MORNING BRIEFING
June 6, 2022

Altitude Sickness

Check out the accompanying chart collection.

Executive Summary: As analysts' earnings estimates have scaled new heights this year, investors have experienced valuation altitude sickness, which may soon be resolved by the drop in P/Es since the start of the year. Or it may resolve in a much more sickening fashion if a recession sends earnings expectations—and valuations—hurtling downward. …. A recession still isn't our base case; we give it 40% odds. Notably, our forecasts for S&P 500 earnings and price targets assume that no recession is coming anytime soon. … To us, the latest economic indicators suggest a slowly growing economy headed for a soft landing, not a hard one. … Also: Wage inflation may be peaking.

YRI Monday Webcast. Join Dr. Ed's live Q&A webinar on Mondays at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Dr. Ed's presentation lasts about 15 minutes with another 15 minutes for Q&A. Replays of the Monday webinars are available *here*. You can view a replay of Dr. Ed's recent one-hour webcast on "Predicting Inflation" *here*.

Strategy: Is the Valuation Correction Over? My wife and I visited Yellowstone National Park on Tuesday and Wednesday of last week. My hiking endurance was limited by a touch of altitude sickness. The park is over 7,000 feet above sea level. My wife had no problems with the altitude. On the other hand, I felt fine when we took a tram 10,000 feet above sea level at Jackson Hole, Wyoming on Thursday, while my wife experienced a bit of discomfort that high up. We both felt fine on Saturday at the Grand Tetons National Park, which is more than 6,300 feet above sea level.

The S&P 500 has been struggling with altitude sickness since the start of this year (*Fig. 1*). It is down 14.3% since its record high on January 3 through Friday's close.

The S&P 500's altitude issue has been entirely attributable to the index's elevated valuation multiple. The question is whether it has declined enough to cure the market's height anxiety. Joe and I think so, but the answer depends on whether analysts' consensus earnings forecasts for the S&P 500 will continue to climb to dizzying new record heights or whether they'll get knocked down by a recession. In an earnings recession scenario, there would also be more downside in store for the valuation multiple. Consider the following:

(1) *S&P 500 forward P/E.* Investors have been reducing the elevation of the S&P 500's elevated valuation multiple since September 2, 2020, when the forward P/E peaked at 23.2 (*Fig. 2*). It fell to 21.4 at the beginning of this year and to a recent low of 16.4 on May 19. It closed at 17.4 on Friday.

(FYI: "Forward P/E" is the P/E using forward earnings. "Forward earnings" and "forward revenues" are the time-weighted averages of industry analysts' consensus per-share estimates for this year and next. We calculate "forward margins" from forward earnings and revenues.)

(2) *S&P 500 median forward P/E.* On a monthly basis, the S&P 500's forward P/E exceeded the index's median forward P/E during the second half of 2020 through the end of 2021 (*Fig. 3*). They both declined and converged through May, with the former down to 17.5 and the latter down to 17.9. Both are relatively high even in a no-recession scenario given that that Fed tightening cycle has a ways to go.

(3) *S&P 500 forward P/S.* Also still very high is the ratio of the S&P 500 stock price index to its forward revenues. This forward price-to-sales ratio (P/S) peaked at a record 2.88 on January 3 and fell to this year's low of 2.21 on May 19 (*Fig. 4*). It closed at 2.33 on Friday.

The forward P/S and forward P/E ratios are highly correlated, since forward earnings equals forward revenues times the forward profit margin, which has been rising to new record highs since April 29, 2021, thus boosting the forward P/E relative to the forward P/S (*Fig. 5* and *Fig. 6*).

(4) *New highs.* The valuation correction has weighed on both the forward P/S and P/E ratios this year even though both forward revenues and forward earnings have been in V-shaped rebounds since their post-lockdown lows in 2020. Both have been rising to new highs since March 4, 2021.

A recession would force industry analysts to slash their revenues estimates. Their earnings estimates would fall even faster since their profit margin assumptions would have to be reduced significantly in a recession scenario. The negative impact on stock prices would be amplified by further declines in the forward P/E. That's how bear markets almost always play out.

We raised the odds of a recession from 30% to 40% in our May 25 *Morning Briefing*. So a recession is still not our base case. That's why we are forecasting a forward P/E range of

15.0-17.0 for this year and 16.0-18.0 for next year. In a recession scenario, one or both of those ranges would be much lower. We are also projecting that S&P 500 earnings per share will rise (not fall) this year to $225 (up 7.9% y/y) and to $240 next year (up 6.7%). In a recession scenario, one or both would be falling.

In the following section, we look at the latest batch of economic indicators and conclude that they don't indicate a recession, on balance, at this time.

(5) *Rule of 20.* While we are on the subject, one simple model of valuation, the Rule of 20, posits that the S&P 500's P/E should be around 20.0 minus the CPI inflation rate on a y/y basis. Previously, we've shown that there has been a reasonably good (but not great) inverse correlation between the inflation rate and the S&P 500's valuation multiple, using the P/E based on four-quarter reported trailing earnings from 1935 to1978 and then forward earnings thereafter (*Fig. 7*).

Subtracting 20.0 from the inflation rate shows that there is a good (but not great) coincident relationship between the composite actual P/E since 1935 and the P/E constructed based on the Rule of 20 (*Fig. 8*). We are glad that there isn't any science behind the Rule of 20 since the headline CPI inflation rate was 8.3% during April, near May's 8.5%—which was the highest since December 1981—implying a P/E of just 11.7.

(6) *Misery Index.* By the way, since 1948, there also has been an inverse correlation between the S&P 500's composite P/E and the Misery Index, which is the sum of the CPI inflation rate and the unemployment rate (*Fig. 9*). The Misery Index was 12% during April, a relatively high reading but well below its 15%-22% readings during the Great Stagflation of the 1970s when P/Es fell below 10.0. While inflation has surged over the past year toward the high rates recorded back then, the unemployment rate remains near its historical record lows (*Fig. 10*).

US Economy I: Still Growing Slowly. Recessions cause bear markets because they depress both corporate earnings and investors' valuation of those earnings.

At the start of bear markets, they're indistinguishable from corrections. Corrections occur when investors depress the valuation multiple that they're willing to pay for expected earnings because the odds of a recession are increasing. The valuation deterioration is recognized as just a correction after it's over and the recession hasn't unfolded as feared. If a recession does occur, industry analysts scramble to cut their earnings estimates and investors whack the valuation multiple even lower. If as a result the S&P 500 price index is knocked down 20% lower measured from the peak, we have a bear market.

The S&P 500's composite P/E has fallen below 15.0 during 14 of the 15 recessions since 1935 (*Fig. 11*). While we recently raised the odds of a recession, we still aren't convinced it is coming anytime soon; we currently see more signs confirming a soft rather than a hard landing for the economy. Here are the latest ones:

(1) *Employment and income.* Our Earned Income Proxy (EIP) for private wages and salaries in personal income increased 0.6% m/m during May, as payroll employment rose 0.3%, the average workweek was flat, and average hourly earnings rose 0.3%. Our EIP is up 9.6% y/y, outpacing April's headline PCED inflation rate of 6.3%. In any event, the labor market remains tight as the ratio of April's job openings to the month's unemployed workers remained very high at 1.9.

(2) *Consumer spending.* Notwithstanding the lackluster gains in real personal income, real consumer spending (saar) rose 3.1% during Q1 and is on pace to grow at 4.4% during Q2, according to the Atlanta Fed's *GDPNow* tracking model as of June 1. That's the case even though new motor vehicles sales fell 12.1% m/m to 12.8 million units (saar) during May (*Fig. 12*).

Consumers seem to be pivoting from spending on goods to spending on services. Helping to offset the weakness in real incomes is that personal saving over the 24 months through April totaled $2.3 trillion, exceeding the comparable pre-pandemic pace by about $1.0 trillion (*Fig. 13*). This is consistent with the June 1 comment made by JPMorgan Chase CEO Jamie Dimon that "fiscal stimulation is still in the pocketbooks of consumers. They are spending it."

(3) *Capital spending.* Business spending is also holding up quite well. The regional business surveys conducted by five district Federal Reserve Banks have been showing some slowing in current and future capital spending but suggest that such activity continues to grow (*Fig. 14*).

(4) *Business surveys.* May's national M-PMI remained solid at 56.1 (*Fig. 15*). However, its employment index was weak, and its new orders index has been weakening. The comparable averages of the regional business surveys conducted by the Fed district banks also showed some weakness for overall business activity and new orders, while their employment indexes remained strong.

(5) *Recessionary indicators.* Currently, among the most recessionary indicators are housing-related ones. Mortgage applications for home purchases have been tumbling since the start of this year as the combination of record-high home prices and surging mortgage rates has depressed housing affordability and demand (*Fig. 16*).

Also depressed is the Consumer Sentiment Index (CSI), which is very sensitive to inflationary pressures, especially rising gasoline prices (*Fig. 17*). The CSI dropped to 58.4 during May, a reading consistent with past recessions. The national pump price is soaring along with the nearby price of a barrel of Brent crude oil, which rose to $119.66 on Friday.

US Economy II: Wage Inflation May Be Peaking. Friday's employment report suggested that wage inflation may be starting to moderate. Average hourly earnings for all workers rose 5.2% y/y through May (*Fig. 18*). But the 3-month annualized pace was 4.4%. That's the fourth month in a row that the 3-month inflation rate has been below the 12-month rate.

On the other hand, the comparable comparisons are mixed for the various major industries through May: leisure & hospitality (10.3%, 8.9%), education & health services (5.7, 2.2), retail trade (4.7, 3.4), wholesale trade (4.2, 2.9), nondurable goods manufacturing (3.6, 0.6), other services (3.2, -1.7), natural resources (2.9, -0.8), financial activities (2.3, 2.3), professional & business services (6.6, 6.7), transportation & warehousing (7.8, 8.7), utilities (5.9, 10.6), construction (5.6, 6.9), durable goods manufacturing (4.5, 5.3), information services (3.4, 4.8), and natural resources (2.9, -0.8).

Calendars

US: Mon: None. **Tues:** Trade Balance -$89.3b; Consumer Credit $34.5b; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Japan Household Spending -0.8%m/m/1.3%y/y. **Tues:** Eurozone Sentix Investor Confidence -20.0; Germany Factory Orders 0.5%; Spain Industrial Production 2.7% y/y; UK C-PMI & NM-PMI 51.8/51.8; Japan GDP -0.3%q/q/-1.0%y/y; Japan Leading & Coincident Indicators; 3.0b; Trade Balance $RBA Interest Rate Decision 0.60%. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*):The US MSCI index fell 1.2% last week for its eighth drop in nine weeks. The index had narrowly averted a bear market on May 19 when it ended 19.7% below its record high on December 27. It finished Friday at 15.4% below its record. The US MSCI ranked 33rd of the 48 global stock markets we follow in a week when 23 of the 48 countries rose in US dollar terms and the AC World ex-US index rose 0.4% to 16.3% below its June 15, 2021 record high. EM Asia and BIC were the best-performing regions last week with gains of 2.2%, ahead of EM Eastern Europe (2.1) and EMEA (1.3). EM Latin America was the biggest underperformer with a decline of 1.9% followed by EMU (-0.7) and EAFE (-0.3). Colombia was the best-performing country last week, rising 8.5%, followed by Hungary (8.3), New Zealand (4.7), and the Czech Republic (3.8). Among the 27 countries that underperformed the AC World ex-US MSCI last week, Pakistan's 5.4% decline was the worst, followed by Argentina (-4.0), Mexico (-3.7), and Egypt (-3.5). In May, the US MSCI dropped 0.4% for its fourth decline in five months, underperforming the AC World ex-US's 0.3% gain and ranking 30/48 as 28/48 countries moved higher. Chile was the best performer in May, with a gain of 18.0%, followed by Colombia (13.4), Sri Lanka (11.6), and Brazil (6.2). The worst-performing countries in May: Pakistan (-16.9), Hungary (-15.6), Egypt (-8.0), and Turkey (-6.8). EM Latin America rose 6.5% in May, ahead of EMU (1.0) and the AC World ex-US (0.3). EMEA (-6.3) was May's worst-performing region, followed by BIC (-0.5), EM Eastern Europe (-0.2), EAFE (0.2), and EM Asia (0.2). The US MSCI's ytd ranking dropped four spots w/w to 30/49, with its 14.9% decline remaining wider than the 12.5% drop for the AC World ex-US. EM Latin America has risen 14.5% ytd and is the only region outperforming the AC World ex-US. The laggards: EM Eastern Europe (-81.8), EMEA (-29.9), BIC (-18.8), EMU (-17.3), EM Asia (-14.7), and EAFE (-13.1). The best country performers so far in 2022: Chile (33.6), Colombia (31.6), Jordan (20.9), Brazil (20.1), and Peru (11.0). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-62.9), Hungary (-36.4), Egypt (-35.3), Pakistan (-31.5), and the Netherlands (-27.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes soared moved lower last week. SmallCap dropped 0.4%, less than the declines for MidCap (-0.7%) and LargeCap (-1.2). LargeCap is now 14.3% below its record high on January 3. MidCap ended the week 13.4% below its record high on November 16, and SmallCap stayed out of bear market territory for a second week at 15.2% below its November 8 record high. Eight of the 33 sectors rose last week, down from all 33 rising a week earlier. MidCap Energy was the best performer, with a gain of 2.5%, ahead of SmallCap Energy (2.2%), LargeCap Energy (1.2) and SmallCap Industrials (1.2). LargeCap Health Care (-3.1) was the biggest underperformer last week, followed by MidCap Real Estate (-2.5), LargeCap Real Estate (-2.2), MidCap Materials (-2.2), and SmallCap Communication Services (-2.2). During May, SmallCap rose 1.7%, well ahead of the 0.6% rise for MidCap and LargeCap's flat performance. Twenty of the 33 sectors rose in May, up from just two rising during April, which was the lowest count since February 2020. May's best performers: SmallCap Energy (15.6), LargeCap Energy (15.0), MidCap Energy (11.1), and MidCap Utilities (6.8). May's biggest laggards: MidCap Real Estate (-5.2), LargeCap Real Estate (-5.1), LargeCap Consumer Discretionary (-4.9), and LargeCap Consumer Staples (-4.7). In terms of 2022's ytd performance, all three indexes are down ytd, and LargeCap continues to trail the "SMidCaps" in the performance derby. SmallCap and MidCap are both down 11.3% ytd, less than the decline for LargeCap (-13.8). Just seven of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: SmallCap Energy (68.4), LargeCap Energy (60.1), MidCap Energy (51.7), LargeCap Utilities (3.3), and MidCap Utilities (2.9). The biggest ytd laggards: LargeCap Consumer Discretionary (-25.5), LargeCap Communication Services (-25.1), SmallCap Consumer Discretionary (-23.3), SmallCap Health Care (-22.1), MidCap Consumer Discretionary (-20.1), and LargeCap Tech (-20.1).

S&P 500 Sectors and Industries Performance (*link*): Just one of the 11 S&P 500 sectors rose last week, and six outperformed the composite index's 1.2% decline. That compares to a 6.6% surge for the S&P 500 a week earlier, when all 11 sectors rose and four outperformed the index. Energy was the top performer with a 1.2% gain, followed by Industrials (0.0%), Consumer Discretionary (0.0), Communication Services (-0.1), Materials (-1.0), and Tech (-1.1). The worst performers: Health Care (-3.1), Real Estate (-2.2), Financials (-2.1), Consumer Staples (-1.7), and Utilities (-1.4). The S&P 500 edged up just a hair above a flat performance in May, a welcome reprieve from April's 8.8% decline. Six sectors moved higher during May and beat the broader index. That compares to one rising in April, when seven beat the S&P 500's decline. The leading sectors in May: Energy (15.0), Utilities (3.8), Financials (2.6), Communication Services (1.8), Health Care (1.3), and Materials (1.0). May's laggards: Real Estate (-5.1), Consumer Discretionary (-4.9), Consumer Staples (-4.7), Tech (-1.0), and Industrials (-0.8). The S&P 500 is down 13.8% so far in 2022 with seven sectors ahead of the index, but just two in positive territory. The best performers in 2022 to date: Energy (60.1), Utilities (3.3), Materials (-4.8), Consumer Staples (-5.0), Health Care (-8.1), Industrials (-10.0), and Financials (-11.1). The ytd laggards: Consumer Discretionary (-25.5), Communication Services (-25.1), Tech (-20.1), and Real Estate (-15.6).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 1.2% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed below its 50-dma for an eighth week after four weeks above and closed below its 200-dma for the 15th time in 17 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 an eighth week as the index dropped to 3.1% below its falling 50-dma from 2.7% below a week earlier. Still, that's up from a 26-month low of 9.5% below on May 19 and compares to 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 7.7% below its falling 200-dma, down from 6.8% below a week earlier and up from a 26-month low of 12.8% below on May 19. 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*): Just three of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from a week earlier. Energy, Materials, and Utilities are the only members in that club. Two sectors have a rising 50-dma, down from four a week earlier as Consumer Staples and Materials turned down w/w and left Energy and Utilities as the only members of the rising 50-dma club. Looking at the more stable longer-term 200-dmas, three sectors are above, down from five a week earlier as Consumer Staples and Health Care turned negative and left Energy, Materials, and Utilities as the only sectors above their 200-dmas. 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, unchanged from a week earlier: Consumer Staples, Energy, Materials, and Utilities.

US Economic Indicators

Employment (*link*): Payroll employment in May advanced 390,000, below last year's average monthly gain of 562,000 and the 513,000 average the first four months of this year. Meanwhile, jobs growth was revised slightly higher in April (to 436,000 from 428,000) and lower in March (398,000 from 428,000), for a net loss of 22,000 over those months. Private payrolls advanced 333,000 (nearly triple ADP's 128,000)—the slowest pace since April 2021—while revisions to April (405,000 from 406,000) and March (385,000 from 424,000) payrolls show a net loss of 40,000. Total payroll employment has recovered 21.2 million jobs since bottoming in April 2020, though is still 822,000 below its pre-pandemic level. Job gains in service-providing industries increased 274,000 in May, a 13-month low and slowing considerably from the 525,000 average gain the first two months of the year. Goods-producing jobs advanced 59,000 in May, slowing steadily from February's 114,000 increase. Industries posting the largest gains during May were leisure & hospitality (84,000), professional & business services (75,000), transportation & warehousing (47,000), construction (36,000), and health care (28,000). As for education jobs, both state government (36,000) and private (33,000) payrolls posted solid gains. Here's a tally of where industries stand relative to their February 2020 pre-pandemic levels: professional & business services (+821,000), transportation & warehousing (+709,600), retail trade (+159,000), financial activities (+78,000), information services (+64,000), nondurable goods manufacturing (+58,000), construction (+40,000), education (-800), wholesale trade (-41,100), mining & logging (-68,000), durable goods manufacturing (-75,000), health care (-222,600), and leisure & hospitality (-1.3 million).

ADP Employment (*link*): "Under a backdrop of [a] tight labor market and elevated inflation, monthly job gains are closer to pre-pandemic levels," said Nela Richardson, chief economist, ADP. "The job growth rate of hiring has tempered across all industries, while small businesses remain a source of concern as they struggle to keep up with larger firms that have been booming as of late." Private payroll employment increased only 128,000 (vs the 300,000 consensus forecast) in May—the weakest since April 2020—after climbing a downwardly revised 202,000 (from 247,000) in April. Payrolls averaged monthly gains of 557,000 the first two months of the year. Employment gains in both goods-producing (24,000) and service-providing (104,000) industries slowed dramatically from their average monthly gains of 82,000 and 475,000, respectively, during the first two months of 2022. Manufacturing payrolls increased 22,000 in May, accounting for nearly the entire gain in goods-producing payrolls, though was half the Q1 average monthly gain of 44,000. The biggest gains in service-providing payrolls occurred in health care & social assistance (41,000), professional & technical services (19,000), leisure & hospitality (17,000), and financial activities (10,000). Here's a tally of industry performances relative to their pre-pandemic levels: trade transportation & utilities (+725,000), professional & technical services (+515,000), construction (+277,000), administrative & support services (+199,000), manufacturing (+67,000), health care & social assistance (+97,000), financial activities (+65,000), education (-18,000), information services (-47,000), management of companies

& enterprises (-48,000), natural resources & mining (-60,000), other services (-190,000), and leisure & hospitality (-579,000). Here's the same exercise by company size: medium (+445,000), large (+383,000), and small (+175,000), with small-business jobs falling for the third time in four months, by 92,000 in May and 278,000 over the period.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 24th increase in the past 25 months—up 0.6% in May and 28.3% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.8% the past 15 months. In May, both average hourly earnings and aggregate weekly hours increased 0.3%. Over the past 12 months, our EIP was up 9.6%—with aggregate weekly hours up 4.4% and average hourly earnings up 5.2%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): May's unemployment rate remained unchanged at 3.6% for the second month, 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 ticked up to 62.3% after ticking down from 62.4% (highest since March 2020) to 62.2% in April; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. By race, unemployment rates were mixed, with the rate for Asian Americans (to 2.4% from 3.1%) falling to its lowest rate since mid-2019, while the rate for Whites was at 3.2% for the third month, down from 5.1% a year ago. The rate for African Americans moved up to 6.2% last month after falling to 5.9% in April—which was close to its record low of 5.4% recorded during August and September 2019—while the rate for Hispanics climbed from 4.1% to 4.3% last month, holding close to its record low of 4.0%. By education, those with less than a high school degree slipped to 5.2% in May, after rising the prior two months from a record low of 4.3% in February to 5.4% in April, while the rate with those with a high school degree was unchanged at 3.8% (the lowest since February 2020)—not recording an increase in 13 months. The rate for those with a bachelor's degree and higher was at 2.0% for the third month in May—the lowest since February 2020's 1.9%, and not far from its record low of 1.5% during 2000. Meanwhile, the rate for those with some college rose for the second month to 3.4%, after sinking from 3.8% to 3.0% in March; it's only a percentage point above its all-time record low of 2.4%.

Wages (*link*): Average hourly earnings for all workers in May increased for the 16th straight month, climbing 0.3% for the second straight month, after averaging monthly gains of 0.5% the prior 12 months. The yearly rate slowed for the second month to 5.2% y/y, after accelerating to a 22-month high of 5.6% in March, considerably below April's 8.3% increase in the CPI, which eased from March's 8.5%. (May CPI data will be released on June 10.)

Private industry wages over the three months through May increased 4.4% (saar)—below its yearly rate (5.2%) for the fourth successive month. The three-month rate for goods-producing (4.8%, saar) industries virtually matched its 4.7% yearly rate, while the three-month rate for service-providing industries (4.6) was roughly a percentage point below its yearly rate of 5.4%. Within goods-producing, the three-month annualized rates through May for two industries were below their yearly rates, natural resources (-0.8% 3m/3m & 2.9% y/y) and nondurable goods manufacturing (0.6 & 3.6), while the three-month rates for durable goods manufacturing (5.3 & 4.5) and construction (6.9 & 5.6) were above. Here's the same drill for service-providing industries: the three-month rates were below their yearly rates for other services (-1.7 & 3.2), education & health services (2.2 & 5.7), wholesale trade (2.9 & 4.2), retail trade (3.4 & 4.7), and leisure & hospitality (8.9 & 10.3). Meanwhile, the three-month annualized rate for financial activities (2.3) matched its yearly rate, while that for professional & business services' (6.7 & 6.6) was just a tick above its yearly rate. Three-month annualized rates for the following industries exceeded their y/y rates: utilities (10.6 & 5.9), transportation & warehousing (8.7 & 7.8), and information services (4.8 & 3.4).

US Non-Manufacturing PMIs (*link*): The service sector unexpectedly slowed for a second month in May, as "Covid-19 continues to disrupt the services sector, as well as the war in Ukraine," notes Anthony Nieves, chair of the survey. "Labor is still a big issue, and prices continue to increase." The NM-PMI slipped to a 15-month low of 55.9 in May from 58.3 in March; it was at record high of 68.4 in November. Meanwhile, the prices-paid measure (to 82.1 from 84.6) measure eased a bit in May from April's record high. The four components that compose the NM-PMI were a mixed bag: Business activity (to 54.5 from 59.1) grew at its slowest rate in two years; new orders (57.6 from 54.6) growth accelerated; employment (50.2 from 49.5) moved back above the breakeven point of 50.0, after bouncing around that demarcation line early this year; and supplier deliveries fell (61.3 from 65.1). Regarding supplier deliveries, the report noted continued "broad-based supply chain bottlenecks," with lead times quadruple what they normally are.

Auto Sales (*link*): Auto sales in May slumped to 12.8mu (saar) from 15.2mu at the start of this year. 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 fell to 7.9mu (saar) in May from 8.9mu in April and 9.4mu at the start of this year; these sales were at 11.0mu last April. Meanwhile, domestic car sales continue to bounce around 2.0mu, falling from 2.2mu to 1.9mu (saar) last month, not far from its 1.4mu record low during the pandemic. Sales of imports averaged 3.4mu over the first five months of this year, with a high of 3.8mu and a low of 3.0mu and May's sales pace the low point.

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