, down from seven a week earlier. Energy continues to dominate the top performers: SmallCap Energy (40.6), LargeCap Energy (35.4), MidCap Energy (31.2), MidCap Materials (2.0), and LargeCap Consumer Staples (0.7). The biggest ytd laggards: LargeCap Communication Services (-26.0), LargeCap Consumer Discretionary (-21.0), SmallCap Consumer Discretionary (-20.6), SmallCap Health Care (-20.0), and SmallCap Tech (-19.7).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week, but five outperformed the composite index's 3.3% decline. That compares to a 2.8% decline for the S&P 500 a week earlier, when two sectors rose and seven outperformed the index. Materials was the top performer, albeit with a decline of 0.8%, ahead of Tech (-1.3%), Energy (-1.3), Consumer Staples (-2.1), and Health Care (-2.5). The worst performers: Consumer Discretionary (-7.9), Real Estate (-5.7), Financials (-4.6), Utilities (-4.1), Communication Services (-4.1), and Industrials (-3.3). The S&P 500 tumbled 8.8% in April in its worst month since March 2000 and its biggest April decline since 1970. Just one sector moved higher during April as seven beat the broader index. That compares to 10 rising in March, when six beat the S&P 500's 3.6% gain. The leading sectors in April: Consumer Staples (2.4), Energy (-1.6), Materials (-3.5), Real Estate (-3.7), Utilities (-4.3), Health Care (-4.8), and Industrials (-7.6). April's laggards: Communication Services (-15.8), Consumer Discretionary (-13.0), Tech (-11.3), and Financials (-10.0). The S&P 500 is down 13.3% so far in 2022, with two sectors in positive territory and eight ahead of the index. The best performers in 2022 to date: Energy (35.4), Consumer Staples (0.7), Utilities (-0.5), Materials (-6.3), Health Care (-7.6), Industrials (-10.1), Real Estate (-10.3), and Financials (-11.7). The ytd laggards: Communication Services (-26.0), Consumer Discretionary (-21.0), Tech (-18.9).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 3.2% last week and weakened relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma) for the ninth time in 12 weeks. The index's 200-dma turned down at a faster rate as well. The index closed below its 50-dma for a third week after four weeks above and closed below its 200-dma for the tenth time in 12 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 third week as the index dropped to a seven-week low of 5.7% below its falling 50-dma from 3.0% below a week earlier. That's still above its 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 tumbled to a 24-month low of 8.2% below its falling 200-dma from 5.1% below a week earlier. The latest reading easily surpasses its prior 23-month low of 6.8% below 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*): Just one of the 11 S&P 500 sectors traded above their 50-dmas last week, down from five a week earlier and leaving Consumer Staples as the only sector in that club. During late February's market swoon, 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, only three sectors are above now, down from six a week earlier. They include Consumer Staples, Energy, and Utilities. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Five sectors have a rising 200-dma, down from seven a week earlier as Financials and Health Care turned down in the latest week. The other four members of the declining 200-dma club: Communication Services, Consumer Discretionary, Industrials, and Tech.

US Economic Indicators

GDP (*link*): Real GDP contracted an unexpected 1.4% during Q1, led by declines in inventory investment, government spending, and exports—while imports (which are a subtraction in the calculation of GDP) continued to soar. Real gross domestic purchases—which is GDP less exports of goods and services plus imports of goods and services—increased 1.7% (saar) last quarter. Real net exports posted its largest deficit on record, widening to $1.5 trillion during Q1 from $1.3 trillion the final half of last year. Real exports contracted 5.9% (saar) during Q1, after rebounding 22.4% during the final quarter of last year, while real imports soared 17.7% after a 17.9% jump during Q4—continuing to set new record highs. Real inventory investment slowed to $158.7 billion from a record $193.2 billion during Q4, led mainly by declines in wholesale and retail trade of motor vehicles. Real government spending was also in the red last quarter, contracting 2.7% (saar)—its third quarterly decline in four quarters. Federal government spending posted its fourth successive decline, falling 5.9%, consistent with prior quarters—driven by an 8.5% drop in defense spending last quarter, while nondefense expenditures were 2.2% lower. Turning to the positives, real consumer and business spending continued to expand—with both reaching new record highs during Q1. Real consumer spending expanded 2.7% (saar) last quarter, as services consumption accelerated 4.3% (saar), while goods consumption (-0.1%, saar) was at a standstill—as a 4.1% advance in durable goods consumption was offset by 2.5% setback in nondurable goods spending. Real nonresidential investment jumped 9.2% (saar), its best quarter since mid-2021. Spending on equipment (15.3%, saar) expanded at a double-digit pace, while investment in intellectual property products (8.1) continued to post impressive gains—averaging quarterly gains of 10.4% the past seven quarters—with both measures reaching new record highs during Q1. Meanwhile, structures (-0.9) contracted for the fourth consecutive quarter. Real residential investment expanded 2.1%, virtually matching Q4's gain, after contracting for two quarters.

Contributions to GDP Growth (*link*): Real net exports was the biggest negative contributor to real GDP during Q1, while supply-chain problems depressed inventory investment, with government spending an additional drag. Meanwhile, consumer spending, business investment, and housing investment partially offset these declines. Trade subtracted 3.20ppts from Q1 real GDP, as an influx of imports (-2.53ppts) accounted for nearly all of the decline; exports (-0.68) were a minor drag in comparison. Also pushing real GDP lower was inventory investment, which subtracted 0.84ppts from Q1 GDP—nearly all nonfarm (-0.75). Government outlays' (-0.48ppt) drag on GDP last quarter was nearly all national defense (-0.33) spending; nondefense (-0.06) and state & local government (-0.08) spending were minor drags. Meanwhile, consumer (+1.83) spending was the biggest positive contributor to real GDP last quarter, all services (+1.86). Goods (-0.03) consumption was basically little changed as a negative impact from nondurable goods (-0.38) consumption was nearly entirely offset by a positive contribution from durable goods (+0.35) spending. Nonresidential (+1.17) investment was a positive contributor to economic growth once again last quarter, led by equipment (+0.79)—as positive contributions from information processing (+0.42), industrial (+0.28), and other (+0.16) equipment more than offset the negative contribution from transportation (-0.08) equipment. Meanwhile, residential investment (+0.10) contributed positively to real GDP for the second quarter after two quarters of negative contributions.

Personal Income & Consumption (*link*): Both personal income and consumption rose more than expected in March, though in real terms the former fell for the third time in four months. Meanwhile, both nominal and real personal consumption expenditures climbed to new record highs in March, increasing 1.1% and 0.2%, respectively. In real terms, spending was boosted by a 0.6% increase in services consumption, while real goods consumptions fell for the fourth time in five months, with durable goods and nondurable goods spending down 0.9% and 0.3%, respectively. Turning to income, personal income rose 0.5% in March, though the personal consumption deflator jumped 0.9%—the biggest monthly gain since September 2005—pushing real income down 0.4%. Nominal wages & salaries continued to reach new record highs in March, increasing for the 22nd month since bottoming in April 2020; it was up 0.6% m/m in March and 26.8% over the period. In real terms, wages and salaries fell for the first time since February 2021, dipping 0.3%, though is up 4.8% y/y. The headline PCED increased 6.6% y/y in March, with core prices up 5.2%, the former the highest since the early 1980s.

Personal Consumption Deflator (*link*): March's PCED advanced 0.9%—the most since September 2005—following gains of 0.5% during each of the prior three months, while core prices rose 0.3% for the second month after posting monthly gains of 0.5% during each of the previous four months. The yearly headline rate was up 6.6% y/y, the highest since January 1982; it was at 2.5% a year ago. The core rate eased to 5.2% y/y after accelerating to 5.3% in February—which was the highest since January 1983; it was at 2.0% a year ago. Looking at the three-month percent change, annualized, the core rate slowed to 4.2% (saar) from 5.9% during the three months through January. Prices for durable goods increased only 2.5% (saar) during the three months through March, down from 11.5% in December, while the nondurable goods measure excluding energy accelerated 10.9% over the comparable period, up from 3.5% last August. Prices for services ex energy have slowed steadily on a three-month-percent-change basis, easing from 5.0% in January to 3.7% (saar) in March. Looking at the three-month percent changes in PCED prices through March, annualized, used motor vehicles (-27.3%), video, audio & information processing equipment (-4.1), and physicians' services (-3.8) all have declined, while airfares (3.1) moved from negative to slightly positive. The following prices have heated up over the three-month period through March: gasoline (102.6), car & truck rental (30.2), household appliances (22.0), food & nonalcoholic beverages purchased off premises (16.1), professional & other services (11.8), personal care products (10.4), transportation services (10.0), alcoholic beverage purchased off premises (7.7), recreation service (7.3), tenant rent (6.2), and owner occupied rent (5.3). Prices have slowed over the three months through March for: new motor vehicles (2.5), hospitals (5.4), motor vehicle & parts (9.5), and household furniture & bedding (16.2).

Consumer Sentiment Index (*link*): Consumer sentiment rebounded in April from an 11-year low, boosted by "a sharp drop in gas price expectations" and "an 18.3% jump in personal finance expectations," noted Richard Curtin. The Consumer Sentiment Index jumped 5.8 points in April to 65.2 after tumbling 11.2 points (to 59.4 from 70.6) the first three months of this year. It peaked at 88.3 a year ago as the economy began to recover from the pandemic before the slide that coincided with the surge in inflation. The expectations component soared 8.2 points to 62.5 in April, after tumbling from 68.3 in December to 54.3 in March—the lowest level since fall 2011—while the present situation component advanced 2.2 points to 69.4, after falling 7.0 points (to 67.2 from 74.2) the first three months of 2022. (The headline and expectations measures were below their mid-month readings of

65.7 and 64.1, respectively, while the present situation component was above its mid-month reading of 68.1.) The expected inflation rate was unchanged at 5.4% last month, while the expected rate over the next five years held at 3.0%. Richard Curtin notes, “Consumers have lost confidence in economic policies, with fiscal actions increasingly hampered by partisanship in the runup to the Congressional elections. Monetary policy now aims at tempering the strong labor market and trimming wage gains, the only factors that now support optimism.” He went on to say, “The probability of consumers reaching a tipping point will increasingly depend on prospects for a strong labor market and continued wage gains. The cost of renewed strength is an accelerating wage-price spiral.”

Regional M-PMIs (*link*): Five Fed districts (New York, Philadelphia, Dallas, Richmond, and Kansas City) now have reported on manufacturing activity for April and show growth accelerated for the third month to 16.5 this month, after easing from 22.9 in November to 11.3 at the start of this year. Growth in the New York (to 24.6 from -11.8) region moved from contraction to expansion in April, while the Kansas City (25.0 from 37.0) and Philadelphia (17.6 to 27.4) regions saw slower though still robust growth. Activity in the Richmond (14.0 from 13.0) area continued at a steady pace, while manufacturing in the Dallas (1.1 to 8.7) region was at a near standstill. New orders (14.2 from 13.6) held steady last month. Orders growth in the New York (25.1 to -11.2) region swung from contraction to expansion, while billings in the Dallas (12.1 from 10.5) region showed a slight acceleration; growth in the Philadelphia (17.8 from 25.8) area eased but was the second strongest among the five regions. Richmond (6.0 from 10.0) orders growth was nearly cut in half, while Kansas City’s (10.0 from 33.0) expanded at a third of March’s pace. Meanwhile, jobs growth (22.9 from 24.0) continued at a healthy pace last month, with factory hirings in the Philadelphia (41.4 from 38.9) region accelerating at a record rate and those in the Dallas (24.6 from 25.5), Richmond (22.0 from 23.0), and Kansas City (19.0 from 18.0) areas holding at a steady robust pace. Factories in the New York (7.3 from 14.5) region grew jobs at half March’s pace and one-third of recent highs.

Regional Prices Paid & Received Measures (*link*): We now have prices-paid and -received data for April from the Philadelphia, New York, Kansas City, Richmond, and Dallas regions, and it’s a mixed bag. (Note: The Philadelphia, New York, Kansas City, and Dallas measures are diffusion indexes, while Richmond’s measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures.) The prices-paid measure climbed for the second month to 86.8 in April after falling from a record-high 89.2 in November to 81.2 by February. The prices-paid measure in the New York (to 86.4 from 73.8) area shot up to a new record high in April, while Philadelphia’s (84.6 from 81.0) accelerated at its fastest pace since 1979—closing in on its record high of 91.1 during March 1974—and Kansas City's (83.0 from 81.0) is moving back up toward its April 2021 record high of 88.1. In the meantime, Richmond's (118.3 from 110.5) gauge ticked up this month, though is down from its record high of 143.2 at the start of this year, while Dallas' prices-paid (61.5 from 74.0) measure has eased from November's record-high of 83.3. Turning to prices-received (58.8 from 60.2), its gauge was little changed from March's record rate. Regionally, Kansas City's (57.0 from 51.0) measure jumped back up to its record high posted last summer, 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. New York's (49.1 from 56.1) gauge slowed from March's record high, while Richmond's eased to 89.3 last month after shooting up to a record-high 112.7 in January; Dallas' (43.5 from 47.8) continued to slow from its record high of 50.9 in October.

Global Economic Indicators

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for April is expected to tick up to 7.5% from 7.4% in March—5.9ppts above last April's 1.6%. The rate was at -0.3% at the end of 2020. Looking at the main components, once again energy is expected to record the largest gain, though is forecast to slow to 38.0% y/y—after accelerating steadily from -8.3% during November 2020 to a record high of 44.4% this March. The rate for food, alcohol & tobacco is expected to climb to a record-high 6.4% y/y in April, rising steadily from June 2021's 0.5%, while the rate of non-energy industrial goods is forecast to accelerate to a record-high 3.8%. The services rate is expected to pick up for the third month, from 2.3% in January to 3.3% in April—the highest since summer 2002. Of the top four Eurozone economies, two beat the Eurozone's 7.5% rate, Spain (8.3% y/y) and Germany (7.8)—though Spain's slowed from its March rate of 9.8%—while two lagged, Italy (6.6) and France (5.4); France's rate was the second lowest of all the Eurozone economies' rates.

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