MORNING BRIEFING
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The Sky Isn't Falling

Check out the accompanying chart collection.

Executive Summary: JPMorgan CEO Jamie Dimon's ambiguous warnings about the economy broadly and banks specifically, voiced intermittently since last summer, have probably led many an investor astray. JPM stock has soared 34% since October, and the S&P 500 has leapt 7% in the month or so since SVB imploded, with every sector participating. … One thing Dimon said is on the mark: The economy isn't headed for a credit crunch. That's substantiated by US banks' balance-sheet data, which we monitor. … Another alarmist creating disconcerting background noise is Fed Governor Christopher Waller. He's not bothered by the economy or the banking crisis but by inflation, which he says requires further tightening. We strongly disagree.

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Credit I: The Alarmist. JPMorgan Chase CEO Jamie Dimon has been warning since last summer that the economic outlook is grim and that investors should prepare for bad times. He has been among the most vocal and credible of the pessimistic prognosticators. However, unlike the other "nattering nabobs of negativism" (to quote former Vice President Spiro Agnew in 1970), Dimon has provided a more hedged view, as follows:

(1) *Chicken Little.* Last summer, Dimon said he is preparing America's biggest bank for an economic hurricane on the horizon and advised investors to do the same. "You know, I said there's storm clouds, but I'm going to change it … it's a hurricane," Dimon *said* on Wednesday, June 1 at a financial conference in New York. While conditions seem "fine" at the moment, nobody knows whether the hurricane is "a minor one or Superstorm Sandy," he added. "You'd better brace yourself," Dimon told the roomful of analysts and investors. "JPMorgan is bracing ourselves and we're going to be very conservative with our balance sheet."

On April 4, in his *annual letter* to shareholders, Dimon said the economy remained in "pretty good" shape. However, he warned: "As I write this letter, the current crisis is not yet over, and even when it is behind us, there will be repercussions from it for years to come." Nevertheless, he toned it down, writing that "the current crisis is nothing like what occurred

during the 2008 global financial crisis." Turning to the economic outlook, he wrote that "jitters" would "clearly cause some tightening of financial conditions as banks and other lenders become more conservative." But he also toned that down, writing "Even if we go into a recession, consumers would enter it in far better shape than during the great financial crisis."

(2) *Dimon in the rough.* Dimon used his weather analogy once again on Friday's *earnings call*, offering a less downbeat outlook again: "The US economy continues to be on generally healthy footings—consumers are still spending and have strong balance sheets, and businesses are in good shape," Dimon said. "However, the storm clouds that we have been monitoring for the past year remain on the horizon, and the banking industry turmoil adds to these risks."

Dimon also discouraged the use of the term "credit crunch" on the call. "Obviously, there's going to be a little bit of tightening, and most of that will be around certain real-estate things," Dimon said. "You've heard it from real-estate investors already, so I just look at that as a kind of a thumb on the scale. It just means the fast conditions will be a little bit tighter, which increases the odds of a recession. That's what that is. It's not like a credit crunch."

While Dimon's message about the economic outlook has been somewhat confusing, there was no ambiguity in JPMorgan's strength out of the gate this year: It had a huge Q1 revenue beat and projected big future net interest income. *Barron's* Carleton English *reported*: "JPMorgan saw profit climb 52% from a year earlier to $12.6 billion, or $4.10 a share, coming in well ahead consensus estimates. The consensus call on Wall Street was that the bank would earn $10.2 billion, or $3.41 a share. Revenue was a record $38.3 billion, up 25% from a year ago and topping estimates of $36.2 billion. The strong results were largely because JPMorgan's net interest income rose 49% from last year to $20.9 billion, fueled by the Federal Reserve's interest-rate increases. Higher rates improve the spread, or net interest income, between what banks charge for loans and what they pay depositors or borrow. For the full year, JPMorgan expects net interest income to be $81 billion, up from a previous forecast of $74 billion."

Dimon enjoyed a 7.5% jump in JPM's stock price on Friday. Too bad lots of investors might have sold their holdings of JPM and other stocks on Dimon's bearish comments since last summer. The stock is up 33.9% since its bear market low on October 12.

The stock price index of the S&P 500 Diversified Banks (BAC, C, JPM, USB, and WFC) is still down 24.2% from the bull market peak of January 3, 2022 through Friday's close (*Fig.*

1). Over this period, the forward P/E of the industry dropped from 12.9 to 8.4 (*Fig. 2*). In the past, such a low valuation multiple has been a good opportunity to buy these stocks.

We've previously observed that any day without a banking crisis is a good day for stocks. SVB imploded on Friday, March 10. On Sunday, March 12, the Fed and FDIC took actions to avoid additional bank runs. The S&P 500 is up 7.1% since March 10, led by its Information Technology (9.8%), Health Care (8.6), and Utilities (7.6) sectors (*Table 1*). All 11 sectors are up since then, even Financials (0.1).

Credit II: On the Lookout for Disintermediation. Melissa and I agree with Jamie Dimon on one thing: An economy-wide credit crunch isn't likely to result from the latest banking crisis. We are monitoring the situation by tracking the Fed's weekly H.8 report titled "*Assets and Liabilities of Commercial Banks in the United States*," released on Fridays at 4:15 p.m. We do that in our *Commercial Bank Book*. Here are the latest findings through the week of April 5:

(1) *Bank credit.* During the April 5 week, bank credit actually increased by $41.1 billion, with securities up $30.9 billion and loans up $10.2 billion (*Fig. 3*). During the previous two weeks, bank credit declined by $311.0 billion, with securities down $206.5 billion and loans down $104.5 billion.

(2) *Deposits and borrowings.* During the April 5 week, bank deposits rose $60.7 billion following five weekly net outflows totaling $500.1 billion. Borrowings declined by $94.6 billion following the previous week's decline of $24.0 billion. During the first two weeks of the banking crisis, borrowings rose $570.1 billion.

(3) *Small banks.* The Fed reports the assets and liabilities of large and small domestically charted banks as well as foreign-related ones. The hard-landers are anticipating that the banking crisis will intensify among the smaller banks, leading to a credit crunch and a recession. We disagree. So we were heartened to see bank credit, securities, and loans at the small banks rose in the latest week following declines during the past two weeks. Their deposits also rose for a second week in a row, while their borrowings have declined for the past three weeks (*Fig. 4*).

(4) *Allowances for losses.* JPMorgan set aside roughly $2.3 billion during Q1 to protect against borrowers' falling behind on their loans. That was up from $1.5 billion in the same quarter last year, largely because of a somewhat worse economic outlook, the bank said. The H.8 release shows that allowances for loan losses at all banks rose $10.7 billion so far

this year through the April 5 week (*Fig. 5*).

That's not an alarming increase. Raising loan-loss reserves is a prudent move given all the chatter about a recession this year. The March 21-22 FOMC *minutes*, released last Wednesday, showed that the Fed's staff is now forecasting a mild economic downturn soon because of the banking crisis: "Given their assessment of the potential economic effects of the recent banking-sector developments, the staff's projection at the time of the March meeting included a mild recession starting later this year, with a recovery over the subsequent two years."

(5) *Liquidity facilities.* The Fed's *H.4.1 report* comes out on Thursdays at 4:15 pm. It shows the assets and liabilities of the Fed. Since the start of the banking crisis, we've been tracking the Fed's loans portfolio, which includes discount-window borrowing and borrowing under the new Bank Term Funding Program (BTFP) as well as "other credit extensions." Boosting the other credit extensions category have been loans that were extended to depository institutions established by the FDIC.

While the other loans category remains high at $172.9 billion (near its high during the week of March 29), the discount-window borrowing, a.k.a. primary credit, fell from a recent peak of $117.0 billion during the week of March 22 to $67.9 billion (*Fig. 6*). Borrowing under the BTFP, which was announced on March 12, is at a record $76.7 billion.

These numbers suggest that the Fed's liquidity-providing response to the banking crisis is working to calm things down.

Inflation: The Alarmist. While Jamie Dimon has been sounding the alarm on the economic outlook, Fed Governor Christopher Waller is sounding the alarm about inflation. In a *speech* on Friday, he said that there has been little progress on inflation for more than a year and that more interest-rate hikes are needed to get prices under control.

Waller isn't losing any sleep over the banking crisis: "The BTFP and discount window appear to have been successful in providing stability to the banking system. In the past few weeks, we have seen deposit flows stabilize across banks and, as a result, the combined usage of the discount window and the new program has moderated. Both tools remain ready and able to provide liquidity, enabling banks to support households and businesses."

Waller is also relatively sanguine about the economic outlook. He didn't even mention that the Fed's staff is forecasting a mild recession later this year. On the other hand, he remains

concerned about inflation. He observed that inflation is still well above the Fed's 2% target. He added that since "December of 2021, core inflation has basically moved sideways with no apparent downward movement." Consequently, "monetary policy will need to remain tight for a substantial period of time, and longer than markets anticipate."

We beg to differ with Waller's assessment of inflation. In our April 13 *QuickTakes*, we observed that goods inflation has turned out to be transitory, while services inflation has been persistent, but is likely to moderate over the rest of the year along with rent inflation:

(1) The core CPI goods inflation rate soared from 1.3% y/y during February 2021 to peak at 12.3% during February 2022. It was back down to 1.5% during March of this year (*Fig. 7*). On the other hand, the core CPI services inflation rate has increased from 1.3% to 7.1% over this same period.

(2) Rent accounts for 56.6% of the core CPI services inflation rate. Rent of primary residence and owners' equivalent rent (OER) account for 12.9% and 43.7% of the core CPI services inflation rate. The former rose from a spring 2021 low of 1.8% to 8.8% last month (*Fig. 8*). The three-month annualized inflation rate for rent of primary residence fell sharply from 9.2% during February to 8.0% during March, the first significant drop since 2020. The same story can be told about OER.

(3) Waller and his colleagues don't seem to spend much time looking at the PPI. They should. The March PPI for final demand fell to only 2.7% y/y, down from a peak of 11.7% during March 2022 (*Fig. 9*). PPI goods inflation has dropped from a peak of 17.6% last June to 2.0% in March. PPI services inflation (which does not include rent) fell from about 9.0% to 2.8% since early this year!

The PPI for final consumer demand fell to 2.7% in March, signaling that both the CPI and PCED inflation rates will continue to moderate in coming months (*Fig. 10*). The inflation rate for the PPI of final demand for personal consumption of services has been much more transitory than the comparable CPI and PCED measures, which both include rent (*Fig. 11*).

Waller should have a look at the core CPI inflation rate versus the core PPI inflation rate (*Fig. 12*). The former has "basically moved sideways" since December 2021, as he said. However, the core PPI for personal consumption has plunged from a peak of 8.1% last March to 3.3% this March. We think that the latter is a good leading indicator for the former. Unlike Waller, we think the Fed should cease and desist from further rate hikes. However, he gets to vote on that issue; we don't.

Calendars

US: Mon: Empire State Manufacturing Index -18.0; NAHB Housing Market Index 44; TIC Net Long-Term Transactions. **Tues:** Housing Starts & Building Permits 1.40mu/1.45mu; Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Italy CPI 0.8%m/m/8.2%y/y; China GDP 2.2%q/q/4.0%y/y; China Retail Sales & Industrial Production 3.5%y/y/2.6%y/y; China Unemployment Rate; NBS Press Conference; RBA Meeting Minutes; Lagarde; Tuominen; Nagel; McCaul; Cunliffe. **Tues:** Eurozone Trade Balance; Germany ZEW Economic Sentiment 15.1; UK Average Earnings Index Including & Excluding Bonus 5.1%/6.2%; UK Employment Change 3m/3m 52k; UK Unemployment Rate 3.7%; UK Claimant Count Change 10.2k; UK Labor Productivity 0.3%; Canada Headline & Core CPI 4.3%/4.8% y/y; Macklem; Rogers. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 0.8% last week for its fifth gain in seven weeks, and remained out of a bear market in a 15.0% correction from its record high on December 27, 2021. The US MSCI ranked 32nd of the 48 global stock markets that we follow in a week when 38 of the 48 countries rose in US dollar terms. The AC World ex-US index rose 2.0% and moved further out of a bear market to end the week at 15.2% below its June 15, 2021 record high. EM Latin America was the best regional performer with a 5.6% gain, ahead of EM Eastern Europe (5.5%), EMU (2.4), and EAFE (2.1). BIC was the worst performing region last week, albeit with a gain of 0.8%, followed by EM Asia (0.9) and EMEA (1.3). Argentina and Colombia were the best-performing countries last week with gains of 11.5%, followed by Egypt (11.0), Poland (7.5), and Brazil (7.3). Among the 23 countries that underperformed the AC World ex-US MSCI last week, the 3.0% decline for Israel was the biggest, followed by New Zealand (-1.8), the Philippines (-1.4), Hungary (-1.4), and Singapore (-0.4). Looking at 2023's performance so far, the US MSCI is up 7.9% as its ytd ranking remained steady w/w at 20/48. The AC World ex-US's ytd gain of 8.5% moved ahead of the US in the latest week, with 35/48 countries now in positive territory. EMU is the best performer ytd, with a gain of 17.1%, followed by EM Eastern Europe (12.5) and EAFE (10.4). The regional laggards so far in 2023: EMEA (0.7), BIC (1.0), EM Asia (5.0), and EM Latin America (7.5). This year's best ytd country performers: the Czech Republic (49.8), Greece (21.9), Ireland (21.9), Mexico (21.2), and

Italy (19.7). Here are the worst-performing countries of the year so far: Pakistan (-26.2), Turkey (-7.1), India (-4.1), Norway (-3.9), and Malaysia (-3.8).

S&P 500/400/600 Performance (*link*): All three of these indexes moved higher last week. LargeCap rose 0.8% w/w, less than the 1.7% and 1.2% gains for MidCap and SmallCap. By Friday's close, SmallCap was still in a bear market while LargeCap and MidCap remained in a correction. LargeCap finished the week at 13.7% below its record high on January 3, 2022, MidCap at 14.5% below its record high on November 16, 2021, and SmallCap at 20.6% below its November 8, 2021 record high. Twenty-four of the 33 LargeCap and SMidCap sectors moved higher for the week compared to 10 rising a week earlier. MidCap Industrials was the best performer with a gain of 3.4%, ahead of MidCap Consumer Discretionary (2.9), LargeCap Financials (2.9), SmallCap Consumer Discretionary (2.8), and SmallCap Industrials (2.7). Among the worst performers for the week were MidCap Real Estate (-2.3), SmallCap Real Estate (-2.1), MidCap Utilities (-1.9), LargeCap Real Estate (-1.5), and LargeCap Utilities (-1.3). Looking at performances so far in 2023, LargeCap, with a 7.8% gain, remains well ahead of MidCap (2.4) and SmallCap (0.5); 21 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Communication Services (23.7), LargeCap Tech (19.7), LargeCap Consumer Discretionary (13.8), SmallCap Communication Services (11.5), and SmallCap Consumer Discretionary (10.6). Here are 2023's biggest laggards: SmallCap Financials (-14.3), MidCap Financials (-8.9), SmallCap Real Estate (-8.5), MidCap Energy (-7.1), and SmallCap Energy (-5.2).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 sectors rose last week, and five outperformed the composite index's 0.8% gain. That compares to a 0.1% decline for the S&P 500 a week earlier, when five sectors rose and five outperformed the index. Financials was the best performer, with a gain of 2.9%, followed by Energy (2.5%), Industrials (2.1), Materials (1.6), and Consumer Discretionary (1.3). Real Estate was the worst performer, with a 1.5% decline, followed by Utilities (-1.3), Tech (-0.4), Consumer Staples (-0.3), Communication Services (0.6), and Health Care (0.7). Looking at 2023's performance so far, the S&P 500 is up 7.8% ytd, with just three sectors outperforming the index and six higher for the year. The best ytd performers: Communication Services (23.7), Tech (19.7), and Consumer Discretionary (13.8). These are 2023's worst performers: Financials (-4.0), Utilities (-2.4), Real Estate (-1.2), Health Care (-1.1), Energy (-0.3), Consumer Staples (0.8), Industrials (1.6), and Materials (4.1).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.8% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index was above its 50-dma for a third week and its 200-dma for a fourth week. It had

been above its 200-dma for eight weeks through early March in its longest positive 200-dma streak since it was above for 81 straight weeks through January 2021. The S&P 500's 50-dma rose to a nine-week high of 2.7% above its 50-dma from 1.9% a week earlier and compares to a 20-week low of 3.6% below at the beginning of March. That also 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 10-week high of 4.6% above its rising 200-dma from 4.0% a week earlier and compares to a nine-week low of 0.3% in early March. That also compares to a 13-month high of 5.1% above in early February. The S&P 500 is well above its 26-month low of 17.1% below its falling 200-dma in mid-June and compares to 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 50-dma and 200-dma each moved higher for a fourth week, but the 200-dma has risen in just nine of the past 48 weeks.

S&P 500 Sectors Technical Indicators (*link*): Eight of the 11 S&P 500 sectors are trading above their 50-dmas, up from six sectors above a week earlier. Financials, Industrials, and Real Estate are the only sectors still trading below their 50-dmas. Six sectors have a rising 50-dma, up from five a week earlier, as Energy joined the rising 50-dma club. These five sectors still have a falling 50-dma: Consumer Discretionary, Financials, Industrials, Materials, and Real Estate. Looking at the more stable longer-term 200-dmas, the positive club was unchanged w/w at eight members as Consumer Discretionary moved above and Utilities fell below and joined these two other sectors still trading below their 200-dmas: Financials and Real Estate. The rising 200-dma club dropped to eight members from nine a week earlier with the removal of Consumer Discretionary. Real Estate and Utilities are the other two sectors with a falling 200-dma.

US Economic Indicators

Retail Sales (*link*): Retail sales dropped in March for the second consecutive month after

jumping 3.1% in January to a new record high. March's contraction was a larger-than-expected 1.0% (vs -0.4% expected) and 1.2% over the two-month period; sales had dropped 1.9% the final two months of last year. Meanwhile, *core retail sales*—which excludes autos, gasoline, building materials, and food services—lost 0.2% in March, after jumping 3.0% the first two months of this year and slumping 0.8% the final two months of 2022. This measure correlates closely with the consumer spending component in GDP. Of the 13 nominal retail sales *categories*, seven fell in March while six rose. Meanwhile, *five fell on both a monthly and yearly basis*: gasoline stations, electronics & appliance stores, furniture stores, building materials & garden equipment suppliers, and clothing stores. Here's a snapshot of the 13 categories' *March sales performance versus that of a year ago*: gasoline stations (-5.5% m/m & -14.2% y/y), general merchandise stores (-3.0 & 2.4), electronics & appliance stores (-2.1 & -10.3), building materials & garden equipment (-2.1 & -3.5), clothing & accessories stores (-1.7 & -1.8), motor vehicles & parts (-1.6 & 0.1), furniture & home furnishings (-1.2 & -2.4), food & beverage stores (-0.1 & 5.0), food services & drinking places (0.1 & 13.0), sporting goods & hobby stores (0.2 & 3.0), miscellaneous store retailers (0.2 & 1.9), health & personal care stores (0.3 & 7.1), and nonstore retailers (1.9 & 12.3).

Consumer Sentiment Index (*link*): "Sentiment is now about 3% below a year ago but 27% above the all-time low from last June," noted Joanne Hsu, the director of consumer surveys. *Overall consumer sentiment* showed a modest improvement in mid-April, edging up 1.5 points to 63.5, after falling from 67.0 in February to 62.0 in March—which was the first decline in four months. It bottomed at 50.0 last June. The report notes that rising sentiment among lower-income consumers was offset by declines among those with higher incomes. The *present situation component* advanced 2.3 points in mid-April to 68.6 after falling in March for the first time in four months, by 4.4 points to 66.3; this was after climbing from 58.8 in November to a 13-month high of 70.7 in February. Meanwhile, the *expectations component* edged up to 60.3 after plummeting 5.5 points in March to 59.2; it had increased steadily the prior three months, from 55.6 in November to a 14-month high of 64.7 in February. Turning to inflation, the *one-year expected inflation rate* continued its up-and-down pattern but accelerated sharply to 4.6% in mid-April after slowing from 4.1% in February to 3.6% in March, which was the lowest since April 2021; the rate remains well above its 2.3%-3.0% range recorded during the two years prior to the pandemic. It peaked at 5.4% last March and April. The *five-year expected inflation rate* held at 2.9% for the fifth consecutive month—remaining within the narrow 2.9%-3.1% range for 20 of the last 21 months.

Producer Price Index (*link*): February's *headline PPI* sank 0.5% in March, following no

gain in February (from an initial gain of 0.3%); it was the second decline in the past four months. The yearly rate has been in a freefall since peaking at a record-high 11.7% last March, falling to 2.7% this March—which was the lowest since January 2021. *Core prices*—which excludes food, energy, and trade services—edged up 0.1% last month, slowing from 0.2% and 0.6% the prior two months, with the yearly rate easing to 3.6%—half of last March's record-high 7.1%. *Final demand goods* fell for the third time in four months, dropping 1.0% in March and 1.5% over the period. Eighty percent of March's decline was attributed to an 11.7% drop in prices for gasoline. The yearly rate eased further to 2.0% from last June's record high of 17.6%. In the meantime, *final demand services* fell for the first time since November 2020, declining 0.3% in March, after a 0.1% uptick in February and no change in January. The yearly rate slowed to a 25-month low of 2.8% after peaking at a record high of 9.4% last March. The PPI for *personal consumption* declined 0.4% in March, after upticks of 0.1% and 0.4% the prior two months. The yearly rate has eased steadily from last March's 10.4% record high, slowing to 2.7% by March—the lowest since February 2021. The yearly rate for *personal consumption excluding food & energy* eased to a two-year low of 3.3%, down from last March's record high of 8.1%. Looking at *pipeline prices*, the yearly rate for intermediate goods prices slipped below zero for the first time since November 2021, down 1.0% from a year ago; it was at a cyclical high of 26.6% during November 2021. The crude goods rate posted back-to-back declines of 17.0% in March and 10.6% in February, the first declines since October 2020; the rate was at a recent peak of 50.3% last June.

Import Prices (*link*): Import prices sank in March for the eighth time in nine months, with the yearly rate falling further into negative territory. These prices dropped 0.6% last month, putting them down 5.7% from a new record high they had reached last June. The yearly rate slipped below zero in February (-1.1% y/y) for the first time since the end of 2020, with the decline widening to 4.6% in March, plummeting from its recent peak of 13.0% last March. *Fuel prices* fell for the ninth month, by 2.9% in March and 36.6% over the period, with the yearly rate 27.5% below a year ago; the rate was as high as 130.1% in April 2021. *Nonpetroleum import prices* dropped 1.0% during the two months through March after a two-month gain of 1.2%; these prices had dropped 2.2% during the seven months through November. The yearly rate (-1.5%) turned negative for the first time since mid-2020 and was down from last March's peak of 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 -17.4% from 55.2%); foods, feeds & beverages (1.3 from 15.7); capital goods (1.6 from 4.2); and consumer goods ex autos (-0.3 from 3.2).

Business Sales & Inventories (*link*): *Nominal business sales* in February remained stalled

around last June's record high, while real sales in January climbed to a new record high. Nominal sales in February were flat after rebounding 1.2% in January from the 1.7% drop the final two months of last year; these sales are within 0.8% of last June's record high. Sales were up 3.3% y/y. Meanwhile, *real business sales* rebounded 2.1% during the two months through January, more than reversing the 1.1% drop during the two months ending November, to a new record high. In the meantime, the real inventories-to-sales ratio in January slipped to 1.46 from November's recent high of 1.49—which was the highest since mid-2020. The nominal ratio in February held at January's 1.36, which was down from December's 30-month high of 1.38.

Industrial Production (*link*): Output in March rose at double consensus expectations as utilities output soared, while manufacturing production fell at a faster pace than expected. The *headline* rate rose 0.4% (vs 0.2% expected), following gains of 0.2% and 0.9% the prior two months. Last year ended with a three-month slump of 1.9% in output. March production was only 0.5% below last September's recent high and within 1.0% of August/September 2018's record high. By industry group, *utilities* output soared 8.4%, reflecting an increased demand for heating, after unusually warm weather during January and February triggered a 7.9% drop the first two months of the year. Meanwhile, *manufacturing* production fell 0.5% in March (vs -0.1% expected), after rebounding 2.0% the first two months of this year from the 2.8% drop during the final two months of last year. Within manufacturing, durable goods production sank 0.9%, with most durable goods industries posting losses, led by wood products (-2.9%) and nonmetallic mineral products (-2.9). Nondurable consumer goods production was a mixed bag, with overall output ticking down 0.1%. *Mining* production fell 1.5% over the two months through March after rebounding 4.0% in January from the 3.1% loss the final two months of last year. By market group: *business equipment* production declined for the fourth time in five months, contracting 1.0% in March and 3.0% from October's recent peak. Transit equipment production dropped for the fifth successive month, by 1.3% in February and 6.3% over the period, while production of industrial & other equipment contracted for the fourth time in five months by a total of 2.2%. Meanwhile, production of information processing equipment slumped 1.3% in March after rebounding 1.6% during the first two months of this year and sliding 2.4% the final two months of last year. *Consumer goods* production climbed 1.4% during the two months through March, erasing the 1.1% decline during the three months through January; it's within 0.3% of last April's cyclical high. Consumer durable goods production fell 0.9% in March after a 0.5% gain the first two months of this year, remaining in a volatile flat trend near the middle of the range. Consumer nondurable goods production shot up 1.9% during the two months through March to its highest level since October 2011, led by utilities.

Capacity Utilization (*link*): The *headline* capacity utilization rate moved higher during the first three months of this year to 79.8% in March, after falling steadily from 80.8% in September to a 14-month low of 78.9% by December. March's rate is now 0.1ppt above its long its long-run (1972-2022) average. The *manufacturing* utilization rate fell to 78.1% in March, after a brief move up, from a 15-month low of 77.2% in December to 78.6% in February; March's rate is 0.1ppt below its long-term average. Meanwhile, the *utilities* rate in March shot up to 75.3% after a weather-related plunge from 76.1% in December to a record low of 69.7% by February. Still, March's rate remained substantially below its long-run average. The capacity utilization rate for mining fell for the second month to 91.1% in March after rebounding from 89.1% in December to 92.5% at the start of this year; March's rate was 4.7ppts above its long-term average.

Global Economic Indicators

Eurozone Industrial Production (*link*): Headline production, which excludes construction, expanded for the second month in February and is within 0.3% of a new record high. Production beat expectations for the second month, jumping 1.5% (vs 1.0% expected) in February and 2.5% over the period; output had dropped during two of the final three months of 2022 by 1.8%. Among the *main industrial groups*, both intermediate and capital goods output posted back-to-back gains, rebounding 2.6% and 2.3% during the first two months of this year, while consumer goods production remained volatile around record highs. Total consumer goods production rebounded 1.7% in February after a two-month drop of 3.2% and is within 1.6% of November's record high, with nondurable goods consumption posting a 1.9% gain and a 4.7% loss over the comparable periods—to within 3.0% of its November record high. Meanwhile, consumer durable goods output is down 5.4% since its recent peak last May. *Compared to a year ago*, headline production was up 2.0%, led by capital goods (10.4%) and consumer nondurable goods (3.3) production, while intermediate goods (-4.9), consumer durable goods (-3.5), and energy (-3.3) output were below year-ago levels. Production data are available for the *top four Eurozone economies* and show only Germany (2.1), France (1.1), and Spain (0.6) posted gains in February, while Italy (-0.2) saw a slight downtick. Over the 12 months through February, production was in the plus column in France (1.2) and Germany (0.5) while below year-ago levels in Italy (-2.3) and Spain (-0.9).

UK GDP (*link*): Real GDP in February showed no growth, after rebounding 0.4% in January from December's 0.5% decline, as civil service and teachers' strikes impacted the public sector, while warmer-than-normal weather triggered a fall in electricity and gas usage. Meanwhile, construction activity rebounded sharply from January's decline. Real GDP

recorded a 0.1% gain over the three months through February, slowing from 0.2% in January. February's level was 0.2% smaller than its pre-pandemic peak. The *service sector* ticked down 0.1% in February after jumping 0.7% in January from December's 0.8% drop. *Within services*, the biggest gains were recorded in other service activities (2.0) and arts entertainment & recreation (1.6), while the biggest declines occurred in education (-1.7%), public administration (-1.1), and transportation & storage (-0.5) The report notes that output in consumer-facing services climbed 0.4% in February following January's 0.3% gain, after a 1.2% drop at the end of last year. These services were 8.9% below their pre-Covid levels, while all other services were 2.2% above. Meanwhile, *industrial* output fell for the second month in February by 0.2% following a 0.5% fall in January; it had increased 0.6% the final three months of last year. *Manufacturing* production was flat in February, following a 0.1% loss and a 0.1% gain the prior two months, with 7 of its 13 subsectors posting declines in February. *Construction* activity rebounded 2.4% to a new record high in February after sinking 1.7% in January.

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