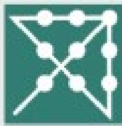
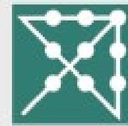


# Yardeni Research



**MORNING BRIEFING**
**June 27, 2022**

## Green Bad Deal

*Check out the accompanying chart collection.*

**Executive Summary:** The best laid plans of climate activists have gone majorly awry: Soaring fossil fuel prices haven't increased demand for and supply of "clean" energy sources, as they'd expected, while demand for fossil fuels exceeds supplies. And activists' pressure on European governments to suppress production of fossil fuels has really backfired, creating an unholy dependence on Russian oil with dangerous geopolitical ramifications. As a result, fossil fuel sources are making a remarkable comeback. … Also: US analysts still haven't gotten the recession memo, blithely raising estimates even though investors and managements alike are girding for the worst. Even analysts overseas have on rose-colored glasses, particularly in Europe where the risk of a recession is rising as energy shortages worsen.

**YRI Monday Webcast.** Dr. Ed's webinar for Monday will be prerecorded. Replays of the Monday webinars are available *here*.

**Global Economy: Energy Wars.** Climate activists: Beware of what you wish for—and work toward! Climate activists have been working assiduously to reduce the supplies of fossil fuels such as oil and natural gas. They've been quite successful at convincing many Western governments to impose more and more onerous regulations on the production of fossil fuels. The results have been less production of fossil fuels and soaring fossil fuel prices, exacerbated by unintended (and certainly naively unexpected) adverse geopolitical consequences.

The activists welcomed the higher prices for "dirty" fossil fuels, expecting that higher prices would significantly boost the supply of and demand for "clean" (i.e., renewable) energy sources. In other words, they thought their Big Government intervention in the global energy markets would result in a fast and smooth transition from dirty to clean energy thanks to the "free" market response to their meddling. Pain on the fossil fuel side of the transition equation, they believed, would be more than offset by gain on the renewables side.

That was all wishful thinking. In reality, the transition has been painfully slow, on balance, with the pain well exceeding the gain. Climate activists' naivety has brought them some serious political backlash as a result. Another result: Fossil fuel sources are making a remarkable comeback. Consider the following developments:

(1) *Pain at the pump.* According to the Hedges Company, there were 286.9 million registered cars in the US in 2020. Just over a million of these were electric vehicles (EVs). So almost all Americans who drive a motor vehicle are using gasoline to fuel them. They've all been very unhappy to see the national retail average pump price more than double from $2.48 per gallon during January 2021, when President Joe Biden was inaugurated, to just over $5.00 recently. Many of them blame the Biden administration, while the Biden administration blames Russian President Vladimir Putin, observing that the price was $3.45 during January 2022, just before Putin invaded Ukraine (*Fig. 1*).

A more refined view of the problem is that gasoline demand rebounded rapidly from the lockdown recession in early 2020 (*Fig. 2*). However, US operable crude oil distillation capacity dropped from a record high of 19.0mbd during the first four months of 2020 to 17.9mbd during March of this year (*Fig. 3*). There isn't enough refining capacity to meet gasoline and diesel demand, as evidenced by soaring crack spreads (*Fig. 4*). The jump in gasoline and diesel demand and the decline in refining capacity started when Donald Trump was president and has continued under Biden, whose energy policies have exacerbated the fossil fuel supply problem.

While Washington is playing the blame game, Americans spent $445.4 billion (saar) on gasoline during April, down slightly from the March record high. The average American household spent a record $3,724 (saar) on gasoline during March, up from $2,444 a year ago (*Fig. 5*). Debbie and I previously calculated that at $5.00 a gallon, the average American household is now spending at an annual rate of $5,460 on gasoline, up by roughly $3,000 from a year ago (*Fig. 6*).

(2) *Depressing confidence.* Consumption of energy goods and services still accounted for only 4.3% of disposable personal income (DPI) during April, with gasoline accounting for just 2.4% of DPI (*Fig. 7*). However, rapidly rising energy costs have boosted the prices of lots of other consumer goods and services. Consumers have responded to the squeeze by reducing their personal saving rate to 4.4% during April, the lowest since September 2008 (*Fig. 8*).

Meanwhile, the Consumer Sentiment Index, which is much more sensitive to inflation (and gasoline prices) than is the Consumer Confidence Index (which is more sensitive to unemployment), has dropped to new record lows (*Fig. 9*). This raises the risk that consumers might soon respond to higher inflation by cutting their spending even though the labor market remains strong.

(3) *Tit-for-tat letter writing.* On June 3, Chevron Chief Executive Michael Wirth said in a webcast, "I personally don't believe there will be a new petroleum refinery ever built in this country." On June 10, Biden blasted oil companies for making record profits and urged them to increase oil production and refining capacity to alleviate gasoline price inflation. Earlier this month, he also accused Exxon Mobil of making "more money than God" and not drilling enough.

On June 14, the American Petroleum Institute sent a *letter* to Biden stating: "While members of your administration have recently discussed the need for additional supplies to solve the energy crisis, your administration has restricted oil and natural gas development, canceled energy infrastructure projects, imposed regulatory uncertainty, and proposed new tax increases on American oil and gas producers competing globally. Respectfully, the American people need a different direction to solve this crisis." The letter included a 10-point plan "to help address our current energy challenges by increasing supply and underscoring the connection between energy security and national security."

On June 15, the American Fuel & Petrochemical Manufacturers sent Biden a *letter* with basically the same message: "To protect and foster U.S. energy security and refining capacity, we urge to you to take steps to encourage more domestic energy production, including promoting infrastructure development, addressing escalating regulatory compliance costs, allowing all technologies to compete to reduce emissions, modernizing fuels policies, and ensuring capital markets are functioning for all participants." The letter explained the challenges facing the refining industry, including the President's campaign promise to "end fossil fuel" and his administration's various efforts to end the sale of new gasoline-powered vehicles in the not-too-distant future.

On June 15, Biden sent a letter to seven major oil refiners blasting them for their record profits. He reprimanded them for their historically high profit margins for refining oil into gasoline, diesel, and other products. The letter called for an emergency meeting with company executives and administration officials: "The crunch that families are facing deserves immediate action. Your companies need to work with my Administration to bring forward concrete, near-term solutions that address the crisis and respect the critical equities of energy workers and fence-line communities."

On June 21, Wirth rebutted White House officials' criticism of the oil industry over energy costs, saying reducing fuel prices will require "a change in approach" by the government. "Your administration has largely sought to criticize, and at times vilify, our industry," Wirth said in a letter to Biden. "These actions are not beneficial to meeting the challenges we

face." A couple of hours later, Biden told reporters in Washington that the executive was being too sensitive. "I didn't know they'd get their feelings hurt that easily," the President said, when asked about Wirth's letter.

(4) *US production rising, and so are exports.* Notwithstanding the oil industry's frustration with the Biden administration, high oil prices are stimulating more oil production in the US. Petroleum output rose to 19.4mbd during April, with crude oil field production rising to 11.9mbd, natural gas liquids to 5.4mbd, biofuels to 1.1mbd, and processing gain to 1.0mbd (*Fig. 10*). Weekly data show that crude oil field production rose to 12.1mbd during the June 10 week as the oil rig count continued to rise (*Fig. 11*). Meanwhile, high petroleum prices are weighing on US demand, as shown by total petroleum products supplied, which has stalled around 20.0mbd since the start of the year (*Fig. 12*).

The good news is that the US remains energy independent, as net imports of crude oil and petroleum products has been slightly negative since 2019 (*Fig. 13*). In fact, exports of crude oil and petroleum products remained in record territory at 9.7mbd during the June 10 week.

(5) *Lots of global puzzle pieces.* Some of those US exports are heading to Western Europe to replace sanctioned Russian oil. However, the Russians are selling more of their output at discounted prices to China and India. Meanwhile, at its last meeting on June 2, OPEC+ agreed to boost output by 648,000 barrels per day (bpd) in July and by the same amount in August, up from the initial plan to add 432,000 bpd a month over three months until September. OPEC+ holds its next meeting on June 30, when it will most likely focus on August output policies. In July, Biden will make his first visit to Riyadh after two years of strained relations because of disagreements over human rights, the war in Yemen, and U.S. weapons supplies to the kingdom.

(6) *'Carrying coal to Newcastle.'* The biggest impact on the global oil market over the next six to 18 months could be a recession in Europe caused by a shortage of natural gas. Russia is reducing its exports of natural gas to Western Europe in retaliation for Europeans' support of Ukraine in its war against Russia. Europeans could be forced to ration their available supplies of natural gas. Europe could fall into a recession, which would also depress oil demand and oil prices. Indeed, the *FT* *reported* on Wednesday: "The International Energy Agency has warned that Europe must prepare immediately for the complete severance of Russian gas exports this winter, urging governments to take measures to cut demand and keep ageing nuclear power stations open."

In recent years, climate activists have convinced European governments—especially in

Germany, Italy, and the UK—that they should reduce domestic production of fossil fuels. As a result, during the transition to a utopian world of clean energy, Europe became increasingly dependent on fossil fuels imported from Russia. That gave a whole new meaning to "carrying coal to Newcastle." This British idiom describes a pointless action, since Newcastle already produced more coal than the town needed. Burning fossil fuel imported from Russia does as much environmental damage as burning fossil fuel produced in Europe and has exposed Europe to Russian funded corruption and now extortion.

This past week, Reuters *reported* that Germany, Italy, Austria, and the Netherlands all have signaled that coal-fired power plants could help see the continent through a crisis that has sent gas prices surging and added to the challenge facing policymakers battling inflation.

**Strategy: Are European Analysts Delusional?** Debbie and I have observed that if a recession unfolds over the rest of this year or next year, it will be the most widely anticipated downturn in US economic history. Nevertheless, as Joe and I have observed since the start of this year, industry analysts continue to blithely up their 2022 and 2023 revenues and earnings estimates for the S&P 500 (*Fig. 14*).

Apparently, the analysts have yet to get recession memos from the managements of the US companies they follow. That's because most of them aren't experiencing a recession so far. On the other hand, Melissa and I have concluded that a recession is much more likely in Europe as a result of the energy shock resulting from the Ukraine war.

Yet the analysts covering the companies in the EMU MSCI index have been doing the same as their American counterparts, i.e., raising both their revenues and earnings estimates (*Fig. 15*). Their profit margin estimates (which we calculate from their revenues and earnings estimates) also remain near recent record highs, suggesting that European companies, like American ones, are having no problems passing through their inflation-boosted costs to their selling prices.

Joe did similar "squiggles" analyses (tracking the squiggly trajectories of analysts' consensus weekly estimates for annual revenues, earnings, and margins) for the Japan, UK, and Emerging Market Economies MSCI indexes. Only the last one has seen analysts cutting their estimates for 2022 and 2023 (*Fig. 16*).

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## Calendars

**US: Mon:** Durable Goods Orders 0.1%; Dallas Fed Manufacturing Index; Pending Home Sales -4.0%; Williams. **Tues:** Consumer Confidence 100.9; Richmond Fed Manufacturing Index; Advance Goods Trade Balance; Wholesale Inventories; S&P/CS HPI Composite Index 1.8%,/m/m/21.0%y/y; API Weekly Crude Oil Inventories; Daily. (Bloomberg estimates)

**Global: Mon:** Germany Retail Sales -0.2%; Japan Leading & Coincident Indexes; Buba Monthly Report; G7 Summit; NATO Summit; ECB Forum on Central Banking; Lagarde; Schnabel. **Tues:** Germany Gfk Consumer Confidence -27.7; France Consumer Confidence 84; Japan Retail Sales 0.4%m/m/3.3%y/y; NATO Summit; ECB Forum on Central Banking; Lagarde; Panetta; Lane; Cunliffe; Elderson. (Bloomberg estimates)

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## Strategy Indicators

**Global Stock Markets Performance** (*link*): The US MSCI index soared 6.6% last week for its best gain since November 2020. The index left bear market territory on Friday but remains 19.4% below its record high on December 27. The US MSCI ranked second of the 48 global stock markets we follow in a week when 31 countries rose in US dollar terms. The AC World ex-US index rose 2.1% for the week, but remains in a bear market at 22.2% below its June 15, 2021 record high. BIC was the best-performing region last week with a gain of 3.2%, ahead of EAFE (2.8%) and EMU (2.7). EMEA was the biggest underperformer with a decline of 3.1% followed by EM Latin America (-2.1), EM Eastern Europe (1.1), and EM Asia (1.3). Sri Lanka was the best-performing country last week with a gain of 7.2%, followed by the US (6.6), Denmark (6.1), the Netherlands (5.7), and Switzerland (5.6). Among the 30 countries that underperformed the AC World ex-US MSCI last week, Colombia's 14.0% decline was the worst, followed by Egypt (-4.8), the Philippines (-4.8), Chile (-4.3), and Korea (-3.3). The US MSCI's ytd ranking rose four spots w/w to 28/49, with its 18.9% decline remaining slightly behind the 18.7% drop for the AC World ex-US. EM Latin America is down 3.7% ytd and along with EM Asia (-17.2) and BIC (-17.9) are the only regions outperforming the AC World ex-US. The laggards: EM Eastern Europe (-83.4), EMEA (-36.2), EMU (-24.4), and EAFE (-19.8). The best country performers so far in 2022: Jordan (16.9), Chile (11.4), the Czech Republic (5.6), Indonesia (1.0), and Turkey (-0.5). Apart from Russia, in which investors have lost 100.0% this year, here are the worst-performing countries ytd: Sri Lanka (-66.2), Hungary (-42.3), Egypt (-40.2), Pakistan (-35.2), Ireland (-34.5), and Poland (-34.5).

**S&P 1500/500/400/600 Performance** (*link*): All three of these indexes soared last week and posted their first gains in four weeks. LargeCap rose 6.4%, ahead of the 5.2% and 5.1% gains for SmallCap and MidCap. LargeCap is now 18.4% below its record high on January 3. MidCap ended the week 19.8% below its record high on November 16, and SmallCap remained in a bear market at 21.4% below its November 8 record high. Thirty of the 33 sectors moved higher for the week, a turnaround from all 33 sectors falling in the two weeks before that. LargeCap Consumer Discretionary, MidCap Health Care, and SmallCap Health Care were the best performers with gains of 8.2%, slightly ahead of LargeCap Health Care (8.1%), and LargeCap Real Estate (7.7). MidCap Energy (-3.3) was the biggest underperformer last week, followed by SmallCap Energy (-2.7), LargeCap Energy (-1.6), MidCap Communication Services (2.0), and MidCap Materials (2.2). In terms of 2022's ytd performance, all three indexes are still down ytd, and nearly identically so: SmallCap is down 17.8%, slightly ahead of the 17.9% declines for MidCap and LargeCap. Just three of the 33 sectors are positive so far in 2022, unchanged from a week earlier. Energy continues to dominate the top performers: LargeCap Energy (29.4), SmallCap Energy (28.0), MidCap Energy (15.9), MidCap Utilities (-3.3), and LargeCap Utilities (-3.5). The biggest ytd laggards: LargeCap Consumer Discretionary (-28.4), SmallCap Consumer Discretionary (-28.3), LargeCap Communication Services (-26.6), MidCap Consumer Discretionary (-24.5), SmallCap Real Estate (-23.9), and LargeCap Tech (-23.7).

**S&P 500 Sectors and Industries Performance** (*link*): Ten of the 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 6.4% gain. That compares to a 5.8% decline for the S&P 500 a week earlier, when all 11 sectors fell and seven outperformed the index. Consumer Discretionary was the top performer with a gain of 8.2%, followed by Health Care (8.1), Real Estate (7.7), Tech (7.3), Utilities (7.2), Communication Services (7.0), and Consumer Staples (6.6). The worst performers: Energy (-1.6), Materials (2.7), Industrials (4.2), and Financials (5.1). The S&P 500 is down 17.9% 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 (29.4), Utilities (-3.5), Consumer Staples (-5.7), Health Care (-8.3), Materials (-15.5), Industrials (-16.0), and Financials (-17.1). The ytd laggards: Consumer Discretionary (-28.4), Communication Services (-26.6), Tech (-23.7), and Real Estate (-19.3).

**S&P 500 Technical Indicators** (*link*): The S&P 500 soared 6.4% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). However, the index closed below its 50-dma for an 11th week after four weeks above and closed below its 200-dma for the 18th time in 20 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 11th

week as the index improved to 3.3% below its falling 50-dma from a 27-month low of 11.1% below its falling 50-dma during the week earlier. That 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 11.2% below its falling 200-dma, up from a 26-month low of 17.1% below its falling 200-dma during the week earlier. 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*): All 11 S&P 500 sectors traded below their 50-dmas last week for a second week and for the first time since May 10. All 11 sectors had a declining 50-dma for a second week as well. Looking at the more stable longer-term 200-dmas, Energy is the only sector above that measure for a second week. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Energy is no longer the only sector with a rising 200-dma, as Utilities turned back up w/w.

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## US Economic Indicators

**Consumer Sentiment Index** (*link*): Consumer sentiment in June sank to its lowest level in the history of the series going back to 1952—as “consumers across income, age, education, geographic region, political affiliation, stockholding, and homeownership status all posted large declines,” noted Joanne Hsu, director of the survey. The Consumer Sentiment Index (CSI) contracted for the fifth time this year, sliding 8.4 points in June and 20.6 points ytd to 50.0. It was at a recent peak of 88.3 last April. The present situation component of the CSI sank 9.5 points and 20.4 points over the comparable periods to a record-low 53.8, while the expectations component dropped 7.7 points and 20.8 points, respectively, to 47.5—not far from its record low of 44.2 during July 1979. The one-year expected inflation rate remained at 5.3% (down from 5.4% in both April and March), while the five-year rate inched up to 3.1%; they were at 4.2% and 2.8%, respectively, a year ago.

In June, roughly 79% of consumers expected a bad time for business conditions in the year ahead, while inflation remained their main concern, with 47% of consumers blaming inflation for eroding their living standards—just a percentage point below the record high posted during the Great Recession.

**Regional M-PMIs** (*link*): Three Fed districts (New York, Philadelphia, and Kansas City) have reported on manufacturing activity for June and show the manufacturing sector was at a near standstill. The composite index eased for the second month from 22.4 in April to 4.7 and 2.5, respectively, during May and June. Activity in the Kansas City (to 12.0 from 23.0) region expanded at half May's pace, while growth in the New York (to –1.2 from -11.6) region moved back toward expansionary territory and activity in the Philadelphia (-3.3 from 2.6) area contracted for the first time since spring 2020. Meanwhile, orders (-5.0 to 9.4) were in contractionary territory for the first time since May 2020, on a big swing in activity in both the Philadelphia (to -12.4 from 22.1) and Kansas City (-8.0 from 15.0) regions from positive to negative; New York's (5.3 from -8.8) moved from negative to positive, though that swing wasn't as dramatic. Employment (21.7 from 24.5) continued its strong readings, with hirings at the Philadelphia (28.1 from 25.5), New York (19.0 from 14.0), and Kansas City (18.0 from 34.0) factories robust, though Kansas City's slowed. Turning to prices, the prices-paid measure in the New York region accelerated to 78.6 in June after easing from a record-high 86.4 in April to 73.7 in May, while Philadelphia's gauge eased for the second month to 64.5 from April's record-high 84.6. Kansas City's (71.0 from 72.0) measure barely budged in June, but it was down from April's 83.0—which was near its record high of 88.0 last May. Meanwhile, prices-received in the New York area eased for the third month, from a record-high 56.1 in March to 43.6 this month, with Philadelphia's at 49.2 this month, down from October's record-high 62.9. Kansas City's accelerated to 51.0 after easing from a record-high 57.0 in April (which matched last July's high) to 42.0 in May.

**New Home Sales** (*link*): New home sales (counted at the signing of a contract) in May were a surprise on the upside, climbing for the first time this year. May sales rebounded 10.7% to 696,000 units (saar) after tumbling 25.0% the first four months of the year. Of the 696,000 homes sold in May, only 190,000 were completed and 190,000 were not yet started—with 316,000 units under construction. Meanwhile, there were 444,000 units for sale at the end of May (the most since May 2008)—with only 37,000 units completed and 115,000 not started; 292,000 units were under construction. At the current sales pace, it would take 7.7 months to run through the supply of new homes, down from 8.3 months in April, though up from 5.4 months a year ago. June saw homebuilders' confidence slump to a two-year low of 67, as high inflation and rising mortgage rates reduced affordability for entry-level and first-time home buyers, NAHB's survey showed. The component measuring the traffic of

prospective buyers dropped below the breakeven point of 50 for the first time in two years, falling to 48; it was at 71 a year ago. The remaining two components show the measure for current sales dropped a point to 77, while the measure for expected sales dropped 2 points to 61; they were at 87 and 79, respectively, a year ago.

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## Global Economic Indicators

**Germany Ifo Business Climate Index** (*link*): "Companies were somewhat less satisfied with their current business situation," noted Clemens Fuest, Ifo's president. "Their expectations turned markedly more pessimistic. Rising energy prices and the threat of gas shortages are of great concern to German business." The business climate index took a step back to 92.3 this month, after rising from 90.8 in March to 93.0 in May, with this month's reading considerably below last June's peak of 101.4—as the expectations component sank to 85.8 this month from 98.3 in February and 103.1 a year ago. The current situation component remains in close proximity to recent highs, dipping from 99.6 to 99.3 this month, not far from last August's 101.9—which was the highest level since April 2019. The manufacturing sector, which accounts for roughly a fifth of Germany's economy, saw its business climate index (0.3) at the breakeven point. The current conditions measure continued to drift lower, though remained at a relatively high level of 24.1, while the expectations component held deep in negative territory, deteriorating to -20.9 this month. Meanwhile, the outlook for the service sector improved, with its business climate index improving for the third month, from 0.9 in March to 10.8 this month—with the current situation climbing from 19.7 to 33.6 over the period and expectations rising from -16.3 to -9.9. The report notes that hospitality-related businesses are having a good summer, while transport and logistics companies are pessimistic about the second half of this year. Within trade, the present situation component remained in a volatile flat trend around recent lows, slipping to 12.6 this month, while expectations sank to -38.6—the weakest since the height of the pandemic. Construction companies assessed their current business (19.1) as better this month, while their expectations (-34.8) remain pessimistic, though slightly less negative than a month ago.

**Eurozone PMI Flash Estimates** (*link*): Eurozone PMI Flash Estimates (link): Manufacturing activity in the Eurozone during June was the weakest in 16 months, according to flash estimates, while prices continued to soar. The Eurozone C-PMI eased for the second month from 55.8 in April to 51.9 this month—with the NM-PMI falling from 57.7 to a five-month low of 52.8 over the two-month period and the M-PMI from 55.5 to a 22-month low of 52.0. The

manufacturing output index (49.3) contracted in June for the first time in two years, according to its flash estimate. Looking at inflation, the report notes that while prices eased further from April's record high, they remained at levels not seen in the history of the Eurozone prior to the pandemic, citing a "worrying increase in costs growth in the service sector." However, a recent cooling of demand is already "showing signs of calming goods prices." Looking at the two largest Eurozone economies, the C-PMIs for Germany (to 51.3 from 53.7) and France (52.8 from 57.0) showed the slowest growth in six and five months, respectively. France's M-PMI (51.0 from 54.6) was at a 19-month low—with manufacturing output (45.7 from 51.0) contracting—while its NM-PMI (54.4 from 58.3) showed services activity was the weakest since the start of the year. Germany's report showed a similar story, with its M-PMI (52.0 from 54.8) at a 23-month low—and manufacturing output (49.0 from 51.2) contracting—while its NM-PMI (52.4 from 55.0) was the weakest since January. The rest of the Eurozone as a whole likewise saw output growth slow from April's recent peak, to its slowest pace since January—reflecting a near-stalling in manufacturing output growth and the weakest service sector growth in five months.

**Japan PMI Flash Estimates** (*link*): Activity in Japan's private sector improved for the fourth month, according to flash estimates, with the C-PMI climbing from 45.8 in February to a seven-month high of 53.2 this month and the NM-PMI climbing from 44.2 to 54.2 over the comparable period as Covid-19 related border restrictions eased. Concurrently, Japan's M-PMI slowed for the fourth time in five months; after peaking at 55.4 in January, it slipped to 52.7 this month, as Covid-19 restrictions in mainland China "contributed to further supply chain disruptions and exacerbated existing supply and demand pressures," according to the report. As for price pressures, input price inflation eased slightly from May's series high, a somewhat encouraging sign. That being said, prices charged for Japanese goods & services increased at an unprecedented rate for the second month as higher labor and material costs were partially passed through to consumers.

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