Yardeni Research

## MORNING BRIEFING
**February 6, 2023**

## US Economy: Still Flying & Disinflating

*Check out the accompanying chart collection.*

**Executive Summary:** Last week brought plenty of affirmation for stock-market bulls, with lots of favorable data releases and a less hawkish-sounding Fed Chair Powell. The data depicted an economy that has not been landing at all but remaining quite airborne amid more signs of disinflation. … Powell said in his post-FOMC meeting presser that disinflation has a ways to go. Until inflation declines to the Fed's target level, monetary policy will remain restrictive, he said, confirming that two more 25bps hikes in the federal funds rate are likely, followed by a pause. We review the latest disinflation readings, and Dr. Ed reviews another movie: "To Leslie" (+ +).

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**US Economy: Still Up in the Air.** Last week, there were more no-landing economic indicators than either soft-landing or hard-landing ones. They mostly showed that the labor market remains very strong, real personal incomes are rising, consumers are spending more on autos, the service-providing sector is bouncing back, mortgage demand may be bottoming, construction remains strong, and inflationary pressures continue to moderate.

But be warned: The following review of all these happy developments may be too upsetting for permabears and other pessimists who are convinced that 2023 will be as bad as or worse than 2022 for the economy and the stock market. Honestly, Debbie and I don't recall a happier batch of economic indicators than the ones that came out last week. Consider the following:

(1) *Lots of jobs filled and still open.* For starters, December's JOLTS report released last Wednesday showed that job openings rose 572,000 (*Fig. 1*). So there were 1.9 jobs for each unemployed person at the end of last year. The "jobs plentiful" series that is included in the survey of consumer confidence conducted by the Conference Board suggests that job openings remained strong in January (*Fig. 2*).

Last Friday, we learned that the payroll measure of employment (which counts the number of jobs) jumped 517,000 during January (*Fig. 3*). That was headline news. Even more impressive was that the household measure of employment (which counts the number of workers with one or more jobs) soared 894,000 last month, up from 717,000 during December of last year.

The labor force also jumped higher last month, by 866,000. The number of unemployed fell 28,000 because the increase in household employment exceeded the increase in the labor force by this amount. As a result, the unemployment rate fell to 3.4%, the lowest since 1969 (*Fig. 4*). Last Thursday's unemployment insurance claims suggested that the labor market remained strong through the January 28 week, as claims fell to just 183,000 (*Fig. 5*).

(2) *Plenty of purchasing power.* Our Earned Income Proxy (EIP) for private-sector wages and salaries in personal income soared 1.5% m/m during January, as the average workweek jumped 0.9%, payrolls increased 0.3%, and average hourly earnings rose 0.3% (*Fig. 6*). We reckon that the headline PCED inflation rate rose 0.3% m/m during January; if so, then our inflation-adjusted EIP rose 1.2%, suggesting that wages and salaries in personal income might have done the same.

Now we know what could keep consumers spending this year once their excess savings run out. Solid employment gains and increases in real wages would provide them with purchasing power. Not widely noticed is that inflation-adjusted disposable personal income (DPI) mostly fell from mid-2021 through mid-2022, when excess saving boosted consumers' purchasing power. Over the six months through December of last year, real DPI rose 3.2% (saar) (*Fig. 7*). It should continue to grow this year, providing consumers with the purchasing power to do what they do best, i.e., go shopping.

(3) *Pedal to the metal.* Also last week on Friday, we learned that January's auto sales jumped to 16.2 million units (saar) from 13.6 million units during December (*Fig. 8*). The increase was led by domestic light trucks and imported autos (*Fig. 9*). There's certainly no sign of a recession in the auto industry's retail trade and manufacturing payrolls (*Fig. 10*). The former totaled 2.0 million last month, almost back to the pre-pandemic level, while the latter rose to 1.0 million, exceeding the pre-pandemic level by 5.7%.

(4) *Here to serve.* Also on Friday, we learned that January's NM-PMI rebounded to 55.2 from 49.2 during December (*Fig. 11*). That makes more sense than December's low reading, which seems like an aberration given that lots of data have confirmed that consumers have been spending more on services and less on goods. That explains why the M-PMI weakened all last year, falling below 50.0 in November and getting down to 47.4 in

January (*Fig. 12*).

We've been monitoring payroll employment in the industries that were hardest hit by the pandemic (*Fig. 13*). They all are service-providing industries, and their payrolls plunged during the 2020 lockdown. They've continued to recover through January and are now only 2.5% below the pre-pandemic peak.

(5) *Housing bottoming, maybe.* Last Wednesday's report from the Mortgage Bankers of America confirmed that mortgage applications to purchase a house might have started to bottom in recent weeks (*Fig. 14*). Mortgage rates have edged down and home prices are falling, reviving housing demand. The pending existing home sales index edged up in December, and the new housing market index did the same during January (*Fig. 15*).

(6) *Constructive on construction.* Residential construction currently accounts for 48% of total construction in the US. Despite the weakness in the former, the latter stalled last year at a record-high level of around $1,800 billion (saar) (*Fig. 16* and *Fig. 17*). Private nonresidential construction rose 15.0% y/y through December, while public construction rose 11.7% over the same period. Here are the y/y growth rates in the eight categories of nonresidential construction: amusement & recreation (11.8%), commercial (22.6), communication (3.0), health care (9.4), lodging (36.7), manufacturing (42.6), power (-8.6), and transportation (21.7).

Some of the apparent resilience of construction spending undoubtedly reflects the higher costs of such activity. Nevertheless, there's certainly no sign of a recession in construction employment, which rose to a record high of 7.9 million in January (*Fig. 18*).

(7) *One downer.* The weakest indicator last week was January's M-PMI, as mentioned above. However, that mostly reflects the shift in consumer spending from goods to services. Then again, auto sales rebounded strongly in January. Furthermore, aggregate weekly hours worked in manufacturing edged higher in January, according to the latest employment report, suggesting a slight pickup in production last month following declines during the two months at the end of 2022 (*Fig. 19*). In addition, payroll employment in the trucking industry rose to yet another record high of 1.6 million in January (*Fig. 20*). Trucking is a service-providing industry that moves goods, which clearly are expected to keep on trucking.

(8) *Bottom line.* The permabears have been tweeting that January's employment report must be wrong for various reasons. We think that's mostly because it doesn't support their

hard-landing scenario for the economy, earnings, and the stock market. However, as noted above, there are plenty of other labor market indicators confirming that the labor market and the broad economy remain resilient.

**US Inflation I: Powell Sees Some 'Disinflation.'** The word "disinflation" was uttered 11 times at Fed Chair Jerome Powell's *press conference* on February 1. He was the only one who mentioned the word at his presser. He repeatedly acknowledged that inflation was moderating but still had a ways to go before reaching the Fed's 2.0% target. Nevertheless, Powell sounded much less hawkish than during his previous presser on December 14, 2022, when the word was mentioned only twice, both times by reporters. Here are three excerpts from Powell's February 1 presser:

(1) "So, I would say it is a good thing that the disinflation that we have seen so far has not come at the expense of a weaker labor market. But I would also say that that disinflationary process that you now see underway is really at an early stage. What you see is really in the goods sector."

(2) "We can now say, I think, for the first time that the disinflationary process has started. We can see that. And we see it really in goods prices so far. Goods prices is a big sector."

(3) "It's the early stages of disinflation. And it's most welcome to be able to say that we are now in disinflation, but that's great. But we just see that it has to spread through the economy and that it's going to take some time, that's all.

Powell's only hangup is that "a large sector called … core non-housing services" is still inflating at a 4% annual rate. Powell observed that there are "seven or eight different kinds of services" where inflation remains "persistent" and "will take longer to get down." He pledged that "[we] have to complete the job." Powell also said that the core services ex-housing sector is probably more "sensitive" to the tight labor market and wage inflation, which remains high.

*Bottom line:* What this all means, according to Powell, is that the FOMC will vote on "a couple of more rate hikes to get to that level we think is appropriately restrictive." That would put the federal funds rate range at 5.00%-5.25% by early May assuming (as Powell suggested) two more 25bps hikes at the next two FOMC meetings. The FOMC then intends to keep it there until inflation falls to 2.0%. By the way, Powell mentioned the word "restrictive" in this context 10 times during his presser.

**US Inflation II: Disinflation Watch.** Our December 14, 2022 *Morning Briefing* was titled "Disinflation?" Notwithstanding the question mark, we reiterated our view that inflation peaked in June and continued to moderate through November. As noted above, Powell also is talking about disinflation now, though he thinks it has just started and has a ways to go before the headline PCED inflation rate gets down to 2.0%.

Last week was chock full of indicators confirming that inflation is moderating, particularly in the labor market. Consider the following:

(1) *Productivity and labor costs.* The headline CPI inflation rate (y/y) is highly correlated with nonfarm unit labor costs (ULC) inflation on a y/y basis (*Fig. 21*). The latter peaked last year at 7.0% during Q3, falling to 4.5% during Q4. ULC inflation is equal to hourly compensation inflation (which was down to only 3.0% during Q4) minus productivity growth (which was -1.5% during Q4).

Last year was the second worst year for productivity growth on record going back to 1947. We attribute this development mostly to the pandemic and its consequences. The losses in productivity as a result of working from home seem to have exceeded the gains. The rapid increase in quits and hirings weighed on the productivity of businesses as well.

However, the Q4 percent changes in these labor market variables at annual rates suggest that the worst may be over. Productivity rose 3.0% (saar) during the quarter, and hourly compensation increased 4.1%, resulting in a 1.1% increase in ULC.

(2) *Average hourly earnings.* There are other measures of hourly compensation in addition to the quarterly ULC series. January's average hourly earnings (AHE) was included in Friday's employment report. It showed that AHE for all workers fell to 4.4%, down from last year's peak of 5.9% during March (*Fig. 22*).

(3) *Prices-paid indexes.* Also last week, January's prices-paid indexes for the national M-PMI and NM-PMI surveys showed that the former edged up to 44.5 but remained solidly below 50.0, while the latter edged down to 67.8 in January from 68.1 in December. The M-PMI prices-paid index suggests that the PCED for goods should continue to moderate in coming months (*Fig. 23*). The NM-PMI prices-paid index suggests that the PCED for services should peak around mid-year (*Fig. 24*).

**Movie.** "To Leslie" (+ +) (*link*) is about Leslie Rowland, a single mother living in Texas who wins the lottery. It's mostly downhill from there through most of the film until she tries to save herself from her dependence on alcohol in an effort to reconnect with her estranged 20-year-old son. Andrea Riseborough plays the lead role. Her performance is intense and impressive. The rest of the cast is also very good. The underlying theme of the movie is that personal redemption is difficult, but if there's a will, there's a way.

## Calendars

US: **Mon:** Loan Officer Survey. **Tues:** Trade Balance -$68.5b; Consumer Credit $24.0b; API Weekly Crude Oil Inventories; EIA Short-Term Energy Outlook; Powell; Barr. (Bloomberg estimates)

Global: **Mon:** Eurozone Retail Sales -2.5%m/m/-2.7%y/y; Germany Factory Orders 2.0%; Spain Consumer Confidence 59.3; UK BRC Retail Sales Monitor 3.9%; Japan Household Spending 0.3%; Australia Trade Balance $12,2b; RBA Statement; Lagarde; Pill; Mann. **Tues:** Germany Industrial Production -0.6%; Spain Industrial Production; UK Halifax House HPI -0.8%m/m/-0.3%y/y; Japan Leading Index 95.0; Schnabel; Ramsden; Pill; Macklem. (Bloomberg estimates)

## Strategy Indicators

**Global Stock Markets Performance** (*link*): The US MSCI index rose 1.7% w/w to a five-month high and remained out of a bear market for a fourth week at 14.8% below its record high on December 27, 2021. The US MSCI ranked 13th of the 48 global stock markets that we follow in a week when 24 of the 48 countries rose in US dollar terms. The AC World ex-US index ticked down a whisker for its first decline in seven weeks, but remained out of a bear market at 14.9% below its June 15, 2021 record high. EMU was the best regional performer with a gain of 2.2%, followed by EAFE (0.5%). BIC was the worst performing region last week with a decline of 3.8%, followed by EM Latin America (-3.0), EM Asia (-1.1), EM Eastern Europe (-0.7), and EMEA (-0.6). Taiwan was the best-performing country last week, with a gain of 7.3%, followed by Morocco (3.2), Sweden (3.1), Ireland (3.1), and Greece (2.9). Among the 24 countries that underperformed the AC World ex-US MSCI last week, China's 4.9% decline was the biggest, followed by those of Argentina (-4.2), Colombia (-3.9), Brazil (-3.9), and Pakistan (-3.6). Looking at 2023's performance so far, the US MSCI is up 8.1% and ranks 25/48 as just seven of the 48 countries are down ytd. The AC World ex-US has risen 8.9% ytd, with all regions in positive territory. EMU is the best performer ytd, with a gain of 14.1%, followed by EM Asia (9.9), EM Eastern Europe (9.1), and EAFE (9.0). The regional laggards so far in 2023: EMEA (1.6), Latin America (6.0), and BIC (6.4). This year's best ytd country performers: the Czech Republic (20.4), Netherlands (19.1), Ireland (16.8), Taiwan (16.7), and Korea (16.1). Here are the worst-performing countries of the year so far: Pakistan (-17.9), Turkey (-6.0), Norway (-3.8), India (-3.2), and Egypt (-1.7).

**S&P 500/400/600 Performance** (*link*): All three of these indexes rose for the fourth time in five weeks as MidCap became the first index to leave correction territory during the week for the first time since mid-August. LargeCap gained 1.6% w/w, behind the 5.0% and 3.4% gains recorded for SmallCap and MidCap. At the week's end, LargeCap finished at 13.8% below its record high on January 3, 2022, MidCap at 7.0% below its record high on November 16, 2021, and SmallCap at 10.6% below its November 8, 2021 record high. Twenty-eight of the 33 LargeCap and SMidCap sectors moved higher for the week, down from 31 rising a week earlier. SmallCap Financials was the best performer, with an increase of 6.5%, followed by SmallCap Consumer Discretionary (6.3%), SmallCap Materials (6.2), SmallCap Industrials (5.9), and SmallCap Tech (5.4). Among the worst performers for the week were LargeCap Energy (-5.9), followed by MidCap Energy (-5.6), SmallCap Energy (-1.8), LargeCap Utilities (-1.5), and LargeCap Health Care (-0.1). Looking at performances so far in 2023, LargeCap's 7.7% gain is trailing those of SmallCap (13.2) and MidCap (11.4) as 28 of the 33 sectors are higher ytd. The top sector performers in 2023: SmallCap Communication Services (23.4), SmallCap Consumer Discretionary (22.8), LargeCap Communication Services (20.8), MidCap Consumer Discretionary (17.9), and SmallCap Materials (17.7). Here are 2023's biggest laggards: LargeCap Utilities (-3.7), LargeCap Health Care (-2.5), LargeCap Energy (-2.0), LargeCap Consumer Staples (-1.6), and MidCap Energy (-0.6).

**S&P 500 Sectors and Industries Performance** (*link*): Seven of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.6% gain. That compares to a 2.5% gain for the S&P 500 a week earlier, when nine sectors rose and five outperformed the index. Communication Services was the best performer, with a gain of 5.3%, followed by Tech (3.7), Consumer Discretionary (2.2), and Industrials (1.7). Energy was the worst performer, with a decline of 5.9%, followed by Utilities (-1.5), Health Care (-0.1), Materials (0.0), Consumer Staples (0.6), Financials (0.9), and Real Estate (1.5). Looking at 2023's performance so far, the S&P 500 is up 7.7% ytd with four sectors outperforming the index and seven higher for the year. The best ytd performers: Communication Services (20.8), Consumer Discretionary (17.0), Tech (14.0), and Real Estate (10.8). These are 2023's worst performers: Utilities (-3.7), Health Care (-2.5), Energy (-2.0), Consumer Staples (-1.6), Industrials (4.7), Financials (6.8), and Materials (7.4).

**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 was above its 50-dma and 200-dma for a fourth week. That's the index's longest positive 200-dma streak since January 2021 when it had been above its 200-dma for 81 straight weeks through February 2021. The S&P 500's 50-dma moved higher as the index improved to an eight-week high of 4.7% above its rising 50-dma from 3.3% a week earlier. That compares to a four-month 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 13-month high of 5.1% above its falling 200-dma, up from 3.4% above a week earlier. 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 rose w/w for the first time in 39 weeks.

**S&P 500 Sectors Technical Indicators** (*link*): Seven of the 11 S&P 500 sectors are trading above their 50-dmas, down from eight above a week earlier. Energy fell below in the latest week and joined these three sectors still trading below their 50-dma: Consumer Staples, Health Care, and Utilities. Seven sectors have a rising 50-dma now, down from nine a week earlier, as Energy and Utilities fell below in the latest week and joined Consumer Staples and Health Care in that club. Looking at the more stable longer-term 200-dmas, Consumer Discretionary and Consumer Staples moved above in the latest week. That leaves Utilities as the only sector still below that measure and is the lowest count in nine months. The rising 200-dma club has four members now, as Health Care joined Energy, Financials, and Industrials in that club last week.

## US Economic Indicators

**Employment** (*link*): Payroll employment in January blew past forecasts, and there were upward revisions to both December and November payrolls. January payrolls soared 517,000 (vs 188,000 consensus estimate), while both December (to 260,000 from 223,000) and November (290,000 from 256,000) employment were revised higher, for a net gain of 71,000. *Total payroll* employment has recovered 24.6 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 2.7 million. Jobs gains in *private service-providing* industries increased 397,000 in January, accelerating for the second month from November's 187,000, while *goods-producing* jobs rose 46,000, in line with the prior two months. Leisure & hospitality (128,000) posted the largest gain—with food services & drinking places contributing 99,000 to last month's increase, followed by professional & business services (82,000), health care (58,000), retail trade (30,000), construction (25,000), transportation & warehousing (23,000), social assistance (21,000), and manufacturing (19,000). Government added 74,000 jobs last month, boosted by a 35,000 increase in state government education, reflecting a return of university workers after strike. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.5 million), transportation & warehousing (+954,800), health care (173,500), information services (+211,000), construction (+276,000), financial activities (+245,000), nondurable goods manufacturing (+115,000), durable goods manufacturing (+99,000), education (+82,500), wholesale trade (+148,100), and social assistance (+104,900). Here are the *industries that are below their February 2020 pre-pandemic levels*: retail trade (-37,300), mining & logging (-55,000) and leisure & hospitality (-495,000).

**Wages** (*link*): Average hourly earnings for all workers in January rose 0.3%, after a string of 0.4% increases, with the yearly rate slowing to 4.4%, down from a recent high of 5.9% during March 2022. January's rate was below the December inflation-rate gains of 6.5% and 5.0% in the CPI and PCED measures, respectively. Private industry wages over the three months through January increased 4.5% (saar), a tick above its yearly rate of 4.4%, with service-providing industries' (4.4%, saar & 4.5 y/y) three-month rate a tick below its yearly rate. Meanwhile, the three-month rate for goods-producing industries (4.6 & 4.2) was a few ticks above its yearly rate. *Service-providing industries showing three-month rates above their yearly rates*: wholesale trade (7.9 & 5.1), education & health services (6.2 & 4.5), other services (6.2 & 4.1), utilities (5.7 & 5.3), and retail trade (5.5 & 4.3), with professional & business services (4.6 & 4.5) and financial activities (4.0 & 3.9 ) three-month rates just a tick above their yearly rates. *Service-providing industries showing three-month* *rates below their yearly rates*: transportation & warehousing (-0.9 & 3.1), information services (1.0 & 5.8), and leisure & hospitality (6.7 & 7.0). *Goods-producing industries*: The three-month rates are above their yearly rates for nondurable goods manufacturing (7.0 & 4.3), natural resources (6.7 & 4.3) and construction (5.7 & 5.5) industries, and below for durable goods manufacturing (1.6 & 2.7).

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 32nd increase in the past 33 months—jumping 1.5% in December and 36.5% over the period to yet another new record high. In January, *average hourly earnings* advanced 0.3%, with *aggregate weekly hours* jumping 1.2%, as the average workweek rebounded 0.9% following December's 0.3% decline. Over the past 12 months, our EIP was up 8.5%—with aggregate weekly hours up 4.1% and average hourly earnings up 4.4%. That's up from 7.3% in December, but below last February's 11.8% rate, which was the fastest since spring 2021.

**Unemployment** (*link*): The unemployment rate in January sank to its lowest rate since October 1969. The jobless rate fell for the third month, from 3.7% last October to 3.4% last month, even as 866,000 entered the labor force last month, with household employment shooting up 894,000 during the month and the number of unemployed falling 28,000. The rate had fluctuated between 3.5% and 3.7% the last 10 months of 2022. The participation rate in January edged up to 62.4%, the highest since last March—at the top of the 62.1% to 62.4% range the past year. *By race*: Unemployment rates in January fell for African Americans (to 5.4% from 5.7%), while the rate for Whites (to 3.1% from 3.0%) showed a slight uptick and rates for Asians (2.8 from 2.4) and Hispanics (4.5 to 4.1) moved higher. The rate for African Americans and Whites are just a tick above their record lows of 5.3% and 3.0%, respectively, while the rates for Asians and Hispanics are holding near their record lows. *By education*: The January rate for those with less than a high-school diploma fell from 5.0% to 4.5%, while those with a high-school degree (3.7 from 3.6) and bachelor's degree or higher (2.0 from 1.9) ticked up; the rate for those with some college or an associate degree held at 2.9%. All measures are hovering around record lows.

**Productivity & Unit Labor Cost**s (*link*): Productivity finished 2022 strong after sharp declines the first two quarters of the year. Productivity expanded 3.0% (saar) during Q4, while Q3 growth was revised up to 1.4% from 0.8%, after contracting 5.9% and 4.1% the first two quarters of the year. For all of 2022, productivity dropped 1.3%—the weakest performance since 1974. During Q4, output expanded 3.5% (saar), similar to Q3's gain, while hours worked edged up only 0.5% (saar)—the weakest since the pandemic. Unit labor costs rose only 1.1% (saar) during the final quarter of last year, easing steadily from Q1's

8.5%, as strong productivity growth helped temper rising compensation costs, which accelerated from 2.1% during Q1 to 4.1% by Q4. The latest data support our view that a major productivity growth cycle started in Q4-2015. Productivity can be volatile, so we track the annualized 20-quarter percent change, which bottomed at 0.4% during the final quarter of 2015. It then climbed to 2.5% during Q2-2021 before slowing to 1.7% during Q3-2022—which is likely a bottom, as productivity began edging higher again at the end of last year.

**Auto Sales** (*link*): Auto sales in January rebounded to its highest level since May 2021, led by domestic light-truck sales. Total auto sales jumped 2.6mu to 16.2mu (saar), after slumping the prior two months from 15.4mu to 13.6mu. *Domestic light-truck sales* jumped 2.0mu to 10.0mu last month, highest since April 2021, after retreating from 9.2mu in October to 8.0mu in December. *Domestic car sales* ticked up to 2.3mu (saar) after dropping from 2.5mu in October to 2.1mu by the end of last year. Sales of *imports* are on an accelerating trend, jumping to 3.9mu in January—the highest since mid-2021—from its recent bottom of 3.0mu last May.

**US Nonmanufacturing PMI** (*link*): Activity in the service sector rebounded sharply at the start of this year, with ISM's NM-PMI jumping to 55.2 from 49.2 in December—which was the first reading in contractionary territory since May 2020, during the height of the pandemic. It was at a record-high 67.6 in November 2021. Meanwhile, inflationary pressures continued to ease. According to the report, "Although responses varied by industry and company, the majority of panelists indicated that business is trending in a positive direction." Of the four components of the NM-PMI, the forward-looking *new orders* (to 60.4 from 45.2) gauge shot up after a brief dip below the breakeven point of 50.0, while the *business activity* (60.4 from 553.5) measure moved back above 60.0. Meanwhile, the *employmen*t (50.0 from 49.4) component continued to bounce around the breakeven point of 50.0. The *supplier deliveries* (50.0 from 48.5) measure ticked up slightly, down sharply from 75.7 during October and November 2021 (a reading above 50.0 indicates slower deliveries, and below 50.0 faster deliveries). On the *inflation* front, the price index continued to ease, slowing to a two-year low of 67.8 last month; it was at a record-high 84.5 at the end of 2021.

## Global Economic Indicators

**Global Composite PMIs** (*link*): "Global economic activity and new orders show signs of stabilizing at the start of 2023" was the headline of the latest report. The *C-PMI* was within a hair of the 50.0 demarcation line between expansion and contraction, climbing for the second month, from 48.0 (lowest since mid-2020) in November to 49.8 in January. The *NM-PMI* climbed from 48.1 to 50.1 over the two-month period, while the M-PMI ticked up to 49.1 after a seven-month slide, from 52.3 last May to 48.6 by the end of last year—which was the lowest since June 2020. *Geographically*, the report notes that C-PMIs showed the main pockets of growth were located in Asia—with both China (51.1) and Japan (50.7) returning to expansion, while India (57.5) once again recorded the strongest rate of growth of the nations covered. The Eurozone's C-PMI (50.3) showed a marginal increase in economic activity, with expansions in Italy (51.2), Spain (51.6), and Ireland (52.0), offsetting contractions in the area's two largest economies, Germany (49.9) and France (49.1). Meanwhile, the US, UK, Russia, Australia, and Kazakhstan all saw output decrease last month. *By sector*, only two of the six sub-sectors covered by the survey recorded expansion of output in January—business services and consumer goods. Meanwhile, contractions were registered in the consumer services, financial services, intermediate foods, and investment goods categories—with the steepest declines posted in financial services. In the meantime, business optimism continued to improve in January, with overall confidence reaching an eight-month high, following a seven-month string below its long-run average. Both the manufacturing and service sectors saw a boost in optimism at the start of 2023. Turning to *prices*, it was a mixed picture. Input prices in January rose at a faster rate, with inflationary pressures picking up in both the manufacturing and service sectors and the latter showing the steeper acceleration. Meanwhile, output prices rose at its slowest pace in almost two years.

**Eurozone CPI Flash Estimates** (*link*): The headline CPI rate for January is expected to slow for the third month to 8.5% y/y, according to the flash estimate, after accelerating to a record-high 10.7% in October. For perspective, the rate was as low as -0.3% at the end of 2020. Looking at the main components, once again *energy* is forecast to record the largest gain, though is forecast to slow for the third month in January to 17.2% from 41.5% in October; it was at a record high of 44.3% in March. The rate for *food, alcohol & tobacco* is predicted to soar to a record-high 14.1% in January—accelerating steadily from June 2021's 0.5%—while the rate for *non-energy industrial goods* is forecast to reach a new record high of 6.9%. The *services* rate is expected to slow to 4.2% y/y, from December's 4.4%—which was the highest since the end of 1993. Of the *top four Eurozone economies*, rates are available for three, with Italy (10.9% y/y) forecast to be above the Eurozone's rate of 8.5%, while rates for France (7.0) and Spain (5.8) are expected to be below.

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