MORNING BRIEFING
July 11, 2022

Reassessing the ‘Banana’ Scenario

Check out the accompanying chart collection.

Executive Summary: Is a recession imminent? Is it here already? How big an impact will it have, if it comes, when it comes? The dreaded “R” word has everyone in a tither, and so does the weakness in the LEI. But the CEI suggests everything’s just fine. We recap the latest economic releases and how they’ve led us to the subjective probabilities we assign to four alternative economic scenarios. … We also assess how well peaks in the S&P 500 presage recessions. ... And: The stock market may have hit its bear bottom already according to the Da Vinci Code, *if* inflation is peaking and that tempers the Fed’s hawkishness. Also: Dr. Ed reviews “Staircase” (+ +).

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US Economy: Leading vs Coincident Indicators. Last week, Debbie and I wrote about the divergence in recent months between the Index of Leading Economic Indicators (LEI) and the Index of Coincident Economic Indicators (CEI). The LEI peaked at a record high during February (*Fig. 1*). It is down 0.9% since then through May.

As we discussed in the July 6 *Morning Briefing*, we already know that four of the LEI’s 10 components weighed on it during June—namely, the S&P 500, the M-PMI new orders subindex, a measure of consumer expectations, and initial unemployment claims. The LEI increasingly has been signaling a recession, though not necessarily an imminent one since it peaked by 12 months, on average, before the onset of the past eight recessions.

On the other hand, there is no recession in the CEI, which rose to a record high during May. It includes four components: payroll employment, real personal income less transfer payments, real manufacturing & trade sales, and industrial production. June’s employment report was released on Friday. It provided a mixed picture for the first two CEI components:

(1) *Payroll employment.* Friday’s report showed a larger-than-expected increase of 372,000 in payroll employment (*Fig. 2*). The more volatile household measure of employment fell 315,000. However, it is the payroll measure that is included in the CEI, and it is only 0.5%

below its record high during February 2020. There's certainly no recession evident in this coincident indicator.

(2) *Personal income.* Friday's employment report also showed moderating wage inflation, as the average hourly earnings (AHE) measure of wages rose 0.3% m/m during June. The bad news is that the consumer price inflation rate (based on the headline PCED) over the past 12 months through May was 6.3%, exceeding the 5.1% increase in the AHE over the same period. So workers' purchasing power has stagnated over this period (*Fig. 3*). Odds are that inflation significantly eroded the purchasing power of wages again during June.

This doesn't augur well for June's real personal income excluding transfer payments, which is one of the four components of the CEI (*Fig. 4*). This measure of total consumer purchasing power has been eroded by consumer price inflation too; it is up 8.3% y/y in nominal terms, but only 1.8% in real terms, through May.

Debbie and I calculate our Earned Income Proxy (EIP) for private wages and salaries in personal income when the monthly employment report is released (*Fig. 5*). It is simply AHE multiplied by aggregate hours worked, which reflects payroll employment and the average length of the workweek. The average workweek (which is one of the components of the LEI, by the way) was flat during June, while aggregate hours worked during the month rose to a record 4.48 billion.

Our EIP rose 0.6% m/m during June (*Fig. 6*). However, it undoubtedly was eroded by higher consumer price inflation. Over the past 12 months through May, the nominal and real versions of the EIP are up 9.4% and 2.9%.

(3) *Subjective probabilities.* So according to the LEI, the economy is heading toward a recession. According to the CEI, everything is just swell. Following the release of the jobs report on Friday, the Atlanta Fed's *GDPNow* tracking model showed that real GDP fell 1.2% (saar) during Q2, an upward revision from down 1.9%. Real consumer spending growth was revised up from 1.3% to 1.9%, while real gross private domestic investment increased from -14.9% to -13.7%. So real GDP is on track to fall for the second quarter in a row, having decreased 1.6% during Q1.

Last week, we raised our odds of a short and shallow recession from 45% to 55%, with real GDP falling by 2.0% during H2-2022. So a mild recession is our base-case scenario currently. The second-most-likely alternative scenario, with a 25% subjective probability, is a soft landing, with real GDP growing between 0.0% and 2.0% during H2-2022. That puts

the odds that real GDP will grow between -2.0% and 2.0% for the foreseeable future at 80%. For now, we assign 10% odds to a hard landing and 10% to a boom.

(4) *The "banana" scenario.* "Between 1973 and 1975 we had the deepest banana that we had in 35 years, and yet inflation dipped only very briefly," the economist Alfred Kahn, who headed the Carter administration's task force to fight inflation, once said. He substituted "banana" for the word "recession." The reason, he amiably explained, was that references to recessions seemed to make people nervous and irritable. Of course, one of the people made most irritable was his boss, President Jimmy Carter.

In the February 15 *Morning Briefing*, we wrote: "Debbie and I have been thinking more about the banana scenario. For now, we are singing the 1923 hit song with the ambivalent message '*Yes! We Have No Bananas*.'" We observed that the following factors suggested a low risk of a recession: the LEI and CEI were rising, consumers were in relatively good shape, corporations were also ship-shape, the risk of a credit crunch was low, and the air was coming out of various speculative bubbles in an orderly fashion.

Back then, we identified the main risk as follows: "If the prices of bananas continue to soar along with other food prices and most items in the CPI, then the Fed will have no choice but to implement Volcker's solution, ushering in the Volcker 2.0 scenario."

Last Thursday, two Fed officials opined that it should be full-steam ahead for another 75bps hike in the federal funds rate at the end of this month followed by one of 50bps-75bps in September. June's employment report certainly wouldn't have changed their minds. Let's see if June's CPI report released on Wednesday will take any steam out of the Fed's current tightening monetary course, or add even more steam.

The 2-year US Treasury note yield is a good year-ahead leading indicator of the federal funds rate, which is currently at 1.63% (*Fig. 7*). After soaring from 0.73% at the start of the year to a recent high of 3.45% during June 14, it has been back down bouncing around 3.00% since then.

For now, Fed officials remain on course to tighten monetary policy through September, even at the risk of an economic squished banana. Needless to say, the word "banana" did not appear in the FOMC's June *minutes*. Neither did the word "recession," not even once. Instead, the minutes noted: "Most participants assessed that the risks to the outlook for economic growth were skewed to the downside. Downside risks included the possibility that a further tightening in financial conditions would have a larger negative effect on economic

activity than anticipated as well as the possibilities that the Russian invasion of Ukraine and the COVID-related lockdowns in China would have larger-than-expected effects on economic growth."

Strategy I: The S&P 500 as a Leading Indicator. The stock market has predicted nine of the past five recessions. That's a joke told by master Keynesian of decades ago Paul Samuelson. As noted above, the S&P 500 is one of the 10 components of the monthly LEI. It tends to peak ahead of recessions but has provided a few false alarms as well. However, since 1945, every bear market in the S&P 500 with the exception of the one during 1987 has been associated with a recession (*Fig. 8* and *Fig. 9*).

The question is whether the current bear market might not be a precursor of a recession after all? The answer is that it might not if the recession turns out to be short and shallow as we currently expect. It's conceivable that such a recession might not make the grade as an official recession as determined by the Dating Committee of the National Bureau of Economic Research. It's conceivable that the current experience will make the history books as a growth recession or a mid-cycle slowdown, but not an "official" recession.

Since 1945, bear markets in the S&P 500 started, on average, five months before recessions started. The range of the lead time has been 12 months before to one month after the 12 recessions since 1945 (*Fig. 10*).

Strategy II: The Da Vinci Code. Joe and I remain hopeful that the Da Vinci Code (DVC) will be right again in calling a major market bottom. The S&P 500 fell to 666 on an intra-day basis on March 6, 2009. That devilish number marked the bottom in the previous bear market. On June 16 of this year, the S&P 500 closed at 3666, down 23.6% from its record high on January 3. That marked the bottom to date in the current bear market. The index is up 6.3% since then and down 18.7% since its January 3 peak (*Fig. 11*).

Of course, we are fundamentalists, not DVC symbolists. The S&P GSCI commodities index is down 14.8% from its recent peak on June 8 through Friday's close. Over this same period, its energy and agricultural commodities subindexes are each down 15.6%. The price of copper is down 19.8% over this period.

The drop in commodity prices triggered a significant decline in the 10-year US Treasury bond yield from this year's peak of 3.48% on June 14 to 3.09% on Friday.

All these developments signal that inflation might be peaking and therefore that the Fed's

monetary policy tightening cycle might be over sooner rather than later. If so, then the forward P/E of the S&P 500 might have bottomed on June 16 at 15.3. On the other hand, all these developments might also be signaling a recession, which would be bad news for S&P 500 earnings and could very well push the forward P/E below its June 16 low. Given that a mild recession (which might not even make the history books) is our base-case scenario, we think the Da Vinci Code has a shot of having called the bottom.

Strategy III: Are Earnings Real? The recession question for investors is now focusing on the Q2-2022 earnings reporting season, which starts this week. The relative weakness of the economy will be judged by its impact on earnings during Q2 and by the guidance provided by corporate managements during their upcoming earnings calls. The results will help investors decide whether industry analysts have been too optimistic, if not totally delusional, about earnings. Here is our guidance for the earnings reporting season ahead:

(1) *Quarterly earnings.* Industry analysts lowered their Q2 estimates for S&P 500 earnings slightly during April when Q1 earnings were being reported, but not by much and haven't changed their estimates since then (*Fig. 12*). During the June 30 week, they estimated that earnings rose 4.9% y/y through Q2 (*Fig. 13*). History suggests that analysts tend to be too pessimistic just before earnings seasons begin, as the actual results turn out to be better. We will be monitoring their estimates for Q3 and Q4 to see how Q2's results and guidance affect their outlook.

(2) *Annual earnings.* Industry analysts remain totally oblivious to all the chatter about a recession, as evidenced by the record highs in both S&P 500 forward revenues and earnings during the June 30 week (*Fig. 14*). The forward profit margin remains at its record-high reading of about 13.3% since the end of last year.

(3) *Adjusting for inflation.* One of our accounts recently asked us if the strength in forward revenues and earnings might be attributable mostly or solely to inflation. Data available through May show that real forward earnings has been rising every month to new records since May 2021 (*Fig. 15*). Real S&P 500 forward earnings was up 10.8% y/y through May, while nominal forward earnings was up 18.4% y/y through the June 30 week (*Fig. 16*).

During recessions, the growth rates of both nominal and real forward earnings tend to be negative on a y/y basis. We aren't there yet, and we might not get there.

Movie. "Staircase" (+ +) (*link*) is an HBO Max TV mini-series inspired by the truly bizarre story of Michael Peterson, a crime novelist. He was found guilty of killing his wife Kathleen.

During the trial, his defense lawyer claimed that she died falling down the back staircase at their home. The prosecution argued that her head injuries showed that she was hit several times by her husband after she might have threatened to leave him because she might have discovered that he was cheating on her. The jury sided with the prosecutors partly because Michael had had numerous affairs and a history of lying about his past. The relationships between Michael, Kathleen, and their five children both before and after her death is an interesting aspect of this crime story, which has lots of twists and turns. Colin Firth admirably plays Michael playing everyone around him. Toni Collette plays his very unhappy wife.

Calendars

US: Mon: Williams. **Tues:** NFIB Small Business Optimism; API Weekly Crude Oil Inventories; OPEC Monthly Report; EIA Short-Term Energy Outlook; WASDE Report. (Bloomberg estimates)

Global: Mon: Italy Retail Sales 8.4% y/y; UK Retail Sales Monitor; Japan PPI 0.5%m/m/8.8%y/y; Japan Machine Tool Orders; Australia NAB Business Confidence; China New Loans & Social Financing; Eurogroup Meetings; Bailey; Nagel. **Tues:** Eurozone ZEW Economic Sentiment; Germany ZEW Economic Sentiment -38.0; Australia Consumer Sentiment; China Trade Balance ¥75.7b; China Exports & Imports 12.0%/3.9% y/y; EU Economic Forecasts; Nagel; Balz; Bailey; Cunliffe; Mauderer. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 2.1% last week as the index moved back out of bear market territory again to end the week at 19.7% below its record high on December 27. The US MSCI ranked 10th of the 48 global stock markets we follow in a week when 23 countries rose in US dollar terms. The AC World ex-US index rose 0.8% for the week and remained in a bear market at 23.1% below its June 15, 2021 record high. EM Latin America and EAFE were the best-performing regions last week with gains of 0.9%. EMEA was the biggest underperformer with a decline of 1.1% followed by EM Eastern Europe (-0.7%), EMU (-0.3), BIC (0.7), and EM Asia (0.8). Jordan was the best-performing country last week with a gain of 6.9%, followed by New Zealand (5.3), Sweden

(3.5), and Australia (3.4). Among the 31 countries that underperformed the AC World ex-US MSCI last week, the Argentina's 5.2% decline was the worst, followed by Turkey (-4.3), Egypt (-4.1), Sri Lanka (-3.6), and Spain (-2.9). The US MSCI's ytd ranking rose w/w to 27/49, with its 19.2% decline beating the now slightly larger drop in the AC World ex-US (-19.6). EM Latin America is down 4.1% ytd; it along with BIC (-17.8) and EM Asia (-18.1) are the only regions outperforming the AC World ex-US. The laggards: EM Eastern Europe (-84.1), EMEA (-36.5), EMU (-27.2), and EAFE (-20.8). The best country performers so far in 2022: Jordan (29.1), Chile (8.9), Brazil (-1.7), Indonesia (-4.6), and Hong Kong (-4.9). Apart from Russia, in which investors have lost 100.0% of their investment this year, here are the worst-performing countries ytd: Sri Lanka (-68.7), Hungary (-44.1), Egypt (-42.8), Austria (-36.3), Ireland (-36.1), and Poland (-35.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose last week, but MidCap and SmallCap remained in a bear market. In the last 14 weeks, LargeCap has posted only three gains while MidCap and SmallCap have risen four times. LargeCap's latest gain of 1.9% had the index improve to 18.7% below its record high on January 3. MidCap rose 1.1% to end the week 20.3% below its record high on November 16, while SmallCap increased 0.5% to finish at 22.0% below its November 8 record high. Thirteen of the 33 sectors moved higher for the week, not much improved from 11 sectors rising a week earlier. LargeCap's dominated last week: LargeCap Communication Services rose 4.9%, followed by LargeCap Consumer Discretionary (4.6%), LargeCap Tech (4.3), MidCap Consumer Discretionary (3.7), and SmallCap Tech (3.4). MidCap Utilities (-3.5) was the biggest underperformer last week, followed by SmallCap Utilities (-3.2), SmallCap Energy (-3.0), LargeCap Utilities (-2.9), and SmallCap Materials (-2.7). In terms of 2022's ytd performance, all three indexes are still down ytd, but nearly identically so: LargeCap is down 18.2%, slightly ahead of the 18.4% declines for MidCap and SmallCap. Just three of the 33 sectors are positive so far in 2022, down from five a week earlier. Energy continues to dominate the top performers: LargeCap Energy (27.9), SmallCap Energy (21.8), MidCap Energy (15.3), LargeCap Utilities (-2.4), and MidCap Utilities (-3.4). The biggest ytd laggards: SmallCap Consumer Discretionary (-29.5), LargeCap Consumer Discretionary (-28.7), LargeCap Communication Services (-26.5), MidCap Consumer Discretionary (-25.8), SmallCap Real Estate (-25.4), and SmallCap Communication Services (-25.1).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 S&P 500 sectors rose last week, but only three outperformed the composite index's 1.9% gain. That compares to a 2.2% decline for the S&P 500 a week earlier, when four sectors rose and seven outperformed the index. Communication Services was the top performer with a gain of 4.9%, followed by Consumer Discretionary (4.6%) and Tech (4.3). The worst performers:

Utilities (-2.9), Energy (-2.4), Materials (-1.5), Real Estate (-1.0), Consumer Staples (-0.5), Industrials (-0.2), Financials (0.5), and Health Care (0.8). The S&P 500 is down 18.2% so far in 2022 with six sectors ahead of the index, but just one in positive territory. The best performers in 2022 to date: Energy (27.9), Utilities (-2.4), Consumer Staples (-5.9), Health Care (-7.3), Industrials (-16.9), and Financials (-17.9). The ytd laggards: Consumer Discretionary (-28.7), Communication Services (-26.5), Tech (-23.9), Real Estate (-20.5), and Materials (-19.4).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.9% last week and improved 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 13th week after four weeks above and closed below its 200-dma for the 20th time in 22 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 13th week as the index improved to 1.4% below its falling 50-dma from 4.0% a week earlier and a 27-month low of 11.1% below its falling 50-dma in mid-June. 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 10.9% below its falling 200-dma, up from 12.8% below a week earlier and up from a 26-month low of 17.1% below its falling 200-dma in mid-June. 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, unchanged from a week earlier but an improvement from the two weeks before that when all 11 sectors were below. Health Care was above for a second week as Utilities flipped back below and Communication Services moved above for the first time in 14 weeks. Ten of the 11 sectors had a declining 50-dma, up from all 11 falling in the prior three weeks as Health Care's 50-dma turned up for the first time in five weeks. Looking at the more stable longer-term 200-dmas, two sectors were above for a second straight week. Energy was above for a fourth week and Utilities for a second. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. Four sectors have a rising 200-dma, up from three a

week earlier, as Health Care turned up and joined Consumer Staples, Energy, and Utilities in that club.

US Economic Indicators

Employment (*link*): Payroll employment in June was stronger than expected, though gains for the prior two months were weaker than reported. Payroll employment climbed 372,000 (vs 270,000 consensus estimate), while both May (to 384,000 from 390,000) and April (368,000 from 436,000) employment were revised lower for a net loss of 74,000 over the two-month period. Private payrolls advanced 381,000 during June, with revisions showing May's (336,000 from 333,000) to have been slightly higher and April's (368,000 from 405,000) considerably lower, for a net loss of 34,000. Total payroll employment has recovered 21.5 million jobs since bottoming in April 2020, though is still 524,000 below its pre-pandemic level. Jobs gains in service-providing industries increased 333,000 in June, a four-month high, averaging monthly increases of 303,750 the past four months—below the 525,000 average gain the first two months of the year. Goods-producing jobs advanced 48,000 in June, slowing steadily from February's 114,000 increase. Industries posting the largest gains during June were professional & business services (74,000), leisure & hospitality (67,000), health care (57,000), transportation & warehousing (36,000), manufacturing (29,000) information services (25,000), and social assistance (21,000). Here's a tally of where industries stand relative to their February 2020 pre-pandemic levels: professional & business services (+880,000), transportation & warehousing (+759,000), retail trade (+179,500), information services (+105,000), financial activities (+81,000), nondurable goods manufacturing (+81,000), construction (+46,000), education (+4,600), wholesale trade (-18,100), mining & logging (-61,000), durable goods manufacturing (-69,000), health care (-175,600), and leisure & hospitality (-1.3 million).

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 25th increase in the past 26 months—up 0.6% in June and 28.8% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.8% the past 16 months. In June, both average hourly earnings and aggregate weekly hours increased 0.3%. Over the past 12 months, our EIP was up 9.3%—with aggregate weekly hours up 4.2% and average hourly earnings up 5.1%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): June's unemployment rate remained unchanged at 3.6% for the third

month, just shy of its pre-pandemic low of 3.5% during January and February 2020, which was the lowest since 1969. Meanwhile, the participation rate ticked down from 62.3% to 62.2% in June, down from March's 62.4%—which was the highest since March 2020; it averaged 61.7% and 61.8%, respectively, during 2021 and 2020. By race, unemployment rates In June were mixed, with the rate for African Americans falling for the fifth time this year (by 0.4ppt in June and 1.3ppts ytd) to 5.8%, the lowest since November 2019—and not far from its record low of 5.4% recorded during August and September 2019. Meanwhile, June saw the jobless rate for Asian Americans climb by 0.6ppt to 3.0%, after falling to 2.4% in May—which was its lowest rate since mid-2019. The unemployment rate for Whites remains in a flat trend, edging up to 3.3% in June—not far from February 2020's record low of 3.0%—while the rate for Hispanics held at 4.3% in June, not far from its record low of 4.0% during September 2019. By education, those with less than a high school degree climbed to 5.8% in June, after falling from 5.4% to 5.2% in May—up from this February's record low of 4.3%. Meanwhile, those with a high school degree (to 3.6% from 3.8%) and a high school degree with some college (3.1% from 3.4%) fell in June, while the rate for those with a bachelor's degree or higher (2.1% from 2.0%) continued to hover near 2.0%.

Wages (*link*): Average hourly earnings for all workers in June increased for the 17th straight month, climbing 0.3%—matching the Q2 average and slowing from average monthly gains of 0.4% and 0.5%, respectively, during Q1 and Q4. The yearly rate of gain slowed for the third month to 5.1% y/y in June, below the May inflation-rate gains of 8.6% and 6.3% in the CPI and PCED measures, respectively. June's slowing follows acceleration to a 22-month high of 5.6% in March. Private industry wages over the three months through June increased 4.2% (saar)—below its yearly rate of 5.1% for the fifth successive month. The three-month rates for both the goods-producing (4.5%, saar & 4.7% y/y) and service-providing (4.0 & 5.2) industries were below their yearly rates, but not by much. Within goods-producing, the three-month annualized rate through June for durable goods (3.1 & 4.3) manufacturing was slightly lower than its yearly rate, while the three-month rates for nondurable goods (3.4 & 3.8) manufacturing and natural resources (3.8 & 3.7) nearly matched their yearly ones, while construction's (6.3 & 5.6) was above. For service-providing industries, the same drill shows most three-month rates below yearly rates: transportation & warehousing (0.7 & 5.3), financial activities (0.7 & 2.4), retail trade (1.1 & 4.4), professional & business services' (3.2 & 5.8). wholesale trade (4.1 & 4.5), utilities (4.6 & 6.1), and education & health services (5.8 & 6.1). Meanwhile, the three-month rates for leisure & hospitality (10.2 & 9.1), information services (8.8 & 4.4), and other services (3.6 & 2.9) were above their yearly rates in June—though only information services showed a noticeable gap.

Merchandise Trade (*link*): The real merchandise trade deficit held steady at -$116.6 billion during May after narrowing dramatically from a record high of -$135.5 billion in March to -$116.4 billion in April. Trade was a major drag on Q1 real GDP, subtracting 3.2ppts—the latest data suggest it will likely be a considerable positive contributor during Q2. The deficit during the first two months of Q2 averaged -$116.5 billion, narrowing from Q1's average monthly gap of -$122.4 billion. Real exports slipped 1.3% in May after rebounding 4.7% during the two months through April, while real imports dipped 0.7% in May and 5.8% during the two months through May. Looking at exports, real exports of consumer nonfood goods ex autos increased for the third time in four months in May, up 3.3% m/m and 11.5% over the period, while auto exports were up 7.3% during the three months through May. Meanwhile, real exports of capital goods ex autos remain on an uptrend, slipping 0.9% in May, though up 3.0% y/y, while exports of industrial supplies & materials continue to bounce around record highs, dipping 1.3% in May after a two-month gain of 7.2%. Turning to real imports, foods, feeds & beverages imports were little changed at April's record high, ticking down 0.8% in May, while real auto imports have zoomed during seven of the past eight months, by 27.7%, to within 1.3% of its record high posted in May 2019. Meanwhile, real imports of capital goods ex autos remain on a steep uptrend, though have slipped 4.7% from March's record high, while imports of nonfood consumer goods ex autos are following a similar pattern, down 9.4% from their March record high. Real imports of industrial supplies & materials remain on a volatile uptrend, though are looking toppy recently.

Global Economic Indicators

Germany Industrial Production (*link*): Headline German industrial production, which includes construction, rose a smaller-than-expected 0.2% in May, though April output was revised upward to show a 1.3% increase—double the initial estimate of 0.6%. Germany's measure excluding construction (which the overall Eurozone uses) barely budged, edging up 0.1% in May from an upwardly revised 2.0% (from 1.1%) in April. According to the May report, supply chains continued to be disrupted because of the war in Ukraine and distortions that persist due to the Covid-19 crisis, such as the closure of ports in China. Ifo reports that 77% of German firms complained of "bottlenecks and problems in procuring intermediate products and raw materials in May." Energy was a big drag on output during May, plunging 5.8%, with consumer (-0.9%) and intermediate (-0.4) goods output also in the red. Meanwhile, capital goods production climbed for the second month, by 2.2% in May and 5.9% over the period—after sinking 9.5% during the two months through March. Construction output (0.4%) moved slightly higher after a 2.6% shortfall during the two

months through April. Compared to a year ago, production of consumer durable goods (+2.4 y/y) and nondurable goods (+1.9) production were in the black, while output of capital goods (-0.2), energy (-0.5), and intermediate goods (-4.1) were in the red.

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

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