MORNING BRIEFING
May 9, 2022

Inflation Peak-a-Boo

Check out the accompanying chart collection.

Executive Summary: We concur with Fed Chair Powell that getting inflation back to Earth needn't crash our strong, liquid economy. The Bond Vigilantes aren't as far behind the inflation curve as the Fed: They've already tightened credit conditions in the financial markets significantly. We expect inflation to peak this summer between 6%-7% and to recede to 3%-4% next year with no recession. … We may have spotted the first signs of peaking inflation already, in lower three-month than y/y rises of several price and wage measures. … But there are certainly plenty of indicators that cast doubt on the peaking-soon scenario. … Also, a movie review: "Summit of the Gods" (+ + +).

YRI Monday Webcast. View Dr. Ed's PRE-RECORDED webinar for Monday, May 9, available *here*.

Inflation I: Powell's Softish Landing. At his post-FOMC-meeting *press conference* last Wednesday, Federal Reserve Chair Jerome Powell was asked by the *WSJ*'s Nick Timiraos about his "level of confidence" that the Fed can subdue inflation by "slowing hiring without pushing the economy into recession?" Powell responded as follows:

"There's a path by which we would be able to have demand moderate in the labor market, and … have vacancies come down without unemployment going up, because vacancies are at such an extraordinarily high level." Powell observed that with 11.5 million job vacancies and 5.9 million unemployed workers, there are 1.9 job openings for every unemployed person (*Fig. 1* and *Fig. 2*). "So in principle, it seems as though by moderating demand, we could see vacancies come down … fairly significantly." By bringing demand for workers down closer to supply, Powell expects "to get inflation down without having to slow the economy and have a recession and have unemployment rise materially." He concluded: "I think we have a good chance to have a soft or softish landing ..."

Needless to say, lots of Fed watchers, both professional and amateur, have opined that Powell is delusional because the only way to bring inflation down is to cause a recession. They contend that the Fed is so far behind the inflation curve that runaway inflation will eventually force the Fed to do just that via a Volcker-style tightening. They think the Fed's tightening response to inflation is too softish. Of course, this crowd remains very bearish on both bonds and stocks.

Melissa and I find ourselves siding with the current Fed view:

(1) *Consumers and businesses in good shape.* At his presser, Powell observed that "households and businesses are in very strong financial shape." He noted that households have excess savings that are "substantially larger than the prior trend." He also stated that "[b]usinesses are in good financial shape" and that the labor market is "very, very strong." He concluded: "[T]herefore, the economy is strong, and is well positioned to handle tighter monetary policy." Melissa and I have been making the very same points in recent weeks to counter all the anxiety about an impending recession.

But aren't real incomes stagnating while personal saving is down sharply? Our Earned Income Proxy (EIP) for private wages and salaries in personal income rose 0.6% m/m and 10.0% y/y to a record high in April (*Fig. 3*). On an inflation-adjusted basis, the EIP has stagnated over the past couple of months, but it remains on an uptrend.

Besides, consumers have accumulated plenty of personal savings over the past 24 months, which is why they are saving less. The personal saving rate fell to 6.2% during March, the lowest since December 2013 (*Fig. 4*). Over the past 24 months through March, personal saving totaled $2.5 trillion (*Fig. 5*). Interestingly, over the same period, M2 is up $5.8 trillion (*Fig. 6*). This suggests that much of personal saving is very liquid. And as we have previously observed, M2 is currently about $3.0 trillion above its pre-pandemic trendline (*Fig. 7*).

Nonfinancial corporations raised $2.3 trillion in the bond market over the 24 months through March, mostly at record-low yields (*Fig. 8*). They've refinanced their debts and still have plenty of cash on their balance sheets and all the excess M2 liquidity.

Past recessions usually have been caused by credit crunches resulting from Fed tightening. We doubt that scenario is likely now given the strength of consumer and business balance sheets and the great deal of M2 liquidity.

(2) *Tighter financial conditions.* On Friday, two of the Federal Reserve's most hawkish policymakers defended the Fed against charges that it had fallen well behind the curve in fighting inflation. Indeed, three former Fed officials—Richard Clarida, Randal Quarles, and Bill Dudley—recently predicted that the Fed would have no choice but to raise interest rates to levels that would cause a recession in order to bring inflation down. Clarida predicted that

the federal funds rate will have to be raised to “at least” 3.5% to do the job. In an April 21 Bloomberg Opinion *article*, Dudley predicted a recession in 2023 or 2024, and the later it comes, “the worse it will be.” He called on the Fed to engineer a recession sooner rather than later.

Fed Governor Christopher Waller and St. Louis Fed Bank President James Bullard argued that critics don’t take enough account of the tightening of financial conditions that the Fed engineered through “forward guidance” even before it began raising interest rates in March. (See the May 6 Reuters *article* “Fed hawks Waller, Bullard push back on ‘behind the curve’ view.”)

Again, we agree with these current Fed officials and have been making the same points recently. My friends the Bond Vigilantes have already tightened credit conditions significantly in the financial markets. The 2-year US Treasury note yield, which tends to lead the federal funds rate, has soared from just 0.16% a year ago to 2.72% on Friday. The 10-year US Treasury bond yield soared from a record low of 0.52% on August 4, 2020 to 3.12% on Friday. TLT—the iShares 20+ Year Treasury Bond ETF—plunged 33.7% since July 31, 2020 through Friday’s close. The 30-year mortgage rate jumped from 3.29% at the start of this year to 5.45% last week.

As a result, the Nasdaq fell 24.4% into a bear market from its record high on November 19 through Friday, and the S&P 500 is down 14.0% into a correction from its record high on January 3 through Friday.

In our opinion, the Bond Vigilantes deserve more credit than the Fed does for bringing inflation down during 1983-84 and 1994-95 without causing a recession (*Fig. 9*). We think they may be in the process of doing so again.

We continue to expect that inflation will peak this summer between 6%-7% and fall to 3%-4% next year without a recession (*Fig. 10*).

Inflation II: Peakish? There are already a few signs that inflation may be starting to peak. We are seeing them in the three-month percentage changes at annual rates of numerous price and wage measures. The following ones have been falling for the past two to three months and doing so below their comparable inflation rates on a y/y basis:

(1) *Wages.* On a y/y basis, Friday’s employment report showed that average hourly earnings for all workers rose 5.5% through April (*Fig. 11*). However, the three-month wage

inflation rate has been falling below this rate for the past three months and was down to 3.7% during April. The same can be said for the three-month wage inflation rate in goods-producing industries (4.1% vs 5.2% y/y) and service-providing industries (3.6, 5.6).

Here are the three-month and 12-month wage inflation rates for the economy's major industries through April: Construction (5.6%, 5.5%), Natural Resources (3.1, 4.2), Manufacturing (3.3, 5.0), Retail Trade (2.1, 4.9), Wholesale Trade (3.9, 4.4), Transportation & Warehousing (6.0, 7.1), Utilities (2.2, 4.7), Information Processing (5.7, 2.6), Financial Activities (3.4, 3.5), Professional & Business Services (6.2, 6.7), Education & Health Services (1.2, 5.6), Leisure & Hospitality (6.6, 11.0), and Services (-4.8, 3.9). Of these 13 industries, 11 have three-month wage inflation rates below their 12-month rates! (See our *Average Hourly Earnings on 3- & 12-Month Basis* chart book.)

(2) *Consumer prices.* We've done the same sort of analysis for the PCED measure of the consumer price inflation rate with mixed results through March comparing the three-month and 12-month rates: headline (6.6%, 7.7%), core (4.2, 5.2), durable goods (2.5, 10.2), nondurable goods excluding food and energy (7.7, 3.6), and services ex-energy (3.7, 4.3) (*Fig. 12*).

The standout comparison is the latest three-month durable goods inflation rate (2.5%), which has plummeted below the 12-month rate (10.2%) for each of the past three months through March. We've been expecting this category of the PCED to be the first and most important contributing factor causing the y/y inflation rate to peak.

Here are the three-month and 12-month inflation rates for the major categories of durable goods: new motor vehicles (2.5%, 13.1%); used motor vehicles (-27.3, 33.5); sports & recreation vehicles (4.5, 6.7); motor vehicle parts (9.5, 11.7); furniture & home furnishings (16.2, 13.7); household appliances (22.0, 11.8); and video, audio & information processing equipment (-4.1, -1.1).

(3) *Rents.* On the other hand, the improvement in services is likely to be temporary given that PCED tenant rent inflation in March was 6.2% on a three-month basis, well above the 4.4% rate on a y/y basis, with both trending higher since early 2021 (*Fig. 13*). Nationally, new rental leases are up 12%-15%. As more leases are renewed at these higher rates, rental inflation will continue to rise.

Inflation III: Challenges Ahead. Notwithstanding the signs of peaking inflation, plenty of other indicators and developments suggest the opposite—that inflation is moving higher and might continue to do so. That would certainly put pressure on the Fed to tighten more aggressively. Let's review the troublesome areas of inflation:

(1) *Unit labor costs.* Thursday's big selloff in the stock market was partly attributable to the release of Q1 data on nonfarm business productivity (down 7.5% [saar]) and unit labor costs (up 11.6%). Widely ignored was the good news on hourly compensation. It was up just 3.2% (saar) during Q1, following three quarters of gains exceeding 6.0%. However, it was up a lot more on a y/y basis, 6.5%.

The problem is that unit labor cost inflation tends to determine the underlying trend in consumer price inflation. So far, neither shows any sign of peaking (*Fig. 14*). We observe that both productivity and hourly compensation are very volatile series on both a q/q and y/y basis.

(2) *Prices paid.* There's also no peak yet in the prices-paid indexes in the national surveys of manufacturing and non-manufacturing purchasing managers (*Fig. 15*). Indeed, the NM-PMI's prices-paid index rose to a new record high during April. Both it and the prices-paid index of the M-PMI were at 84.6 last month.

(3) *Energy and food prices.* Meanwhile, the outlooks for both energy and food prices remain disturbingly inflationary. Global food supplies are falling short of global demand for several reasons. The war in Ukraine has disrupted grain exports from Ukraine. Russia's exports of fertilizers have also been restricted. In addition, droughts are hitting important grain-producing regions around the world. The war has also destabilized energy markets, especially for crude oil and natural gas.

During the three months through April, food inflation in the PCED was 14.9%, above the 9.2% y/y pace (*Fig. 16*). On the same basis, energy inflation was a whopping 68.8% versus 33.9% y/y. Last week, while the nearby futures price of a barrel of crude oil on the NYMEX continued to fluctuate around $110, the prices of gasoline, diesel fuel, and heating oil soared, as the US has been scrambling to ship more refined products abroad to supply European markets following Russia's invasion of Ukraine (*Fig. 17*). The price of natural gas in the US soared to $8.78 per thousand cubic feet last week, the highest since the summer of 2008 (*Fig. 18*).

Movie. "Summit of the Gods" (+ + +) (*link*) is a Netflix animated French film about mountain climbers based on a Japanese Manga comic. A photojournalist accompanies a famous climber, who has a history of triumphs and tragedies, on his attempt to climb Mt Everest.

The animation captures the terror of avalanches, slips, and hanging from a rope over a ravine. It evokes the question: Why do some people pursue their passions despite obvious dangers, including the risk of death? The passion to achieve one's dreams before dying can be a great motivator and even turn into an obsession. Indeed, for some, pursuing their passions is the only way to feel truly alive. (Hat tip to my son David for recommending the movie.)

Calendars

US: Mon: Wholesale Trade Sales; Loan Officer Survey. **Tues:** NFIB Small Business Survey; API Crude Oil Inventories; Williams; Waller; Mester. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Investor Confidence -20.8; France Trade Balance; Japan Household Spending 2.6%m/m/-2.8%y/y; Australia Retail Sales 1.0% q/q; Beerman. **Tues:** Germany ZEW Economic Sentiment -42.5; Italy Industrial Production -2.0% China CPI & PPI 1.9%/7.8% y/y; Mauderer; Guindos. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 0.5% last week and slipped deeper into a correction at 15.1% below its record high on December 27. The index ranked ninth of the 48 global stock markets we follow in a week when just nine of the 48 countries rose in US dollar terms and the AC World ex-US index fell 3.1% to 18.6% below its June 15, 2021 record high. EMEA was the best-performing region last week, albeit with a decline of 0.7%, ahead of EAFE (-3.0%). BIC was the biggest underperformer with a decline of 6.1%, followed by EM Eastern Europe (-5.0), EM Asia (-4.5), EMU (-3.8), and EM Latin America (-3.3). Chile was the best-performing country last week, rising 1.8%, followed by Japan (0.2), Colombia (0.1), and Egypt (0.1). Among the 20 countries that underperformed the AC World ex-US MSCI last week, South Africa's 7.3% decline was the worst, followed by China (-6.9), Sri Lanka (-6.9), Israel (-6.8), and Sweden (-6.6). The US MSCI's ytd ranking rose three spots w/w to 27/49, with its 14.6% decline now less than the 15.0% drop for the AC World ex-US. EM Latin America has risen 5.1% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-82.7), EMEA (-24.3), BIC (-22.6), EMU (-21.1), EM Asia (-17.5), and EAFE (-15.5). The best country performers so far in 2022: Jordan (18.2), Colombia (16.3), Turkey (15.8), Chile (14.4), and Indonesia (12.1). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-68.8), Hungary (-32.6), Poland (-31.0), and the Netherlands (-29.8).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week deeper into correction territory. LargeCap fell 0.2%, less than the declines for SmallCap (-0.5%) and MidCap (-0.8). LargeCap is now 14.0% below its record high on January 3. MidCap ended the week 14.8% below its record high on November 16, and SmallCap weakened to 17.5% below its November 8 record high. Thirteen of the 33 sectors rose last week, compared to all 33 falling a week earlier. LargeCap Energy was the best performer, with a gain of 10.2%, ahead of MidCap Energy (3.7%), SmallCap Energy (3.5), MidCap Utilities (1.8), and MidCap Financials (1.3). MidCap Communication Services was the biggest underperformer last week with a decline of 4.8%, followed by SmallCap Real Estate (-4.5), SmallCap Health Care (-3.8), LargeCap Real Estate (-3.8), and SmallCap Consumer Staples (-3.8). In terms of 2022's ytd performance, all three indexes are down ytd. MidCap is down 12.7% ytd, less than the declines for LargeCap (-13.5) and SmallCap (-13.8). Five of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: LargeCap Energy (49.2), SmallCap Energy (45.6), MidCap Energy (36.2), MidCap Materials (1.2), and LargeCap Utilities (0.7). The biggest ytd laggards: LargeCap Communication Services (-25.2), LargeCap Consumer Discretionary (-23.7), SmallCap Consumer Discretionary (-23.4), SmallCap Health Care (-23.1), and SmallCap Communication Services (-21.1).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 S&P 500 sectors rose last week, and five outperformed the composite index's 0.2% decline. That compares to a 3.3% decline for the S&P 500 a week earlier, when all 11 sectors fell and five outperformed the index. Energy was the top performer with a 10.2% gain, followed by Utilities (1.2%), Communication Services (1.1), Financials (0.6), and Industrials (0.3). The worst performers: Real Estate (-3.8), Consumer Discretionary (-3.4), Consumer Staples (-1.3), Tech (-0.7), Materials (-0.6), and Health Care (-0.4). The S&P 500 is down 13.5% so far in 2022, with two sectors in positive territory and seven ahead of the index. The best performers in 2022 to date: Energy (49.2), Utilities (0.7), Consumer Staples (-0.6), Materials (-6.8), Health Care (-8.0), Industrials (-9.8), and Financials (-11.2). The ytd laggards: Communication Services (-25.2), Consumer Discretionary (-23.7), Tech (-19.4), and Real Estate (-13.7).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 0.2% last week but improved relative to its 50-day moving average (50-dma). However, it weakened relative to its 200-

day moving average (200-dma) for the tenth time in 13 weeks. The index closed below its 50-dma for a fourth week after four weeks above and closed below its 200-dma for the 11th time in 13 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 fourth week as the index edged up to 5.6% below its falling 50-dma from a seven-week low of 5.7% 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 edged down to a 24-month low of 8.2% below its falling 200-dma from 8.1% 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. The latest reading 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*): Two of the 11 S&P 500 sectors traded above their 50-dmas last week, up from just one a week earlier as Energy moved above in the latest week and joined Consumer Staples in that club. During late February's market swoon, Energy had been the only sector above its 50-dma. Four sectors have a rising 50-dma, down from six a week earlier. The four members of the rising 50-dma club: Consumer Staples, Energy, Materials, and Utilities. Looking at the more stable longer-term 200-dmas, only three sectors are above now, unchanged from a week earlier; they are 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. Four sectors have a rising 200-dma, down from five a week earlier, as Real Estate turned down in the latest week. The four members of the rising 200-dma club are Consumer Staples, Energy, Materials, and Utilities.

US Economic Indicators

Employment (*link*): Payroll employment in April remained robust, posting its 12th consecutive count above 400,000. Total payroll employment climbed a larger-than-expected

428,000 (vs 380,000 expected) in April, while job gains for both March (to 428,000 from 431,000) and February (714,000 from 750,000) payrolls were revised lower, for a net loss of 39,000. Private payrolls advanced 426,000 (stronger than ADP's 247,000), while revisions to March (424,000 from 426,000) and February (704,000 from 739,000) made for a net loss of 37,000. Total payroll employment has recovered 20.8 million jobs since bottoming in April 2020, though is still 1.2 million below its pre-pandemic level. Job gains in service-providing industries slowed for the second month, adding 340,000 jobs in April—the slowest in 12 months—after averaging gains of 531,400 jobs per month the previous five months. Goods-producing jobs advanced 66,000 in April, virtually matching March's 67,000, after jumping 114,000 in February. Industries posting the largest gains during April were leisure & hospitality (78,000), manufacturing (55,000), and transportation & warehousing (52,000), followed by professional & business services (41,000), financial activities (35,000), health care (34,000), retail trade (29,000), wholesale trade (22,000), and mining (9,000). Here's a tally of where industries stand relative to their February 2020 pre-pandemic levels: professional & business services (+738,000), transportation & warehousing (+673,600), retail trade (+284,000), financial activities (+71,000), information services (+48,000), nondurable goods manufacturing (+49,000), construction (+4,000), education (-31,800), mining & logging (-73,000), wholesale trade (-57,100), durable goods manufacturing (-105,000), health care (-249,700), and leisure & hospitality (-1.4 million).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 23rd increase in the past 24 months—up 0.6% in April and 27.7% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.8% the past 14 months. In April, both average hourly earnings and aggregate weekly hours increased 0.3%. Over the past 12 months, our EIP was up 10.0%—with aggregate weekly hours up 4.5% and average hourly earnings up 5.5%—matching March's pace and not far from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): April's unemployment rate remained at 3.6%, just shy of its pre-pandemic low of 3.5% during January and February 2020, which was the lowest since 1969. Meanwhile, the participation rate slipped to 62.2% last month after a slight move up to 62.4% in March—which was the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. By race, unemployment rates were mixed, with the rate for African Americans (to 5.9% from 6.2%) once again posting the biggest monthly decline, closing in on its record low of 5.4% recorded during August and September 2019. Hispanics (4.1 from 4.2) also saw their unemployment rate slip back down near its low of 4.0% posted during fall 2019, while Asians (3.1 from 2.8) saw their rate rise for the first time since June

2021. The rate for Whites was unchanged at 3.1%, a tick above its pre-Covid rate of 3.0%, which matched its record low in the late 1960s. By education, the rate for those with a high school degree hasn't recorded an increase in 12 months, falling to 3.8% in April—the lowest since February 2020. Meanwhile, those with less than a high school degree rose for the second month to 5.4% in April after dropping to a record low of 4.3% in February. The rate for those with a bachelor's degree and higher held at 2.0% in April; that was its lowest percentage since February 2020's 1.9%—which wasn't far from its record low of 1.5% during 2000. The rate for those with some college (3.1 from 3.0) ticked up last month, but was less than a percentage point above its all-time record low of 2.4%.

Wages (*link*): Average hourly earnings for all workers in April increased for the 15th straight month, climbing 0.3% m/m and 5.5% y/y, considerably below March's 8.5% increase in the CPI. (April CPI data will be released on May 11.) April's wage rate, however, is a tick below March's 5.6%, as wages over the three months through April slowed to 3.7% (saar)—the slowest since last April—from 6.1% in November. The three-month rates for both goods-producing (4.1%, saar) and service-providing (3.6) industries slowed to their lowest rates since March 2021, with both below their yearly rates of 5.2% and 5.6%, respectively. Within goods-producing, the three-month annualized rates of all industries are below their yearly rates, with the exception of construction, which virtually matches its 5.5% y/y rate: natural resources (3.1% 3m/3m & 4.2% y/y), durable goods manufacturing (3.2 & 4.9), and nondurable goods manufacturing (3.4 & 5.1). Here's the same drill for service-providing industries: other services (-4.8 & 3.9), education & health services (1.2 & 5.6), retail trade (2.1 & 4.9), utilities (2.2 & 4.7), wholesale trade (3.9 & 4.4), transportation & warehousing (6.0 & 7.1), professional & business services (6.2 & 6.7), and leisure & hospitality (6.6 & 11.0). The rate for financial activities basically matches its 3.5% y/y rate, while the three-month rate for information services (5.7 & 2.6) far exceeds its yearly rate.

Auto Sales (*link*): Auto sales have been bouncing around 14.5mu (saar) this year. Auto sales climbed to 14.6mu last month after falling from 15.2mu in January to 13.6mu in March. Sales last April had rebounded to a high of 18.5mu—the best reading since summer 2005, when aggressive incentives boosted sales above 20.0mu—before sinking to 12.4mu by September. Domestic light-truck sales are on a volatile uptrend, climbing from 7.3mu in September to 8.9mu in April, which was down from the 9.4mu level at the start of this year. Meanwhile, domestic car sales have little momentum, ticking up to 2.2mu (saar) in April, not far from its record low of 1.4mu at the height of the pandemic. In the meantime, sales of imports averaged 3.5mu over the first four months of this year, with a low of 3.2mu and a high of 3.8mu—and the latest April reading right at the average.

Global Economic Indicators

Germany Manufacturing Orders (*link*): German factory orders in March fell more than expected on a sharp drop in orders from outside the Eurozone. Total manufacturing orders sank 4.7% after a 0.8% decline in February, with foreign orders tumbling 6.7% in March and 8.2% during the two months through March and domestic orders contracting for the second time in three months by 1.8% in March and 8.4% over the period. Looking at foreign orders, billings from outside the Eurozone plunged 13.2% in March after a small blip down in February, while orders from within the Eurozone rebounded 5.6% in March after a three-month 7.0% drop. Compared to a year ago, growth in total orders fell 3.1%—the first yearly decline since September 2020 and down from January's 8.2% increase. Both domestic (-3.5% y/y) and foreign orders (-2.8) were below their year-ago levels, though foreign orders were a mixed bag, with orders from outside the Eurozone down 6.1% and orders from within up 3.0%. Here's a look at movements in domestic orders along with the breakdown from both inside and outside the Eurozone for the main industry groupings during March, both m/m and y/y: consumer nondurable goods (+6.2%, +6.7%, +3.2% & +20.4%, +27.5%, -13.2%), consumer durable goods (+1.5, +9.9, 16.0 & -0.5, +42.6, +19.8), intermediate goods (-1.0, -3.7, -0.3 & -6.8, -4.4, -6.4), and capital goods (-3.7, +12.2, -+19.3 & -3.2, +3.8, +6.0).

Germany Industrial Production (*link*): Pandemic restrictions and the war in Ukraine pushed March industrial production down a larger-than-expected 3.9%—the biggest monthly decline since April 2020's double-digit drop. Germany's headline production number includes construction while the overall Eurozone's excludes construction; German output was down a sharper 5.0% using that measure. There was a sea of red in production among the industrial groupings in March, led by energy (-11.4%), capital goods (-6.6) and intermediate goods (-3.8). Consumer goods slipped 1.5%, with durable and nondurable goods production down 2.5% and 1.2%, respectively. Compared to a year ago, capital goods (-8.2% y/y), energy (-4.8), and intermediate goods (-3.3) goods output were all lower, while consumer nondurable (5.7) and durable (2.9) goods output were both higher. Germany's manufacturing sector continues to be challenged by high raw materials prices and supply-chain disruptions.

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