MORNING BRIEFING
January 17, 2023

Inflation: Persistent, Transitory, or Both?

Check out the accompanying chart collection.

Executive Summary: Consensus economic views seem to be mostly pessimistic. Big bank CEOs are preparing for a mild recession. Americans are skittish about a downturn, most economists project a recession, and lots of investment strategists remain bearish. But not us: We don't foresee recessions this year in the US, Europe, or China. And we think 2023 will be an up year for the stock market. … Also: Goods inflation is proving transitory. Services is less so, hiked by unusually high rent inflation. And: a closer look at the Fed's core services ex housing costs CPI. … Dr. Ed's review of "The Banshees of Inisherin" (+).

YRI Weekly Webcast. Join Dr. Ed's live webcast with Q&A on Tuesday at 11 a.m. EST this week (usually on Mondays at 11 a.m.). You will receive an email with the link to the webinar one hour before showtime. Replays of this and previous webcasts are available *here*.

Strategy: Fluid Consensus. It's hard to be a contrarian for very long these days because the consensus seems to change so quickly. At the end of last year, there seemed to be widespread agreement that the first half of 2023 would continue to be bad for stocks as the Fed continues to raise interest rates and the market discounts a recession during H2-2023. The bear market in stocks was expected to continue through mid-year, with the major stock market averages falling to new lows before the start of a bull market during H2-2023 as the market started to discount a better 2024. The year has barely started, yet the consensus already seems to be turning less pessimistic. Consider the following:

(1) *The boy who cried "hurricane" all the way to the bank.* Leading the consensus on the economic outlook has been JPMorgan Chase CEO Jamie Dimon. In May of last year at an annual conference sponsored by AllianceBernstein, Dimon told a group of investors that a "hurricane" was coming for the economy. "Right now, it's kind of sunny, things are doing fine, everyone thinks the Fed can handle it," he said at the time. "That hurricane is right out there down the road coming our way. We don't know if it's a minor one or Superstorm Sandy. You better brace yourself. JPMorgan is bracing ourselves."

Early last week, in an interview with Fox Business, Dimon said, "I shouldn't have ever used the word 'hurricane.' What I said was there were storm clouds which may mitigate, and people said, 'Oh, he doesn't think it's a big deal.' So I said, 'No, those storm clouds could be a hurricane." Is that clearer now? In any event, Dimon's bank is now calling for a "mild recession" later this year.

As a result, the bank increased its loan-loss reserves by $1.4 billion in Q4-2022. In a Friday earnings call with analysts, CFO Jeremy Barnum said that JPMorgan is now on track to resume share purchases this quarter and reiterated that both small businesses and consumers are "generally on solid footing."

JPMorgan's profit for the three months ended December 31 was $11.0 billion compared with $10.4 billion a year earlier.

(2) *The other big banks add to loss reserves too.* Also on Friday, during Bank of America's earnings call, CEO Brian Moynihan said, "Our baseline scenario contemplates a mild recession." He elaborated: "[W]e also add to that a downside scenario, and what this results in is 95% of our reserve methodology is weighted toward a recessionary environment in 2023." During Q4, the bank set aside $1.1 billion for credit losses.

Wells Fargo set aside $957 million for credit losses during Q4, and Citigroup set aside $640 million. In addition, Citigroup CFO Mark Mason told reporters on Friday that his "base case" for the US is a "mild recession in the latter part of 2023."

So the four banks collectively set aside a total of around $4 billion in funds to prepare for bad loans (JPMorgan's $1.4 billion, Wells Fargo's $957 million, Bank of America's $1.1 billion, and Citi's $640 million).

Fed data on total allowances for loan losses at the large commercial banks showed an increase of $8.3 billion from the last week of Q3-2022 through the last week of Q4-2022 to $169.1 billion (*Fig. 1*). The bankers reported that their net interest income increased as both business and consumer loans continued to rise (*Fig. 2*). JPMorgan's Dimon said there was more competition for deposits as higher rates were causing customers to migrate to investments and other cash alternatives, meaning that the bank was "going to have to change saving rates."

(3) *The public is anxious.* According to a new *Gallup poll*, Americans are increasingly pessimistic about the country's prospects in 2023. The poll shows that 79% of respondents think we're heading into a year of "economic difficulty," while just 18% say it will be one of "economic prosperity." In addition, 65% say prices will continue to rise at a high rate. When

asked about the stock market, 63% expect it will fall this year. Democrats are more optimistic on the economy and stocks, at 36% and 53%, while Republicans are much more pessimistic, at 4% and 15%. (Our advice to Republicans: Never let your political views get in the way of your investment decision making.)

Measures of consumer optimism remain depressed, especially the expectations components (*Fig. 3* and *Fig. 4*). However, the latter have rebounded a bit during December and January, mostly because of falling gasoline prices.

(4) *Pessimistic economists.* In his December 4, 2022 *WSJ* *column* titled "Economists Think They Can See Recession Coming—for a Change," James Mackintosh wrote: "The regular *Wall Street Journal* survey finds economists think there is a 63% chance of recession in the next year. And a survey of economists and investors by the Federal Reserve Bank of Philadelphia shows expectations that gross domestic product will fall in three or four quarters are by far the highest since it started in 1968."

The Philly Fed's Survey of Professional Forecasters, which started during Q4-1968, includes the "Anxious Index," which is the probability of a decline in real GDP (*Fig. 5*). The survey asks panelists to estimate the probability that real GDP will decline in the quarter in which the survey is taken and in each of the following four quarters. The Anxious Index shows the probability of a decline in real GDP in the quarter after a survey is taken. For example, the survey taken in Q4-2022 yielded an Anxious Index reading of 47.2%, which means that forecasters believe there is a 47.2% chance that real GDP will decline in Q1-2023. That reading is the highest since Q2-2009. The probability of a recession over the next four quarters was 43.5%, the highest on record (*Fig. 6*).

The *WSJ* released its latest quarterly *survey* of economists on Sunday: "On average, business and academic economists polled by the *Journal* put the probability of a recession in the next 12 months at 61%, little changed from 63% in October's survey. Both figures are historically high outside actual recessions."

(5) *Strategists mostly bearish.* Bloomberg's Lu Wang wrote a December 1, 2022 *article* titled "Wall Street Turns Bearish on Stocks After Bad Year." She reported: "The average forecast of handicappers tracked by Bloomberg calls for a decline in the S&P 500 next year, the first time the aggregate prediction has been negative since at least 1999. Most of them turned progressively more dour as the worst year in the market since the financial crisis moved toward its end."

Lu also observed: “In almost a century of historic data, two straight years of losses or more only occurred on four separate occasions, with the latest episode coming during the bursting of the dot-com bubble.” Furthermore, during those four episodes, the drop during the second consecutive down year was greater than the one during the first (*Fig. 7*).

(6) *Our outlook.* We think 2023 will be an up year for the S&P 500. One of the many reasons is that since 1942, during each of the 3-month, 6-month, and 12-month periods following each of the 20 mid-term elections, the S&P 500 was up on average by 7.6%, 14.1%, and 14.9% (*Fig 8*).

More fundamentally, we expect that the US economy won’t fall into a recession this year. Neither will Europe or China, in our opinion. So the outlook for global growth is a positive rather than a negative one. In the US, we expect that consumer spending will continue to grow and that fiscal spending and onshoring will boost public and private spending on infrastructure. Chronic labor shortages should stimulate spending on productivity-enhancing technologies and capital equipment.

The consensus may be turning more optimistic as stock prices continue to build on the rally since last year’s October 12 low. But at the end of last year, our sense was that the consensus outlook of strategists was another tough year for the market because of a recession during the second half of the year. That scenario suggested that the stock market would be down during the first half of this year, up during the second half of the year (as investors started discounting a better 2024), but unchanged at best for the year as a whole.

We’re thinking the latest rally might continue through mid-year. The summer could be tough for stocks if Democrats and Republicans can’t get a quick deal on the debt ceiling. However, a deal should get done before Congress breaks for the summer vacation. Then we see the rally resuming through year-end, with the market up for the year and getting closer to its record high of January 3, 2022. That’s as long as the consensus doesn’t get too bullish.

US Inflation: Mixed Signals. Contrary to popular as well as expert opinion, inflation may turn out to be more transitory than persistent. Whether you agree with one or the other view depends on your time frame. In any event, goods inflation in the CPI is turning out to be more transitory than services inflation in the CPI, which has been more persistent so far. However, even that last point is debatable given that much of the persistence in services inflation in the CPI is attributable to rent inflation, which is a very odd duck. We know for sure that rent inflation in new leases is turning out to be transitory, but that’s not exactly how the CPI measures rents.

Then again, to be fair to the persistent camp, wage inflation is certainly showing signs of persistence because of the chronic shortage of labor. The question is whether that will fuel a wage-price spiral or whether wage inflation will persist but moderate somewhat while exceeding transitory price inflation. If you are getting dizzy, that's because spirals have that effect. Now consider the following:

(1) *CPI goods prices.* In the CPI, the inflation rate for goods peaked at 14.2% y/y during March 2022 (*Fig. 9*). It fell to 4.8% during December, the lowest reading since March 2021.

The CPI inflation rate for consumer durable goods plunged from last year's peak of 18.7% during February to -0.1% during December (*Fig. 10*). That certainly can be characterized as "transitory."

The jury is out on whether "transitory" will best describe the CPI inflation rate for consumer nondurable prices. It peaked at 16.2% during June of last year and fell to 7.3% during December (*Fig. 11*).

The CPI goods inflation rate excluding food and energy has dropped from a peak of 12.3% during February 2022 to only 2.1% during December (*Fig. 12*).

(2) *CPI services excluding rent of shelter.* There's no debating that inflation remains persistent in services.

On November 30, Fed Chair Jerome Powell delivered a *speech* titled "Inflation and the Labor Market" at the Brookings Institution. He discussed three major categories of consumer price inflation: "Core goods inflation has moved down from very high levels over the course of 2022, while housing services inflation has risen rapidly." He focused on core services ex housing, saying "[T]his may be the most important category for understanding the future evolution of core inflation. Because wages make up the largest cost in delivering these services, the labor market holds the key to understanding inflation in this category."

In the speech, he discussed a measure of this third category based on the PCED and calculated by the Fed's staff (*Fig. 13*). We don't have a comparable CPI measure other than CPI core services less rent of shelter (*Fig. 14*). It tends to run hotter than the Fed's PCED-based measure because medical care services inflation tends to run hotter in the CPI than in the PCED (*Fig. 15*).

The core services ex housing in the PCED rose 4.3% y/y through November. It has been stuck around this pace for the past year, showing no signs of heading lower. In the almost-comparable CPI measure, it was down from a high of 8.2% last year to 6.3% in December.

The big outlier in the CPI services category has been transportation services, at 14.6% y/y during December (*Fig. 16*). That should moderate in line with falling fuel prices but with a lag, although rising labor costs may be an offset.

(3) *Wage inflation.* There is a correlation between the Fed's new favorite inflation flavor of the month and the y/y percent change in average hourly earnings (*Fig. 17*). The good news is that wage inflation does seem to be moderating from last year's peak of 6.7% in March to 5.0% in December.

(4) *Rent inflation.* While you've probably had enough of this inflated analysis of inflation, allow us to observe that rent inflation on new leases continues to fall. According to ApartmentList, it was down to 3.9% y/y during December, while the CPI measure of primary residential rent inflation was still moving higher last month, to 8.3% (*Fig. 18*). The former suggests that the latter should peak around mid-year.

Movie. "The Banshees of Inisherin" (+) (*link*) is a quirky movie with quirky characters that takes place on a quirky remote mythical island off the coast of Ireland. It a darkly comic allegory for the Irish Civil War. It has a fine cast led by Colin Farrell and Brendan Gleeson in Oscar-worthy performances. Their characters have been friends for a long time until one of them decides he no longer wants to remain friends. The movie also includes a memorable performance by Jenny, a miniature donkey, and a "scene stealer" according to Farrell.

Calendars

US: Tues: Empire State Manufacturing Index -8.7; OPEC Monthly Report; Williams. **Wed:** Headline & Core PPI -0.1%m/m/6.8%y/y & 0.1%m/m/5.6%y/y; Retail Sales Total, Core, and Control Group -0.8%/-0.4%/-0.2; Headline & Manufacturing Industrial Production -0.1%/-0.2%; Capacity Utilization 79.6%; Business Inventories 0.4%; NAHB Housing Market Index 31; TIC Net Long-Term Transactions; MBA Mortgage Applications; Beige Book; IEA Monthly Report; Harker; Logan. (Bloomberg estimates)

Global: Tues: Eurozone ZEW Economic Sentiment -14.3; Germany ZEW Economic Sentiment -15.0; Germany CPI -0.8%m/m/8.6%y/y; Italy CPI 0.1%m/m/11.6%y/y; UK

Average Earnings Total & Ex Bonus 6.1%/6.3% y/y; UK Employment Change 3m/3m & Unemployment Rate 10k/3.7%; UK Claimant Count Change 19.8k; Canada CPI -0.5%m/m/6.3%y/y; Japan Industrial Production -0.1%; Japan Core Machinery Orders -0.9%m/m/2.4%y/y; BOJ Interest Rate Decision; World Economic Forum Annual Meetings; Fernandez-Bollo. **Wed:** Eurozone Headline & Core CPI -0.3%m/m/9.2%y/y & 0.6%m/m/5.2%y/y; UK Headline & Core CPI 0.4%m/m/10.6%y/y & 0.4%m/m/6.3%y/y; UK PPI Input & Output 0.2%m/m/18.0%y/y & 0.3%m/m/16.4%y/y; Japan Trade Balance -¥1.65t; BOJ Interest Rate Decision -0.10%; Australia Employment Change 22.5K; Australia Unemployment & Participation Rates 3.4%/66.8%; World Economic Forum Annual Meetings. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index moved back out of bear market again as it rose 2.8% w/w and ended the week 17.9% below its record high on December 27, 2021. The US MSCI ranked 34th of the 48 global stock markets that we follow in a week when 44 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed with a gain of 4.1% w/w, and improved to 16.2% below its June 15, 2021 record high. All regions rose for a second straight week, but EM Eastern Europe was the best regional performer with a gain of 5.4%, followed by EMU (5.1%), EM Latin America (5.0), EM Asia (4.3), and EAFE (4.2). EMEA was the worst performing region last week, albeit with a gain of 1.1%, followed by BIC (3.8). Morocco was the best-performing country last week, with a gain of 10.5%, followed by Argentina (10.0), the Netherlands (7.2), South Africa (6.6), and Korea (6.2). Among the 26 countries that underperformed the AC World ex-US MSCI last week, Egypt's 15.0% decline was the biggest, followed by those of Turkey (-5.3), Sri Lanka (-1.9), and Pakistan (-1.3). Looking at 2023's performance so far, the US MSCI is up 4.3% and ranks 35/48 as just six of the 48 countries are down ytd. The AC World ex-US has risen 7.1% ytd with all regions in positive territory. EMU is the best performer, with a gain of 10.5%, followed by EM Eastern Europe (8.4), EM Asia (8.3), BIC (8.3), and EM Latin America (7.6). The regional laggards so far in 2023: EMEA (1.6) and EAFE (7.0). 2023's best ytd country performers: Peru (15.5), Mexico (15.1), the Netherlands (14.2), Argentina (13.6), and China (12.1). Here are the worst-performing countries for the year: Egypt (-14.8), Turkey (-8.7), Norway (-2.3), Sri Lanka (-1.7), and Pakistan (-1.7).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved higher again last week. LargeCap rose 2.7% w/w, less than the 4.5% and 3.7% gains recorded for SmallCap and MidCap. At the week's end, LargeCap finished at 16.6% below its record high on January 3, 2022, MidCap at 11.3% below its record high on November 16, 2021, and SmallCap at 15.5% below its November 8, 2021 record high. Thirty-one of the 33 LargeCap and SMidCap sectors moved higher for the week, up from 30 rising a week earlier. SmallCap Energy was the best performer, with an increase of 7.6%, followed by SmallCap Materials (6.6%), SmallCap Consumer Discretionary (5.9), SmallCap Communication Services (5.8), and LargeCap Consumer Discretionary (5.8). Among the worst performers for the week, LargeCap Consumer Staples fell 1.5%, followed by LargeCap Health Care (-0.2), LargeCap Utilities (0.5), and SmallCap Utilities (0.6). Looking at performances so far in 2023, LargeCap's 4.2% gain is trailing those of SmallCap (7.0) and MidCap (6.2) as 32 of the 33 sectors are higher ytd. The top sector performers in 2023: Smallcap Consumer Discretionary (12.1), SmallCap Communication Services (11.2), SmallCap Materials (10.9), MidCap Consumer Discretionary (9.8), and MidCap Communication Services (9.7). Here are 2023's biggest laggards: LargeCap Health Care (-0.4), LargeCap Consumer Staples (0.3), LargeCap Utilities (1.2), SmallCap Utilities (1.6), and MidCap Health Care (2.0).

S&P 500 Sectors and Industries Performance (*link*): Nine S&P 500 sectors rose last week, and five outperformed the composite index's 2.7% gain. That compares to a 1.4% gain for the S&P 500 a week earlier, when nine sectors rose and seven outperformed the index. Consumer Discretionary was the best performer, with a gain of 5.8%, followed by Tech (4.6%), Real Estate (4.4), Materials (4.3), and Communication Services (4.1). Consumer Staples was the worst performer, with a decline of 1.5%, followed by Health Care (-0.2), Utilities (0.5), Industrials (1.5), Financials (2.0), and Energy (2.7). Looking at 2023's performance so far, the S&P 500 is up 4.2% ytd with seven sectors outperforming the index and 10 higher for the year. The best ytd performers: Consumer Discretionary (8.1), Communication Services (7.9), Materials (7.9), Real Estate (7.0), Financials (5.4), Tech (4.8), and Industrials (4.3). These are 2023's worst performers: Health Care (-0.4), Consumer Staples (0.3), Utilities (1.2), and Energy (2.7).

S&P 500 Technical Indicators (*link*): The S&P 500 improved last week relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index moved above its 50-dma for the first time in five weeks and above its 200-dma for the first time in six weeks and only the second time in 35 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma reversed higher as the index improved to a five-week high of 1.9% above its rising 50-dma from 0.3% below its falling 50-dma a week earlier. That compares to a recent 15-week low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma in early August, and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at a nine-month high of 1.0% below its falling 200-dma, up from 2.0% below a week. That's well above its 26-month low of 17.1% below its falling 200-dma in mid-June and down sharply from 10.8% above its rising 200-dma in November 2021. That also 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. The 200-dma fell for a 36th straight week, but its pace of decline has slowed since October, when it was falling at its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Nine of the 11 S&P 500 sectors are trading above their 50-dmas, up from eight above a week earlier. Consumer Staples and Health moved below in the latest week, and these three moved back above: Consumer Discretionary, Energy, and Tech. Ten sectors now have a rising 50-dma, up from eight a week earlier, as Consumer Discretionary and Tech turned back up and leaves Energy as the only sector with a falling 50-dma. Looking at the more stable longer-term 200-dmas, Utilities turned positive w/w and joined these other six sectors above that measure: Consumer Staples, Energy, Financials, Health Care, Industrials, and Materials. While seven sectors trade above their 200-dma, Energy and Industrials are the only sectors with a rising 200-dma, as the latter turned up in the latest week.

US Economic Indicators

Consumer Price Index (*link*): December headline & core CPI yearly rates continue to cool. The CPI slipped 0.1% in December, the first negative reading since May 2020, and follows a 0.1% uptick in November, while core prices rose 0.3% following gains of 0.2% and 0.3% the prior two months. That's half the gain recorded during September and August. The CPI *yearly rate* eased for the sixth month, from 9.1% back in June (the highest since November 1981) to 6.5% in December, while the core rate eased to 5.7% last month after accelerating from 5.9% in both June and July to 6.6% by September—which was highest since August 1982. Rates for both consumer durable goods and consumer nondurable goods excluding food are slowing, while the services' rate excluding energy remains on an accelerating trend, reaching 7.0% in December—with shelter costs particularly high. *Food costs* (10.4%

y/y) eased for the fourth month from August's 11.4%, which was the fastest pace since April 1979. Within food, the rate for food at home (11.8) slowed steadily from 13.5% in August—which was the highest since March 1979; the rate for food away from home eased from 8.6% y/y during October—the highest since fall 1981—to 8.3% in December. *Energy costs* continued to ease from June's 41.6%, which was the fastest pace since April 1980, sinking to a 22-month low of 7.3% at the end of 2022. Within energy, the rate for fuel oil slowed to 41.5% y/y last month after blipping up from 58.1% in September to 68.5% in October; it reached a record-high 106.7% in May. The rate for gasoline prices fell 1.5% y/y during December, the first negative reading since January 2021 and down from June's 59.9% (fastest since March 1980), while the rate for natural gas prices accelerated to 19.3% after slowing sharply from June's 38.4% (highest since October 2005) to an 18-month low of 15.5% in November. The electricity rate ticked up to 14.3% y/y last month after slowing steadily from August's 15.8%—which was the highest since August 1981—to 13.7% in November. The *consumer durable goods inflation* rate slowed for the 10th month, from 18.7% in February (highest since early 1940s) to -0.1% y/y by December—the lowest since July 2020. The rate for new cars (6.2) eased for the eighth month from April's near-record high of 13.2%, while the rate for used cars & trucks sank further into negative territory to -8.8%—the lowest since May 2009. It was as high as 41.2% during February and at a record-high 45.2% during June 2021. The rate for apparel prices slipped to a 20-month low of 2.9% y/y at the end of 2022 after fluctuating in a range of 5.0% to 5.5% from April through September. It was at a recent peak of 6.8% during March—which was its fastest rate since the end of 1980. The rate for furniture & bedding (4.7) is down from February's record high of 17.1%, while the rate for major appliances was -0.6% y/y, down from its recent peak of 12.4% during March. *Consumer nondurable goods inflation* slowed for the fourth month, to 7.3% y/y, after shooting up to 16.2% in June, which was more than double June 2021's rate and the highest since the 1940s. *Services inflation* accelerated 7.5% y/y last month, which was the highest since the early 1980s. Within services, owners' equivalent and tenant-occupied yearly rates accelerated 7.5% and 8.3%, respectively, in December—up from recent lows of 2.0% and 1.8%—with the former at a new record high and the latter the highest since October 1982. Over the three months through December, the owners' equivalent rent rose 8.4% (saar) and tenant rent 9.1%—exceeding their yearly rates. Meanwhile, the yearly rate for lodging away from home is bouncing around 3.0%; it was at a record high of 25.1% in both March and February of 2022. Turning to medical care, the yearly rate for hospitals' (4.6) services has been moving in a relatively flat trend, while the physicians' (1.7) services rate was down sharply from March 2021's 5.3% peak, though has moved up from its recent low of 0.5% during July 2022. Meanwhile, the yearly rate for airfares eased to 28.5% during December, down from 42.9% y/y in October—which was not far from September 1980s record high of 45.0%; the three-month rate has been negative the past five months.

Import Prices (*link*): Import prices unexpectedly rose in December, the first increase in six months, boosted by higher natural gas and food prices. Prices ticked up 0.4% after a five-month slide of 4.6%, with the yearly rate ticking up to 3.5% after easing steadily from 13.0% in March to 2.7% in November—the lowest since January 2021. Fuel prices rose 0.6% in December after plunging 25.3% during the five months through November, with the yearly rate accelerating to 20.2% after slowing steadily from 73.3% in June to a 21-month low of 9.8% in November; it peaked at 130.1% during April 2021. Nonpetroleum import prices climbed for the first time in eight months, by 0.8% in December, after a seven-month decline of 2.3%, with the yearly rate ticking up to 2.4% after slowing from a cyclical high of 8.1% in March to 2.0% by November—the lowest since the end of 2020. Here's the yearly rate in import prices for several industries from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to 7.1% from 55.2%), foods, feeds & beverages (4.0 from 15.7), capital goods (2.9 from 4.2), and consumer goods ex autos (0.4 from 3.2).

Consumer Sentiment Index (*link*): Consumer sentiment improved for the sixth time in seven months in mid-January, though remained low from a historical perspective. Consumers' assessment of personal finances surged 16% to an eight-month high this month, boosted by rising incomes and easing inflation. *Overall consumer sentiment* rose for the sixth time in seven months, by 4.9 points m/m and 14.6 points over the period, to 64.6, with both the present situation and expectations components moving higher. The *present situation component* jumped 9.2 points in early January to 68.6—up 14.8 points from its recent low of 53.8 last June—while the *expectations component* rose for the second month, by 2.1 points m/m and 6.4 points over the period, to 62.0. It's up 14.7 points from its recent low of 47.3 last July. The *one-year expected inflation rate* eased for the third month to 4.0% in mid-January (lowest since April 2021), though remains well above its 2.3% to 3.0% range recorded during the two years prior to the pandemic. The *five-year expected inflation rate* was little changed at 3.0% this month—remaining within the narrow 2.9% to 3.1% range during 17 of the last 18 months—above its 2.2%-2.6% range seen in the two years pre-pandemic. Joanne Hsu, director of the survey, warned: "Uncertainty over both inflation expectations measures remains high, and changes in global factors in the months ahead may generate a reversal in recent improvements."

Global Economic Indicators

Eurozone Industrial Production (*link*): Headline production, which excludes construction, rose in November for the third time in four months, rebounding 1.0% from October's 1.9% drop, for a four-month gain of 1.6%. *During November*, gains in capital (1.0%), intermediate (0.8), and consumer durable (0.4) goods production accounted for the increase, but was partially offset by declines in consumer nondurable goods (-1.3) and energy (-0.9) output—though the former remained on a steep uptrend. *Compared to a year ago*, headline production was up 2.0%, with capital (8.8) goods output posting the biggest gain, followed by consumer nondurable (6.3) and consumer durable (0.3) goods output, while energy output (-10.7) dropped at a double-digit rate, followed by a 3.3% shortfall in intermediate goods production. Production data are available for the *top four Eurozone economies* and show France (2.1) posted an impressive gain, while Germany (0.6) recovered a bit from October's 1.0% drop. Meanwhile, output in both Spain (-0.7) and Italy (-0.3) were in the red. Over the 12 months through November, production was in the plus column only in France (0.6), though barely, while Italy (-3.7) and Spain (-1.8) showed noticeable declines, while Germany's (-0.2) production was basically flat with a year ago.

UK GDP (*link*): Real GDP in November edged up 0.1% following October's 0.5% gain; it had contracted 0.8% during the final month of Q3. The *service sector* accounted for November's gain in GDP, expanding 0.2% during the month, while production fell 0.2% and construction output was flat. *Within services*, industries recording the biggest gains were administrative & support services (2.0%), information & communication (1.7), and human health & social work (0.9), while transportation & storage (-2.7) saw the biggest decline, followed by arts, entertainment & recreation (-2.1). *Industrial* output fell 0.2% in November, posting its 10th decline of 2022, for a ytd slide of 5.2%. *Manufacturing* production contracted 0.5% and 5.9% over the comparable periods. As for the *main industrial sectors*, ytd, intermediate (-7.4) goods production posted the largest decline, followed closely by consumer nondurable goods (-7.0), with (consumer durable (-5.8) and capital goods (-4.7) also recording noticeable declines.

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