MORNING BRIEFING
June 8, 2022

Whip Inflation Now!

Check out the accompanying chart collection.

Executive Summary: There's no disputing it anymore: America's inflation problem isn't transitory. It has been persistent. The question now is whether it is protracted or not. Biden's response to "our top economic challenge" is lame. … On a brighter note, we expect the release of May's CPI report on Friday to show that consumer durable goods inflation is rapidly moderating. On a dimmer note, that positive should be partially offset by the unabated climb of prices for gasoline, groceries, and rent. … Also: Europe's economy has been remarkably resilient in the face of its formidable challenges. Melissa examines the headwinds and tailwinds for Europe's economy and MSCI index.

Inflation I: Biden's WIN Plan. May's CPI will be released on Friday. It is unlikely that investors will be released from their fear of inflation even if it continues to show more signs of peaking. A year ago, inflation was widely viewed as transitory. By the end of last year, it was widely viewed as a persistent problem. Now it is widely viewed as a protracted one. That's certainly been the evolution of thinking about inflation by Fed officials, including a certain former one.

Former Fed chair and current Treasury Secretary Janet Yellen recently *acknowledged* that she had misjudged how long high inflation would plague consumers when she said in 2021 that it represented only "a small risk." When asked about those comments by CNN's Wolf Blitzer on May 31, she said, "I think I was wrong then about the path that inflation would take. … [T]here have been unanticipated and large shocks to the economy that have boosted energy and food prices and supply bottlenecks that have affected our economy badly that I didn't—at the time—didn't fully understand, but we recognize that now." (Yellen didn't acknowledge that she had been trained as an inflation-prone Keynesian economist under Professor James Tobin at Yale University. I did too, but I got over it.)

President Joe Biden also recently acknowledged that inflation is a more protracted problem (and a greater political risk to his administration and the Democratic Party) than he and his advisors previously had thought. On Monday, May 30, the President wrote a *WSJ* op-ed titled "Joe Biden: My Plan for Fighting Inflation." He started by blaming "Vladimir Putin's war in Ukraine" and supply-chain issues for most of the problem. He then took credit for the strong economic recovery since the lockdown recession of 2020. He did not acknowledge that his administration's excessively stimulative fiscal and monetary policies were a major reason that inflation has been protracted. He then listed three parts to what I call his whip-inflation-now (WIN) plan:

(1) *The Fed.* First and foremost, he assigned the job of bringing inflation down to the Fed, which "has a primary responsibility to control inflation." Obviously, Fed officials haven't been very responsible. In any event, the President wrote, "I agree with their assessment that fighting inflation is our top economic challenge right now."

(2) *Supplies and prices.* To lower the price of gasoline, Biden wrote that he "led the largest release from global oil reserves in history." It obviously hasn't worked so far since the price of gasoline continues to soar to record highs. He called on Congress to pass "clean energy tax credits and investments" that he proposed to "accelerate our transition from energy produced by autocrats." He then briefly listed a mixed bag of ways to lower prices.

(3) *The deficit.* Biden inadvertently acknowledged that his policies might have swelled the federal deficit and boosted inflation: "Third, we need to keep reducing the federal deficit, which will help ease price pressures." But then he took credit for the remarkable narrowing of the federal deficit from a 12-month record high of $4.1 trillion through March 2021 to $1.2 trillion through April of this year.

Biden wrote, "In addition to winding down emergency programs responsibly, about half the reduction is driven by an increase in revenue—as my economic policies powered a rapid recovery." He didn't acknowledge that the increase in revenues was boosted by the jump in inflation that his policies caused, leaving inflation-adjusted disposable personal income down 6.2% y/y through April (*Fig. 1* and *Fig. 2*). (To be fair, income was still boosted a year ago by government support payments. On the other hand, the headline CPI inflation rate on a y/y basis is up from 4.2% a year ago to 8.3% through April of this year.)

Inflation II: May's CPI Report Is Coming. On Friday, we might learn from May's CPI report that inflation is eroding consumers' purchasing power at a slower pace. However, there is likely to be little relief in the costs of gasoline, groceries, and rent.

So far this year, the headline CPI inflation rate peaked at 8.5% y/y during March (*Fig. 3*). It was down to 8.3% during April. The core CPI inflation rate peaked at 6.5% so far this year during March. It was down to 6.2% during April. Confirming the peaking scenario was April's PPI for personal consumption excluding food and energy, which tends to be a leading indicator for the core CPI inflation rate (*Fig. 4*). The former peaked at 8.0% during March and fell to 7.1% during April.

Debbie and I continue to expect that rapidly moderating consumer durable goods inflation will be partially offset by rising prices of gasoline, groceries, and rent. Here is what we know so far about some of these items:

(1) *Durable goods and used cars.* April's CPI for durable goods rose 14.0% y/y, while its 3-month annualized rate fell 1.7% through the month, suggesting rapidly easing inflationary pressures in this category (*Fig. 5*).

Within April's CPI, used cars & trucks prices rose 22.7% y/y but fell 17.6% on a 3-month basis through April. The *Manheim Index* for wholesale used-vehicle prices (on a mix, mileage, and seasonally adjusted basis) increased 0.7% m/m and 9.7% y/y in May (*Fig. 6*). The y/y rate might seem quite high, but it is a significant decline from the 45.0% y/y rate at the start of this year.

Also showing signs of moderating in recent months have been CPI prices for household furniture & bedding, with April's reading up 15.0% y/y but up less, at 8.7%, on a 3-month basis. Given the unfolding housing recession, the price rises of housing-related durable goods should continue to moderate, including those for household major appliances, which remained high in April at 12.1% y/y and 18.5% on a 3-month basis.

(2) *Nondurable goods and gasoline.* Food and energy account for 55% of personal consumption expenditures (PCE) on nondurable goods and only 12% of the total PCE (*Fig. 7*). Economists often exclude these two categories from the CPI because they are very volatile. However, in an inflationary environment, they can have an outsized impact on inflationary expectations since most people have to eat and drive somewhere every day. The price of a gallon of gasoline is the most widely publicized price in our country.

During April, the CPI for commodities excluding food and energy rose rose 9.7% y/y and 0.8% on a 3-month annualized basis (*Fig. 8*). Food inflation was 9.4% y/y and 11.6% on a 3-month basis. Energy inflation was 30.3% y/y and 47.1% on a 3-month basis.

The weekly national pump price of a gallon of gasoline continues to soar to record highs, jumping to $4.98 on Monday (*Fig. 9*). On a yearly percent change basis, it almost perfectly tracks the CPI for gasoline on the same basis (*Fig. 10*). The weekly price was up 12.3% during May, after little change in April following March's 17.1% jump.

(3) *Services and rent.* Rent of primary residence (a.k.a. tenant rent) and owners' equivalent rent (OER) account for 7% and 24% of the headline CPI, 9% and 31% of the core CPI, and

12% and 40% of CPI services. They track one another closely since OER is based on survey data asking a sample of homeowners to estimate the rent they would have to pay to live in their homes (*Fig. 11*).

The CPI tenant rent is based on all outstanding leases, not just new leases. New lease rents will show up in the CPI over the coming 12-24 months depending on the renewal terms of those leases. We have data compiled by Zillow on new leases since January 2015 (*Fig. 12*). The new lease rental rate soared to 16.4% y/y during April, well above the CPI tenant rent increase of 4.8% through April. Rent inflation in the CPI has only one way to go for the foreseeable future: higher!

Of course, plenty of other components of CPI services might remain troublesome for at least another few months. Now that American consumers are pivoting from spending on goods to spending on services, the CPIs are soaring on a y/y and 3-month basis for airfares (33.3%, 152.1%), car & truck rentals (10.4, 66.6), and lodging away from home (19.7, 29.4) (*Fig. 13*).

Europe: Tailwinds & Headwinds. Europe's economy remains resilient despite the toll that Russia's war in Ukraine is taking on the economies of eastern European countries. Input price pressures, already heightened by the pandemic, are spilling over into consumer prices and straining consumer confidence. Europe's transition to less reliance on Russian oil and gas likely will strain prices further over the near term.

The economy's resilience even in the face of that major headwind reflects several winds at its back, including the lifting of Covid restrictions in many European countries, the savings power that European consumers amassed during lockdowns, and the economy's historically low unemployment rate. These are likely to prevent Europe from succumbing to a recession. However, Europe's economic resilience soon will be tested by a more hawkish European Central Bank (ECB).

Nevertheless, European stocks have taken such a beating that now may be the time to overweight them in portfolios with long-term investment horizons. After all, the war will end at some point, global supply chains eventually will find ways to work around the shortages, and the world is learning to live with the virus. It helps that China, an important trade partner to Europe, is reopening once again. Even the ECB expects economic conditions to normalize by 2024.

But be warned that European economic indicators may well darken before improving as the war in Ukraine marches on, energy prices soar, and pent-up demand from Europe's reopening starts to fade. So far, the latest indicators are mixed but tilted to the downside:

(1) *Growth.* Eurozone real GDP expanded 0.3% during Q1, matching Q4's pace, slowing from gains of 2.2% during Q2 and Q3, following Q1's 0.1% dip. The economy continues to face headwinds from supply bottlenecks, pandemic restrictions, and higher energy prices. Strain from the neighboring war pressured growth during Q1-2022, with Europe eking out a mere 0.4% q/q growth rate, the slowest in a year (*Fig. 14*). (The final estimate for Q1 real GDP was released this morning, after we went to press.)

Despite relaxed Covid restrictions, lower growth over the near term could be quite possible owing to pressure on household spending as energy prices rise owing to the war. During Q4-2021, the growth in the household spending component of real GDP fell on a q/q basis (*Fig. 15*).

Even so, the European Commission (EC) predicts that the Eurozone's GDP will expand by 2.7% this year, which is the agency's first economic forecast since the war in Ukraine began. The EC's previous outlook called for GDP growth of 4.0% this year and 2.8% in 2023 after 5.4% last year following the lockdown-led recession.

Two tailwinds could continue to boost consumer spending despite inflationary pressures on households. For one, European consumers are "sitting on a 700 billion-euro ($753 billion) cash mountain assembled during lockdowns, according to Morgan Stanley," *reported* Bloomberg on June 6. Many Europeans stashed away cash as they cut back on dining out and travel and other Covid-restricted activities. Low-income households may be particularly squeezed as inflation rises; but in their favor is a strong labor market.

(2) *Inflation.* Exceptional energy price shocks from the war in Ukraine suggest that headline inflation will remain very high in the coming months. Indirect effects from higher energy prices and supply-chain pressures likely will impact Europe's core measure of inflation (excluding food and energy) as well. Presumably, however, these pressures should ease over the longer term as the war-related, energy-related, and supply-chain challenges abate.

The Eurozone CPI soared 8.1% y/y during May, surpassing the previous several months' record highs since the data series began, in the late 1990s (*Fig. 16*). The energy price component soared by 39.2%. However, that was a small breather from the latest record high during March of 44.3%, which was more than double the previous record rate during July 2008 (*Fig. 17*). Excluding energy, food, alcohol, and tobacco, the CPI also advanced at a record pace, 3.8%.

To combat inflation, the ECB strongly *indicated* at the end of May that it would likely reverse course and hike interest rates by mid-year.

(3) *Jobs.* Unemployment in the Eurozone, now at 6.8%, has dropped back to pre-pandemic levels; during 2020, the first year of the pandemic, it had risen from 7.2% in March to 8.6% in August and September 2020 (*Fig. 18*). Europe's labor market never took a dramatic hit during the pandemic largely because job-retention schemes maintained worker-employer bonds. European governments supplemented labor costs for employers and wages for employees.

(4) *Manufacturing & service activity.* S&P Global's final Eurozone composite purchasing managers index (PMI) of manufacturing and service activity fell to 54.8 in May from 55.8 in April; but for the 15th consecutive month, it has remained above the 50.0 demarcation between contraction and expansion. That's well above the long-run historical average, as the positives of economic reopening offset the negative impacts of war (*Fig. 19*).

"Strong demand for services helped sustain a robust pace of economic growth in May, suggesting the euro zone is expanding an underlying rate equivalent to GDP growth of just over 0.5%," said Chris Williamson, chief business economist at S&P Global. "However, risks appear to be skewed to the downside for the coming months."

(5) *Economic sentiment.* The region's Economic Sentiment Index (ESI) ticked up a tenth of a point in May to 105.0, after falling five of the prior six months by 12.5 points (to 104.9 from 117.4), though remained healthily above the long-term average (*Fig. 20*). The ESI for consumers alone dropped during March to the lowest reading since April 2020 (*Fig. 21*). Nevertheless, the component makes up just 20% of the overall economic sentiment indicator.

(6) *Retail sales & German autos.* The volume of Eurozone retail sales held onto its pre-pandemic uptrend, albeit barely, through April (*Fig. 22*). Excluding autos, retail sales rebounded in April by 4.1% y/y after slowing the previous month (*Fig. 23*).

One of the weakest economic indicators in Europe is the 12-month sum of German passenger car production (*Fig. 24*). The war in Ukraine exacerbated German automakers' parts shortages and shrank their markets: They won't be selling their luxury cars in Russia for a while.

The heart of Germany's economy is its manufacturing. That's *one reason* Germany soon may become one of Europe's slowest growing economies after many years of leading as the strongest. Two other reasons: Germany is heavily reliant on Russian energy and Chinese supply chains, which have broken down most recently owing to major authoritarian shutdowns amid a new Covid wave.

(7) *Stock prices & valuation.* Europe's MSCI index (in local currency) fell 16.2% from its record high on January 5 through its latest low on March 8. It rebounded 6.7% through Monday's close to 10.5% below its record high (*Fig. 25*). However, the index is trading at an attractive forward P/E multiple near 12, down from over 17 in mid-2020 when pandemic lockdowns began to lift.

Calendars

US: Wed: MBA Mortgage Applications; Wholesale Inventories; Crude Oil Inventories & Gasoline Production. **Thurs:** Initial & Continuous Jobless Claims 210k/1.305m; Natural Gas Storage. (Bloomberg estimates)

Global: Wed: Eurozone GDP 0.3%q/q/5.1%y/y; Eurozone Employment Change 0.5%q/q/2.6%y/y; Germany Industrial Production 1.0%; France Trade Balance –€12.2b; Italy Retail Sales; UK Construction PMI 56.6; UK RICS House Price Balance 76%; China Trade Balance ¥58.0b; China Exports & Imports 7.5%/1.5% y/y; Mauderer. **Thurs:** France Nonfarm Payrolls; Japan PPI 0.5%m/m/9.8%y/y; Japan Machine Tool Orders; China PPI & CPI 7.7%/1.8% y/y; China New Loans & M2; ECB Interest Rate Decision & Deposit Facility Rate 0.00%/-0.5%; Enria; Rogers; Machlem. (Bloomberg estimates)

Strategy Indicators

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 21/41 MSCI countries in May. That's up from 20/41 in April, which was the lowest count since October 2020. It had peaked at 35/41 during May 2020, which nearly matched the record-high 36/41 from June 2004. That also compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in May for 23/41 countries, up from 12/41 in April. These countries had relatively high NERIs in May: Mexico (the highest since October 2009), Indonesia (June 2010), and Peru (January 2011). Canada, Norway, and the US have had positive NERI for 22 straight months, followed by the UK at 21 months. New Zealand has the worst negative-NERI streak, at 20 months, followed by Hong Kong (12), China (9), and Malaysia (9). NERI flipped back into positive territory for Denmark, Finland, Ireland, and Sweden, but turned negative for Egypt, Japan, and Taiwan. The highest NERI readings in May: Peru (22.2%), Turkey (20.1), the Czech Republic (12.8), Chile (12.5), Mexico (11.7), Ireland (11.4), France (9.3), Portugal (8.1), and Australia (7.6). The weakest NERIs occurred this month in Hong Kong (-15.4), China (-11.7), Hungary (-11.6), India (-9.3), Switzerland (-7.6), and New Zealand (-6.6).

AC World ex-US MSCI (*link*): This index is up 0.3% in local-currency terms so far in June, but is down 7.2% ytd. In US dollar terms, the index is actually unchanged so far in June but has declined a greater 11.9% for 2022 to date. Local-currency forward revenues has risen 14.0% since it bottomed in January 2021, and rose 0.4% m/m to just 0.5% below its record high of May 2019. Local-currency forward earnings rose 0.8% m/m and is now 0.5% below its early May record high, but has soared 55.1% since it bottomed in July 2020. Revenues are expected to rise 10.3% in 2022 and 3.3% in 2023 following a 16.0% gain in 2021, and earnings are expected to increase 12.2% (2022) and 5.7% (2023) after soaring 56.0% (2021). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 7.4% and short-term 12-month forward earnings growth (STEG) of 9.3%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, during May 2020. The profit margin implied by analysts' earnings and revenue estimates calls for 9.2% in 2022 and 9.4% in 2023, compared to 9.1% in 2021. The record-high forward profit margin forecast of 9.3% is up from a 10-year low of 6.6% at the end of May 2020 and first exceeded its prior 9.0% record high from September 2007 during August. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in May for a third straight month following 17 positive readings, dropping to a 22-month low of -3.8% from -2.9% in April. That compares to a 12-year high of 6.4% in July and an 11-year low of -23.9% in May 2020. The forward P/E of 12.1 is up from a 24-month low of 11.9 in early May, and compares to an 18-year high of 17.1 in February 2021. The forward P/E drops to 11.8 using normalized forward earnings. Those readings are up from their March 2020 lows of 10.8 and 10.2, respectively. The index is at an 18% discount to the World MSCI P/E, up from a record-low 22% discount around the beginning of the year.

Emerging Markets MSCI (*link*): The EM MSCI price index is down 0.6% in US dollar terms this month to date (mtd) to a 13.0% decline ytd. In local-currency terms, EM is down a greater 1.3% mtd to a smaller ytd loss of 11.5%. Local-currency forward revenues has risen

11.3% since its bottom in January 2021, and rose 0.2% m/m to 4.5% below its record high in May 2019. Local-currency forward earnings is up 34.6% since its bottom in June 2020, but dropped 0.2% m/m and is now 5.9% below its record high in early March. Revenues are expected to rise 11.2% in 2022 and 5.9% in 2023 after jumping 20.3% in 2021. That's expected to lead to an earnings gain of 10.2% in 2022 and 9.0% in 2023, following a 49.4% recovery gain in 2021. Forecasted STRG of 9.0% is down from April 2021's 11-year high of 12.6%, which compares to a five-year low of 3.6% at the end of April 2020. STEG has dropped to 10.0% from a record high of 33.7% in December 2020, but that's up from a 12-year low of 5.3% in December 2021. The implied profit margin is expected to drop to 7.5% in 2022 from 7.6% in 2021 and improve to 7.7% in 2023. The forward profit margin of 7.6% is up from a four-year low of 6.1% at the end of May 2020 and compares to its 10.3% record high in December 2007. NERI was negative in May for a seventh straight month as it dropped to a 22-month low of -7.0%. That compares to an 11-year high of 6.0% in February 2021 and an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 10.9 is at a 26-month low and compares to a record high of 16.3 in February 2021. The P/E drops to 10.5 using normalized forward earnings. That's up from those figures' March 2020 lows of 10.1 and 9.3, respectively. The index is trading at a 26% discount to the World MSCI P/E, which is close to its biggest discount since 2005.

EMU MSCI (*link*): The EMU MSCI price index has risen 0.9% mtd in local-currency terms to a ytd decline of 11.2%. In US dollar terms, EMU is up a greater 1.0% so far in June to a bigger ytd drop of 16.3%. Local-currency forward revenues gained 1.4% m/m and has risen 17.6% since its bottom in January 2021, but is still 2.5% below its record high in September 2008. Local-currency forward earnings gained 2.2% m/m and is up 69.2% since its bottom in July 2020, but remains 3.4% below its record high from January 2008. Revenues are expected to rise 8.9% in 2022 and 2.3% in 2023 after gaining 15.0% in 2021. That's expected to lead to an earnings gain of 11.4% in 2022 and 6.3% in 2023, following a recovery gain of 76.0% in 2021. Forecasted STRG of 5.9% is down from a record-high 8.3% during April 2020, but that's up from an 11-year low of -0.9% during April 2020. STEG has dropped to 9.1% from a record high of 47.4% in December 2020, but that's up from a record low of -6.7% in April 2020. The implied profit margin is expected to rise from 8.5% in 2021 to 8.6% in 2022 and 9.0% in 2023. The forward profit margin has risen to a 13-year high of 8.8% from a 12-year low of 6.0% at the end of July 2020, but remains below its 9.1% record high in October 2007. NERI was positive in May for a 17th month after 27 straight negative readings, and improved to 2.4% from 0.7% in April. That compares to a record low of -35.9% in May 2020 and is down from a record high of 15.2% in September. EMU's forward P/E of 12.0 is up from a 26-month low of 11.7 in early May, and compares to a record high of 18.3 in July 2020. The P/E drops to 11.6 using normalized forward earnings.

That's up sharply from those figures' March 2020 lows of 10.2 and 9.7, respectively. The index is trading at a 19% discount to the World MSCI P/E, which is among its worst readings since 2001.

China MSCI (*link*): The China MSCI price index is the sixth-best performer of the 49 MSCI countries so far in June, with a gain of 1.7% in local currency terms. Its 14.5% ytd decline ranks as 12th worst, though. Local-currency forward revenues has risen 8.1% since its five-year low in June 2021, but was down 0.6% m/m to 32.3% below its record high in October 2014. Local-currency forward earnings is up 3.8% since its bottom in June 2020, but fell 1.4% m/m to 14.7% below its record high in June 2018. Revenues are expected to rise 11.2% in 2022 and 7.0% in 2023 after surging 18.7% in 2021. That's expected to lead to an earnings gain of 12.5% in 2022 and 16.0% in 2023, following a relatively meager 5.3% increase in 2021. Forecasted STRG of 9.3% is down from an 11-year high of 13.5% in April 2020, but that's up from a five-year low of 5.0% at the end of April 2020. STEG has dropped to 14.1% from a 10-year high of 18.6% during December 2020, which compares to a four-year low of 8.0% in April 2020. The implied profit margin ranks as one of the lowest in the world; it's expected to remain unchanged y/y at 4.4% in 2022 and to rise to 4.8% in 2023. The forward profit margin of 4.6% is down from a record high of 5.2% in July 2021, but that's little changed from its pandemic low of 4.5% in May 2020. NERI was negative for a ninth straight month in May, dropping to a 23-month low of -11.7% from -7.7% in April. That ranks second worst among the 41 MSCI countries that we follow. China's forward P/E has recovered to 10.0 from an eight-year low of 8.7 in mid-March, and is 9.3 using normalized forward earnings. Still, that's below those figures' March 2020 lows of 10.5 and 9.8, respectively. The index is trading at a 32% discount to the World MSCI P/E, up from a 22-year low discount of 46% in mid-March.

US Economic Indicators

Merchandise Trade (*link*): The real merchandise trade deficit narrowed dramatically in April to -$116.2 billion after tumbling to a new record high of -$135.5 billion in March—widening from October's -$99.2 billion gap. Trade was a major drag on Q1 real GDP, subtracting 3.2ppts. April's deficit is narrower than the average monthly gap of -$122.4 billion during Q1, suggesting that trade could possibly be a positive contributor to Q2 GDP growth, though it's too early to tell. Real exports increased for the second month, by 3.2% m/m and 4.9% over the period, after sinking 4.2% during the two months through February. Meanwhile, real imports plunged 5.1% in April after climbing seven of the prior eight months by 16.7% to new record high. Real exports of industrial supplies & materials continue to bounce around record highs, climbing 7.6% during the two months through April to within 0.8% of December's record high, while real capital goods exports remain on a sharp accelerating trend, climbing 39.4% from April 2020's bottom. Real exports of nonfood consumer goods, ex autos, are heading back toward record highs again, climbing three of the past three months by 7.9%, after plummeting 14.1% in January from December's record high. Meanwhile, real exports of foods, feeds & beverages and autos are climbing again, with the former up 14.2% over the past three months and the latter up 4.7% the past two months. Turning to real imports, foods, feeds & beverages imports continue to set new highs, while real auto imports have zoomed six of the past seven months, by 26.8%, to within 2.0% of its record high posted in May 2019. Meanwhile, real imports of capital goods ex autos and nonfood consumer goods ex autos slipped 3.9% and 7.7%, respectively, from their record highs posted in March. Real imports of industrial supplies & materials remain in a volatile uptrend, though contracted 8.9% in April after rebounding 9.3% in March.

Global Economic Indicators

Germany Manufacturing Orders (*link*): German factory orders in April unexpectedly contracted for the third successive month, sinking 2.7% m/m and 7.9% over the period to a 15-month low. Billings had rebounded 8.0% during the three months through January from October's 5.9% plunge. Domestic orders declined for the third time this year, down 0.9% in April and 9.2% ytd, following a 9.8% surge during the final month of 2021. Meanwhile, foreign orders dropped for the fourth time in five months, by 4.0% in April and 6.0% over the five-month span, to its lowest level since September 2020. Within foreign orders, billings from within the Eurozone fell 5.6% and 7.7% over the comparable five-month period, while those from outside the Eurozone dropped 3.0% and 5.0%—to their lowest levels since October 2021 and September 2020. 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 April, both m/m and y/y: consumer nondurable goods (domestic orders +1.3% m/m [-10.8% inside, -2.6% outside Eurozone] & domestic orders +23.8% y/y [+21.1% inside, +12.3% outside Eurozone]), consumer durable goods (-3.4, -3.8, +3.0 & -13.4, -1.7, +16.1), intermediate goods (+0.1, -3.4, +1.5 & -3.6, -9.1, -10.8), and capital goods (-1.9, -6.6, -5.1 & -3.8, -5.4, -12.6).

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