Yardeni Research

MORNING BRIEFING
May 16, 2022

Waiting for Something To Break

Check out the accompanying chart collection.

Executive Summary: After many years of ultra-easy monetary policy, the realization that it's going away has frightened investors to a degree unprecedented this early in a tightening cycle. The pre-tightening fear alone burst plenty of speculative bubbles, yet no dreaded credit-crunch/recession scenario has materialized. True, the inflation genie isn't back in the bottle yet, but we expect it will be in coming months and without crashing the economy. … The Fed's recently released *Financial Stability Report* was sanguine as well. … But our soft-landing scenario is a contrary one. So we're keeping our eyes peeled for signs of both the recession that we don't expect and the peaking of inflation that we do. … Also, we review "Ozark" (+ + +).

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*.

Financial Instability I: Imagining the Worst. I was on the road all last week. It was the longest stretch of business travel for me since the start of the pandemic. It was a blast to meet with humanoids again instead of Zoomanoids. I was a keynote speaker at the MoneyShow in Las Vegas on Monday. I also participated in a panel discussion with Nancy Tengler, Steve Forbes, and Steve Moore. Vegas is booming again as more tourists are back, and so are business conventions.

On Tuesday, I visited our accounts in Newport Beach and Pasadena, California. On Wednesday and Thursday, I did the same in Los Angeles and San Francisco. Most of our accounts were unsettled by the recent selloffs in the stock and bond markets. However, most of them are long-term, long-only investors and view the selloffs more as opportunities to buy stocks and bonds rather than occasions to hit the panic button. Most of them are also seasoned pros and have been through several of these swoons and survived them all.

In my meetings, I observed that in the 40-plus years that I've been in this business, I don't recall so much fear that "something will break." Indeed, the Fed just started the latest monetary policy cycle in March—raising the federal funds rate by 25bps on March 16 and

50bps on May 4—yet investors already are convinced that something will break. During all the previous tightening cycles, no one (other than a few permabears) expected the financial crises that ensued after the Fed was much further along in the tightening cycles (Fig. 1 and Fig. 2).

Of course, the recent past has proven the pessimists right this time. Lots of damage has occurred in the financial markets as Fed officials turned increasingly hawkish last year and started actually to tighten this year in March. The air has come out of lots of speculative bubbles, yet no credit crunch or recession has ensued so far. The Fed has provided ultra-easy money for so long (since the Great Financial Crisis of 2008) that the mere anticipation that it would be pivoting from dovish to hawkish burst speculative bubbles in meme and Robinhood stocks, in SPACs, and in Cathie Wood's ARK funds.

Here's more:

(1) *Capital market re-ratings.* In the bond market, yields soared so that the 10-year Treasury bond yield's P/E (i.e., the reciprocal of the yield) has plunged from a record high of 192.3 on August 4, 2020 to 34.1 on Friday.

In the stock market, forward P/Es dropped sharply, particularly this year—falling for the S&P 500 from 21.5 on January 3 to 17.1 at the end of last week (Fig. 3). The forward P/Es of the S&P 400 and S&P 600 were down to only 12.5 and 11.9 at the end of last week (Fig. 4). The forward P/E of the S&P 500 Growth composite was down from 28.5 at the start of the year to 20.5 on Friday, led by a drop in the forward P/E of the MegaCap-8 from 32.3 to 24.3 (Fig. 5).

(2) *Crypto crash.* Cryptocurrencies have crashed in recent days (Fig. 6). Bitcoin's price has been halved since last November and fell more than 20% in just the past two weeks. It's been a terrible hedge against inflation, proving its promotors dead wrong.

Furthermore, stablecoins have been extremely unstable. TerraUSD is known as an algorithmic stablecoin because it relies on financial engineering to maintain the 1-to-1 peg between the stablecoin and the backup assets. TerraUSD is even pegged to another cryptocurrency called "Luna," as we discussed in the May 12 *Morning Briefing*. The stablecoin cratered to 14 cents as of Friday, well below the $1 that it theoretically should fetch.

(3) *Home prices on the edge.* Soaring mortgage rates are likely to weigh on home prices in

coming months, although a repeat of the housing-led financial crisis of 2008 is much less likely this time because homeowners have more equity and less debt (*Fig. 7*).

(4) *Happy tales.* The good news is that this time, all these bursting bubbles have yet to cause a credit crunch and a recession. Banks are very well capitalized, and their loans are up $785.0 billion y/y through May 4 (*Fig. 8*). Commercial and industrial bank loans are expanding, and so is consumer revolving credit (*Fig. 9*). The yield spread between junk and Treasury bonds remains relatively low (*Fig. 10*).

Of course, the worst may still be ahead if inflation remains persistently high, forcing the Fed to raise interest rates to levels that cause something much more significant to break, triggering a widespread credit crunch and a recession. But there have been lots of bad breaks in the financial markets already without any signs of dire consequences. Furthermore, we still expect to see lower inflation during H2-2022 and also 2023.

Financial Instability II: Fed's 'CYA' Report. By the way, on May 9, the Fed released its latest *Financial Stability Report*. Permabears undoubtedly will growl that it is too optimistic and fails to imagine the worst possible outcomes. Here are some of the report's relatively sanguine findings:

(1) *Market liquidity.* "[T]he current state of liquidity in these key markets [for Treasuries, equities, and oil] does not appear to be a substantial barrier to efficient capital allocation and risk management within the economy."

(2) *Corporate credit.* "[C]orporate bond spreads remained low by historical standards, suggesting that valuations continued to be high. The excess bond premium, which is a measure that captures the gap between corporate bond spreads and expected credit losses, also suggests that investor risk appetite was high." Nevertheless, the Fed report identified the following risk: "[T]he share of outstanding bonds with the lowest investment-grade ratings—the so-called triple-B cliff—reached its highest level in two decades, suggesting that many investment-grade bonds remain vulnerable to being downgraded to speculative-grade in the event of a negative economic shock." Meanwhile, the leveraged loan market appears stable: "Risk appetite in the leveraged loan market appeared to have changed little and continued to be somewhat elevated."

(3) *Home prices.* "A model of house price valuation also points to stretched valuations. However, house valuations do not seem as stretched if valuation measures incorporate market-based measures of rents. For example, using the latest asking rents that tenants

would pay when current leases expire and are renewed, house valuations appeared to be well below their peak of the mid-2000s. … Loan-to-value ratios and debt-to-income ratios were stable in recent years, suggesting that there is little evidence to date that recent house price increases were driven by a surge in speculative activity, an erosion in mortgage underwriting standards, or increased use of high-leverage loan products. Hence, a negative shock to house prices may hurt homeowners, but such a shock is unlikely to be amplified by the financial system."

(4) *Business and household debt.* "Overall, business debt vulnerabilities continued to decrease, even as business debt adjusted for inflation grew modestly in the second half of 2021, driven by robust commercial and industrial (C&I) loan origination volumes. A number of factors were moderating vulnerabilities in the business sector during this period. Firms continued to maintain large cash buffers, as strong earnings offset a faster pace of share repurchases and increased capital outlays."

"Mortgage debt accounted for roughly two-thirds of total household debt, with new mortgage extensions skewed toward prime borrowers in recent years. Mortgage forbearance programs helped significantly reduce the effect of the pandemic on mortgage delinquencies."

US Economy I: On the Lookout for Peaking Inflation. Of course, the opera ain't over until the Fat Lady sings. To mix metaphors, the Fat Lady is the inflation genie that's come out of the bottle since last March. Can she be stuffed back into the bottle without breaking the bottle, i.e., without causing a recession? Debbie and I think so, but that's become a contrarian view.

Over the past year, the consensus view on surging inflation has shifted from "it's transitory" to "it's persistent." Now the widespread fear is that it will be permanent unless it is beat down with a hard landing in the economy. As a result, the soft-landing scenario has also become a contrarian one. Let's review the latest developments on the inflation front before turning to the latest economic data:

(1) *April's CPI was rent challenged.* April's headline and core CPI were up 8.3% and 6.2% y/y. Both were downticks from 8.5% and 6.5% during March (*Fig. 11*). The good news was that consumer durable goods inflation moderated from 17.4% to 14.0%, but nondurable goods inflation remained elevated at 12.8%, while services inflation rose to 5.4% (*Fig. 12*).

Leading the services inflation rate higher in April were airline fares (33.3%), hotels & motels

(22.6), electricity (11.0), rent of shelter (5.2), and medical care services (3.5). Rent is particularly troublesome because it has such a high weight in the CPI and will likely continue to rise over the next six to 12 months. Here are its weights in the CPI and PCED: headline (32, 15) and core (41, 17). Furthermore, rent inflation tends to drive wage inflation and vice-versa (*Fig. 13*). The wage growth tracker rose 6.0% y/y during April.

(2) *April's PPI was freight challenged.* During April, the PPI for transportation & warehousing services soared 22.6%. Trade services (a measure of markups among wholesalers and retailers) edged down to 15.4% (*Fig. 14*). Excluding these two red-hot PPI categories, services inflation declined to 3.2% in April. The overall PPI final demand for services eased down to 8.1%, while the goods component rose to a new record high of 16.3% (*Fig. 15*). By the way, the final demand PPI for construction jumped 19.6%.

(3) *Bottom line.* April's CPI and PPI provided a few signs of peaking inflation. However, they were mostly offset by lots of signs that inflation didn't peak last month. We expect to see more signs of a peak by June and July.

US Economy II: On the Lookout for a Recession. At his May 4 *press conference* following the latest meeting of the FOMC, Fed Chair Jerome Powell reassuringly stated: "I think we have a good chance to have a soft or softish landing …" In an *interview* on Thursday with Marketplace, Powell was much less reassuring: "What we can control is demand, we can't really affect supply with our policies. And supply is a big part of the story here. But more than that, there are huge events, geopolitical events going on around the world, that are going to play a very important role in the economy in the next year or so. So the question whether we can execute a soft landing or not, it may actually depend on factors that we don't control."

The latest data on consumer confidence also are not reassuring. According to the preliminary reading for May, the Consumer Sentiment Index (CSI) fell to 59.1 from 65.2 in April (*Fig. 16*). That's the lowest since August 2011 and well below the pandemic lockdown low of 71.8 during April 2020. How can that be with the unemployment rate down to only 3.6% during April and with unemployment insurance claims averaging just 192,800 during the May 7 week, based on the four-week moving average (*Fig. 17*)? Soaring inflation is clearly weighing on consumer confidence.

Most unsettling is that the expectations component of the CSI, which is included in the Index of Leading Economic Indicators (LEI), was just 56.3 on a preliminary basis during May, not far from March's 54.3, which was the lowest since October 2011. So that bodes poorly for the overall economy. On the other side of the ledger, however, jobless claims—also a component of the LEI—are nice and low.

Movie. “Ozark” (+ + +) (*link*) is a very entertaining crime drama series streaming on Netflix. The series stars Jason Bateman and Laura Linney as Marty and Wendy Byrde, a married couple who moves their family to the Lake of the Ozarks for money laundering. The fourth and final season just ended. Marty and Wendy are your typical married American couple involved with a Mexican drug cartel, the Kansas City mob, the FBI, corrupt local politicians, and a Purdue-like drug company, while doing their best to raise their two teenage kids. Along with Wendy, there are lots of offbeat female characters (like Ruth, Darlene, and Camila) who run rings around the offbeat male characters. The series is a bit reminiscent of “The Sopranos,” but its ending is much better.

Calendars

US: Mon: Empire State Manufacturing Index 17.0; Williams. **Tues:** Retail Sales Total, Core, and Control Group 0.8%/0.3%/0.5%; Headline & Manufacturing Industrial Production 0.4%/0.5%; Capacity Utilization 78.5%; Business Inventories 1.9%; NAHB Housing Market Index 75; Weekly Crude Oil Inventories; Powell; Mester; Bullard. (Bloomberg estimates)

Global: Mon: Eurozone Trade Balance; EU Economic Forecasts; Canada Housing Starts 246.4k; Canada Manufacturing & Wholesale Sales 1.7%/-0.3%; BOE MPC Treasury Committee Hearings; RBA Meeting Minutes; Panetta; Wuermeling; Balz; Mauderer. **Tues:** Eurozone GDP 0.2%q/q/5.0%y/y; France Unemployment Rate 7.4%; Italy CPI 0.2%m/m/6.2%y/y; UK Average Earnings Including & Excluding Bonus 5.4%4.2%; UK Employment Change 3m/3m & Unemployment Rate 5k/3.8%; UK Claimant Count Change -38.8K; Japan GDP -0.4%q/q/-1.8%y/y; Lagarde; Enria; Cunliffe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 2.4% last week in its sixth straight weekly decline and slipped deeper into a correction at 17.1% below its record high on December 27. The index ranked 27th of the 48 global stock markets we follow in a week when just ten of the 48 countries rose in US dollar terms and the AC World ex-US index fell 2.0%, into a bear market at 20.2% below its June 15, 2021 record high. EM Latin America was the best-performing region last week with a gain of 0.3%, ahead of EMU (-0.5), EAFE (-1.5), BIC (-1.7), and EM Eastern Europe (-1.7). EMEA was the biggest underperformer with a decline of 6.7% followed by EM Asia (-2.6). Sri Lanka was the best-performing country last week, rising 13.6%, followed by Argentina (2.0), Jordan (1.6), and Brazil (0.9). Among the 25 countries that underperformed the AC World ex-US MSCI last week, Indonesia's 9.5% decline was the worst, followed by Pakistan (-8.9), Denmark (-6.4), the Philippines (-5.7), and India (-5.4). The US MSCI's ytd ranking remained steady at 27/49, with its 16.6% decline now equal to the 16.6% drop for the AC World ex-US. EM Latin America has risen 5.4% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-83.0), EMEA (-29.3), BIC (-23.9), EMU (-21.4), EM Asia (-19.6), and EAFE (-16.9). The best country performers so far in 2022: Jordan (20.1), Chile (14.5), Brazil (10.3), Colombia (10.1), and Turkey (10.0). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-64.5), Hungary (-35.5), Poland (-32.1), and Austria (-32.0).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week deeper into correction territory. LargeCap fell 2.4%, more than the declines for SmallCap (-1.6%) and MidCap (-2.0). LargeCap is now 16.1% below its record high on January 3. MidCap ended the week 16.5% below its record high on November 16, and SmallCap weakened to 18.9% below its November 8 record high. Just six of the 33 sectors rose last week, compared 13 rising a week earlier and all 33 falling the week before that. SmallCap Consumer Staples was the best performer, with a gain of 3.1%, ahead of MidCap Consumer Staples (1.7), SmallCap Communication Services (1.5), SmallCap Utilities (1.4), and MidCap Utilities (0.8). SmallCap Energy was the biggest underperformer last week with a decline of 6.6%, followed by MidCap Energy (-5.6), MidCap Materials (-4.7), LargeCap Real Estate (-3.9), and LargeCap Financials (-3.6). In terms of 2022's ytd performance, all three indexes are down ytd and LargeCap now lags the most. MidCap is down 14.5% ytd, less than the declines for SmallCap (-15.2) and LargeCap (-15.6). Just three of the 33 sectors are positive so far in 2022, down from five a week earlier. Energy continues to dominate the top performers: LargeCap Energy (44.8), SmallCap Energy (35.9), MidCap Energy (28.5), LargeCap Consumer Staples (-0.3), and LargeCap Utilities (-0.6). The biggest ytd laggards: LargeCap Consumer Discretionary (-26.3), LargeCap Communication Services (-25.3), SmallCap Health Care (-24.2), LargeCap Tech (-22.3), and SmallCap Consumer Discretionary (-21.8).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, and only four outperformed the composite index's 2.4% decline. That compares to a 0.2% decline for the S&P 500 a week earlier, when five sectors rose and five outperformed the index. Consumer Staples was the top performer with a 0.3% gain, followed by Communication Services (-0.2), Health Care (-0.9), and Utilities (-1.3). The worst performers: Real Estate (-3.9), Financials (-3.6), Tech (-3.5), Consumer Discretionary (-3.4), Energy (-2.9), Industrials (-2.6), and Materials (-2.5). The S&P 500 is down 15.6% so far in 2022 with seven sectors ahead of the index, but just one sector in positive territory. The best performers in 2022 to date: Energy (44.8), Consumer Staples (-0.3), Utilities (-0.6), Health Care (-8.9), Materials (-9.1), Industrials (-12.1), and Financials (-14.4). The ytd laggards: Consumer Discretionary (-26.3), Communication Services (-25.3), Tech (-22.3), and Real Estate (-17.0).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.4% last week and deteriorated relative to its 50-day moving average (50-dma). It weakened relative to its 200-day moving average (200-dma) for the 11th time in 14 weeks. The index closed below its 50-dma for a fifth week after four weeks above and closed below its 200-dma for the 12th time in 14 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 fifth week as the index improved on Friday to 7.1% below its falling 50-dma from Wednesday's 25-month low of 9.5% below. That's down from a 27-week high of 4.9% above its rising 50-dma 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 closed Friday at 10.2% below its falling 200-dma, up from Thursday's 25-month low of 12.4% below. The latest reading is down sharply from 10.8% above its rising 200-dma in early November. That 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, unchanged from a week earlier. Energy and Consumer Staples remain the only members in that club. Three sectors have a rising 50-dma, down from four a week earlier as Materials turned down w/w. The remaining members of the rising 50-dma club: Consumer Staples, Energy, and Utilities. Looking at the more stable longer-term 200-dmas, just three sectors are above, 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, also unchanged from a week earlier. The four members of the rising 200-dma club are Consumer Staples, Energy, Materials, Real Estate, and Utilities.

US Economic Indicators

Producer Price Index (*link*): There were some signs in April that price increases are moderating, though rates remain at a high level. The increase in the producer price index for final demand slowed to 0.5% last month, after a record 1.6% increase in March; these prices rose over 1.0% in each of the first three months of the year, by an average of 1.3%. Core prices—which excludes food, energy, and trade services—advanced 0.6% last month, following gains of 0.9% and 0.2% the prior two months, matching its average 0.6% per month increase the first four months of 2022. The yearly rate for the headline measure increased 11.0%, easing slightly from March's record-high 11.5%, while the core rate was at 6.9%—a couple of ticks below March's record rate of 7.1%. The PPI for personal consumption edged up at a 17-month low of 0.1% in April following March's record 1.5% jump—averaging monthly gains of 1.1% the first three months of this year. The yearly rate slowed a bit, to 9.5%, from March's record high of 10.3%, suggesting that April's PCED rate could slow from March's 6.6%—which was the highest since the early 1980s. Prices for final demand goods continued to rise at a rapid rate in April, climbing 1.3%, after gains of 2.4% and 2.2% during March and February, respectively—pushing the yearly rate up to a record-high 16.3%. Meanwhile, prices for final demand services was unchanged in April, after averaging monthly gains of nearly 1.0% the previous five months. Its yearly rate eased to 8.1% from March's record rate of 9.2%. Looking at pipeline prices, pressures remain elevated, though have eased from recent highs. The yearly rate for intermediate goods prices held at 22.0% in April, down from November's 26.5% y/y—which was its highest rate since the mid-1970s. Meanwhile, the yearly rate for crude goods prices accelerated for the second month to 48.2%, after slowing from 59.0% last April (within a tick of its 59.1% record high in April 1973) to 33.7% this February.

Import Prices (*link*): Import prices unexpectedly stabilized in April, reflecting a drop in oil prices. Headline prices were unchanged in April, following a 2.9% jump in March (the highest monthly gain since March 2011) and 6.8% during the three months through March, with the yearly rate slipping to 12.0% from 13.0% in March—which was the highest since July 2011. Imported fuel prices fell 2.4% in April after shooting up 39.2% during the three months through March, with petroleum prices falling 2.9% and rising 42.9%, respectively, over the comparable periods. The former rose 64.3% y/y, while the latter rose 63.0%. Nonpetroleum import prices climbed 0.4% in April, one-third the average monthly gain of 1.2% during Q1, with the yearly rate slowing to 7.8% from 8.2% in March—which was the fastest 12-month pace since mid-1988. Meanwhile, food prices increased 0.9% in April, following average monthly gains of 1.8% during Q1, with the yearly gain easing for the second month to 12.1% from 15.7% in February, which was the highest since July 2011. The yearly rate for industrial supplies & materials imports slowed to 35.2% in April from its record high of 55.2% in May 2021. The rate for capital goods has been on an accelerating trend since bottoming at -2.0% y/y in November 2019, climbing to 3.8% this April—which is the highest since fall 1992. The rate for consumer goods ex autos (3.1% y/y) barely budged from March's 3.2%, which was the highest since the end of 2011, while the rate for autos & parts (3.0) held steady at its highest rate since February 2012.

Consumer Sentiment Index (*link*): Consumer sentiment sank to an 11-year low in mid-May, with both the present situation and expectations components heading south and the former dropping to its lowest level since March 2009. Meanwhile, on an encouraging note, both the one-year (5.4%) and five-year (3.0) mid-May expected inflation rates continued to move sideways. The Consumer Sentiment Index sank 6.1 points in mid-May to 59.1, more than reversing April's 5.8-point rebound, dropping to its lowest level since August 2011; it's considerably below its pre-pandemic reading of 101.0. The present situation component dropped for the fourth time this year, by 5.8 points this month and 10.6 points over the period to 63.6. The expectations component contracted 6.2 points to 56.3 in mid-May after rebounding 8.2 points in April from the 14.0-point drop the first three months of this year. The present situation and expectations components were at 114.8 and 92.1, respectively, during February 2020. Joanne Hsu, the survey's director notes that the decline in sentiment this month was "broad-based and visible across income, age, education, geography, and political affiliation, continuing the general downward trend in sentiment over the past year." Higher prices pushed buying conditions for durable goods to its weakest reading since the question was first asked in 1978.

Global Economic Indicators

Eurozone Industrial Production (*link*): Headline production, which excludes construction, declined for the second time this year in March, contracting 1.8%, following a 0.5% gain and a 0.8% loss the prior two months—continuing to bounce in a volatile flat trend. There was a sea of red in March, with output of capital goods (-2.7%), consumer nondurable goods (-2.3) intermediate goods (-2.0), and energy (-1.7) all posting notable declines and only consumer durable goods (0.8) production in the plus column. Overall production was 0.6% below pre-pandemic levels, with both consumer durable (6.8%) and nondurable (4.7) goods output above, while energy (-5.0) and capital goods (-3.5) output were below; intermediate goods production was back at its pre-Covid level. Production data are available for the top four economies for March—with three of the four taking a step back. Here's how they performed during March and relative to their pre-pandemic levels: Italy (0.0% & +2.7%), France (-0.5 & -5.4), Spain (-1.8 & -1.2), and Germany (-5.0 & -9.4).

UK GDP (*link*): Real GDP stalled in both February and March, while inflation soared to a 30-year high of 7.0%. Real GDP ticked down 0.1% in March following no growth in February, first reported as a 0.1% uptick. March's downtick reflects a drop in car sales due to supply-chain problems. Growth expanded 0.8% (not annualized) during Q1—boosted by a 0.7% January gain. Worth noting, even with the recent weakness, real GDP was 0.7% above its Q4-2019 level just before the pandemic. Real GDP expanded 3.0% (saar) during Q1, boosted by strong growth in real gross fixed capital formation (23.4%, saar), while real household consumption (2.2) posted a moderate gain. Meanwhile, trade was a big drag on Q1 real GDP growth—posting its largest gap since records began in 1955—with real exports sinking 18.3% (saar) and imports soaring 42.7%. Real government spending also subtracted from growth, contracting an annualized 6.7%.

UK Industrial Production (*link*): Production contracted for the second month in March, by 0.2% m/m and 0.5% over the period, with manufacturing output declining 0.3% and 0.8% over the comparable periods. That followed three-month increases for both of 2.3% and 2.7%, respectively. Headline production was 1.6% below its pre-pandemic level in March, while manufacturing was 1.0% below. Meanwhile, two of the four remaining production sectors—mining & quarrying (-13.7%) and electricity & gas (-6.0)—were also below pre-pandemic levels, while water supply & sewage (8.2) was above. Looking at the main industrial groups, intermediate goods production moved back toward January's record high, recovering 0.3% in March from February's 0.8% slide. Output of capital goods expanded 1.1% after contracting 2.8% in February, bouncing in a volatile flat trend over the past 14 months. Meanwhile, consumer durable goods production remained on a volatile uptrend, climbing 2.1% in March to within 0.8% of January's 26-month high, while production of consumer nondurable goods sank to an 11-month low—6.1% below its record high at the end of last year.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102

Copyright (c) Yardeni Research, Inc. Please read complete copyright and hedge clause.