MORNING BRIEFING
April 27, 2023

Tech, Staples & Robotaxis

Check out the accompanying chart collection.

Executive Summary: Before long, every large corporation will be following in PricewaterhouseCoopers' footsteps and trying to leverage AI to their advantage. Microsoft is well positioned to benefit via its OpenAI investment and Azure cloud computing service. … Consumer Staples companies have turned investors' heads with stellar March-quarter results, buoyed by pricing power. But their unit sales growth might be vulnerable to price-sensitive consumers' disloyalty. … And in our Disruptive Technology segment, Jackie explores the Achilles' heel of autonomous vehicles: situations they haven't been programmed for.

Technology: AI Drives the Story. PC sales are in a slump, and Microsoft's deal to acquire Activision Blizzard was blocked by a UK regulator, but Microsoft investors don't care because the company appears to be successfully jumping into the AI era and beating its closest competitor, Alphabet, to the punch.

A *WSJ* article yesterday underscores the opportunity before Microsoft: "PricewaterhouseCoopers plans to invest $1 billion in generative artificial intelligence technology in its US operations over the next three years, working with Microsoft Corp. and ChatGPT-maker OpenAI to automate aspects of its tax, audit and consulting services."

All the funds won't line Microsoft's pockets. Some of the funding will pay for PWC to hire its own AI workers, train existing staff in AI, and potentially acquire AI software companies. The firm plans to use AI internally to make its operations more efficient, and it plans to advise its clients on how to harness AI. When it taps into OpenAI's AI tools, it will be paying a company that is 49% owned by Microsoft, and it will be accessing the AI tools on Microsoft's Azure cloud computing service.

We expect that all large companies at some point will consider whether and how they can use AI to make operations more efficient. Enterprise Technology Research surveyed about 500 corporate IT decision makers, and 53% said they "planned to evaluate, use or allocate further resources to OpenAI's ChatGPT technology," the *WSJ* article reported. So while companies may be looking to shrink their existing cloud computing bills, their interest in AI will likely mean higher cloud computing bills for years to come.

Microsoft's Azure cloud revenue jumped 27% y/y in its fiscal Q3 (ended March 31), and the company forecast 26%-27% y/y growth in the current quarter. Google also has AI capabilities, and its Q1 cloud revenue jumped 28% y/y. Both companies have divisions that dragged down results: Microsoft's More Personal Computing unit saw revenue fall 9% y/y last quarter, and Alphabet's advertising revenue fell less than 1% in the quarter. Microsoft's net income rose 9%, while Alphabet's fell 8.4%.

Microsoft shares rose 7.2% on Wednesday, compared to the S&P 500's 0.4% decline and Alphabet's 0.2% decline. Until Alphabet can lure AI clients like PWC, Microsoft's lead should widen.

Microsoft is a member of the S&P 500 Systems Software industry, which has jumped 17.7% ytd through Tuesday's close (*Fig. 1*). Investors expect the industry's revenue to increase 6.5% this year and 11.1% in 2024 (*Fig. 2*). Earnings, though forecast to grow only 3.1% this year, are expected to jump 14.9% next year (*Fig. 3*). And the industry's forward P/E of 26.9 is right in the middle of its 20.8 recent low (hit in October) and 34.3 recent high (November 2021) (*Fig. 4*).

Consumer Staples: Pricing Power Saves the Day. When the financial markets get a little rocky, investors often turn to the safety of consumer staples stocks. That was the case for the week ending Tuesday, when the S&P 500 lost 2.0% yet the S&P 500 Consumer Staples sector gained 1.0%, making it the second-best performing sector behind only Utilities. The Q1 results reported by some of the sector's biggest names were boosted by an ability to raise prices sharply and offset rising costs.

One area worth watching closely is unit sales, which fell for many players last quarter. Perhaps consumers responded to higher prices by cutting back or perhaps they opted to buy less expensive alternatives. Either way, negative y/y unit sales comparisons may indicate that there is a limit to how fast and how high prices can be hiked. Fortunately, managements expect that going forward costs and price increases will moderate.

Let's take a look at the recent earnings reports of Procter & Gamble, Kimberly-Clark, PepsiCo, and Coca-Cola:

(1) *Cleaning gets expensive.* Procter & Gamble boosted prices by 10% y/y in its fiscal Q3 (ended March 31), but the organic volume of products sold in many categories declined. (Organic volume excludes the impacts of foreign exchange, acquisitions, and divestitures.)

Here are the year-over-year price and organic unit volume changes in each of P&G's divisions for the quarter: Fabric & Home Care (13% price, -5% volume), Grooming (10%, -1%), Baby, Feminine & Family Care (8%, -4%), Beauty (8%, 0%), and Health Care (6%, 1%).

Because net sales rose 4%, greater than the 1% increase in P&G's cost of products sold, P&G's gross margin increased to 48.2% from 46.7% a year earlier, according to the company's April 21 *press release*. The company's gross margin had been under pressure since its recent peak in 2021 at 51.2%.

Going forward, the company faces some headwinds. In "quarter four, we will start to lap price increases for the first time. So, we had about 8% of pricing in the base. So that will be a negative headwind to the top-line growth in quarter four. And while we see stabilization of volumes, I would expect that there still will be a negative volume component to the growth in the near future," warned CFO Andre Schulten during the company's earnings *conference call*. Procter & Gamble exited Russia last year, making for tough comparisons, and its China business hasn't fully recovered. In Europe, the consumer is "under a lot of pressure," and private-label manufacturers haven't increased their prices as the branded companies have.

The company's strong results allowed it to increase its fiscal 2023 (ending June) guidance for organic sales growth to 6% from 4%-5% previously. But management is maintaining its 0%-4% estimate for core earnings-per-share growth due to "significant" headwinds from input costs and foreign exchange.

Investors looked past any headwinds in the current quarter and sent P&G shares up 3.5% since its earnings release on Friday through Tuesday's close, compared to the S&P 500's 1.4% decline over those days.

(2) *Diapers cost more too.* Kimberly-Clark raised prices by 10% y/y in Q1, but volume fell 5%, according to a company *press release*. As a result, Q1 sales increased 2% to $5.2 billion, and organic sales improved by 5%. The gross margin improved by 340bps to 33.2%.

Volumes were down across the company's product lines and in all geographic areas: Consumer Tissue (-5%), Personal Care (-5%), and KC Professional (-6%).

Kimberly-Clark's Q1 diluted earnings per share jumped 8% y/y to $1.67, and the company raised its full-year earnings-per-share growth estimate to 6%-10%, up from 2%-6% previously, while decreasing its 2023 costs estimate. Kimberly-Clark's shares rose 1.6%

after its earnings were released on Tuesday, compared to the S&P 500's 1.6% decline the same day.

Both P&G and Kimberly-Clark are among the members of the S&P 500 Household Products stock price index, which has risen 3.7% ytd through Tuesday's close (*Fig. 5*). Analysts collectively forecast revenue increases of 1.5% this year and 4.0% in 2024 (*Fig. 6*). Earnings are forecast to inch up in 2023 by 3.4% and improve by 9.9% next year (*Fig. 7*). At 24.2, the industry's forward P/E is near the upper end of its range over the past two decades (*Fig. 8*).

(3) *Soda prices bubbling up.* PepsiCo enjoyed a 10.2% y/y jump in Q1 revenue, helped by a 16% y/y jump in net prices that was offset by a 2% y/y drop in organic volume, according to its Q1 earnings *press release*. Excluding the impact of foreign exchange and acquisitions and divestitures, organic revenue jumped 14.3% y/y, and core EPS grew 18% y/y.

As a result of the strong quarter, the company boosted its 2023 forecasts for organic revenue growth to 8% from 6% and for its core, constant-currency earnings-per-share growth to 9% from 8%.

The company is seeing inflation decelerate, and it may not need to raise prices again this year. "We're seeing better labor availability, better flow of materials, suppliers are obviously getting better as well. Transportation is getting better. So operationally, the business is in a better place than it was in 2022," said CEO Ramon Laguarta on Pepsi's April 25 earnings *conference call*. He added that Pepsi has "mostly taken the pricing already this year that we needed to cover for our cost increases. … and we think that with the pricing that we've taken already [in] most of our business around the world, that should be sufficient." Pepsi shares rallied 2.1% on Tuesday, while the S&P 500 declined 1.6%.

Meanwhile, Coca-Cola's Q1 organic revenue grew 12% y/y, bolstered by an 11% jump in price/product mix, the company's April 24 *press release* stated. Despite the jump in prices, the cola company saw unit case volume increase by 3% for the company as a whole, with volumes falling 3% in Europe, Middle East & Africa, remaining flat in North America, and growing 10% in Asia Pacific and 5% in Latin America.

"The Atlanta-based beverage giant anticipates that inflationary pressures will moderate this year, particularly in the second half of 2023, and that means it will institute fewer price increases," an April 24 *WSJ* *article* reported. "Our approach to pricing, whether it's in inflationary times or not, is to make sure that we keep pace with inflation," said CFO John

Murphy, according to the *WSJ*. “Our pricing in 2022 and even in some markets in the early part of 2023 reflects that.”

Coke confirmed an earlier 2023 forecast of organic revenue growth of 7%-8% and comparable, currency-neutral earnings-per-share growth of 7%-9%. The company’s shares are basically flat since the earnings release.

Pepsi and Coke are both part of the S&P 500 Soft Drinks & Nonalcoholic Beverages stock price index, which is up 1.8% ytd through Tuesday’s close (*Fig. 9*). Analysts are optimistic that the industry will grow revenue by 4.5% this year and 5.2% in 2024 (*Fig. 10*). Earnings are forecast to jump 7.0% this year and 8.7% next year (*Fig. 11*). At 24.4, the industry’s forward P/E is near the top of its 20-year range (*Fig. 12*).

Disruptive Technologies: Autonomous Vehicles on a Roll. Every once in a while, autonomous vehicles (AVs) encounter a problem their programmers never anticipated.

For example, a snoozing customer in an autonomous taxi posed a conundrum recently. What does an AV do when its passenger falls asleep and can’t be roused by an in-car communication system? When sleeping beauty wouldn’t arise, the staff monitoring a Cruise AV called 911, prompting the dispatch of police and firefighters. This has occurred in San Francisco on a number of occasions, according to a January 29 Digital Trends *article*. While the tale made us chuckle, San Francisco agencies aren’t happy with the wasted municipal resources.

There have also been tales of AVs coming to a standstill when they don’t know how to react to a situation they’ve encountered.

But unforeseen issues notwithstanding, more and more AVs are hitting the road. Here’s an update on what some of the largest players are up to:

(1) *Cruise drives 24/7 in CA.* In San Francisco, GM’s Cruise AV fleet is running 24 hours, seven days a week. And from 10 pm to 5:30 am, Cruise AVs drive paying passengers in northwest San Francisco without a human driver behind the wheel, an April 25 CNBC *article* reported.

Cruise was granted the right to drive 24/7 even though the AV operator has had some hiccups. The company, which also operates in Phoenix and Austin, initiated a voluntary recall to update the software in 300 robotaxis after one hit the back of a San Francisco city

bus. There were no injuries and only minor damage to the Cruise vehicle in the crash. But the recall is necessary to determine why the AV failed to detect that the bus was moving slowly, an April 7 TechCrunch *article* reported.

Cruise came under scrutiny when one of its cars stopped on trolley tracks and wouldn't move, as a December 8 Slate *article* reported. And about a year ago, a Cruise vehicle blocked a travel lane needed by a fire engine.

(2) *AV funding tumbles.* GM believes that Cruise will generate $1 billion in revenue by 2025 compared to only $106 million last year, when it lost nearly $2 billion, an April 5 AP *article* reported. But not everyone in the industry is in the same lane.

Funding for self-driving vehicles crashed last year, with only $4.1 billion invested in AVs, less than half the $9.7 billion invested the prior year. Funding dropped as investors questioned the path to commercialization for many AV companies, an April 19 *article* in *Forbes* reported.

"Google's robotaxi startup Waymo has laid off staff, self-driving tech company Aurora is looking at cash preservation, Ford and VW's Argo AI is shutting down, and multiple other autonomous vehicle startups and projects are consolidating their positions, partnering to reduce costs and risks, or reducing headcount," the article reported, citing a report by F-Prime Capital.

(3) *Doubting BYD.* A spokesman from BYD, China's largest electric vehicle manufacturer, said that self-driving technology that is "fully separated from humans is very, very far away, and basically impossible," an April 18 CNBC *article* reported.

"When we think about [self-driving tech] from all aspects, from human psychological safety needs, from ethics, from regulation, from technology—including application in this industry—we haven't figured out [the logic] and we think it is probably a false proposition," the BYD spokesperson told reporters. It's better to use advanced automation in factories as a manufacturing tool, he said.

(4) *Don't tell that to Tesla fans.* Tesla is expected to unveil fully autonomous driving software by year-end, prompting the folks at Cathie Wood's ARK Invest to arrive at an audacious stock price target of $2,000 by 2027, an April 25 Yahoo Finance *article* reported. An ARK analyst believes the automaker will roll out a robotaxi service that will generate "$613 billion in revenue by 2027 and account for two-thirds of the company's enterprise

value," the article states. Globally, ARK estimates the total market for robotaxis will be worth $9 trillion to $10 trillion in the next decade.

And that's what makes a market.

Calendars

US: Thurs: GDP & GDP Price Index (q/q) 2.0%/3.7%; PCE Prices Headline & Core 3.7%/4.7%; Kansas City Manufacturing Index 3.0; Initial & Continuous Jobless Claims 248k/1.878m; Pending Home Sales 0.5%. **Fri:** Headline PCED 0.3%; Core PCED 0.3%m/m/4.5%y/y; Personal Income & Spending 0.2%/-0.1%; Consumer Sentiment Index, Current Conditions, and Expectations 63.5/66.0/61.8; Employment Cost Index, Wages & Salaries, and Benefits 1.1%/0.9%/0.7%; Chicago PMI 43.5; Baker-Hughes Rig Count. (Bloomberg estimates)

Global: Thurs: Eurozone Economic Sentiment Indicator 99.9; Italy Consumer & Business Confidence 105.5/104.0; Spain Retail Sales 5.5%y/y; Spain Business Confidence -2.2; Spain Unemployment Rate 12.9%; Japan Industrial Production 0.5%; Japan Retail Sales 5.8%y/y; Japan Unemployment Rate 2.5%; Japan Leading Index 97.7; BOJ Monetary Policy Statement; Panetta. **Fri:** Eurozone GDP 0.2%q/q/1.4%y/y; Germany GDP 0.3%q/q/0.8%y/y; Germany CPI 0.8%m/m/7.8%y/y; Germany Unemployment & Unemployment Rate 10k/5.6%; Germany Import Price Index -0.9%m/m/-3.6%y/y; France CPI 0.4%m/m/6.5%y/y; France GDP 0.2%q/q/0.5%y/y; France Consumer Spending 0.3%m/m; Spain CPI 0.6%m/m/4.1%y/y; Italy GDP 0.2%q/q/1.4%y/y; UK Nationwide HPI -0.8%m/m/-5.3%y/y; BOJ Interest Rate Decision -0.10%; Eurogroup Meetings; Wuermeling. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* slipped to 1.94 this week, after a four-week climb from 1.38 to 2.11—which was the highest reading since the January 4 week last year. *Bullish* sentiment took a step back to 48.6% this week, after increasing the prior four weeks from 39.7% to 50.7%—which was the most since November 2021, when it peaked at 57.2%. Bulls outnumbered bears for the 23rd consecutive week. *Bearish* sentiment edged up to 25.0% this week after sinking the prior four weeks from 28.8% to

24.0%—which was the fewest bears since early January 2022. The *correction count* moved up to 26.4% this week after moving down from 27.0% to 25.3% last week—remaining well below its late September 2022 peak of 40.3%. Turning to the *AAII Sentiment Survey* (as of April 20), both bullish and bearish sentiment moved higher during the week, while neutral sentiment moved lower. Bearish sentiment was above average for the ninth successive week, while bullish sentiment remained at an unusually low level. The *percentage expecting stock prices to rise* over the next six months rose to 27.2% during the latest week after slipping from 33.3% to 26.1% the prior week. It was below its historical average of 37.5% during 72 of the last 74 weeks. The *percentage expecting stocks to fall* over the next six months rose to 35.1% after dropping the prior three weeks by 14.4ppts, from 48.9% to an eight-week low of 34.5%. Still, pessimism remained above its historical average of 31.0% for 69 of the past 74 weeks. The *percentage expecting stock prices will stay essentially unchanged* over the next six months fell to 37.7% during the latest week after rebounding 7.9ppts the prior week, from 31.7% to 39.5%. Neutral sentiment was above its historical average during 15 of the past 16 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 20 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 0.1% w/w to a new record high. Forward earnings edged down less than 0.1% w/w to 5.3% 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 0.1pt 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 was unchanged w/w at 4.7% and is now 1.2pts 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 1.6% in 2023 (up 0.1ppt w/w) and 4.8% in 2024 (down 0.1ppt w/w) compared to a revenues gain of 12.2% in 2022. They expect an earnings decline of 0.6% in 2023 (unchanged w/w) and an 11.9% rise in 2024 (down 0.3pt 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 18.4, just 0.1pt 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 2.26, but 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; it 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 20 week saw consensus forward revenues rise for seven sectors and forward earnings rose for two. The forward profit margin rose w/w for four sectors and fell for seven. Health Care is the only sector to have forward revenues at a record high this week. Among the remaining ten sectors, five have forward revenues more than 4.9% below their post-pandemic highs: Consumer Discretionary, Consumer Staples, Energy, Financials, and Utilities. Consumer Staples is the only sector with forward earnings at a record high. Among the remaining 10 sectors, five have forward earnings that remain relatively strong, down less than 10.0% from their post-pandemic highs: Health Care, Industrials, Information Technology, Real Estate, and Utilities. Since mid-August, all sectors have seen forward profit margins retreat from their record highs. Those of Energy, 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 (18.3, down from its 19.8 record high in August 2021), Real Estate (16.6, down from its 19.2 record high in 2016), Communication Services (14.6, down from its 17.0 record high in October 2021), Utilities (13.1, 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 (11.5, down from its 12.8 record high in November), Materials (11.0, down from its 13.6 record high in June), Industrials (10.4, 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 (7.3, 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 8.6% to 12.3% through the April 20 week. All sectors' margins are 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, 2022 forward profit margin peak: Industrials (down 0.3% to 10.4%), Energy (down 3.3% to 11.5%), Financials (down 3.9% to 18.3%), Consumer Discretionary (down 5.4% to 7.3%), Utilities (down 5.5% to 13.1%), Real Estate (down 7.5% to 16.6%), Information Technology (down 7.7% to 23.5%), Consumer Staples (down 8.1% to 6.7%), S&P 500 (down 8.6% to 12.3%), Communication Services (down 9.5% to 14.6%), Health Care (down 12.5% to 9.6%), and Materials (down 19.0% to 11.0%). These are the best performing industries since the June 9, 2022 peak: Human Resource & Employment Services (up 102.7% to 18.6%), Casinos & Gaming (up 90.6% to 4.3%), Wireless Telecommunication Services (up 76.3% to 11.9%), Oil & Gas Refining & Marketing (up 62.2% to 5.5%), Passenger Airlines (up 38.0% to 5.6%), Reinsurance (up 21.2% to 14.2%), and Oil & Gas Equipment & Services (up 18.9% to 10.9%). The worst performing industries since the June 9, 2022 peak: Commodity Chemicals (down 40.8% to 6.1%), Home Furnishings (down 37.8% to 5.5%), Copper (down 35.3% to 12.5%), Housewares & Specialties (down 34.3% to 5.5%), Broadcasting (down 31.7% to 3.8%), Publishing (down 31.1% to 2.5%), and Computer & Electronics Retail (down 28.1% to 3.2%).

S&P 500 Q1 Earnings Season Monitor (*link*): With the Q1-2023 earnings season now one-thirds complete, the early indications are that this season is a big improvement from Q4-2022's relatively weak showing. Then, the earnings surprise was the lowest since Q4-2008 and the revenue surprise the smallest since Q1-2020. Furthermore, the earnings surprise failed to outpace the revenue surprise in Q4-2022 for the first time since we began tracking that data in Q1-2009. With 164 of the S&P 500 companies finished reporting for Q1-2023, revenues are ahead of the consensus forecast by 2.2%, and earnings have exceeded estimates by 8.0%. At the same point during the Q4 season, revenues were 1.1% above forecast and earnings had beaten estimates by 2.5%. Just 72% of the 164 Q1 reporters that have reported so far through mid-day Wednesday has reported a positive revenues surprise, while 79% has reported an earnings beat. That's close to the weakest reading for revenues since the Great Virus Crisis, but the percentage with positive earnings surprises may have bottomed in Q4-2022. Their aggregate y/y revenue and earnings growth rates are little changed from their Q4-2022 readings. The collective y/y revenue gain for the 130 reporters so far has improved to 5.9% from 5.7% in Q4-2022, and earnings are up 1.3% y/y from a 1.9% y/y decline in Q4-2022. During the past 56 quarterly reporting seasons over the last 14 years, y/y earnings growth has trailed revenue growth in only 14 of the quarters, and it's likely to do so again in Q1-2023. Significantly fewer companies are reporting positive y/y earnings growth in Q1 (59%) than positive y/y revenue growth (74%). These figures will continue to change as more Q1-2023 results are reported in the coming weeks. While we expect y/y revenue growth rates to remain positive in Q1, earnings are likely to decline for a second straight quarter.

US Economic Indicators

Durable Goods Orders & Shipments (*link*): Durable goods orders were stronger than expected, getting a boost from Boeing plane orders, while core capital goods and shipments both contracted for the fourth time in five months, though remain in record territory. *Durable goods orders* rebounded 3.2% in March after sliding 6.1% the first two months of the year, though ticked up only 0.3% excluding transportation, following a 0.3% loss and a 0.4% gain the prior two months. Meanwhile, n*ondefense capital goods orders excluding aircraft* (a proxy for future business investment) fell 1.1% during the two months through March, though is only 1.4% below last August's record high. *Nondefense capital goods shipments excluding aircraft* (used in calculating GDP) fell for the second consecutive month in March, by 0.9%, from January's record high. On a year-over-year basis, core capital goods orders and shipments are up 2.0% and 4.3%, respectively, slowing from their peak rates of 22.3% and 17.7% during April 2021. In March, orders for electrical equipment, appliances & components reached a new record high, while orders for machinery, motor vehicles & parts, and fabricated metals remained in record-high territory.

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