Yardeni Research

MORNING BRIEFING
June 16, 2022

Damage Assessments: Stocks & Crypto

Check out the accompanying chart collection.

Executive Summary: Ready for an unflinching look at the mauling the bear market has inflicted on specific S&P 500 sectors and industries? Jackie assesses the valuation and share-price carnage among the worst and best performers relative to both one year ago and January 3, when the S&P 500 peaked at its record high. … Also: Crypto lending markets have blown up for the second time in as many months. We look at the unregulated business that's been called the "Wild West" of lending—the players, their troubles, and the SEC's concerns. … Also: Car-sharing companies like the soon-to-be-public Turo aim to disrupt the car rental industry with an Airbnb-like business model.

Stocks: Surveying the Damage. The Federal Reserve raised the federal funds rate by 0.75ppt yesterday and indicated that it would push rates higher by another 0.50-0.75ppts at its next meeting on July 26-27 (*Fig. 1*). Fed Chair Jerome Powell noted in his comments to the press yesterday that the Fed wasn't seeing progress in its efforts to reduce inflation, so it opted to move more quickly this week than was previously expected. Fed officials' median projection now places the federal funds rate at 3.4% this year and 3.8% in 2023. Next year's projection is one percentage point higher than where it stood in March.

Powell emphasized that the Fed continues to target a 2.0% inflation rate while acknowledging that higher interest rates might push the unemployment rate up slightly. Even as the monetary punch bowl was being taken away, the stock market rallied yesterday for the first time in five days. The S&P 500 gained 54.51 points on Wednesday, but that barely begins to reverse its incredibly sharp ytd loss of 976 points.

With the S&P 500 in a bear market, nine of its 11 sectors are down by at least 10%, and five by more than 20%, from the index's peak on January 3 through Tuesday's close. Here's a look at the wreckage: Energy (46.1%), Utilities (-7.1), Consumer Staples (-10.6), Materials (-13.3), Health Care (-14.0), Industrials (-16.6), Financials (-21.3), S&P 500 (-22.1), Real Estate (-24.7), Information Technology (-28.8), Communication Services (-31.9), and Consumer Discretionary (-35.2).

The good news in that is that stocks have become less expensive with their forward P/Es having fallen sharply over the past year. Stocks could keep falling if P/Es continue their downward path or if analysts start slashing their earnings forecasts. (FYI: “Forward P/Es” are the P/Es using “forward earnings,” which is the time-weighted average of analysts’ earnings-per-share estimates for this year and next.)

That said, let’s take a look at how far the market and valuations have fallen in what has been a horrible, no-good, very-bad year so far:

(1) *A look at the underperformers.* Of the 122 S&P 500 industries we follow, 27 have suffered losses of more than 30%. Here are the 10 worst-performing industries from the market’s January 3 peak through Tuesday’s close: Movies & Entertainment (-55.2%), Health Care Supplies (-49.5), Automobile Manufacturers (-44.8), Internet & Direct Marketing Retail (-40.3), Casinos & Gaming (-39.1), Auto Parts & Equipment (-38.9), Apparel, Accessories & Luxury Goods (-36.4), Application Software (-35.5), Homebuilding (-35.4), and Real Estate Services (-35.1).

The jump in interest rates has made buying homes more expensive and hurt the Homebuilding and Real Estate Services industries. Higher rates have also taken a toll on tech shares that had lofty P/Es. Many of the industries at the bottom of the barrel contain members of the MegaCap-8 group of stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla), which is down 34.8% from January 3 through Tuesday's close (*Fig. 2*).

Netflix (-72.2% ytd) is in the Movies & Entertainment industry, Amazon (-38.6% ytd) is in Internet & Direct Marketing Retail, and Tesla (-37.3%) is in Automobile Manufacturers. Meta (-51.3%) and Alphabet (-25.9%) have dragged down the Interactive Media & Services Industry, which missed our list of bottom 10 performers ytd by a hair, as it has fallen 34.3% ytd.

(2) *Shelter in a storm.* Given this year’s surge in oil and gas prices, it’s no surprise that the S&P 500 Energy sector and energy-related industries are among the top performers from the market’s peak through Tuesday’s close. So here are the top-performing S&P 500 industries that are not in the Energy sector: Agricultural Products (21.8%), Fertilizers & Agricultural Chemicals (20.6), Health Care Distributors (11.5), Food Retail (11.5), Construction & Engineering (10.0), Wireless Telecommunication Services (9.2), Brewers (8.5), Property & Casualty Insurance (6.2), Commodity Chemicals (5.4), and Gold (3.5).

The war in Ukraine has influenced the top of the list. The country is a major producer of fertilizer and wheat, but exporting the products during the war is difficult. Lower exports have boosted the prices of those commodities, and stocks of US companies that make fertilizer and handle wheat have benefitted. The top of the list also includes traditionally defensive S&P 500 industries, like Food Retail, home of supermarket Kroger, and Brewers, because we all could use a beverage these days. And while inflation and higher interest rates have hurt the S&P 500 Homebuilders, they've propped up the price of gold, benefitting the S&P 500 Gold industry.

(3) *Shrinking P/Es.* The bear market has taken some of the froth out of valuations. The S&P 500's weekly forward P/E is 17.3, down from a peak of 23.1 on September 2, 2020. If the MegaCap-8 stocks are excluded from the calculation, the S&P 500's forward P/E declines further, to 16.1 (*Fig. 3*).

Here is a comparison of forward P/Es for the S&P 500 and its 11 sectors as of June 9, 2022—the most recent available—and one year earlier, June 10, 2021: Real Estate (37.9, 53.6), Consumer Discretionary (23.5, 30.2), Information Technology (20.7, 24.9), Utilities (20.5, 19.4), Consumer Staples (20.2, 20.5), S&P 500 (17.3, 21.2), Industrials (17.2, 23.7), Health Care (15.9, 16.6), Communication Services (15.7, 21.9), Materials (14.5, 18.8), Financials (12.3, 14.5), and Energy (11.0, 17.9).

Most of the valuations for the S&P 500's 10 worst-performing industries have fallen too. Here's a comparison of their forward P/Es on June 9 of this year and June 10 of last year: Movies & Entertainment (19.7, 42.4), Health Care Supplies (21.9, 36.2), Automobile Manufacturers (24.0, 34.7), Internet & Direct Marketing Retail (67.9, 48.0), Casinos & Gaming (58.8, 309.3), Auto Parts & Equipment (16.0, 24.2), Apparel, Accessories & Luxury Goods (11.1, 18.9), Application Software (31.4, 44.4), Homebuilding (4.8, 8.5), and Real Estate Services (12.1, 21.6).

The S&P 500 Internet & Direct Marketing Retail industry's forward P/E jumped over the past year because analysts' earnings estimates for Amazon have fallen even more dramatically than the sharp drop in the company's stock price. Conversely, the forward P/E for Casinos & Gaming has plummeted because the industry's earnings have rebounded from last year when Covid was prevalent and traveling rare. The same is true for the Hotel industry, where the forward P/E has fallen to 26.0 from 348.9 a year ago.

The forward P/Es for many of the S&P 500's home-related industries have fallen over the past year. Here are their June 9 and year-ago levels: Homebuilding (4.8, 8.5), Household Appliances (6.7, 9.8), Home Furnishings (8.6, 15.6), Housewares & Specialties (10.3, 15.5), Building Products (15.6, 21.9), and Home Improvement Retail (16.2, 19.7).

The same can be said for the forward P/Es of industries in the S&P 500 Financials sector. Here are some of the y/y comparisons that caught our eye: Reinsurance (7.5, 9.3), Consumer Finance (9.3, 12.1), Diversified Banks (9.8, 12.4), Multi-Line Insurance (10.0, 11.5), Regional Banks (10.2, 13.5), and Investment Banking & Brokerage (10.4, 13.1).

Cryptocurrencies: Celsius Heats Up. For the second month in a row, the crypto market was rocked by a blowup. Celsius, a crypto lender that was offering double-digit interest rates on deposits, announced last weekend that it was halting withdrawals. The firm blamed extreme market conditions and on Tuesday hired a restructuring law firm.

Last month, we learned that stable coins aren't always stable: TerraUSD broke the buck and now trades at less than a penny. The one-two punch has the crypto markets on edge. The price of bitcoin fell 20% Monday and Tuesday. It's down 53% ytd and 68% from its November 8, 2021 high (*Fig. 4*).

Let's take a look at the latest blowup and its ripple effects:

(1) *The Wild West of lending.* Crypto lending offers lucrative interest rates on deposits but little information on how those deposits are being used and no federal insurance to provide a safety net for depositors.

Celsius often has offered interest rates on crypto lending that were in the double digits and sometimes as high as 18%. However, the only information about the use of Celsius deposits we found was in a risk disclosure *document* on its website: "Celsius deploys digital assets that you loan to Celsius through the Earn service in a variety of income generating activities, including lending such digital assets to third parties and transferring them to external platforms and systems."

According to a June 14 *FT* article, Celsius has made loans to crypto market makers, hedge funds, and decentralized finance projects. The firm, which had $24 billion of crypto assets under management as of December, was hit with $2.5 billion in withdrawals in March and had $12 billion of assets in May. Celsius since has stopped disclosing its assets. The company's own crypto token, CEL, has fallen to $0.58 down from $8.02 last year.

(2) *Many crypto lenders.* Celsius isn't the only firm that has taken deposits and made loans with cryptocurrencies. There are tons of small defi (distributed finance) companies out there. Sometimes, they call the accounts "savings accounts." Sometimes, they call the lending "crypto renting." But the upshot is the same: Cryptocurrencies are lent out, and

investors receive above-market interest rates.

Abra, Aave, BlockFi, CoinLoan, CoinRabbit, Compound, Crypto.com, Genesis, Hodlnaut, MakerDAO, Nebeus, Nexo, SpectroCoin, and YouHodler are some of the names we came across. If anyone knows how much in total loans these firms have outstanding, give us a shout! There doesn't seem to be anyone collecting that data.

The process is often compared to securities lending. In one example we saw, it was explained like this: When you buy a stock at Schwab, the firm is allowed to lend it out to institutional investors for a fee that the firm keeps. With crypto lending, the little guy gets to keep the fee, not the Wall Street firm. But that little guy assumes a lot more risk because these entities aren't regulated.

(3) *Layoffs start.* Crypto exchange Coinbase announced plans to cut 18% of its 6,100 workers by June 30. Coinbase CEO Brian Armstrong attributed the move to the company's too-rapid growth and prospects that the economy may enter a recession, which could lead to a "crypto winter" for an extended period. This announcement was quite a reversal from the company's messaging earlier this year, when it announced plans to triple headcount, a June 14 Yahoo Finance *article* stated.

Coinbase shares, which hit $357.39 on November 9, closed at $51.58 on Tuesday, hurt by the drop in crypto prices and trading volumes. Three months ago, analysts expected the company would earn $1.98 a share this year. Now they expect the company to report a loss of $7.30.

Coinbase isn't the only shop experiencing layoffs. BlockFi plans to lay off 20% of its 850 workers, and Crypto.com plans to cut 260 employees, or 5% of its total workforce. Gemini, the exchange and custodian led by the Winklevoss twins, said it's cutting 10% of its workers, a June 14 CoinDesk *article* reported.

(4) *Feds on alert.* Securities and Exchange Commission (SEC) Chairman Gary Gensler warned investors to be wary of the double-digit interest rates being offered by crypto lenders. "They're operating a little bit like banks," he said according to a June 14 Bloomberg *article*. "I caution the public."

The SEC has taken some action. Coinbase Global decided against offering a lending product when the SEC threatened to sue. And BlockFi paid a $100 million fine to the SEC and state regulators without admitting or denying allegations that the firm was paying customers high interest rates to lend out their digital tokens. But in an April 4 *speech*, Gensler seemed ready to take additional action:

“Crypto may offer new ways for entrepreneurs to raise capital and for investors to trade, but we still need investor and market protection. We already have robust ways to protect investors trading on platforms. And we have robust ways to protect investors when entrepreneurs want to raise money from the public. We ought to apply these same protections in the crypto markets.”

Disruptive Technologies: Sharing Cars. Are Americans ready to share their cars with strangers? We’re about to find out. Companies like Turo, Getaround, and HiyaCar have become the Airbnbs of car rental. Individuals can sign up to rent out their cars, and consumers can sign up to rent a car using the apps. With inventory tight at rental car companies, this may be the summer that desperate vacationers give these services a shot.

Turo filed a *prospectus* for its planned IPO. The document doesn’t include pricing information, but it does layout some details on the business. Here’s a quick look at what the new-aged car rental company has to say:

(1) *Better experience.* Three trends are working in Turo’s favor. First, consumers have grown accustomed to the sharing economy, whether it be scooter sharing, bike sharing, or house sharing. Second, cars have grown increasingly expensive, and they sit idle 95% of the time. And finally, people don’t love the experience of renting a car from some of the established car rental companies, turned off by lines, often out-of-the-way locations, and generic inventory, Turo contends.

“[A]ccording to XM Institute’s annual net promoter score benchmark study, the car rental industry’s average customer net promoter score is 5 (out of a maximum of 100). By contrast Turo’s net promoter score for the 12 months ended December 31, 2021 and March 31, 2022 was 73 and 75 respectively,” the prospectus states.

(2) *Business growing.* Launched in 2010, Turo operates in more than 8,000 cities in the US, Canada, and the UK. It had more than 114,000 active hosts (who are willing to rent their cars), 1.9 million active guests (who have rented a car), and 217,000 active listings as of March 31.

The company posted $469.0 million of revenue last year, up from $149.9 million in 2020, and its loss shrunk to $40.4 million, down from $97.1 million. In the first quarter of this year, revenue jumped to $142.9 million, up from $56.2 million in Q1-2021, and the net loss shrunk to $7.0 million in Q1-2022 from the $62.0 million loss in Q1-2021. The company does offer insurance plans that can be purchased by car providers and renters.

(3) *Some growing pains, too.* A quick search of articles about Turo brought up some issues that may be problematic if not remedied.

A Denver resident complained about the sudden lack of parking in his neighborhood in a December 21 9NEWS *article*. He discovered that someone was renting out more than 30 cars through Turo and parking them on the street. It was in violation of Turo's policy requiring that cars be parked on private property, and the company said violations could result in restricted vehicles and accounts. The host subsequently moved his vehicles.

Residents in Hawaii were also complaining that their streets "have become parking lots for rental vehicles," a June 23, 2021 Associated Press *article* reported. Their complaints prompted the Tax Department to look into who was renting cars and whether they were paying the taxes and surcharges required in Hawaii.

Rental customers have also complained that they were charged for smoking in the rental vehicles when they'd never smoked in them, a June 8 Channel 2 Action News *article* reported. One rider said the smoking fine came after he gave the car renter a poor review.

Calendars

US: Thurs: Housing Starts & Building Permits 1.701mu/1.785mu; Initial & Continuous Jobless Claims 215k/1.302m; Philadelphia Fed Manufacturing Index 5.5; Natural Gas Storage **Fri:** Leading Indicators -0.4%; Headline & Manufacturing Industrial Production 0.4%/0.3%; Capacity Utilization 79.2%; Baker-Hughes Rig Count; Powell. (Bloomberg estimates)

Global: Thurs: European Car Sales; Italy CPI 0.9%m/m/6.9%y/y; BOE Interest Rate Decision 1.25%; BOJ Interest Rate Decision -0.10%; Eurogroup Meetings; Panetta; DeGuindos; Wuermeling. **Fri:** Eurozone Headline & Core CPI 0.8%m/m/8.1%y/y & 0.5%m/m/3.8%y/y; Italy Trade Balance; BOE Quarterly Bulletin; BOJ Press Conference; Tenreyro; Pill. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) was below 1.00 for the seventh successive week this week—slipping for the second week to 0.69 this week after climbing the prior two weeks from 0.65 (the lowest since mid-February 2016) to 0.93 over the period. The BBR has been bouncing around 1.00 since late February. Bullish sentiment sank to 29.4% this week after climbing the prior four weeks by 8.1ppts (to 35.7% from 27.6%)—with most of that gain occurring during the May 31 week (35.2% from 28.2%). The 27.6% reading five weeks ago was the lowest since early 2016. Bearish sentiment increased for the second week to 42.7% this week after falling the prior two weeks from 43.0% (the highest since October 2011) to 38.0%. The correction count climbed to 27.9% this week after declining five of the prior seven weeks by 10.3ppts (to 24.3 from 34.6); it was as high as 40.0% in early February. The AAII Ratio slumped to 31.0% last week after jumping from 27.1% to 46.4% the prior week, with bullish sentiment falling from 32.0% to 21.0% and bearish sentiment rising from 37.1% to 46.9% last week.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady w/w at a record high of 13.4%. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 3.1ppts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues and earnings were both back at record highs after ticking down briefly in early February. They have both been making new highs since the beginning of March 2021 after peaking just before Covid-19 in February 2020. Since the Q2-2021 earnings season came in way better than expected, analysts have been playing catch-up with their lowball estimates from the Covid-19 shutdown period. Prior to this catch-up period, consensus S&P 500 forecasts had been falling at rates paralleling the declines during the 2008-09 financial crisis. Forward revenues growth remained steady w/w at 7.5%. That's down from a record high of 9.6% growth at the end of May 2021, and is near its recent 12-month low of 7.1% from early December. Still, that's up from 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth was unchanged w/w at 9.8%. It remains above its 16-month low of 8.2% in early December. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010, and up substantially from its record low of -5.6% at the end of April 2020. So far this year, analysts' revisions to their forecasts for 2022 revenues have outpaced their revisions for 2022 earnings, so the imputed 2022 profit margin estimate that we calculate from those forecasts has ticked down 0.1ppt to 13.1%. They expect revenues to rise 11.3% (up 0.2ppt w/w) in

2022 and 4.9% in 2023 (unchanged w/w) compared to the 16.4% gain reported in 2021. They expect earnings gains of 10.9% in 2022 (up 0.2ppt w/w) and 9.5% in 2023 (down 0.1ppt w/w) compared to an earnings gain of 51.0% in 2021. Analysts expect the profit margin to remain steady at 13.1% in 2022 (unchanged w/w) compared to 13.1% in 2021 and to improve 0.5ppt y/y to 13.6% in 2023 (unchanged w/w). Prior to the selloff that began last Thursday, the S&P 500's weekly reading of its forward P/E was unchanged w/w at 17.3, up slightly from a 25-month low of 16.7 in mid-May. That's down from an eight-month high of 21.7 at the end of 2021 and compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio ticked up 0.01pt w/w to 2.32 and is up from a 22-month low of 2.22 in mid-May. That compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for six of the 11 S&P 500 sectors, forward earnings gain for six sectors, and the forward profit margin move higher for five sectors. Nearly all sectors are at or near record highs in their forward revenues, earnings, and profit margins. Energy still has forward revenues and earnings well below record highs, but its profit margin rose 0.1ppt w/w yet again to a new record high of 11.8%, exceeding its prior 11.2% record from August 2007. Utilities has forward earnings at a record high, but its forward revenues and margin are lagging. Only three sectors posted a higher profit margin y/y in 2020: Consumer Staples, Tech, and Utilities. During 2021, all but the Utilities sector posted a y/y improvement. Five sectors are now expected to see margins decline or remain flat y/y in 2022: Communication Services, Consumer Staples, Financials, Health Care, and Real Estate. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.4%, matches its prior record high from late February), Financials (19.0, down from its 19.8 record high in August 2021), Real Estate (17.9, down from its 19.2 record high in 2016), Communication Services (16.1, down from its 17.0 record high in October), Utilities (13.8, down from its 14.8 record high in April 2021), Materials (13.6, record high), S&P 500 (13.4, matches its record high achieved intermittently since March), Health Care (11.0, down from its 11.5 record high in early March), Industrials (10.4, down from its 10.5 record high in December 2019), Energy (11.8, a new record high this week), Consumer Discretionary (7.7, down from its 8.3 record high in 2018), and Consumer Staples (7.3, down from its 7.7 record high in June 2020).

US Economic Indicators

Retail Sales (*link*): May retail sales fell 0.3% from April's record high—recording its first decline this year—while real sales were down 1.2% during the month. Compared to a year ago, nominal sales were 8.1% higher, while real sales were 0.4% lower. The 0.3% drop in nominal retail sales in May was driven by a 3.5% plunge in motor vehicle sales, reflecting low inventory. Excluding autos, sales were up for fifth time this year, by 0.5% m/m and 6.4% ytd to a new record high. The control group—which excludes autos, gasoline, building material, and food—barely budged in May after a four-month gain of 4.3% to a new record high in April. Of the 13 nominal retail sales categories, seven rose during May while six fell. Here's a snapshot of the sales performances of the 13 categories during May as well as the performances versus a year ago and relative to their pre-Covid levels: gasoline stations (4.0, 43.2, 57.1), food & beverage stores (1.2, 7.9, 20.5), food services & drinking places (0.7, 17.5, 24.5), sporting goods & hobby stores (0.4, -0.2, 36.7), building materials & garden equipment & supplies dealers (0.2, 6.4, 31.7), clothing & accessories stores (0.1, 6.1, 15.8), general merchandise stores (0.1, 2.5, 12.5), health & personal care stores (-0.2, 4.8, 12.5), furniture & home furnishing stores (-0.9, 1.9, 18.7), nonstore retailers (-1.0, 7.0, 53.7), miscellaneous store retailers (-1.1, 25.6, 38.1), electronics & appliance stores (-1.3, -4.5, 4.2), and motor vehicles & parts dealers (-3.5, -3.7, 22.0).

Business Sales & Inventories (*link*): Nominal business sales in April climbed to a new record high, while March real business sales (reported with a lag) remains in a volatile flat trend below March 2021's record high. Nominal business sales expanded for the seventh time in eight months, climbing 0.5% in April and 10.9% over the period; it's up 58.7% since its pandemic-related bottom. Meanwhile, real business sales fell for the second month, by a total of 1.9%, after climbing 1.2% at the start of the year. It's 2.5% below its record high posted last March. Real sales for wholesalers fell for the second month, by a total of 3.4%, after soaring seven of the prior eight months by 7.5% to a new record high at the start of this year, while real sales for retailers fell for the fourth time in five months, by a total of 2.2%, and is down 7.0% from last March's record high. Meanwhile, real manufacturing sales are down the first three months of this year, dropping 0.4% in March and 1.9% over the period. Meanwhile, the real inventories-to-sales ratio moved up to 1.45 in March from its recent low of 1.38; it was at 1.45 last February. The nominal ratio edged up to 1.29 in April, after slipping from 1.29 in December to 1.27 the first two months of this year. It was at a near-record low of 1.26 in November.

Regional M-PMI (*link*): The New York Fed has provided the first glimpse of manufacturing activity for June and showed a sharp move up toward expansionary territory. June's composite index rebounded 10.4 points to -1.2 after plunging 36.2 points in May (to -11.6 from 24.6). Both new orders (to 5.3 from -8.8) and shipments (4.0 from -15.4) moved from contraction to expansion this month, while inventories (17.1 from 7.9) accumulated significantly. Delivery times (14.5 to 20.2) lengthened at a slower pace than in recent months. Meanwhile, unfilled orders (-4.3 from 2.6) was negative for the first time in 17 months. Looking at the labor components, the employment (19.0 from 14.0) measure showed a pickup in hiring, while the average workweek (6.4 from 11.9) continued to expand, though at a slower pace. As for prices, the prices-paid index accelerated a bit to 78.6 after easing to 73.7 in May from April's record-high 86.4, while the prices-received gauge has slowed steadily from March's record-high 56.1 to 43.6 this month. Looking ahead, optimism about the six-month outlook was subdued again this month, falling to 14.0—the lowest since the height of the pandemic; it was as high as 52.0 eight months ago. The six-month Inflation measures showed both the prices-paid (to 69.2 from 76.7 in January) and prices-received (43.6 from 62.1) gauges have eased from their record highs at the start of this year.

Import Prices (*link*): Import prices rose a smaller-than-expected 0.6% in April—roughly half the expected 1.1% gain—following an upwardly revised 0.4% increase in April—showing signs of some moderation in underlying inflation. Fuel imports jumped 7.5% in April, while import prices excluding fuel fell 0.3%—the first decline since November 2020. The yearly rate for overall import prices eased for the second month from 13.1% in March to 11.7% in May, with the rate for import prices ex fuel slowing from a record-high 7.7% in March to 5.9% in May, and for nonpetroleum import prices from 8.2% to 6.7% over the comparable period. Yearly rates are slowing for the following import prices from their recent respective peak rates: industrial supplies—which includes fuels & lubricants (to 32.5% from 55.2%)—food (11.9 from 15.7), and consumer goods ex autos (2.7 from 3.2). Meanwhile, capital goods import prices accelerated 4.4% y/y in May to its highest rate since 1991, while the rate for autos (3.1) was the highest since February 2012.

Global Economic Indicators

Eurozone Industrial Production (*link*): Headline production, which excludes construction, recovered a modest 0.4% in April after declining 1.7% the first three months of this year. It continues to bounce in a volatile flat trend as the Ukraine war continues to depress production. Most components moved higher in April, with capital goods production (-0.2%) the one outlier. Energy usage (5.4%) posted the biggest gain in April, followed by production of intermediate (0.7), consumer nondurable (0.4), and consumer durable (0.2) goods. Overall production was 0.2% above pre-pandemic levels, with both consumer durable goods (7.5) consumer nondurable goods (6.6), and energy (1.5) output above, while capital goods (-3.7) output was below. Production data are available for the top four economies for April—with three of the four moving higher. Here’s how they performed during April and relative to their pre-pandemic levels: Spain (+2.1% & +1.0%), Italy (+1.6 & +4.7), Germany (+1.3 & -7.7), and France (-0.1 & -5.5).

Contact us by *email* or call 480-664-1333.

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