MORNING BRIEFING
February 21, 2023

Four Landing Scenarios

Check out the accompanying chart collection.

Executive Summary: What's next for the US economy? Of four potential outlooks, we see the greatest odds (40%) of a soft landing in which inflation moderates, the Treasury bond remains below last year's peak, and the S&P 500 ends the year at a new high. We also see two no-landing possibilities—one disinflationary, one inflationary (20% each)—and a possible hard landing (20%). The first two scenarios would be optimistic for the economy and bullish for stocks, the last two negative and bearish. … Also: We examine data supporting the relatively new no-landing scenarios as well as the latest inflation data. … And: Dr. Ed reviews "Vikings: Valhalla: Season 2" (+ + +).

YRI Weekly Webcast. Join Dr. Ed's live webcast with Q&A Tuesday morning at 11 a.m. EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: Take Your Pick. Debbie and I think we coined "rolling recession" back in the mid-1980s to describe the economic slowdown that many feared would turn into an economy-wide recession. We think the phrase accurately describes the performance of the US economy since early last year. It's similar to a "growth recession," "mid-cycle slowdown," and "soft landing" but includes the concept that different areas of the economy are experiencing the slowdowns at different times.

We think we were among the first to raise the possibility of the "no landing" scenario for this year. Here is what we wrote in the January 9, 2023 *Morning Briefing* about this now possible scenario: "There will be no landing for the economy this year. Instead, real GDP will grow by 2.0% or more. Inflation will moderate without a recession down to 3%-4% based on the PCED measure of consumer prices. By the end of this year, it will be closer to the bottom end of this range."

Nevertheless, the soft-landing scenario remained our most likely outlook. Then came January's strong batch of economic indicators during the first two weeks of February. In our February 6 *Morning Briefing*, we wrote: "Last week, there were more no-landing economic indicators than either soft-landing or hard-landing ones. … Debbie and I don't recall a happier batch of economic indicators than the ones that came out last week." Suddenly, we

along with lots of other economists and strategists had to assess the odds of no landing.

Previously, we had been assigning subjective probabilities of 60% to a soft landing and 40% to a hard landing. We tried to keep things simple last year, but we have to acknowledge that there are now four possible scenarios for this year:

(1) *Soft landing (40%).* In the soft-landing scenario, economic growth slows to a crawl this year, with real GDP rising around 0.5%-1.5%. The PCED inflation rate moderates to 3.0%-4.0% this year and is closer to the bottom end of this range by year-end. The Fed raises the federal funds rate two more times, by 25bps each time, to 5.00%-5.25% and leaves it there through the end of this year. The 10-year Treasury bond yield this year remains below the 4.25% at which it peaked last year. The S&P 500 rises to 4500 this summer and closes the year at a new high of 4800 as investors anticipate stronger earnings in 2024. S&P 500 earnings per share rises from $215 last year to $225 this year, and investors discount $250 next year by the end of this year. Life is good.

(2) *Disinflationary no landing (20%).* In this version of the no-landing scenario, real GDP rises around 2.0%-3.0%. However, inflation continues to moderate. Productivity makes a comeback. Price inflation falls faster than wage inflation so real wages increase, providing consumers with more purchasing power as employment gains slow. The Fed continues to hike the federal funds rate in 25bps increments. The terminal federal funds rate rises to 5.50%-5.75% by mid-year and remains there through year-end. The 10-year Treasury bond yield rises to 4.50%-4.75%. The S&P 500 is range bound between 4000 and 4500 most of the year. The earnings outlook is at least as good as in the soft-landing scenario, but higher interest rates weigh on valuation multiples.

(3) *Hard landing (20%).* In this scenario, an official recession occurs. As we've noted before, if that happens, it will be the most widely anticipated recession of all times. Hard-landers keep pushing it out as their dire predictions don't pan out, especially now that the no-landing scenario has made a surprising comeback as a result of January's stronger-than-expected economic indicators.

A hard landing has been mostly promoted by stock market bears who believe that last year's bear market isn't over and has another leg down this year to a new low, maybe before mid-year, in anticipation of a recession during H2-2023. If that doesn't happen, there is always H1-2024 or H2-2024. A hard landing may be an inevitable result of the lagged effect of the Fed's extraordinary monetary tightening last year. Or else, it could result because the Fed makes the classic mistake of overdoing what it has done so far.

(4) *Inflationary no landing (20%).* The new version of the hard landing is that inflation either persists or rebounds because there is no landing. This may be the most bearish scenario of them all because Fed officials would have to raise interest rates much higher as they conclude that only a recession can bring inflation down. In other words, the inflationary version of the no-landing scenario would simply be the long way to a hard landing, resulting in an even deeper recession and more bearish outlook for stocks.

(5) *Our bottom line.* The first two scenarios add up to a 60% subjective probability, in our opinion. They are optimistic outlooks for the economy and bullish for stocks and bonds. The second two scenarios add up to 40% subjective probabilities, in our opinion. They are pessimistic outlooks for the economy and bearish for stocks.

(6) *The Fed's bottom line.* The party line at the Fed has called for a soft landing according to the FOMC's December 2022 *Summary of Economic Projections* (SEP). Real GDP was expected to rise 0.5% in both 2022 and 2023 followed by 1.6% and 1.8% growth in 2024 and 2025. The longer-run trend of growth was deemed to be only 1.8%. The PCED inflation rate was expected to fall from 5.6% in 2022 to 3.1% this year, 2.5% next year, and 2.1% in 2025. The longer-run trend of inflation was judged to be 2.0%. The federal funds rate was expected to rise to 5.1% this year and fall to 4.1% and 3.1% over the next two years, closer to its longer run rate of 2.5%. (See our handy *FOMC Economic Projections*.)

The next SEP will be released on March 22. Between now and then, there will be releases for February's CPI and employment and plenty of other economic and financial indicators that are likely to influence the next SEP. January's economic indicators suggest that Fed officials will stick with their soft-landing scenario but will signal that it might take a higher-for-longer trajectory for the federal funds rate to get there. However, February's batch of economic indicators collectively might favor one of the other four scenarios.

For now, we remain in the soft-landing club and have applied for membership in the disinflationary no-landing one.

US Economy II: Still Flying. Now that the no-landing scenario is widely considered a credible alternative to the soft- and hard-landing ones, let's have a closer look at the latest data that has provided support for it:

(1) *Production and warm winter.* It's possible that some of the strength in the latest batch of January's economic indicators was attributable to the mild winter weather. According to the Fed's industrial production release, the output of utilities fell 9.9% in January, as a swing

from unseasonably cold weather in December to unseasonably warm weather in January depressed the demand for heating (*Fig. 1*). As a result, industrial production (unchanged in January) was weighed down by the drop in utility output. Manufacturing output was actually up 1.0% m/m, and mining output rose 2.0%, following two months with substantial decreases for each sector.

The Fed reported that consumer energy products, commercial energy products, and energy materials all recorded substantial decreases because of the drop in the output of utilities. The output of most other market groups advanced. The indexes for consumer non-energy nondurables, business equipment, defense and space equipment, and nondurable materials all rose more than 1%; the indexes for consumer durables, construction supplies, non-energy business supplies, and durable materials increased between 0.5% and 1.0%.

Some industries are likely to continue to grow, thus favoring the soft- or no-landing scenarios. Output of defense & space equipment rose 1.8% m/m (10.6% y/y) to a record high in January (*Fig. 2*). Aerospace & miscellaneous transport equipment jumped 1.1% m/m (10.2% y/y) last month, the highest since mid-2018 (*Fig. 3*). While semiconductor output has been falling since March 2022's record high, production of computers & peripheral equipment and communication equipment both rose to record highs during January (*Fig. 4*). There's no sign of a "tech wreck" in these data series.

It's worth noting that industrial production of construction supplies edged up 0.8% m/m in January and is down only 0.4% y/y (*Fig. 5*). So far, the recession in the housing industry isn't decimating the construction supplies industries, as it had during the 2008 recession. That's because multi-family housing construction and nonresidential construction remain strong (*Fig. 6*).

(2) *Retail sales and discounting.* Last year, consumers rushed to do their holiday shopping during October, when retail sales jumped 1.1% m/m. They did so because they feared that the stores might run out of merchandise in November and December, when retail sales fell 1.1% for both months. However, retailers received deliveries of lots of the merchandise they had ordered for the holidays that had been delayed by the jam at West Coast ports. As a result, their inventories piled up at the end of 2022. They discounted them during January, which boosted department-store sales by 17.5% during the month.

That's the way we explain some of the strength in January's retail sales. Last week, in the February 15 *QuickTakes*, we also observed that our Earned Income Proxy (EIP) rose 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. 7*).

Furthermore, auto sales soared from 13.6 million units (saar) during December to 16.2 million units in January (*Fig. 8*). That might have been partly attributable to the mild weather that month. In addition, parts shortages have abated in the auto industry, so orders have been getting filled faster.

Real retail sales (using the CPI goods index) rose 2.6% m/m during January but remained stalled since mid-2021, when consumers pivoted from their buying binge for goods to purchasing more services (*Fig. 9*). Core real retail sales (excluding building materials and food services) also rose during January but remained on their downward trend since mid-2021.

In current dollars, consumers' pivoting to services can be seen in the food services & drinking places component of retail sales. It was up 7.2% m/m and 25.2% y/y during January (*Fig. 10* and *Fig. 11*). The mild weather partly explains this surge, as does the jump in our EIP. In addition, Social Security payments were raised to reflect higher inflation in 2022, and several states sent their taxpayers inflation relief checks using surplus funds that weren't spent during the pandemic.

(3) *Leading indicators and coincident ones.* Meanwhile, the Index of Leading Economic Indicators continues to signal an impending recession. It fell for a tenth straight month in January. It peaked at a record high during December 2021.

On the other hand, the Index of Coincident Economic Indicators (CEI) rose 0.2% m/m in January to yet another record high (*Fig. 12*). The CEI was up 1.3% y/y during January, confirming that real GDP is growing at about the same pace (it was up 1.0% y/y during Q4), consistent with a soft landing (*Fig. 13*).

US Economy III: Still Disinflating. The m/m increases in the headline and core PPIs were hotter than expected, at 0.7% and 0.6% during January. However, they were 6.0% and 4.5% on a y/y basis, well below their 2022 peaks of 11.7% and 7.1% (*Fig. 14*). PPI goods inflation peaked at 17.7% last year and fell to 7.5% during January, while PPI services fell from a peak of 9.4% last year to 5.0% in January (*Fig. 15*). The underlying trend remains a disinflationary one.

Fed officials have acknowledged that consumer goods prices are disinflating. However, they are concerned that services prices aren't doing so. While they are expecting rent inflation to

moderate during the second half of this year, they are much less sanguine about the outlook for the core PCED excluding housing costs inflation rate (*Fig. 16*). It has been hovering between 4.0% and 5.0% since early 2021. It ran at half that pace prior to the pandemic.

There are two other conceptually similar measures of core services consumer prices excluding housing that paint a mixed picture. The inflation rate of the core CPI services excluding rent of shelter peaked last year at 6.7% during September. But it remained elevated at 6.1% during January. The core PPI final demand for services (which does not include rent) peaked at 9.4% during March 2022 and plunged to 5.0% during January.

Movie. “Vikings: Valhalla: Season 2” (+ + +) (*link*) in many ways could have been titled “The Life & Times of Leif Erikson.” The only problem is that there’s no mention of any of Leif’s exploits in the Wikipedia account that matches his adventures in the Netflix series. It’s all good fun, with lots of intrigue and sword fights between Christians and pagans and between kings and would-be kings. It reminds us that eighteenth-century philosopher Jean-Jacques Rousseau’s Noble Savage really was a warmongering, blood-thirsty, insecure savage rather than his romanticized ideal of a virtuous, peace-loving denizen of our planet living a life of natural simplicity and harmony until corrupted by society.

Calendars

US: Tues: S&P Global C-PMI, M-PMI & NM-PMI Flash Estimates 47.5/47.3/47.2; Existing Home Sales 4.10mu. **Wed:** MBA Mortgage Applications; API Weekly Crude Oil Inventories; FOMC Meeting Minutes; Williams. (Bloomberg estimates)

Global: Tues: Eurozone, Germany & France C-PMI Flash Estimates 50.6/50.4/50.1; Eurozone, Germany & France M-PMI Flash Estimates 49.3/47.8/50.9; Eurozone, Germany & France NM-PMI Flash Estimates 51.0/51.0/49.9; Eurozone & Germany ZEW Economic Sentiment 22.3/22.0; UK M-PMI & NM-PMI Flash Estimates 47.5/49.2; Canada Headline & Core CPI 0.7%m/m/6.1%y/y & 0.2%m/m/5.5%y/y; Canada Headline & Core Retail Sales 0.5%/-0.2%; Australia Trade Balance -$1.45b; Australia Wage Price Index 1.0%q/q/3.5%y/y. **Wed:** Eurozone CPI; Germany Ifo Business Climate Index, Current Conditions & Expectations 91.4/95.0/88.3; Germany CPI 1.0%m/m/8.7%y/y; Italy CPI 0.3%m/m/11.6%y/y; ECB Non-Monetary Policy Meeting. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index fell 0.2% w/w for its second straight weekly decline, but remained out of a bear market at 16.0% below its record high on December 27, 2021. The US MSCI ranked 26th of the 48 global stock markets that we follow in a week when 23 of the 48 countries rose in US dollar terms. The AC World ex-US index fell 0.5%, but remained out of a bear market at 16.8% below its June 15, 2021 record high. EM Latin America was the best regional performer with a gain of 2.4%, ahead of EMU (1.8%), EMEA (1.6), EM Eastern Europe (0.4), and EAFE (0.1). EM Asia was the worst performing region last week with a decline of 2.1%, followed by BIC (-1.3). Turkey was the best-performing country last week, with a gain of 13.3%, followed by Ireland (5.0), Mexico (3.9), France (2.8), and Brazil (2.2). Among the 21 countries that underperformed the AC World ex-US MSCI last week, the 5.0% declines for Egypt and Colombia were the biggest, followed by those of Korea (-3.4), Norway (-3.3), and Sri Lanka (-3.3). Looking at 2023's performance so far, the US MSCI is up 6.6% and ranks 20/48 as just 11 of the 48 countries are down ytd. The AC World ex-US has risen 6.5% ytd, with all regions in positive territory. EMU is the best performer ytd, with a gain of 12.4%, followed by EAFE (7.4). The regional laggards so far in 2023: EMEA (0.8), BIC (2.5), EM Asia (5.0), EM Eastern Europe (5.7), and EM Latin America (5.9). This year's best ytd country performers: the Czech Republic (25.2), Greece (19.6), Mexico (17.4), Ireland (15.8), and Italy (15.1). Here are the worst-performing countries of the year so far: Pakistan (-10.0), Colombia (-7.9), India (-4.3), Norway (-4.2), and Turkey (-4.0).

S&P 500/400/600 Performance (*link*): LargeCap fell for a second week and underperformed the gains for MidCap and SmallCap. MidCap stayed out of correction territory for a third straight week. LargeCap fell 0.3% w/w, behind the 1.3% and 1.0% gains recorded for SmallCap and MidCap. At the week's end, LargeCap finished at 15.0% below its record high on January 3, 2022, MidCap at 8.4% below its record high on November 16, 2021, and SmallCap at 12.5% below its November 8, 2021 record high. Twenty-three of the 33 LargeCap and SMidCap sectors moved higher for the week, up from just three rising a week earlier. SmallCap Materials was the best performer, with an increase of 3.8%, followed by SmallCap Communication Services (3.4), SmallCap Consumer Staples (3.2), MidCap Consumer Discretionary (2.8), and SmallCap Consumer Discretionary (2.7). Among the worst performers for the week were LargeCap Energy (-6.9), followed by MidCap Energy (-6.7), SmallCap Energy (-6.1), LargeCap Real Estate (-1.4), and LargeCap Materials (-1.0). Looking at performances so far in 2023, LargeCap's 6.2% gain is trailing those of SmallCap (10.8) and MidCap (9.7) as 27 of the 33 sectors are higher ytd. The top

sector performers in 2023: SmallCap Communication Services (21.2), SmallCap Consumer Discretionary (20.0), LargeCap Consumer Discretionary (16.3), SmallCap Materials (15.6), and MidCap Tech (14.8). Here are 2023's biggest laggards: LargeCap Energy (-4.2), MidCap Energy (-3.9), LargeCap Utilities (-3.2), LargeCap Health Care (-3.1), and SmallCap Energy (-1.6).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 S&P 500 sectors rose last week, and the same five outperformed the composite index's 0.3% decline. That compares to a 1.1% decline for the S&P 500 a week earlier, when one sector rose and seven outperformed the index. Consumer Discretionary was the best performer, with a gain of 1.6%, followed by Utilities (0.9%), Consumer Staples (0.9), Industrials (0.8), and Communication Services (0.2). Energy was the worst performer, with a decline of 6.9%, followed by Real Estate (-1.4), Materials (-1.0), Health Care (-0.4), Tech (-0.4), and Financials (-0.3). Looking at 2023's performance so far, the S&P 500 is up 6.2% ytd with four sectors outperforming the index and seven higher for the year. The best ytd performers: Consumer Discretionary (16.3), Communication Services (13.1), Tech (12.3), and Real Estate (7.1). These are 2023's worst performers: Energy (-4.2), Utilities (-3.2), Health Care (-3.1), Consumer Staples (-1.2), Materials (4.6), Industrials (4.7), and Financials (6.1).

S&P 500 Technical Indicators (*link*): The S&P 500 weakened 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 sixth 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 dropped to 2.6% above its rising 50-dma from 3.3% a week earlier and an eight-week high of 4.7% the week before that. 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. Turning to the index relative to its 200-dma, it closed Friday at 3.6% above its now rising 200-dma, down from 4.0% above its falling 200-dma a week earlier and a 13-month high of 5.1% above its rising 200-dma the week before that. The 200-dma has moved higher in just two of the past 41 weeks. For historical perspective, at 3.6% above its 200-dma, the S&P 500 is currently well above its 26-month low of 17.1% below its falling 200-dma in mid-June; that low compares to a recent high of 10.8% above its rising 200-dma in November 2021.

Looking through a historical wider lens, the index had hit a high of 17.0% above its 200-dma 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*): Six of the 11 S&P 500 sectors are trading above their 50-dmas, down from eight above a week earlier. Energy and Materials moved back below in the latest week, joining these three sectors still trading below their 50-dma: Consumer Staples, Health Care, and Utilities. Eight sectors have a rising 50-dma now, up from seven a week earlier. Materials' 50-dma turned up w/w and left these three sectors in the declining 50-dma club: Consumer Staples, Health Care, and Utilities. Looking at the more stable longer-term 200-dmas, Real Estate fell below in the latest week and joined Utilities as the only other sector below that measure. The rising 200-dma club has five members now, up from four a week earlier, as Tech turned up w/w and joined Energy, Financials, Health Care, and Industrials.

US Economic Indicators

Leading Indicators (*link*): "The US LEI remained on a downward trajectory, but its rate of decline moderated slightly in January," according to the Conference Board. The Leading Economic Indicators (LEI) index fell for the 10th straight month in January, down 0.3%m/m and 6.2% over the period to the lowest level since February 2021. In January, five of the components contributed positively, four negatively, while building permits was unchanged. Labor indicators gave a boost to the LEI, with the average workweek (+0.18ppt) and initial claims (+0.15) the top two contributors, followed by stock prices (+0.05), real core capital goods (+0.03), and real consumer goods orders (+0.01). The biggest negative contributions were recorded by the new orders diffusion index (-0.28), consumer expectations (-0.22), the interest rate spread (-0.10), and the leading credit index (-0.09).

Coincident Indicators (*link*): The Coincident Economic Indicators (CEI) index ticked up 0.2% in January after no change in December and a 0.1% downtick during November. All four components contributed positively to January's CEI: 1) *Payroll employment* (+0.11ppt) in January blew past forecasts, jumping 517,000, and there were upward revisions to both December and November payrolls 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. 2) *Real personal income less transfer payments* (+0.08) increased for the seventh successive month, by 0.2% in January and 1.7% over the period, after contracting the first six months of 2022. 3) *Real manufacturing & trade sales* (+0.04) climbed 0.3% for the second straight month in January after falling 0.5% during the two months through November and is only fractionally below last January's record high. 4) *Industrial production* (+0.01) output in January was flat, as a record drop in utilities output (going back to 1939) offset gains in manufacturing and mining production. Headline production was unchanged in January after a 1.6% drop during the final two months of 2022, as a 9.9% drop in utilities output held back overall production, reflecting unusually warm weather in January. In the meantime, manufacturing production rebounded 1.0% last month after contracting 2.6% during the two months through December, and mining output rose for the first time in four months, rebounding 2.0% in January.

Regional M-PMIs (*link*): Two Fed districts (New York and Philadelphia) have reported on *manufacturing activity* for February and show activity contracted for the seventh successive month, though slower than January's pace, rising to -15.1 from January's 32-month low of -20.9. Activity was a mixed bag, as the New York (to –5.8 from -32.9) region contracted at a much slower pace than in January and Philadelphia's (-24.3 from -8.9) fell at a considerably steeper rate. *New orders* (-10.7 from -21.0) fell for the ninth month, dropping at half the pace of January, with billings in the New York region (-7.8 from -31.1) much less negative, while Philadelphia's (-13.6 from -10.9) fell at steady pace. *Employment* (-0.8 from 6.9) was little changed in February, but had a minus sign for the first time since mid-2020, as hirings in the New York (-6.6 from 2.8) region declined at the fastest pace since June 2020, while hirings at Philadelphia (5.1 from 10.9) factories were half January's pace. Looking at *prices-paid* indexes, the New York (45.0 from 33.0) area saw price pressures tighten after easing to a 26-month low in January, while Philadelphia's (26.5 from 24.5) blipped up slightly from January's 29-month low. The former was at a record high of 86.4 in April 2022, while the latter was at a record 83.6 in November 2021. Prices-received indexes were mixed: New York's *prices-received* measure climbed to 28.4 after easing to 18.8 January, which was the lowest since January 2021; it was at a record high of 56.1 in March 2022. The Philadelphia measure moved down to 14.9 from 29.9 last month and from its record high of 65.8 in November 2021.

Housing Starts & Building Permits (*link*): Housing starts in January fell for the fifth consecutive month to its lowest level since mid-2020, while building permits were little changed. Total housing starts fell 4.5% to 1.309mu (saar) last month and 13.2% over the five months through January. Single-family starts sank 4.3% in January to 841,000 units (saar), after jumping 8.9% in December—which followed a three-month slide of 12.6%.

Multi-family starts dropped 4.9% in January and 20.0% over the five months through January to a 16-month low of 468,000 units (saar). *Building permits* ticked up 0.1% to 1.339mu (saar) after sliding five of the prior six months by 21.2%. Single-family permits remained in a tailspin, falling for the 11th consecutive month, plunging 40.4% over the period to 718,000 units (saar)—the lowest since the height of the pandemic. Multi-family permits increased for the second month by a total of 8.7% to 563,000 units (saar) after a two-month slide of 19.7%. During January, *housing under construction* held at a near record-high 1.700mu, while *completions* rose 1.0% to 1.406mu after dropping 9.5% in December. *Homebuilders' confidence* posted its first back-to-back gain in 14 months in February, climbing 11 points over the period, to 42, after sliding 53 points during the 12 months ending December 2022 to 31—which was the lowest since mid-2021, excluding its drop to 30 during the height of the pandemic. All three components were in the plus column.

Producer Price Index (*link*): February's headline and core PPI yearly rates continued to ease, though the former came in hotter than expected. Final demand increased 0.7% during February (the biggest gain since last June), following a 0.2% decline in December, with the yearly rate slowing to 6.0% from 6.5% in December—higher than the expected 5.4% increase. Core prices—which excluded food, energy, and trade services—climbed 0.6% last month, following December's 0.2% uptick, with the yearly rate easing from 4.7% to 4.5%. *Final demand goods* rebounded 1.2% in February, the largest increase since mid-2022, with nearly one-third of the rise in final demand goods traced to gasoline prices. The yearly rate eased further to 7.5% from 7.9% at the end of last year; it was at 17.6% in mid-2022. In the meantime, *final demand services* increased 0.4%, matching December's gain, with the yearly rate slowing to a 21-month low of 5.0% after peaking at a record high of 9.4% last March. The PPI for *personal consumption* advanced 0.7% in January after falling 0.2% in December, with the yearly rate easing steadily from last March's 10.4% record high, slowing to 5.7% by January—the lowest since March 2021. The yearly rate for *personal consumption excluding food & energ*y eased to a 20-month low of 4.9%, down from last March's record high of 8.1%. Looking at *pipeline prices*, the yearly rate for intermediate goods prices slowed to a 24-month low of 3.8% from a cyclical high of 26.6% during November 2021, while the crude goods rate is easing again, after a temporary spike in December, slowing to 2.5% in January, down from its recent peak of 50.7% last June.

Import Prices (*link*): Import prices fell for the seventh consecutive month in January, posting its smallest annual increase in two years. Import prices slipped 0.2% in January and 4.9% from June 2022's record high, with the yearly rate easing to 0.8%, the smallest year-over-year gain since December 2020 and down from December 2022's 3.0% increase; it peaked at 13.0% last March. *Fuel prices* fell for the seventh month, by 4.9% in January and

32.2% over the period, with the yearly rate (0.1% y/y) flat with a year ago; the rate was as high as 130.1% in April 2021. *Nonpetroleum import prices* increased for the second month, by a total of 1.0%, after a seven-month drop of 2.3%, with the yearly rate slowing to a 30-month low of 1.0%—down from last March's peak 8.1%. Here's the yearly rate in import prices for several industries from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to -1.7% from 55.2%); foods, feeds & beverages (2.3 from 15.7); capital goods (2.5 from 4.2); and consumer goods ex autos (0.3 from 3.2).

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