MORNING BRIEFING
July 5, 2022

The Second Half of 2022

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Executive Summary: The US economy is probably heading into a mild recession, recent indicators suggest. We now see real GDP contracting by 1.9% this year. … The good news: The recession should be over next year and should slow the rate of inflation in H2-2022 and 2023. The sooner the business cycle bottoms, the sooner the stock market will. … Analysts will be getting the recession memo shortly and cutting their estimates accordingly. We're doing so now, lowering our earnings estimates for S&P 500 companies this year and next.

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US Economy: A Mild Recession. The economy is falling into a recession. Debbie and I are lowering our forecast for real GDP growth from 1.1% this year to -1.9%, based on the Q4/Q4 percent change (*Fig. 1*). So it is likely to be a relatively mild and short one but a recession nonetheless. Next year, we expect growth to resume, with a 2.9% increase projected.

The good news is that under this scenario of weaker economic growth, there's a greater likelihood that inflation will decline during the second half of this year and in 2023, as we've been projecting. So we aren't revising our inflation forecast. We see the headline PCED inflation rate falling from 6.3% y/y during May to 4.0%-5.0% during H2-2022 and to 3.0%-4.0% during 2023 (*Fig. 2*).

Melissa and I are still anticipating that the FOMC will increase the federal funds rate on July 27 by 75bps and again on September 21 by that amount (or now possibly less). In any event, two more rate hikes should conclude the Fed's current monetary policy tightening cycle for a while.

This outlook supports our view that the 10-year US Treasury bond yield should stabilize for a while around 3.00%, a view confirmed recently by the ratio of the nearby futures prices of copper to gold (*Fig. 3*). Actually, the ratio is now more consistent with a bond yield closer to

2.00%. Its weakness in recent days confirms the recession scenario and the recent top in the yield (at 3.49% on June 14), as does the Citibank Economic Surprise Index (*Fig. 4*). It is down from 17.9% at the start of this year to -75.8% on Friday.

Before Joe and I discuss the implications for the stock market of our revised economic outlook, let's review the past week's batch of recessionary data that caused us to lower our estimates for real GDP for the rest of this year:

(1) *GDP.* Q1's real GDP was revised down slightly to -1.6% (saar) by the Bureau of Economic Analysis on Wednesday, but it was still up 3.5% y/y (*Fig. 5*). During mild recessions, this growth rate tends to fall to zero. During severe recessions, it falls well below zero. In our current forecast, the y/y growth rate in real GDP bottoms at -1.9% during Q4 of this year. That's somewhere in between a soft and hard landing.

Most of Q1's weakness was attributable to an unusually large widening of the goods and services trade deficit (*Fig. 6*). Real final sales to domestic purchasers rose 2.0% (saar) during the quarter, led by a 1.8% increase in real consumer spending, with outlays on goods and services down 0.3% and up 3.0%, respectively. Capital spending rose 10.0% (saar) to a record high, led by a 14.1% increase in spending on equipment (with information processing up 24.7%, industrial up 13.0%, but transportation down 7.9%). On the downside was total government spending, which fell 2.9%.

That doesn't really add up to a very recessionary quarter even though real GDP fell. Q2, however, is moving more in the recessionary direction with weakness in final demand, led by residential investment. Consumer and capital spending are slowing as well.

At the start of last week, the Atlanta Fed's *GDPNow* tracking model showed that real GDP was unchanged during Q2; that dropped to -2.1% by the end of the week. Real consumer spending was revised down from 1.7% to 0.8%, and real gross private investment growth was lowered from -13.2% to -15.2%. Leading the decline is still residential investment (-12.0%), followed by nonresidential structures (-6.6%) and capital equipment (-4.5%).

(2) *Consumer confidence & spending.* Contributing greatly to last week's downward revision in the GDPNow tracking estimate, as well as to our revised outlook for the economy, were last week's latest readings on the consumer sector. On Tuesday, June's Consumer Confidence Index (CCI) confirmed the weakness in the month's Consumer Sentiment Index (CSI). The former tends to be more sensitive to employment, while the latter tends to be more affected by inflation. Notwithstanding the strength of the labor market, both were very

weak last month (*Fig. 7*).

Inflation is clearly depressing consumers. It has been eroding their purchasing power, essentially offsetting what seem to be solid increases in nominal wages. In other words, the wage-price spiral is making consumers' heads spin. Inflation-adjusted personal income is actually down 1.0% y/y through May (*Fig. 8*). That comparison is skewed by the pandemic-related government support provided a year ago. Excluding these benefits shows that inflation-adjusted personal income is up, but by a relatively meager 1.8% y/y through May.

Real personal consumption expenditures (PCE) increased 2.0% y/y through May (*Fig. 9*). The post-lockdown spending binge on goods during 2020 and 2021 has been followed by a 2.7% y/y decline in real spending on them. That's been more than offset by a 4.7% increase on real spending on services. May's data suggest that strength in spending on services may no longer be more than offsetting weakness in spending on goods. Real PCE decreased 0.4%, with goods down 1.6% and services up 0.3%. In addition, March and April real PCE were revised downward from 0.5% to 0.3% and from 0.7% to 0.3%.

Inflation has been skewed toward essentials including groceries, gasoline, and rents. Consumers offset that squeeze by lowering their personal saving rate, which had been boosted in 2020 and 2021 by the government support payments (*Fig. 10* and *Fig. 11*). There might not be much more room for the personal saving rate to fall; it was down from 10.4% a year ago to 5.4% in May, holding near April's 5.2%, which was the lowest since October 2009.

Keep in mind that the average of the expectations components of the CCI and CSI is one of the 10 components of the Index of Leading Economic Indicators (LEI). This average dropped to 56.9 during June, the lowest since October 2011. That's a recessionary reading.

(3) *Business surveys.* Friday's release of June's manufacturing purchasing managers index (M-PMI)—and the underlying survey conducted by the Institute for Supply Management (ISM)—was a major contributor to the downward revision in the GDPNow estimate. The M-PMI was down from May's 56.1 to 53.0, the lowest since June 2020 (*Fig. 12*).

The ISM report stated: "This figure indicates expansion in the overall economy for the 25th month in a row after a contraction in April and May 2020." (Anything above 48.7 indicates expansion according to the report.) However, the new orders index dropped sharply from May's 55.1, to 49.2. The report stated: "This indicates that new order volumes contracted after growing for 24 consecutive months."

The M-PMI's new orders subindex is also one of the 10 components of the LEI. It tends to be highly correlated with the y/y growth rate of new orders for nondefense capital goods ex aircraft (*Fig. 13*). The latter was up 9.8% during May, but that probably reflects a relatively high inflation rate for such orders. In any event, the M-PMI new orders index suggests that the growth of new orders for capital goods slowed significantly during June.

The picture is darker looking at the average of the business surveys conducted by five of the 12 district Federal Reserve Banks. The composite regional business index dropped further below zero in June—to -4.2 from -0.4 in May—which was the first negative reading since May 2020. June's regional index was the lowest since last May and a more recessionary reading than that of the latest M-PMI (*Fig. 14*). The average of the regional new orders indexes was -9.7%, also the lowest since May 2020 and consistent with the M-PMI new orders index (*Fig. 15*).

The regional business surveys can be used to construct averages of their current and future indexes of capital spending (*Fig. 16*). Both averages peaked last year and have been heading lower since then. But they remained in solidly positive territory during June, at 12.0% for the current average index and 19.4% for the future average index. The regional and national business surveys suggest that supply-chain problems are abating (*Fig. 17*). That's probably a result of weakening demand and improving supply-chain logistics.

(4) *The Dating Committee.* It is widely believed that two consecutive declines in quarterly real GDP is a good rule of thumb for determining recessions. The first two quarters of this year are shaping up that way, even though Q1's underlying performance actually was reasonably good, as discussed above. Another rule of thumb is that a string of three consecutive declines in the LEI foreshadows an imminent recession. The LEI fell for the third month in a row in May, and that makes four declines in the last five months. We already know that three of the 10 LEI components were down in June, i.e., the S&P 500, the M-PMI new orders subindex, and the average of the CCI and CSI consumer expectations measures.

While we can declare unofficially that a recession may have started in June, we can't be certain of it. It will be up to the Dating Committee of the National Bureau of Economic Research to make the official determination. They do so after the fact. Therefore, they focus more on the Index of Coincident Economic Indicators (CEI) than the LEI. The CEI rose to a new record high during May, casting doubt on the notion that a recession has begun; however, if the LEI's signals are on the mark, the latest business cycle might have peaked in June. (The CEI includes payroll employment, real personal income less transfer payments, real manufacturing & trade sales, and industrial production.)

Strategy I: Getting Closer to the Bottom. Given all the above, it's no wonder that pessimism is in fashion. It's certainly getting harder to be an optimist these days. The CSI is the lowest it has ever been since the start of the series in 1952. As we recently observed, Investor Intelligence Bull/Bear Ratio fell to 0.60 during the June 21 week, the lowest since the March 10, 2009 week, which was the bottom of the bear market caused by the Great Financial Crisis.

But for stock investing, this pessimism is potentially good news from a contrarian perspective. Investor sentiment should improve at some point once inflation peaks definitively and the Fed ends its monetary tightening cycle. Along the way, the recession will end. When all that happens, the stock market should bottom.

That may happen sooner rather than later based on our reading of the relationship between the yearly percentage change in the S&P 500 and the M-PMI, which are highly correlated (*Fig. 18*). The former was -8.0% during June, essentially already anticipating that the M-PMI (at 53.0 in June) will fall below 50.0 in July and August.

An even tighter relationship is the one between the yearly percentage change in the S&P 500 and the composite regional general business index (*Fig. 19*).

The aforementioned business-cycle indicators are signaling that the economy is in a recession or falling rapidly toward one. It is certainly premature to declare that they've bottomed or soon will do so. But they are getting closer to doing so, and therefore so is the stock market.

Strategy II: Recession Memo Is on the Way. During the first half of this year, Joe and I have observed that industry analysts didn't receive the recession memo. Odds are that more of them will be getting it and lowering their 2022 and 2023 earnings estimates in coming months. Consider the following:

(1) *Revenues, earnings estimate revisions & the M-PMI.* The weakness in June's M-PMI (along with the even weaker regional data) point to a significant slowdown in S&P 500 revenues and earnings growth on a y/y basis over the rest of this year (*Fig. 20* and *Fig. 21*). The M-PMI is also highly correlated with both our Net Revenues Revisions Index (a.k.a. NRRI) and Net Earnings Revisions Index (NERI) for the S&P 500. Both of the latter already have declined sharply since the start of the year, though they remained positive during June

at 5.0% and 1.5% (*Fig. 22* and *Fig. 23*). They are likely to turn slightly negative in coming months.

(2) *Annual & forward earnings estimates.* Now that we too have received the recession memo, we are lowering our estimates for S&P 500 companies' earnings in 2022 and 2023. We expect analysts will be doing the same.

We are reducing our S&P 500 operating earnings-per-share forecast for 2022 by $10 to $215 and for 2023 by $5 to $235 (*Fig. 24*). During the June 23 week, industry analysts were estimating $229 and $251.

We are lowering our forward earnings forecast to $235 per share at the end of this year and $255 per share at the end of next year (*Fig. 25*). Both are down $20 from our previous estimates. Forward earnings stood at $240 per share during the week of June 30. (FYI: "Forward earnings" is the time-weighted average of analysts' consensus operating earnings-per-share estimates for the current year and the next one; at year-ends, they align with analysts' next-year estimates.)

Calendars

US: Tues: Factory Orders 0.5%. **Wed:** ISM NM-PMI 54.5; Job Openings 11.05m; Motor Vehicle Sales; MBA Mortgage Applications; Weekly Crude Oil Inventories; FOMC Meeting Minutes; Williams. (Bloomberg estimates)

Global: Tues: Eurozone, Germany, and France C-PMIs 51.9/51.3/52.8; Eurozone, Germany, and France NM-PMIs 52.8/52.4/54.5; France Industrial Production 0.3%; RBA Interest Rate Decision 1.35%; UK C-PMI & NM-PMI 53.1/53.4; Canada Building Permits 0.7%; BOE Financial Stability Report; BOE FPC Meeting Minutes; Bailey; Tenreyro**.**
Wed: Eurozone Retail Sales 0.4%m/m/1.4%y/y; Germany Factory Orders -0.6%; Spain Industrial Production 3.4%; UK Construction PMI 55.0; Australia Trade Balance $10.6b; Pill; Cunliffe. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 2.4% last week as the index moved back into bear market territory at 21.3% below its record high on December 27. The US MSCI ranked 29th of the 48 global stock markets we follow in a week when just eight countries rose in US dollar terms. The AC World ex-US index fell 2.0% for the week and remained in a bear market at 23.7% below its June 15, 2021 record high. EMEA was the best-performing region last week with a gain of 0.7%, ahead of BIC (-0.5%), EM Latin America (-1.3), and EM Asia (-2.0). EM Eastern Europe was the biggest underperformer with a decline of 3.6% followed by EMU (-3.4) and EAFE (-2.2). Jordan was the best-performing country last week with a gain of 3.4%, followed by Hong Kong (3.1), Pakistan (2.0), and Argentina (1.6). Among the 24 countries that underperformed the AC World ex-US MSCI last week, the Czech Republic's 14.2% decline was the worst, followed by Taiwan (-6.5), Greece (-5.8), Austria (-5.4), and South Africa (-4.9). In June, the US MSCI fell 8.4% for its fifth decline in six months. The US MSCI ranked 20/48 in June and slightly outperformed the 8.8% decline for the AC World ex-US index as just two of the 48 countries moved higher. China was the best performer, with a gain of 5.7%, followed by Hong Kong (0.9), Jordan (-1.2), Hungary (-3.3), and Morocco (-4.6). The worst-performing countries in June: Colombia (-29.6), Argentina (-20.4), Chile (-19.3), Brazil (-19.3), and Korea (-17.3). All regions fell in June, but BIC (-0.3) was ahead of EM Asia (-5.5) and the AC World ex-US (-8.8). EM Latin America (-17.1) was June's worst-performing region, followed by EMU (-11.5), EM Eastern Europe (-10.2), EMEA (-9.8), and EAFE (-9.4). The US MSCI's ytd ranking was steady w/w at 28/49, with its 20.8% decline remaining slightly behind the 20.3% drop for the AC World ex-US. EM Latin America is down 5.0% ytd; Latin America along with BIC (-18.3) and EM Asia (-18.8) are the only regions outperforming the AC World ex-US ytd. The laggards: EM Eastern Europe (-84.0), EMEA (-35.7), EMU (-27.0), and EAFE (-21.6). The best country performers so far in 2022: Jordan (20.8), Chile (8.9), Turkey (-1.5), Brazil (-3.5), and Indonesia (-3.7). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-67.5), Hungary (-43.1), Egypt (-40.4), Ireland (-36.4), Austria (-36.2), and the Netherlands (-35.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week and posted their fourth decline in five weeks. In the last 13 weeks, LargeCap has posted only two gains while MidCap and SmallCap have risen three times. LargeCap is back in a bear market at 20.2% below its record high on January 3. MidCap also ended the week back in a bear at 21.1% below its record high on November 16, while SmallCap remained in a bear market at 22.3% below its November 8 record high. Eleven of the 33 sectors moved higher for the week, down from 30 sectors rising a week earlier. Utilities dominated last week: SmallCap Utilities rose 5.3%, followed by LargeCap Utilities (4.1%), MidCap Utilities (3.5), LargeCap Energy (1.3), and SmallCap Consumer Staples (1.0). MidCap Consumer Discretionary (-5.1) was the biggest underperformer last week, followed by MidCap Tech (-5.0), SmallCap Tech (-4.7), LargeCap Consumer Discretionary (-4.7), and 4.5% declines for LargeCap Communication Services and Tech. During June, LargeCap fell 8.4%, less than the declines for SmallCap (-8.7) and MidCap (-9.8). Just one of the 33 sectors rose in June, the lowest count since one sector rose in February 2020 and down from 20 rising during May. June's best performers: SmallCap Utilities (0.2), SmallCap Consumer Staples (-0.4), SmallCap Health Care (-1.4), LargeCap Health Care (-2.8), and LargeCap Consumer Staples (-2.9). June's biggest laggards: SmallCap Energy (-23.3), MidCap Energy (-20.5), LargeCap Energy (-17.0), MidCap Materials (-17.0), and LargeCap Materials (-14.1). In terms of 2022's ytd performance, all three indexes are still down ytd, and nearly identically so: SmallCap is down 18.8%, slightly ahead of MidCap (-19.2) and LargeCap (-19.7). Just five of the 33 sectors have gained ground so far in 2022, up from three a week earlier. Energy continues to dominate the top performers: LargeCap Energy (31.1), SmallCap Energy (25.6), MidCap Energy (16.9), LargeCap Utilities (0.4), and MidCap Utilities (-0.2). The biggest ytd laggards: LargeCap Consumer Discretionary (-31.8), SmallCap Consumer Discretionary (-31.4), LargeCap Communication Services (-30.0), MidCap Consumer Discretionary (-28.4), LargeCap Tech (-27.1), and SmallCap Tech (-26.6).

S&P 500 Sectors and Industries Performance (*link*): Four of the 11 S&P 500 sectors rose last week and seven outperformed the composite index's 2.2% decline. That compares to a 6.4% gain for the S&P 500 a week earlier, when 10 sectors rose and seven outperformed the index. Utilities was the top performer with a gain of 4.1%, followed by Energy (1.3%), Health Care (0.4), Consumer Staples (0.3), Real Estate (-0.5), Industrials (-0.8), and Financials (-1.5). The worst performers: Consumer Discretionary (-4.7), Communication Services (-4.5), Tech (-4.5), and Materials (-3.1). The S&P 500 tumbled 8.4% in June after edging up just a hair above a flat performance in May. All 11 sectors moved lower during June and six dropped less than the broader index. That compares to six rising and beating the S&P 500's miniscule gain during May. The leading sectors in June, albeit with declines: Health Care (-2.8), Consumer Staples (-2.9), Utilities (-5.1), Real Estate (-7.5), Industrials (-7.5), and Communication Services (-7.7). June's laggards: Energy (-17.0), Materials (-14.1), Financials (-11.1), Consumer Discretionary (-10.9), and Tech (-9.4). The S&P 500 is down 19.7% so far in 2022 with seven sectors ahead of the index, but just two in positive territory. The best performers in 2022 to date: Energy (31.1), Utilities (0.4), Consumer Staples (-5.4), Health Care (-8.0), Industrials (-16.7), Materials (-18.1), and Financials (-18.3). The ytd laggards: Consumer Discretionary (-31.8), Communication Services (-30.0), Tech (-27.1), and Real Estate (-19.8).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 2.2% last week and weakened relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index closed below its 50-dma for a 12th week after four weeks above and closed below its 200-dma for the 19th time in 21 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 12th week as the index fell to 4.1% below its falling 50-dma from 3.2% a week earlier and a 27-month low of 11.1% below its falling 50-dma the week before that. 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 12.8% below its falling 200-dma, down from 11.2% below a week earlier and up from a 26-month low of 17.1% below its falling 200-dma the week before that. 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*): Nine of 11 S&P 500 sectors traded below their 50-dmas last week, an improvement from the prior two weeks when all 11 sectors were below. However, all 11 sectors had a declining 50-dma for a third straight week. Looking at the more stable longer-term 200-dmas, two sectors are above now as Utilities moved above for the first time in three weeks and Energy was above for a third straight 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. Consumer Staples, Energy, and Utilities are the only sectors with a rising 200-dma, unchanged from a week earlier.

US Economic Indicators

Personal Consumption Deflator (*link*): May's PCED advanced 0.6%, triple April's 0.2% but slower than March's 0.9%—which was the most since September 2005, while core prices rose 0.3% for the fourth month after averaging monthly gains of 0.5% the previous four months. The yearly headline rate was unchanged at 6.3% y/y, slowing from March's 6.6%—which was the highest since January 1982; it was at 4.0% a year ago. The yearly core rate eased for the third month to 4.7% y/y after accelerating to 5.3% in February—which was the highest since spring 1983. On a three-month annualized basis, the core rate ticked up to 4.1% (saar) during May, after easing steadily from December's 5.9% to 3.9% in April. Prices for durable goods rose 1.0% (saar) over the three months through May, after falling 1.0% during the three months through April, while core nondurable goods prices fell 0.4% (saar) over the comparable period, slowing from February's 8.6%. Meanwhile, services prices ex energy accelerated for the second month, to 4.9% during the three months through May from 4.0% during March and February. The three-month annual rates for both consumer durable (1.0% & 6.6%) and consumer core nondurable (-0.4 & 2.7) goods were below their yearly rates, while the core services price (4.9 & 4.4) was above. Here's a comparable comparison by PCED components where the three-month rates are below their yearly rates: used motor vehicles (-16.7 & 10.5), video, audio & information processing equipment (-7.3 & -3.2), sports & recreational vehicles (-4.4 & 3.2), prescription drugs (-1.0 & 2.2), physician services (-0.5 & 0.2), household appliances (0.0 & 10.0), hospitals (0.6 & 2.0), clothing & footwear (1.9 & 5.2), recreation services (3.5 & 5.0), furniture & home furnishings (6.0 & 10.9), tobacco 7.2 & 7.9), new motor vehicles (8.8 & 13.1), and motor vehicle parts (11.1 & 13.5). Now for the components where the three-month rates are above their yearly ones: airfares (99.1 & 32.5), gasoline & other energy products (69.0 & 50.6), transportation services (30.5 & 11.0), food & nonalcoholic beverages purchased for off-premise consumption (16.6 from 12.4), food services & accommodations (8.6 & 7.8), professional & other services (7.5 & 6.6), personal care products (7.3 & 3.1), tenant rent (6.5 & 5.2), owner-occupied rent (6.0 & 5.1), alcoholic beverages (3.3 & 2.9), and education services (2.4 & 2.1).

Personal Income & Consumption (*link*): Both personal income and spending rose in May, though fell in real terms. Personal consumption was at a near standstill in May, edging up 0.2%, after averaging monthly gains of 1.0% the first four months of this year—with goods spending down 0.7% and services spending up 0.7% during the month. Adjusting for inflation, spending contracted 0.4%, the first decline this year, as goods consumption sank 1.6%—led by a 3.5% plunge in durable goods spending—and nondurable goods consumption slipped 0.6%. Meanwhile, real consumer spending on services in May reached another new record high, climbing 0.3%, its 14th positive reading in 15 months, for a total gain of 8.3%. Turning to income, nominal personal income rose 0.5% in May, while real personal income (-0.1) was slightly lower—though posted its third decline this year. Versus a year ago, the former is up 5.3%, while the latter is down 1.0%. Meanwhile, nominal wages

& salaries continued its record-setting pattern, increasing for the 24th month since bottoming in April 2020; it was up 0.5% m/m and 29.4% over the period. In real terms, wages and salaries has increased only two times this year, though is up 0.6% ytd—as only March (-0.2%) showed a decline, while January and May were flat. The yearly rate slowed to 4.4% from 6.1% in February; it was half last May's 8.9% pace.

Construction Spending (*link*): Total construction spending ticked down 0.1% in May, after setting a string of new record highs, with public construction contracting for the second month by 0.8% m/m and 2.7% y/y. Meanwhile, private construction spending in May was unchanged at its record high, up 13.2% y/y. Within private construction, residential investment hasn't posted a decline since May 2020—during the height of the pandemic—climbing 0.2% in May and 58.7% over the period to yet another record high. Single-family construction was unchanged in May at its record high—up 74.7% since its recent May 2020 bottom—while home-improvement spending climbed to a new record high, rising 0.6% in May and 121.3% from its January 2019 bottom. As for multi-family investment, it remains in a flat trend near record highs. Meanwhile, private nonresidential spending fell for the third successive month, by a total of 1.1%, though is 3.7% above last May's pace.

Global Economic Indicators

Global Manufacturing PMIs (*link*): Global manufacturing activity in June sank to a 22-month low, despite a rebound in China's manufacturing sector from contraction to expansion, as manufacturers continued to face headwinds from supply-chain problems and elevated inflation. The JP Morgan Global M-PMI fell for the fourth time this year, from 54.3 in December to 52.2 in June—remaining above the neutral mark of 50.0 for the 24th successive month; it peaked at 56.0 last May. In June, 24 out of the 29 countries covered by the survey were in expansionary territory, while only the Czech Republic, Myanmar, Poland, Taiwan, and Turkey contracted. Here's how June M-PMIs ranked by country/region from highest to lowest: Australia (56.2), Netherlands (55.9), Colombia (55.7), Brazil (54.1), Vietnam (54.0), India (53.9), Ireland (53.1), Kazakhstan (53.0), UK (52.8), US (52.7), Japan (52.7), Spain (52.6), WORLD (52.2), Mexico (52.2), EUROZONE (52.0), Germany (52.0), China (51.7), France (51.4), South Korea (51.3), Austria (51.2), Greece (51.1), Italy (50.9), Russia (50.9), Thailand (50.7), Malaysia 50.3), Indonesia (50.2), Taiwan (49.8), Czech Republic (49.0), Myanmar (48.2), Turkey (48.1), and Poland (44.4).

US Manufacturing PMI (*link*): ISM's M-MPI showed manufacturing activity in June slowed more than expected, though did show stronger growth than the regional manufacturing surveys we track—which showed a slight contraction. Meanwhile, there were further signs in June's report that inflation may have peaked. The M-PMI sank to a two-year low of 53.0, after increasing from 55.4 to 56.1 in May; it has been on a downward trend since peaking at 63.7 last March. The new orders (to 49.2 from 55.1) measure moved into contractionary territory for the first time since May 2020, while the employment (47.3 from 49.6) gauge fell further below the breakeven point of 50.0. On a positive note, there are signs that supply constraints appear to be easing—with the measures for both supplier deliveries (to 57.3 from 65.7) and backlog orders (53.2 from 58.7) retreating to their lowest levels since 2020. The production (54.9 from 54.2) reading rose to a four-month high, though does show a considerable slowing from last March's (66.4) peak. The inventory gauge climbed for the second month in June to a seven-month high of 56.0 after easing from 55.5 to 51.6 in April. ISM's prices-paid measure eased in June for the third month to 78.5 after climbing from 68.2 in December to 87.1 in March; it was at 92.1 in mid-2021—which was the fastest since the summer of 1979. Still, respondents noted that pricing remains one of their biggest concerns, along with supply-chain constraints.

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for June is expected to accelerate to yet another new record high of 8.6% y/y, up from 8.1% in May and 6.7ppts above last June's 1.9%. The rate was at -0.3% at the end of 2020. Looking at the main components, once again energy is anticipated to record the largest gain, accelerating for the second month to 41.9% y/y after slowing from a record-high 44.3% in March to 37.5% in April. The rate for food, alcohol & tobacco is forecast to soar to a record-high 8.9% y/y in June, rising steadily from June 2021's 0.5%, while the rate of non-energy industrial goods is expected to accelerate to a record-high 4.3%. The services rate is predicted to ease slightly to 3.4% after accelerating the previous four months, from 2.3% in January to 3.5% in May—which was the highest since January 1996. Of the top four Eurozone economies, only Spain (10.0% y/y) is above the Eurozone's 8.6% rate, jumping to a new record high. Meanwhile, rates in Italy (8.5) Germany (8.2), and France (6.5) were all below—with Spain and Italy reaching new record highs and Germany's rate easing from May's record high of 8.7%.

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