MORNING BRIEFING
April 13, 2023

Materials, Earnings & Bricks

Check out the accompanying chart collection.

Executive Summary: Banking-crisis-stoked recession fears knocked the S&P 500 Materials sector off its top-performing perch; now with those fears allayed, it's been rebounding. Jackie examines the earnings prospects of two Materials industries, steel and copper, and the economic prospects of their biggest consumer, China. … Also: While analysts have lowered their earnings sights for S&P 500 companies collectively in recent weeks, forward earnings have risen for more S&P 500 industries than have fallen. The outlooks for travel and commodities related industries have improved the most. … And: A promising new energy storage solution comes from improbably low-tech sources that have been right under our feet: bricks and stones.

Materials: Is the Mojo Returning? The S&P 500 Materials sector has started to recover from its March swoon now that the Federal Reserve appears to have prevented the latest US banking crisis from escalating. The sector may continue to improve if the US skirts a recession and China's economy rebounds from the Covid lockdowns that were lifted in December.

At its peak this year on February 1, the S&P 500 Materials stock price index was up 9.7% ytd, which made it the fifth best-performing sector in the S&P 500 at the time. The index subsequently fell to a low on March 17, putting it down 3.2% ytd, as investors feared that the banking industry's problems would cause a recession. Since the Fed's interventions in early March, no additional banks have gone bust, and the outlook for the US economy has improved—helping to fuel the Materials sector's rebound. It's now up 3.7% ytd (through Tuesday's close), placing it fourth among the S&P 500's 11 sectors.

Here's the performance derby of the S&P 500 and its sectors' stock price indexes ytd through Tuesday's close: Communications Services (21.6%), Information Technology (18.7), Consumer Discretionary (12.8), S&P 500 (7.0), Materials (3.7), Consumer Staples (1.3), Real Estate (1.2), Industrials (1.0), Energy (-1.2), Utilities (-1.2), Health Care (-1.5), and Financials (-5.6) (*Fig. 1*).

Let's take a look at two large constituents of the S&P 500 Materials sector—the Copper and Steel industries—and examine some of the economic data out of China, a notoriously huge consumer of commodities:

(1) *Steel's wild ride.* The S&P 500 Steel industry has had sharp ups and downs in just the past four months. The industry's stock price index rose to a ytd peak of 36.6% in March only to see its ytd gain fall to a low of 7.8% on April 5. The index has rebounded modestly since the low and is now up 12.1% ytd through Tuesday's close (*Fig. 2*). While the stock price index has gyrated this year, the price of US Midwest domestic hot rolled coil steel has gone in just one direction: up. The price is $1,165 per ton, up from the recent low of $650 per ton in late December 2022 (*Fig. 3*).

Demand for steel in the US has been supported by the giant windmills sprouting up across the country, a moderately strong auto market, and construction of new manufacturing plants. Auto sales have jumped nicely, averaging 15.4mu (saar) during Q1, up from a low of 12.4mu in 2021 (*Fig. 4*). With auto inventory levels still abnormally low, the gradual increase in production appears to have room to run (*Fig. 5*).

The surge in US nonresidential and public construction has more than offset the decline in home construction (*Fig. 6*). Public construction has received a boost from companies' reshoring of manufacturing operations to the US and use of government incentives to build new semiconductor and green energy equipment plants.

Analysts' consensus estimates imply that earnings for the S&P 500 Steel industry are expected to tumble 43.6% this year and fall an additional 29.1% in 2024 (*Fig. 7*).

(2) *Copper's selloff ends.* Copper started the year as the top-performing industry in the S&P 500 Materials sector. It was up 22.7% as of January 25 only to give back its gains and then some. By March 15, the Copper stock price index was down 6.6% ytd. Only in recent weeks has the industry's stock price index resumed its upward momentum. As of Tuesday's close, the Copper stock price index is up 8.2% ytd.

The Copper stock price index has performed somewhat better than the actual metal. Copper futures at $402.45 are below their recent high of $414.60 in March and their 2022 high of $492.90 (*Fig. 8*). The two indexes may be behaving somewhat differently because the S&P 500 Copper stock price index includes only one company, Freeport-McMoRan, and it doesn't just mine copper but gold and molybdenum as well. While the price of copper is up 6% ytd, the price of gold is up 10% ytd (*Fig. 9*).

Earlier this year, Freeport gave investors an optimistic view of long-term copper demand. "On Jan. 25, Freeport offered guidance for 2023 copper sales of 4.2 million pounds, flat vs. 2022," a March 1 *Investor's Business Daily* article reported. "Longer term, Freeport expects widespread copper supply deficits. Demand fueled by the green energy transition is seen outstripping the capacity of mining projects currently in development. The mining investment needed to close that gap will require higher copper prices, Freeport says."

Earnings for the S&P 500 Copper industry are expected to fall 18.9% this year but rebound by 17.6% in 2024 (*Fig. 10*).

(3) *China's economy improving too.* No discussion of copper and steel is complete without looking at the economy of the world's largest consumer of the two metals, China. The country's appetite for commodities has been muted over the past year or so as Covid lockdowns and a glut of apartments have weighed on construction and manufacturing. But the lifting of the Covid restrictions in December is expected to boost the country's economy, which grew only 3.0% last year.

China's March manufacturing purchasing managers index was in expansion territory at 51.9, with new orders at a solid 53.6 (*Fig. 11*). China's service sector grew even faster. The non-manufacturing purchasing managers index hit 57.8 in March (*Fig. 12*).

Offsetting this growth were February's 8.9% decline in exports and a sluggish residential property sector plagued by oversupply that could continue through this year (*Fig. 13*). Fortunately, the country isn't facing an inflation battle. China's March CPI increase was only 0.7% y/y, and industrial prices declined 2.5% y/y in March. The subdued prices sparked speculation that the government would provide additional stimulus to boost the economy (*Fig. 14* and *Fig. 15*).

China's stock market and its currency have had a strong bounce from their 2022 lows. The yuan/dollar exchange rate is 6.88, down from its 2022 high of 7.32 on November 3 (*Fig. 16*). Likewise, the China MSCI share price index has risen 40.2% from its 2022 low on October 31 (*Fig. 17*). If the country's economy continues to improve, its demand for commodities and their prices are likely to increase as well.

Strategy: A Look at Earnings Revisions. The forward earnings of S&P 500 companies in aggregate has been revised downward by 1.0% over the 13 weeks through April 6. And more of the sectors have had negative earnings revisions than positive ones.

Here's the performance derby for the S&P 500 and its sectors' forward earnings revisions for the 13 weeks through April 6: Communications Services (3.9%), Consumer Staples (3.6), Industrials (1.4), Utilities (0.6), S&P 500 (-1.0), Information Technology (-1.0), Real

Estate (-2.0), Consumer Discretionary (-2.3), Materials (-2.8), Health Care (-3.1), Energy (-8.6), and Financials (-11.1) (*Table 1*).

But the picture is more optimistic than these sector-focused results imply, as industries with upward revisions are more prevalent than those with downward ones. Here are some takeaways from the estimate-change data:

(1) *Tech doesn't dominate.* The industries with the largest upward revisions to their forward earnings over the past 13 weeks are involved with travel and commodities. There are also several names from the Communication Services sector.

Here are the 10 industries that saw their forward earnings revised upward the most over the past 13 weeks: Casinos & Gaming (76.7%), Oil & Gas Refining & Marketing (24.0), Airlines (21.7), Reinsurance (15.8), Gold (15.3), Copper (14.1), Steel (13.5), Wireless Telecommunication Services (13.2), Movies & Entertainment (12.8), and Advertising (12.3). Many Consumer Staples industries also enjoyed upward revisions but weren't among the top 10, including Agricultural Products (11.1%), Personal Products (9.0), Tobacco (8.2), and Food Retail (6.2). Not far behind, in 20th place, is Hotels, which had a 7.2% increase in its forward earnings.

Despite the strong rally in technology stocks this year, few industries in the S&P 500 Information Technology sector have seen the largest upward revisions in forward earnings. Application Software fared best among Tech industries, in 12th place with a 10.7% jump in its forward earnings estimate over the past 13 weeks, followed by Communications Equipment in the 21st slot with a 6.8% upward forward earnings revision. Conversely, forward earnings revisions were downward for Electronic Components (-1.6%), Semiconductor Equipment (-1.7), and Semiconductors (-3.4).

(2) *Downward revisions hit banks and energy.* Given the March banking crisis, it's not surprising to see the S&P 500 Regional Banks industry near the bottom of the list, with its forward earnings cut by 13.1% over the past 13 weeks. More surprising are the downward revisions that some of the Energy sector's industries have experienced. But perhaps that will change in the wake of OPEC's oil production cuts earlier this month, which boosted the price of oil.

Here are some of the S&P 500 industries with the greatest downward forward earnings revisions over the past 13 weeks: Oil & Gas Exploration & Production (-20.9%), Housewares & Specialties (-20.7), Fertilizers & Agricultural Chemicals (-20.3), Publishing (-

14.9), Leisure Products (-13.3), Regional Banks (-13.1), Integrated Oil & Gas (-10.7), Commodity Chemicals (-9.5), and Automobile Manufacturers (-9.0).

Disruptive Technologies: An Energy Storage Solution. Generating industrial heat—the heat used in industrial processes like producing plastic, food, steel, or concrete—makes up about 20% of global energy demand. And in the US, it throws off about 10% of our country's CO2 emissions. Industrial heat historically has been produced by burning fossil fuels, like natural gas. Fossil fuels haven't been replaced by wind or solar power because the intermittency of those green energy sources isn't acceptable in a factory that runs 24-7. Meanwhile, the high cost of lithium batteries and their negative environmental impact makes them unattractive as a means of storing green energy.

Some small companies believe they've arrived at a solution: storing energy in bricks and stones. Here's Jackie's look at how two companies, Brenmiller Energy and Rondo Energy, are approaching renewable energy's storage problem:

(1) *Heating a stack of bricks*. Rondo Energy's heat battery system turns electricity into heat by passing the electricity through a heating element. The company, which counts Bill Gates' Breakthrough Energy Ventures among its investors, compares the system to a large toaster. The difference is the heat thrown off by the heating element is absorbed by a stack of bricks, and their temperature can climb to 2,700 degrees Fahrenheit. They're housed inside an insulated steel container and can remain hot for days, explains an April 10 *article* in the *MIT Technology Review*.

Fans blow the heat off the bricks, warming air that is pumped via pipe into a factory and can be used to turn water into steam, which is used in many industrial processes. The heat storage units are installed outside of the factory, so their installation doesn't require changing the plant's existing footprint.

The fact that the units don't use chemicals gives them two big advantages over lithium batteries: no risk of igniting and easy disposal after their 40-plus-years lifecycle. The system can charge in about four hours, and heat can be stored for up to 18 hours. Rapid charging allows the plant operator to pull electricity from the grid at times when it's the cheapest.

Rondo's heat batteries are extremely efficient and can get hot enough to power most industrial processes (two exceptions involve steel and cement making). The company's first commercial project provides steam for use in fermentation to produce ethanol.

(2) *Heating a pile of rocks.* In the Brenmiller system, steam is created by capturing residual heat, using biomass or electricity. The steam flows through pipes, which heat the surrounding crushed rock up to 1,022 degrees Fahrenheit. It can hold up to 24MWh of clean heat for five hours. The heat is discharged by heating pressurized water and generating steam, which is converted into electricity. It can charge when there's excess sun and wind and discharge when there's not.

Brenmiller has partnered with The Enel Group, an Italian energy company, to install a heat-based energy storage system in Enel's power plant in Tuscany. The project was partially supported by the Israeli Innovation Authority's 1 million euros in financing given to Brenmiller. It is "the first ever system of its kind to provide utility-scale thermal energy storage and offers commercial and industrial users a viable path towards decarbonization," CEO Avi Brenmiller told *The Jerusalem Post* in a November 7 *article*. "The TES also makes it possible to add additional renewables to the grid with greater reliability."

A few years ago, the company installed its system at an Israeli army base, and earlier this month Brenmiller was tapped to construct its thermal energy storage facility at Tempo beverage headquarters in Israel. Tempo is partially owned by Heineken International and produces Heineken, Pepsi, and Nestle products. The project is receiving NIS 2.2 million from Israel's Ministry of Environmental Protection, an April 10 *article* in *The Jerusalem Post* reported.

And last year, the company agreed to install a thermal unit alongside a Philip Morris plant in Romania, which hopes to reduce its dependence on natural gas.

Calendars

US: Thurs: Headline & Core PPI 0.1%m/m/3.1%y/y & 0.3%m/m/3.4%y/y; Initial & Continuous Jobless Claims 231k/253.2; OPEC Monthly Report; Natural Gas Storage; IMF Meetings. **Fri:** Retail Sales Headline, -0.4%m/m/5.9%y/y; Consumer Sentiment index Total, Current Conditions, and Expectations 62.0/67.3/60.0; University of Michigan One-year & Five-Year Inflation Expectations 3.5%/2.8%; Business Inventories 0.3%; Industrial Production Headline & Manufacturing 0.2%/-0.1%; Capacity Utilization Rate 79.0%; IEA Monthly Report; Waller; Business Inventories 0.3%; Baker-Hughes Rig Count; IMF Meetings. (Bloomberg estimates)

Global: Thurs: Eurozone Industrial Production 1.0%m/m/1.7%y/y; Germany CPI

0.8%m/m/7.4%y/y; Italy Industrial Production 0.5%m/m/2.9%y/y; UK GDP 0.1%m/m & 0.0%3m/3m; UK NIESR Monthly GDP Tracker 0.1%; UK Headline & Manufacturing Industrial Production 0.2%m/m/-3,7%y/y & 0.2%m/m/-4.6%y/y; %UK Trade Balance -£17.0b; UK BOE Credit Conditions Survey; Nagel; Buch; Pill; Macklem. **Fri:** Germany WPI 2.5%m/m/4.4% y/y; France CPI 0.8%m/m/5.6%y/y; Spain CPI 0.4%m/m/3.3%y/y; Nagel; Tenreyro. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* climbed for the third week to 2.00 this week—the highest reading since the January 4 week last year—after falling the prior two weeks from 1.83 to 1.38. *Bullish* sentiment increased for the third week, jumping to 48.7% this week, just above the end-of-January peak, which was the most since the end of 2021. Bulls outnumbered bears for the 21st consecutive week. *Bearish* sentiment fell for the third successive week to 24.3% this week, after a two-week climb from 24.7% (the fewest bears since January 2022) to 28.8%. Recent readings are well below the 44.1% reading in early October of last year. The *correction count* climbed to 27.0% after dropping 6.0ppts last week—from 32.4% to 26.4%—it remains well below its late September 2022 peak of 40.3%. Turning to the *AAII Sentiment Survey* (as of April 6), bearish sentiment fell again but remained above average for the seventh successive week, while neutral sentiment declined slightly; bullish sentiment rose. The *percentage expecting stock prices to rise* over the next six months moved higher for the third week, by 14.1ppts to 33.3% (with 10.8ppts occurring during the latest week), after dropping the prior two weeks from 24.8% to 19.2%—which was the lowest since the September 22, 2022 week's 17.7% reading. The latest percentage moved closer to its average after six weeks below. Bullish sentiment was below its historical average of 37.5% 70 of the last 72 weeks. The *percentage expecting stocks to fall* over the next six months sank for the second week, by 13.9ppts to a seven-week low of 35.0%, with 10.6ppts of the decline occurring during the latest week. Still, pessimism remained well above its historical average of 31.0% for 67 of the past 72 weeks. The *percentage expecting stock prices will stay essentially unchanged* over the next six months ticked down to 31.7% after ticking up from 30.2% to 31.9% the prior week—with neutral sentiment back above its historical average 13 out of the past 14 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at a 24-month low of 12.3% during the April 7 week. That's down 1.1ppts from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.0pts above its seven-year low of 10.3% during April 2020. Forward revenues rose 0.3% w/w to a new record high during the April 7 week. Forward earnings improved 0.7% w/w to 5.1% below its record high during the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth rose 0.2pt w/w to 2.8% and is now 0.5pt above its 33-month low of 2.3% during the February 23 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth rose 0.8pt w/w to 4.9% to 1.4pts above its 31-month low of 3.5% in mid-February. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 1.5% in 2023 (down 0.1pt w/w) and 4.9% in 2024 (unchanged w/w) compared to a revenues gain of 12.2% in 2022. They expect an earnings decline of 0.4% in 2023 (down 0.3pts w/w) and a 12.1% rise in 2024 (unchanged w/w) compared to an earnings gain of 7.2% in 2022. Analysts expect the profit margin to drop 0.2ppt y/y to 12.0% in 2023 (unchanged w/w) compared to 12.2% in 2022 and to rise 0.8ppt y/y to 12.8% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.2pt w/w to 18.1, and is just 0.4pt below its 43-week high of 18.5 during the February 16 week. That's up from a 30-month low of 15.3 in mid-October. It also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.03pt w/w to 2.23 and is down from a 24-week high of 2.29 during the February 16 week. That's up from a 31-month low of 1.98 in mid-October and down from a four-month high of 2.38 in mid-August, and also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Looking at the 11 S&P 500 sectors, the April 7 week saw consensus forward revenues rise for 10 sectors and fall for one, Energy. Forward earnings rose for nine sectors and fell for nine. Similarly, the forward profit margin rose w/w for two sectors and fell for two, Energy and Financials. Three sectors have forward revenues at a record high this week: Consumer Staples, Health Care, and Utilities. Among the remaining eight sectors, only three have forward revenues more than 4.9% below their post-pandemic highs: Consumer Discretionary, Energy, and Financials. Consumer Staples and Utilities are the only sectors with forward earnings at a record high. Among the remaining nine sectors, four have forward earnings that remain relatively strong, down less than 10.0% from their post-pandemic highs: Health Care, Industrials, Information Technology, and Real Estate. Since mid-August, all sectors have seen forward profit margins retreat from their record highs. Those of Financials, Industrials, and Tech remain closest to their post-pandemic highs. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022, and these five sectors are expected to see them improve y/y in 2023: Communication Services, Consumer Discretionary, Financials, Industrials, and Utilities. Here's how the sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (23.5%, down from its 25.4% record high in June 2022), Financials (18.4, down from its 19.8 record high in August 2021), Real Estate (16.7, down from its 19.2 record high in 2016), Communication Services (14.6, down from its 17.0 record high in October 2021), Utilities (13.2, down from its 14.8 record high in April 2021), S&P 500 (12.3, down from its record high of 13.4 achieved intermittently in 2022 from March to June 2022), Energy (11.6, down from its 12.8 record high in November), Materials (11.1, down from its 13.6 record high in June), Industrials (10.3, down from its 10.5 record high in December 2019), Health Care (9.6, down from its 11.5 record high in March 2022), Consumer Discretionary (7.4, down from its 8.3 record high in 2018), and Consumer Staples (6.7, down from its 7.7 record high in June 2020).

S&P 500 Sectors & Industries Forward Profit Margin Since Peak (*link*): Since the S&P 500's forward profit margin peaked at a record-high 13.4% during the June 9 week, it has fallen 8.3% to 12.3% through the April 7 week. All sectors are now down since the peak, with the S&P 500's drop paced by three of the 11 sectors. Here's the sector performance since the June 9 peak: Industrials (down 0.4% to 10.3%), Energy (down 2.2% to 11.6%), Financials (down 3.5% to 18.4%), Utilities (down 4.7% to 13.2%), Consumer Discretionary (down 5.0% to 7.4%), Real Estate (down 7.0% to 16.7%), Information Technology (down 7.8% to 23.5%), Consumer Staples (down 8.2% to 6.7%), S&P 500 (down 8.3% to 12.3%), Communication Services (down 9.3% to 14.6%), Health Care (down 12.2% to 9.6%), and Materials (down 18.4% to 11.1%). These are the best performing industries since the June 9 peak: Human Resource & Employment Services (up 102.8% to 18.6%), Casinos & Gaming (up 82.9% to 4.1%), Wireless Telecommunication Services (up 74.9% to 11.8%), Oil & Gas Refining & Marketing (up 62.5% to 5.5%), Passenger Airlines (up 34.8% to 5.5%), Reinsurance (up 22.3% to 14.3%), and Oil & Gas Equipment & Services (up 20.0% to 11.0%). The worst performing industries since the June 9 peak: Commodity Chemicals (down 41.0% to 6.0%), Home Furnishings (down 38.0% to 5.5%), Housewares & Specialties (down 34.2% to 5.5%), Copper (down 33.9% to 12.7%), Publishing (down 31.1% to 2.5%), Broadcasting (down 30.3% to 3.9%), and Homebuilding (down 28.9% to 10.7%).

US Economic Indicators

Consumer Price Index (*link*): The headline & core CPI yearly rate continued to cool in March, though the yearly rate for the core CPI ticked up as shelter costs remain high. The *headline CPI* barely budged in March, ticking up 0.1%, slowing from 0.4% and 0.5% the prior two months. *Core prices* have posted gains of 0.4%-0.5% the past four months, with the yearly rate ticking up to 5.6% y/y, after ticking down from 5.6% to 5.5% during February. It's a percentage point below the recent high of 6.6% last September. In March, energy prices continued to fall, while food prices were flat after 27 months of gains. *Here's a detailed look at the yearly rates*: The rate for consumer durable goods (-1.0% y/y) was in negative territory for the fourth month, though the decline eased a bit, while the rate for consumer nondurable goods excluding food (-2.8) dropped below zero for the first time since February 2021; the services' rate excluding energy eased a bit to 7.1% y/y, after rising from 2.7% in August 2021 to 7.3% this February—which was the highest since summer 1982. *Food costs* (8.5) eased for the seventh month from last August's 11.4%, which was the fastest pace since April 1979. Within food, the rate for food at home (8.4) slowed steadily from 13.5% last August (the highest since March 1979); the rate for food away from home accelerated for the second month, to 8.8% y/y in March, after easing from 8.6% last October (the highest since fall 1981) to 8.2% by January. *Energy costs* continued to ease from last June's 41.6%, which was the fastest pace since April 1980, sinking below zero for first time since January 2021, falling 6.4%. Within energy, the rate for fuel oil plummeted to -14.2% y/y, down from last May's record high of 106.7%. The rate for gasoline prices slipped further into negative territory, falling 17.4% y/y during March, after rising from -1.5% in December (the first negative reading since January 2021) to 1.5% in January; it was at 59.9% last June (fastest since March 1980). The rate for natural gas prices slowed for the second month, to a 26-month low of 5.5% y/y in February, after accelerating from 15.5% in November to 26.7% by January. It was at 38.4% last June, which was the highest since October 2005. The electricity rate eased to a 13-month low of 10.2% y/y in March; it peaked at 15.8% last August—which was the highest since August 1981. The *consumer durable goods inflation* rate ticked up to -1.0%, after easing steadily from 18.7% last February (highest since early 1940s) to -1.8% y/y by this February—which was the lowest since October 2017. The rate for new cars accelerated slightly to 6.6% y/y in March, after easing from last April's near-record high of 14.2% to 6.2% by December, while the rate for used cars & trucks was slightly less negative, at -11.2%, from February's -13.6%—which was the lowest since November 1960. It was as high as 41.2% last February and at a record-high 45.2% during June 2021. The rate for furniture & bedding (2.1) is down dramatically from last February's record high of 17.1%, while the rate for major appliances was -7.9% y/y, down from its recent peak of 12.4% last March. *Consumer nondurable goods inflation* slipped to a 26-month low of 2.8% y/y in March, down from 16.2% last June (the highest since March 1980). The rate for apparel prices remained at 3.2% in March, not far December's 20-month low of 2.9% y/y at the end of 2022; before that, it fluctuated in a 5.0%-5.5% range from last April through September. It was at a recent peak of 6.8% last March (the highest since the end of 1980). *Services inflation* slipped to 7.3% y/y in March from 7.6% the first two months of this year, which was the highest since the early 1980s. Within services, owners' equivalent rent was unchanged 8.0% y/y at its record high, while the rate for rent of primary residence remained at 8.8%, which was the highest since call 1981. These rates compare with recent lows of 2.0% and 1.8%, respectively. Over the three months through March, the owners' equivalent rent rose 7.5% (saar) and tenant rent rose 8.0%—below their yearly rates. Meanwhile, the yearly rate for lodging away from home picked up a bit to 7.3% y/y after slowing from 7.7% in January to 6.7% y/y in February, after the rate bounced around 3.0% for the final three months of last year, 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' (2.7) services has eased from 4.4% at the end of 2022, while the physicians' services (0.5) rate was down sharply from March 2021's 5.3% peak. Meanwhile, the yearly rate for airfares slowed to 17.7% y/y during March, down from 42.9% last October (not far from the record high of 45.0% in September 1980). The three-month rate, however, accelerated 32.9% (saar) during March after being in negative territory from last August through this January.

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