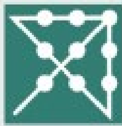
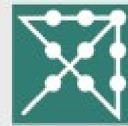
 Yardeni Research 

MORNING BRIEFING
June 13, 2022

That ’70s Show on Fast-Forward

Check out the accompanying chart collection.

Executive Summary: May’s CPI report showed scant signs of inflation peaking, though we still expect peaking soon. The report also suggests a more hawkish Fed and higher recession risk. We’re raising our odds of a mild recession to 45% from 40%. … Investor and consumer sentiment both have soured. But this time, pervasive bearishness may not be as useful a contrarian bullish signal as in the past. There may not be much upside for stocks until the Fed is done tightening later this year. … Also: We revisit the question of the decade: Will the 2020s resemble the Great Inflation of the 1970s or the Roaring 1920s? … And: Dr. Ed reviews “Gaslit” (+ + +).

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 I: Rising Recession Risk. Debbie and I aren’t changing our peaking-soon outlook for inflation as a result of Friday’s higher-than-expected CPI inflation rate for May. But we are slightly raising the odds of a mild recession from 40% to 45%. On balance, May’s CPI report convinced investors that the Fed remains well behind the inflation curve, which isn’t showing any significant signs of peaking yet. Nevertheless, we continue to forecast that the headline PCED inflation rate will peak around 6%-7% during H1-2022 before falling to 4%-5% during H2-2022 and 3%-4% next year (*Fig. 1*).

The latest CPI report also convinced investors that the FOMC will have to raise the federal funds rate more aggressively than just 50bps at the committee’s meeting on Tuesday and Wednesday. The expectations are now for a 75bps hike, which might be followed by a similarly sized hike at the FOMC’s July meeting. That makes sense to us. The two-year US Treasury note yield jumped 23bps on Friday to 3.06%, implying investor expectations that the FOMC will have to raise the federal funds rate by at least another 200bps over the next 12 months (*Fig. 2*).

As a result of Friday’s CPI, Fed Chair Jerome Powell undoubtedly will sound even more

hawkish at his press conference on Wednesday than he has been anytime this year. On the other hand, he is likely to contend that the Fed can't increase the supplies of food and energy to bring their prices down. In effect, he will have to concede that the one and only tool in the Fed's toolbox for combating inflation is to raise interest rates to levels that depress demand for all goods and services even if that increases the risks of a recession.

Indeed, the yield-curve spread between the 10-year and 2-year US Treasury notes narrowed to just 9bps on Friday, suggesting that investors are increasingly concerned that the Fed will be forced to tighten more aggressively, thus increasing the risk of a recession (*Fig. 3*). We agree with that assessment, which is why we are slightly raising our already high odds of a recession while maintaining our inflation outlook.

It's certainly hard to see much upside for the stock market other than trading rallies under the current circumstances. Sentiment remains very bearish, which in the past was bullish from a contrarian perspective. However, fighting the Fed when it is fighting inflation is not a good idea whether one is a contrarian or not. We still expect to see the stock market higher next year, possibly at new highs. But for now, while there are certainly plenty of attractive buying opportunities for long-term investors, there's no rush to buy them. We have to wait for inflation to peak and for the Fed to complete its tightening cycle for a resumption of the current bull market or, alternatively, for the beginning of the next bull market in the event that the S&P 500 falls 20% below its January 3 record high. On Friday, it was 18.7% below that peak.

Strategy II: Valuation & Consumer Sentiment. By the way, also depressing the stock market on Friday was the release of June's preliminary Consumer Sentiment Index (CSI). It fell to 50.2, the lowest in the series' history since 1952 (*Fig. 4*). This index tends to be much more sensitive to inflation than is the Consumer Confidence Index, which is more sensitive to unemployment (*Fig. 5*).

In any event, the CSI, and especially its expectations component, is correlated with the forward P/E of the S&P 500, which dropped to 16.4 on Friday, matching recent lows (*Fig. 6*). The CSI is a bearish leading indicator for the economy, which is why it depressed the forward P/E on Friday.

Joe and I are still targeting a forward P/E range on the S&P 500 of 15.0-17.0 for this year. The latest CSI suggests it could go lower; but probably that would occur only if a recession unfolds.

I checked in with Joe Feshbach on his current trader's view of the stock market. In his opinion: "Obviously, the news was bad, and anyone can see the tape was awful the last two days; but the key question is whether this is start of new serious down leg. I say no and am in the camp that views it as more of a retest of lows. Each time the market has attacked the old lows while sentiment was highly bearish, it led to a sharp short-term rally. My belief is that, with everything looking terrible, the same will happen again." Our go-to insider-trading guru Michael Brush reports that insiders failed to show much interest in Friday's weakness, at least insomuch as was apparent from the reporting so far.

US Economy: Dueling Decades. In the February 14 *Morning Briefing*, titled "Putin & Inflation Remain Persistent," Debbie and I updated our discussion comparing the current decade to the Roaring 1920s and the Great Inflation of the 1970s. We reiterated that this two-scenario paradigm doesn't mean that only one scenario will get the entire decade right: "The outcome may be some mix of the two scenarios, with one prevailing part of the decade and the other the rest. Nonetheless, assigning subjective probabilities is helpful for showing which of the two seems most likely to us. So, we also reiterated our subjective probabilities for the two scenarios. We assigned 65% to the Roaring 2020s and 35% to the Great Inflation 2.0. Now, to reflect our near-term concerns about the persistence of inflation, we are changing the probabilities to 60/40."

Admittedly, developments in recent weeks suggest that we should switch the odds to 40/60. The current decade is increasingly looking like the Great Inflation 2.0. Consider the following:

(1) *Commodity prices.* Energy prices are soaring partly as a result of a geopolitical crisis. President Joe Biden's policy response to the current crisis, triggered by Putin's war on Ukraine, seems as lame as was President Jimmy Carter's response to the energy crisis triggered by the Ayatollah Khomeini's Iranian Revolution (*Fig. 7*). Another similarity between then and now is soaring food prices (*Fig. 8*).

(2) *Wage-price-rent spiral.* During the 1970s, there was a wage-price-rent spiral. Soaring food and energy prices boosted wages through cost-of-living-adjustments (COLAs) in labor union contracts. Rapidly rising wages caused other prices and rents to rise quickly as well (*Fig. 9* and *Fig. 10*). This time, the wage-price-rent spiral seems to be spinning even faster even though COLAs no longer exist. Indeed, everything about the current Great Inflation seems to be playing out faster than That '70s Show.

(3) *Monetary policy.* Perhaps the most important similarity between the 1970s and recent

events is the lame response of the Fed to the wage-price-rent spiral. The Fed was well behind the inflation curve during most of the 1970s and is now once again (*Fig. 11* and *Fig. 12*).

In many ways, the Fed exacerbated the current spiral. Most importantly, under Fed Chair Jerome Powell's leadership, the Fed turned woke and prioritized "inclusive" maximum employment over its stated 2.0% inflation target in its August 2020 *statement* on its long-run goals and strategy. Also in that statement, the Fed embraced flexible average inflation targeting, indicating that it now would tolerate inflation overshoots to compensate for prior inflation shortfalls.

By maintaining ultra-easy monetary policies through the start of this year, the Fed succeeded in lowering the unemployment rate to a recent low of 3.6% over the past three months through May (*Fig. 13*). In addition, the ratio of job openings to unemployed workers rose to a record 2.0 during March (*Fig. 14*). The result has been a significant increase in wage inflation, which has spiraled into price inflation, thus eroding the purchasing power of all workers. That has been the unintended consequence of the Fed's wokeness!

(4) *Home prices and rents.* Under Powell's leadership, the Fed's near-zero interest rate policies caused home prices to appreciate rapidly (*Fig. 15*). Following the lockdown recession of 2020, home prices soared as urban renters scrambled to become homeowners in the suburbs. The Fed remained focused on inclusive maximum employment, which meant that mortgage rates remained near record lows during 2020 and 2021. As a result, the median price of a single-family existing home soared 37.7% over the past 24 months through April (*Fig. 16*).

As the Fed's policy focus started to pivot toward heightened inflation concerns late last year, the mortgage rate jumped from a low of 2.83% during February 9, 2021 to 5.62% currently. The combination of record home prices and rising mortgage rates clobbered housing affordability. That led to lots of upward pressure on rents.

During the 1970s, rent inflation was mostly driven by wage inflation. That's true now as well, but this time a second big contributor has been the drop in the affordability of purchasing homes.

(5) *Fiscal policy.* The Great Inflation of the 1970s actually started during the second half of the 1960s. It was triggered by President Lyndon Johnson's decision to deficit-finance the Vietnam War rather than to increase taxes to fund the war. The same can be said about his

Great Society initiative. A result of this guns-and-butter approach to fiscal policy was higher inflation. President Richard Nixon continued that approach in the early 1970s and exacerbated inflation by closing the gold window on August 15, 1971, which caused the dollar to depreciate significantly. The weaker dollar boosted commodity prices and caused OPEC to drive oil prices higher during the 1970s.

This time, several rounds of fiscal stimulus programs combined with ultra-accommodative monetary policies caused a demand shock that overwhelmed supplies, unleashing the current bout of inflation. The programs presumably were aimed at offsetting the negative impact of the pandemic on workers. More accurately, they were another example of Washington's politicians "never letting a good crisis to go to waste" (in the words of Rahm Emanuel, then chief-of-staff in the Obama administration).

(6) *Different this time.* What's different this time is that the US dollar is strong. Most importantly, productivity growth collapsed during the 1970s. It has been trending higher since the end of 2015—when it was 0.5% at an annual rate—reaching 1.5% during Q1-2022 (*Fig. 17*). Labor growth was high during the 1970s (around 2.5%-3.0% annualized) as the Baby Boomers entered the labor market. This time, it is much weaker (around 0.5%) (*Fig. 18*). We believe that chronic labor shortages will persist, forcing businesses to boost their productivity.

That's our scenario for the remainder of the decade once the repeat of *That '70s Show* plays out. It is likely to do so relatively quickly. That's why we are sticking with our 60/40 odds that the current decade will turn out to be more like the 1920s than the 1970s.

(7) *What could go wrong.* Of course, for the here and now, it sure looks and feels like a repeat of the 1970s. The risk is that woke fiscal policies will continue to exacerbate inflationary pressures. On Friday, President Biden *excoriated* Exxon for what he described as the oil giant's greedy reluctance to produce more petroleum. His statement was oddly at odds with his administration's policy to phase out fossil fuels as quickly as possible in favor of clean sources of energy, as we discussed in Thursday's *Morning Briefing*. In recent weeks, he has been pleading with foreign oil producers to export more of it. Under Biden, the Securities and Exchange Commission is moving to impose a slew of costly environmental reporting requirements on American corporations.

Of course, a prolonged war in Ukraine could put further upward pressure on energy and food prices and could cause a recession in Europe. China continues to struggle with Covid lockdowns.

One more thing to worry about: The contract between over 22,000 West Coast dockworkers and the Pacific Maritime Association is set to expire in three weeks. On June 8, a group of business associations sent the Biden administration a *letter* stating: “We urge you to encourage both parties to remain at the table until an agreement is finalized because even a relatively brief port slowdown or shutdown would compound current supply chain challenges and cause long-lasting damage to consumer confidence and American businesses.”

US Inflation: No Relief Here Yet, But Some in Sight. Inflation is no longer transitory or persistent. It is protracted. The CPI inflation rate has yet to peak because rapidly rising energy prices continue to put upward pressure on the headline rate directly and on the core rate indirectly, by boosting energy-related costs like transportation. Let’s review May’s CPI data, released on Friday:

(1) *Headline and core CPI.* The headline CPI was up 8.6% y/y, the highest since December 1981. The 3-month annualized rate was 10.3%, confirming that inflationary pressures are running hot (*Fig. 19*). The core CPI was up 6.0% y/y, down from 6.5% during March, with the 3-month annualized rate down to 6.1% from a recent high of 6.8% in December, suggesting some easing of inflation.

(2) *Hot food and energy prices.* The CPI food category rose 10.1% y/y and 12.2% on a 3-month basis, while energy rose 34.4% y/y and 48.9% on a 3-month basis. There’s currently no relief in sight for either of these. The y/y and 3-month inflation rates remained hot for the following energy components of the CPI: gasoline (48.7%, 62.4%), fuel oil (106.7, 187.4), electricity (12.0, 17.2), and piped gas (30.2, 48.0) (*Fig. 20*).

(3) *Durable goods.* The CPI for durable goods seems to have peaked at 18.7% y/y during February. It was down to 11.4% y/y during May. The latest 3-month annualized inflation rate was -2.9%, showing that inflationary pressures are moderating rapidly (*Fig. 21*). Housing-related durable goods prices seem to be cooling along with housing activity. Used cars and trucks prices also have shown some signs of easing in recent months, though the y/y gain was still 16.1%. New car price inflation remains high on both a y/y basis (13.7%) and 3-month basis (12.7%).

(4) *Services.* In the services sector, among the hottest price jumps over the past three months, at annual rates, have been logged by lodging away from home (24.1%), airfares (190.9%), and car & truck rental (58.2%) (*Fig. 22*). Those all reflect consumers’ pivoting from spending less on goods and more on leisure and travel services. They are likely to

moderate as pent-up demand for these services abates. Of course, the outlook for airline fares also depends on the cost of jet fuel.

As discussed above, the upward pressure on rent inflation is likely to persist. Rent-of-shelter inflation remained high at 5.5% y/y, led by a 19.3% y/y increase in lodging away from home. Tenant rent was up 5.2% y/y, while owners' equivalent rent was up 5.1% y/y (*Fig. 23*).

Movie. "Gaslit" (+ + +) (*link*) is an engrossing docudrama about the Watergate scandal during the Nixon administration. The story centers on Martha Mitchell, an outspoken socialite from Arkansas and the wife of Nixon's loyal Attorney General, John N. Mitchell. She publicly claimed that President Nixon must have been involved in the scandal. That forced her husband to choose sides, and he chose Nixon. Their marriage fell apart as the administration sought to silence her by discrediting her as a drunk and crazy person. Nixon subsequently claimed that "there would have been no Watergate" if Martha's emotional problems hadn't distracted her husband from doing a better job of managing his reelection campaign. Julia Roberts shows off her acting skills as Martha Mitchell. Sean Penn is also good as her husband. Best of all is Shea Whigham who plays G. Gordon Liddy, one of the unhinged—and truly scary—"masterminds" behind the plot.

Calendars

US: Mon: Brainard. **Tues:** NFIB Small Business Optimism; Headline & Core PPI 0.8%m/m/10.9%y/y & 0.6%y/y/8.6%y/y; API Weekly Crude Oil Inventories; OPEC Monthly Report. (Bloomberg estimates)

Global: Mon: UK GDP 0.1%m/m/0.4%3m/3m/3.9%y/y; UK NIESR Monthly GDP Tracker; UK Headline & Manufacturing Industrial Production 0.2%m/m/1.7%y/y & 0.2%m/m/1.8%y/y; UK Trade Balance –£ 22.5b; Australia NAB Business Confidence. **Tues:** Eurozone Industrial Production -2.0%; Germany CPI 0.8%m/m/7.9%y/y; Germany ZEW Economic Sentiment -31.0; UK Average Earnings Including & Excluding Bonus 7.6%/4.0%; UK Claimant Count Change -42.5k; UK Employment Change 3m/3m & Unemployment Rate 103k/3.6%; Canada Manufacturing Sales 1.6%; Japan Industrial Production & Capacity Utilization; Japan Core Machinery Orders -1.5%m/mm/5.3%y/y; China Industrial Production -0.5%y/y; China Retail Sales -7.3%y/y; China Fixed Assessment 6.0%y/y; Mauderer. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index tumbled 5.1% last week for its ninth drop in ten weeks and its biggest decline since late January. The index narrowly averted a bear market again on Friday when it ended 19.7% below its record high on December 27. The US MSCI ranked 26th of the 48 global stock markets we follow in a week when just four of the 48 countries rose in US dollar terms and the AC World ex-US index fell 3.4% to 19.2% below its June 15, 2021 record high. BIC and EM Asia were the best-performing regions last week with gains of 2.2% and 0.7%, ahead of EMEA (-1.6%). EM Latin America was the biggest underperformer with a decline of 8.1% followed by EM Eastern Europe (-6.6), EMU (-6.1) and EAFE (-4.7). China was the best-performing country last week, rising 6.1%, followed by Egypt (1.8), Pakistan (1.3), and the Czech Republic (0.2). Among the 33 countries that underperformed the AC World ex-US MSCI last week, Hungary's 9.6% decline was the worst, followed by Brazil (-9.1), Argentina (-8.7), Peru (-8.2), and Austria (-8.2). The US MSCI's ytd ranking dropped one spot w/w to 31/49, with its 19.3% decline remaining wider than the 15.5% drop for the AC World ex-US. EM Latin America has risen 5.3% ytd and along with EM Asia (-14.2) are the only regions outperforming the AC World ex-US. The laggards: EM Eastern Europe (-83.0), EMEA (-31.1), EMU (-22.4), EAFE (-17.2), and BIC (-17.0). The best country performers so far in 2022: Chile (25.6), Colombia (21.8), Jordan (19.2), Brazil (9.2), and the Czech Republic (7.0). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-65.0), Hungary (-42.5), Egypt (-34.1), Poland (-31.7), and the Netherlands (-31.1).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes tumbled last week in their worst performances since late January. SmallCap dropped 4.3%, less than the declines for MidCap (-4.7%) and LargeCap (-5.1). LargeCap is now 18.7% below its record high on January 3. MidCap ended the week 17.4% below its record high on November 16, and SmallCap was out of bear market for a third week at 18.9% below its November 8 record high. All 33 sectors fell last week, down from eight rising a week earlier. LargeCap Energy was the best performer, albeit with a decline of 0.9%, ahead of MidCap Energy (-1.0%), SmallCap Energy (-1.2), SmallCap Utilities (-1.9), and MidCap Utilities (-2.1). MidCap Materials (-7.3) was the biggest underperformer last week, followed by LargeCap Financials (-6.8), LargeCap Tech (-6.4), LargeCap Real Estate (-6.2), and LargeCap Consumer Discretionary (-6.1). 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 is down 15.1% ytd, a bit less than MidCap (-15.4) and easily less than the decline for LargeCap (-18.2). Just four of the 33 sectors are positive so far in 2022, down from seven a week earlier. Energy continues to dominate the top performers: SmallCap Energy (66.5), LargeCap Energy (58.7), MidCap Energy (50.2), MidCap Utilities (0.7), and LargeCap Utilities (-1.0). The biggest ytd laggards: LargeCap Consumer Discretionary (-30.0), LargeCap Communication Services (-28.2), SmallCap Consumer Discretionary (-26.1), SmallCap Health Care (-25.4), LargeCap Tech (-25.2), MidCap Consumer Discretionary (-23.6).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors fell last week and six outperformed the composite index's 5.1% decline. That compares to a 1.2% decline for the S&P 500 a week earlier, when one sector rose and six outperformed the index. Energy was the top performer, albeit with a drop of 0.9%, followed by Consumer Staples (-2.6), Health Care (-3.4), Utilities (-4.1), Communication Services (-4.1), and Industrials (-5.0). The worst performers: Financials (-6.8), Tech (-6.4), Real Estate (-6.2), Consumer Discretionary (-6.1), and Materials (-5.8). The S&P 500 is down 18.2% so far in 2022 with seven sectors ahead of the index, but just one in positive territory. The best performers in 2022 to date: Energy (58.7), Utilities (-1.0), Consumer Staples (-7.5), Materials (-10.3), Health Care (-11.2), Industrials (-14.5), and Financials (-17.1). The ytd laggards: Consumer Discretionary (-30.0), Communication Services (-28.2), Tech (-25.2), and Real Estate (-20.8).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 5.1% 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 a ninth week after four weeks above and closed below its 200-dma for the 16th time in 18 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 ninth week as the index dropped to a three-week low of 6.8% below its falling 50-dma from 3.0% 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 a three-week low of 12.1% below its falling 200-dma, down from 7.7% 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 one of the 11 S&P 500 sectors traded above their 50-dmas last week, down from three a week earlier. Materials and Utilities fell below in the latest week and left Energy as the only member in that club. Energy is also the only sector with a rising 50-dma, as Utilities turned down w/w. Looking at the more stable longer-term 200-dmas, two sectors are above, down from three a week earlier as Materials turned negative and left Energy 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. Two sectors have a rising 200-dma, down from four a week earlier as Consumer Staples and Materials turned down w/w. Energy and Utilities are the only members of the rising 200-dma club.

US Economic Indicators

Consumer Price Index (*link*): May's CPI increased 1.0%, more than triple April's 0.3% and back up at the average monthly change during February and March. Core prices increased 0.6% for the second month in May following March's 0.3%, averaging monthly gains of 0.5% so far this year. May's yearly headline inflation rate accelerated 8.6%, the fastest pace since 1981, while the core rate eased for the second month to 6.0% after soaring to 6.5% in March—which was the highest since August 1982. Here's a look at yearly rates across the spectrum: food (10.1% y/y) costs are accelerating at the fastest pace since the early 1980s, with the rate for food away from home (7.4) the highest since November 1981 and the rate for food at home (11.9) the highest since spring 1979. The yearly rate for energy (34.6) costs accelerated to its fastest pace since September 2005. The rate for fuel oil (106.7) soared to a new record high—considerably above its previous high of 92.2%—while the rate for gasoline remains in a volatile flat trend around 50.0%, accelerating to 48.7% during May. The increase in electricity (12.0) accelerated at its fastest rate since August 2006; it was near zero during summer 2020. Meanwhile, the yearly gain in natural gas prices hit 30.2% in May—the highest since July 2008—after slowing steadily from 28.1% in October to 21.6% in March. The consumer durable goods yearly inflation rate slowed for the third month from February's 18.7%—which was the highest rate since the record high of 20.2% in the early 1940s—to 11.4% in May. The consumer nondurable goods rate shot up to 14.3%, double last May's rate and the highest since spring 1980. The rate for new vehicles

(12.6) was little changed at April's record rate, while the rate for used cars & trucks slowed to 16.1% y/y in May after accelerating from 24.4% in September to 41.2% in February—which was within striking distance of June 2021's record rate of 45.2%. Apparel prices increased 5.0% y/y, slowing from its recent peak of 6.8% in March—which was its fastest rate since the end of 1980—while the rate for furniture & bedding (12.7) slowed for the third month from February's 17.1% record high. The yearly rate for medical care commodities (2.4) remained positive for the seventh month, bouncing around 2.0% in recent months. Within services, owners' equivalent and tenant-occupied yearly rents accelerated 5.1% and 5.2% in May—up from recent lows of 2.0% and 1.8%, respectively—with the former the highest since February 1991 and the latter since February 1987; over the three months through May, they accelerated at annual rates of 6.0% and 6.5%, respectively. Meanwhile, the rate for lodging away from home (19.3) eased for the second month from the 25.1% record high posted in both February and March. Meanwhile, the yearly rate for hospitals' (3.9) services has been moving in a relatively flat trend, while the physicians' (1.1) services rate is down sharply from last March's 5.3% peak. The yearly rate for airfares (37.8) shot up in May to a new record high—with these fares accelerating a whopping 190.9% (saar) during the three months through May.

Consumer Sentiment Index (*link*): Consumer sentiment in mid-June sank to its lowest level in the history of the series going back to 1952! The Consumer Sentiment Index (CSI) contracted for the fifth time this year, sliding 8.2 points in mid-June and 20.4 points over the period to 50.2. It was at a recent peak of 88.3 last April. The present situation component of the CSI sank 7.9 points and 18.8 points over the comparable periods to a record-low 55.4, while the expectations component dropped 8.4 points and 21.5 points, respectively, to 46.8—not far from its record low of 44.2 during July 1979. The one-year expected inflation rate climbed to 5.4% this month, while the five-year rate climbed to 3.3%; they were at 4.2% and 2.8%, respectively, a year ago. The report noted that higher gasoline prices and overall inflation are depressing confidence, with 46% of consumers citing inflation as the number-one reason for their negative outlook; that percentage was higher only once since 1981, during the Great Recession.

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