Yardeni Research

MORNING BRIEFING
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Pandemic Of Pessimism

Check out the accompanying chart collection.

Executive Summary: The stock market has been climbing since mid-October even though pessimism has prevailed among economists and stock market strategists. Today, we examine this "pandemic of pessimism"—how widespread it is, our perspective on the bearish case, what the Fed's staff thinks is ahead for the US economy, and a few of the voices of doom. … We counter that the stock market's trend is driven mostly by the earnings trend; we doubt QT will send either southward. Earnings growth may be weak in our rolling recession forecast, but growth it will be nonetheless. The labor market's remarkable resilience reflects the economy's resilience.

Strategy: The Wall Street of Worry. Investopedia *observes*: "Climbing the wall of worry [WOW] is a reference to investor behavior during bull markets, at the end of major bear periods, or general periods of market gains. The phrase refers to the market's ability to show resilience in the face of economic or corporate news that might otherwise spark a selloff, and instead keep pushing securities higher. The wall of worry is sometimes one event the market must keep climbing in spite of but is more often a confluence of events the market must look beyond."

That describes the stock market's rally since October 12, 2022. The S&P 500 is up 15.6% since then through Friday's close. Consider the following developments during the latest "pandemic of pessimism" ("POP"), which we think better describes the current situation than "WOW":

(1) *Philly Fed survey.* The Philly Fed's Survey of Professional Forecasters, which started in Q4-1968, includes the "Anxious Index," which is the probability of a decline in real GDP (*Fig. 1*). The survey asks panelists to estimate the probability that real GDP will decline in the quarter in which the survey is taken and in each of the following four quarters. The Anxious Index shows the probability of a decline in real GDP in the quarter after a survey is taken.

For example, the survey taken in Q4-2022 yielded an Anxious Index reading of 47.2%, which means that forecasters believed there was a 47.2% chance that real GDP would decline in Q1-2023. That reading is the highest since Q2-2009. The probability they saw of a recession over the next four quarters was 43.5%, the highest on record (*Fig. 2*).

In the Q1 survey (dated February 10, 2023), the 37 forecasters revised downward the chance of a contraction in real GDP in any of the next four quarters. For the current quarter, the forecasters predict a 42.4% chance of negative growth, down from 47.2% in the previous survey. The forecasters' probability estimate for the following three quarters was also revised downward, to 31.8%.

(2) WSJ *survey. The Wall Street Journal* released its latest quarterly *survey* of economists on April 15. On average, the survey of 62 forecasters saw the same probability of a recession at some point over the next 12 months as they did in January, 61%. They saw the contraction as likely to begin during Q3, later than the Q2 consensus of January's survey.

Among respondents, 76% said there would be no soft landing compared with 75% in January. Nevertheless, most of the business, academic, and financial economists who responded to the *Journal*'s survey didn't see banking turmoil as contributing to the recession threat. Among them, 58% said a crisis had been largely averted, while 42% predicted more trouble ahead.

(3) *Strategists.* Bloomberg's Lu Wang wrote a December 1, 2022 *article* titled "Wall Street Turns Bearish on Stocks After Bad Year." She reported: "The average forecast of handicappers tracked by Bloomberg calls for a decline in the S&P 500 next year, the first time the aggregate prediction has been negative since at least 1999. Most of them turned progressively more dour as the worst year in the market since the financial crisis moved toward its end."

Lu also observed: "In almost a century of historic data, two straight years of losses or more only occurred on four separate occasions, with the latest episode coming during the bursting of the dot-com bubble." Furthermore, during those four episodes, the drop during the second consecutive down year was greater than the one during the first (*Fig. 3*).

A March survey of Wall Street strategists conducted by Bank of America found that collectively they were more bearish on stocks than at any point since the Great Financial Crisis in 2008 and 2009! The April survey found that recommended equity allocations by Wall Street strategists stood at just 52.7% in April, which represents the lowest level in six years.

(4) *Fed's staff.* For the first time since officials began lifting rates a year ago, Fed staff in March forecasted that the banking-sector turmoil would cause a recession later this year, according to the *minutes* of the March 21-22 FOMC meeting: "For some time, the forecast for the U.S. economy prepared by the staff had featured subdued real GDP growth for this year and some softening in the labor market. 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) *Two bearish charts.* To support their pessimistic outlook, bearish prognosticators tend to focus on two charts. The first one shows the S&P 500 versus the securities held by the Fed, which account for most of the Fed's balance sheet (*Fig. 4*). They contend that the bull market in stocks from 2009 through 2021 was driven by the Fed's various quantitative easing programs. The S&P 500 peaked at a record high on January 3, 2022 as investors started to anticipate quantitative tightening (QT), which started during June of that year. The Fed remains on its QT course, which suggests to these bears that the rally since October 12, 2022 is a rally within a bear market.

We think that the stock market's trend is driven mostly by the trend in earnings. We doubt that QT will cause either an economic or an earnings recession, let alone both. In our "rolling recession" scenario, earnings growth may be weak, but it should be positive.

Another current favorite chart of the permabears is the y/y growth of M2 (*Fig. 5*). M2 was down 4.1% y/y during March, the lowest growth rate on record, they point out. But that followed a record-high growth rate of 26.9% during February 2021. We estimate that M2 is still about $1 trillion to $2 trillion above its pre-pandemic trend line (*Fig. 6*). The same can be said about all deposits at commercial banks. We reckon that demand deposits is more than $3 trillion above its comparable trendline.

(6) *Usual suspects.* In an April 10 Fox Business interview, investment strategist Nouriel Roubini said: "I think the problems are with the regionals, but the regional banks are significant lenders to households for mortgages, for small businesses, for SMEs, for commercial real estate. And therefore, we're going to have a credit crunch."

Roubini added, "That credit crunch is going to make the likelihood of a recession, a hard landing, much greater than before. So we're facing a serious credit crunch for a good chunk of the U.S. banking system."

David Rosenberg was the opening keynote speaker at John Mauldin's Strategic Investment Conference (SIC) on May 3. The odds of a "hard" recession are 99%, according to Rosenberg, and it will start in the second quarter. Indeed, he said, it may already have started. "There is a 1% probability of a soft landing," he said. Repeating his prediction from last year, Rosenberg said the recession will cause earnings and multiple contractions that will drive equity prices down 30%. We are heading into a "meat grinder, volatile" market that will be sprinkled with bear-market rallies, he said. Rosenberg and I will be featured at an SIC bull-versus-bear debate on Monday.

On Thursday, Morgan Stanley's Chief Investment Officer Mike Wilson *pointed out* that a recession is looming in the second half of the year. Wilson, who has been noted for his bearish outlook in recent years, went on to say, "Bottom line, stock selection and industry group selection becomes increasingly important late in the cycle. We continue to prefer traditional defensive sectors on a relative basis as well as single stocks with stable earnings profiles and high operational efficiency."

US Labor Market: Recession Proof? The labor market won't give the hard-landers a break. Friday's employment report for April belies their recession forecast. It's hard to have a recession with jobs continuing to expand at a solid pace and wages outpacing prices, resulting in real wage gains.

Debbie and I are Baby Boomers. So we have a unique insight (along with 75 million other Baby Boomers) into how we are fueling the demand for labor. We are going out to restaurants and traveling more often. So the restaurants, hotels, and airlines need more staff. We are using health care services more often. So the health care system needs more workers. We are ordering more online and using ridesharing services. So the demand for truck drivers and warehouse personnel is strong. Let's see if the data support our hypothesis:

(1) *Unemployment and participation.* In his press conference on Wednesday, May 3, Fed Chair Jerome Powell observed: "It's interesting [that] we've raised rates by 5 percentage points in 14 months, and the unemployment rate is 3½% pretty much where it was, even lower than where it was, when we started." On Friday, we learned that the unemployment rate fell to 3.4%, matching its lowest rate since May 1969 (*Fig. 7*). The jobless rate for adults was 3.2%, and for teens the rate dropped to a record low of 9.2%. The short-term and long-term unemployment rates were just 2.7% and 0.7% in April (*Fig. 8*).

The labor force participation rate remained at 62.6% in April, below the pre-pandemic reading of 63.3% on February 2020 (*Fig. 9*). The labor force participation rate for 25- to 54-year-olds rose to 83.3% in April, the highest since March 2008 (*Fig. 10*).

(2) *Employment.* During the first four months of this year, payroll employment (which counts the number of jobs) rose 1.1 million to a record 155.7 million (*Fig. 11*). Over the same period, household employment (which counts the number of workers) rose 1.8 million to a record 161.0 million. The number of workers with full-time jobs rose sharply in recent months to a record high of 134.5 million (*Fig. 12*). That's 3.7 million above the pre-pandemic level during February 2020.

(3) *Earned Income Proxy.* Our Earned Income Proxy (EIP) for private wages and salaries in personal income rose 0.7% m/m during April to a new record high (*Fig. 13*). Payroll employment rose 0.2%, the average workweek was unchanged, and average hourly earnings rose 0.5%. This augurs well for April's retail sales and consumer spending reports.

(4) *Industries.* During April, nonfarm payrolls increased 253,000 m/m and 4.0 million y/y. Here are the m/m and y/y increases for selected industries in thousands sorted by the y/y increases: health care and social assistance (64.2, 862.1), accommodation and food services & drinking places (25.0, 741.8), professional and business services (43.0, 524.0), government (23.0, 469.0), manufacturing (11.0, 223.0), construction (15.0, 205.0), transportation & warehousing (10.6, 121.4), wholesale trade (-2.2, 100.4), finance (23.0, 88.0), and retail trade (7.7, 31.7).

As noted above, demand for certain services undoubtedly has been boosted by the needs of the aging Baby Boomers. The biggest question facing many of them during retirement is how much to splurge on themselves versus leaving for the kids.

We also note that there's virtually no sign of a recession in the latest employment indicators. Notwithstanding the recession in the single-family housing market, construction employment rose to a record high in April (*Fig. 14*). Notwithstanding the recession in the goods producing and providing industries, truck transportation employment rose to a record high in April (*Fig. 15*). Retail trade employment has stalled during the past year around its pre-pandemic level, but wholesale trade employment is at a record high (*Fig. 16* and *Fig. 17*).

(5) *Real wages.* Average hourly earnings (AHE) has mostly stagnated for the past 33 months through March (*Fig. 18*). However, over the past five months, AHE has been

increasing at a faster pace than the PCED. That, along with solid employment gains, is boosting the purchasing power of consumers.

Calendars

US: Mon: Consumer Inflation Expectations; Wholesale Inventories 0.1%; Loan Office Survey. **Tues:** NFIB Small Business Optimism Index; API Crude Oil Inventories; EIA Short-Term Energy Outlook; Williams; Jefferson. (Bloomberg estimates)

Global: Mon: Eurozone Sentix Investor Confidence -8.0; Germany Industrial Production -1.3%; Spain Consumer Confidence; UK BRC Retail Sales Monitor 4..7%y/y; Japan Household Spending 0.4%m/m/1.5%y/y; China Exports & Imports 8.0/-5.0%y/y; Australia Retail Sales 0.4%m/m/-0.5%y/y; Schnabel; Lane; Buch. **Tues:** France Trade Balance –€9.4b; UK Halifax House Price Index; Lane. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): US MSCI index fell 0.8% last week and moved deeper into a correction at 15.2% below its record high on December 27, 2021. The US MSCI ranked 30th 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 rose 0.2%, but also remained in a correction, albeit at 15.7% below its June 15, 2021 record high. EM Latin America was the best regional performer with a 1.0% gain, ahead of BIC (0.7%), EM East Europe (0.7), and EM Asia (0.6). EMU was the worst performing region last week, with a decline of 0.7%, followed by EMEA (-0.5) and EAFE (0.0). Hungary was the best-performing country last week, with a gain of 4.1%, followed by Peru (3.7), the Czech Republic (3.3), Argentina (2.1), and Greece (2.1). Among the 25 countries that underperformed the AC World ex-US MSCI last week, the 8.1% decline for Pakistan was the biggest, followed by Turkey (-3.6), Portugal (-2.1), Austria (-2.0), and Denmark (-1.9). Looking at 2023's performance so far, the US MSCI is up 7.7% as its ytd ranking dropped three places w/w to 23/48. The AC World ex-US's ytd gain of 7.9% is now leading the US again, with 32/48 countries now in positive territory. EM Eastern Europe is now the best regional performer ytd, with a gain of 17.0%, followed by EMU (16.0) and EAFE (10.3). The regional laggards so far in 2023: BIC (-0.8), EMEA (1.6), EM Asia (2.7), and EM Latin America (5.8). This year's best ytd country performers: the Czech Republic (45.3), Mexico (23.7), Ireland (22.8), Greece (21.7), and

Italy (18.7). Here are the worst-performing countries of the year so far: Pakistan (-26.1), Turkey (-19.1), Colombia (-10.9), Norway (-8.3), and Thailand (-5.3).

S&P 500/400/600 Performance (*link*): Only one of these three indexes moved lower last week. LargeCap and SmallCap both dropped 0.8% w/w, ahead of the 1.2% decline for MidCap. By Friday's close, SmallCap was still in a bear market, while LargeCap and MidCap remained in a correction. LargeCap finished the week at 13.8% below its record high on January 3, 2022, MidCap at 15.4% below its record high on November 16, 2021, and SmallCap at 22.3% below its November 8, 2021 record high. Eleven of the 33 LargeCap and SMidCap sectors moved higher for the week compared to 15 rising a week earlier. SmallCap Utilities was the best performer with a gain of 2.8%, ahead of SmallCap Tech (1.9%), MidCap Tech (1.3), SmallCap Health Care (1.3), and MidCap Consumer Staples (1.0). Among the worst performers for the week were SmallCap Communication Services (-7.5), LargeCap Energy (-5.8), SmallCap Financials (-5.8), MidCap Energy (-5.5), and MidCap Financials (-4.8). Looking at performances so far in 2023, LargeCap, with a 7.7% gain, remains well ahead of MidCap (1.3) and SmallCap (-1.6); 22 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (22.7), LargeCap Communication Services (21.6), LargeCap Consumer Discretionary (14.2), SmallCap Consumer Discretionary (10.3), and SmallCap Consumer Staples (9.1). Here are 2023's biggest laggards: SmallCap Financials (-20.1), MidCap Energy (-16.2), SmallCap Energy (-14.2), MidCap Financials (-12.0), and LargeCap Energy (-8.2).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 sectors rose last week, and six outperformed the composite index's 0.8% decline. That compares to a 0.9% gain for the S&P 500 a week earlier, when six sectors rose and four outperformed the index. Tech was the best performer, with a gain of 0.6%, followed by Health Care (0.1%), Utilities (0.0), Consumer Discretionary (-0.3), Consumer Staples (-0.4), and Industrials (-0.5). Energy was the worst performer, with a 5.8% decline, followed by Financials (-2.6), Communication Services (-2.3), Materials (-1.1), and Real Estate (-0.8). Looking at 2023's performance so far, the S&P 500 is up 7.7% ytd, with just three sectors outperforming the index and seven higher for the year. The best ytd performers: Tech (22.7), Communication Services (21.6), and Consumer Discretionary (14.2). These are 2023's worst performers: Energy (-8.2), Financials (-5.8), Utilities (-2.2), Health Care (-1.8), Real Estate (1.0), Industrials (1.3), Materials (2.4), and Consumer Staples (3.2).

S&P 500 Technical Indicators (*link*): The S&P 500 fell 0.8% last week and weakened 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 sixth week and its 200-dma for a seventh 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 dropped to 2.3% above its rising 50-dma from a 10-week high of 3.4% above its 50-dma 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 4.2% above its rising 200-dma, down from a 10-week high of 5.1% above its rising 200-dma 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 seventh week, but barely so for the 200-dma, which has risen in just 12 of the past 51 weeks.

S&P 500 Sectors Technical Indicators (*link*): Seven of the 11 S&P 500 sectors are trading above their 50-dmas, down from all 11 sectors a week earlier. Energy, Financials, Industrials, and Materials moved below in the latest week. Six sectors have a rising 50-dma, unchanged from a week earlier, as Energy reversed back into the falling 50-dma club and Consumer Discretionary's 50-dma started rising again. These other four sectors still have falling 50-dmas: Financials, Industrials, Materials, and Real Estate. Looking at the more stable longer-term 200-dmas, the positive club slipped w/w to seven members from eight as Energy moved below and rejoined Financials, Real Estate, and Utilities as the only sectors trading below their 200-dmas. The rising 200-dma club dropped to seven members from eight a week earlier with removal of Financials. Consumer Discretionary, Real Estate, and Utilities are the other three sectors with a falling 200-dma.

US Economic Indicators

Employment (*link*): Payroll employment in April expanded a stronger-than-expected

253,000, but there were big downward revisions to both March (to 165,000 from 236,000) and February (248,000 from 326,000) payrolls, for a net loss of 149,000 *Total payroll* employment has moved above its pre-pandemic level by 3.3 million. Jobs gains in *private service-providing* industries increased 197,000 in April, stronger than March's 140,000, though below the average gain of 243,500 the first two months of this year, while *goods-producing* jobs rose 33,000 in April after falling in March (-17,000) for the first time since April 2021, led by an 11,000 decline in construction jobs, while factory employment was 8,000 lower and mining & logging ticked up 2,000. *Within service-providing*, professional & business services (43,000) posted the largest monthly gain, above its average monthly gain of 25,000 the prior six months, followed by health care (40,000), which fell a little short of its average monthly gain of 47,000 the prior six months. Employment in leisure & hospitality (31,000) took the number three slot in April, led by food services & drinking places (25,000), though was nearly half its average monthly gain of 73,000 over the prior six months, while the gain in social assistance (25,000) was slightly above its average monthly gain of 21,000 the previous six months. Financial activities (23,000) rounds out the top five biggest industry increases in April, posting its biggest monthly gain in a year, after decreasing 2,000 the first three months of this year. Turning to *government* jobs, they increased 23,000 in April, slowing steadily from January's 119,000, with federal, state, and local government payrolls all showing smaller gains. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.5 million), transportation & warehousing (+957,600), construction (+295,000), health care (+271,700), financial activities (+253,000), information services (+188,000), social assistance (+164,000), wholesale trade (+150,300), education (+126,800), nondurable goods manufacturing (+107,000), durable goods manufacturing (+99,000), and retail trade (+16,400). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-44,000) and leisure & hospitality (-402,000).

Wages (*link*): Average hourly earnings for all workers in April rose 0.5%, following gains of 0.3% in each of the prior three months. The yearly rate ticked up to 4.4% after slowing to a 20-month low of 4.2% in March, down from its recent high of 5.9% during March 2022. April's rate was below the March CPI inflation rate of 5.0% but above the 4.2% PCED rate. Private industry wages over the three months through April increased 4.1% (saar), just below the yearly rate of 4.4%, with the service-providing (3.9%, saar & 4.4 y/y) industries' three-month rate below its yearly rate, while the goods-producing (5.0 & 4.6) industries' three-month rate was above its yearly rate. *Service-providing industries showing three-month rates above their yearly rates*: transportation & warehousing (7.5 & 4.5), retail trade (5.8 & 4.8), and professional & business services (5.2 & 4.4). *Service-providing industries showing three-month rates below their yearly rates*: information services (-2.1 & 4.0), other services (0.4 & 4.2), education & health services (0.9 & 4.0), financial activities (1.2 & 3.7), utilities (3.9 & 5.5), leisure & hospitality (4.4 & 5.7), while the three-month and yearly rates for wholesale trade (5.7 & 5.5) were similar. *Goods-producing industries*: The three-month rate is above the yearly rate for durable goods manufacturing (4.8 & 3.6) and below for nondurable goods manufacturing (3.7 & 4.3), while the three-month and yearly rates for the construction (5.6 & 5.4) and natural resources (6.4 & 6.6) industries are similar.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 35th increase in the past 36 months, with April's rate accelerating 0.7% from March's 0.1% uptick, climbing 37.2% over the period to yet another record high. In April, *average hourly earnings* advanced 0.5%, with *aggregate weekly* hours up 0.2%, with private payroll employment up 0.2% while the average workweek was flat. Over the past 12 months, our EIP advanced 6.7%, accelerating from March's two-year low of 6.2%, with aggregate weekly hours up 2.3% and average hourly earnings up 4.4%—though below the 8.1% rate at the start of the year. It peaked last February at 11.8%, which was the fastest since spring 2021.

Unemployment (*link*): The unemployment rate in April slipped to 3.4%, matching its lowest rate since May 1969; it has ranged from 3.4% to 3.7% since March 2022. Household employment rose by 139,000 during April, while the civilian labor force shrank by 43,000. The participation rate in April remained at 62.6%, up from 62.2% in November, though below its pre-pandemic reading of 63.3%. *By race*: Unemployment rates in April fell again for African Americans (to 4.7% from 5.0%) and Hispanics (4.4 from 4.6), while the rate for Asians was unchanged at 2.8%; the rate for Whites (3.1 from 3.2) continues to fluctuate around its record low of 3.0%. *By education*: The rate for those with less than a high-school diploma (to 5.4% from 4.8%) rose in April, after falling a full percentage point in March, while those with a high-school degree (3.9 from 4.0), some college or an associate degree (2.9 from 3.0), and a college degree (1.9 from 2.0) all ticked lower.

Productivity & Unit Labor Costs (*link*): Nonfarm productivity began 2023 on a weak note, after finishing 2022 strong, though this measure tends to be volatile. Productivity, which measures hourly output per hour, contracted 2.7% (saar) during Q1, as output (0.2%, saar) slowed to a near standstill last quarter and hours worked (3.0) accelerated for the first time in seven quarters. The gain in unit labor costs virtually doubled from 3.3% during Q4-2022 to 6.3% (saar) during Q1—reflecting a 3.4% increase in hourly compensation and a sharp drop in productivity growth. Because of the volatility in productivity, we track the annualized 20-quarter percent change, which bottomed at 0.4% during the final quarter of 2015. It then climbed to 2.5% during Q2-2021 before slowing to 1.4% during Q1-2023. We're not giving up on a productivity comeback following the pandemic, as wages have been increasing at a faster pace than prices in recent months and employment gains remain solid—boosting real consumer incomes.

Merchandise Trade (***link***): The *real merchandise trade deficit* narrowed in March to $99.4 billion after widening the prior three months from $95.8 billion in November to $104.0 by February. The deficit over the first three months of this year averaged $101.6 billion, compared with an average monthly deficit of $102.1 billion during Q4-2022, with trade having virtually no impact on real GDP during Q1—contributing only 0.11ppt to Q1's 1.1% GDP growth. Real exports in March increase for the third time in four months, by 3.5% m/m and 4.3% over the four-month period, while *real imports* rose 0.3% and 4.0% over the comparable periods. Looking at real exports versus a year ago, they're up 7.6%, with exports of other goods (25.6% y/y) posting the biggest gain, followed by industrial supplies & materials (11.2), exports of automotive vehicles, parts & engines (7.7%), nonfood consumer goods ex autos (7.2), and capital goods ex autos (3.1); only exports of foods, feeds & beverages (-3.6) fell versus a year ago. *Real exports* are within 1.6% of last August's record high. As for real imports, they were 8.6% below their record high recorded last March, with imports of nonfood consumer goods ex autos (-19.4% y/y) recording the biggest decline, followed by industrial supplies & materials (-8.6), food, feeds & beverages (-5.4), capital goods ex autos (-4.9), and other goods (-0.8); automotive vehicle, parts & engines (6.2) posted a gain.

Global Economic Indicators

Global Composite PMIs (*link*): "Global economic growth gathers momentum at the start of quarter two" was the headline of the April survey, with the service sector remaining the prime growth engine. The manufacturing measure remains below the break-even point of 50.0. Growth in output and new orders climbed to their highest readings since December 2021 and March 2022, respectively. The *C-PMI* advanced to a 16-month high of 54.2 in April after sliding steadily from 53.5 last June to 48.0 by November. The *NM-PMI* shot up from 48.0 during the final two months of 2022 to a 17-month high of 55.4 in March, while the *M-PMI* remained at 49.6 in April, its eighth successive reading below 50.0 and down sharply from its peak of 56.0 in May 2021. *Geographically*, the report noted: "All of the 14 nations for which April composite PMI data were available registered an expansion of combined manufacturing and service sector output, the first time concurrent growth has been recorded since June 2022." India, Spain, and Italy topped the growth league table, while the US, China, and Japan—the three largest national economies covered—performed below the global average. Meanwhile, price inflation showed further signs of steadying, with input costs and output charges little changed from March's survey.

Global Manufacturing PMIs (*link*): "Manufacturing production edges higher as supply chain pressures ease to the greatest extent in 14 years" was the headline of the April release. The JP Morgan Global M-PMI, however, continues to hover just below the breakeven point of 50.0, unchanged at 49.6 in April and averaging 49.3 over the past eight months. According to the survey, "underlying details of the survey suggest that growth is being held back by softening investment spending and a continued drag from inventories. This dynamic is consistent with the relative weakness in North Asia, where tech sector weakness persists." April data are available for 31 nations, with 13 signaling expansions in output, 18 signaling contractions, and one—China—at the 50.0 breakeven point. Here's how April *M-PMIs ranked by country/region* from highest to lowest: Thailand (60.4), Myanmar (57.4), India (57.2), Indonesia (52.7), Colombia (52.6), Russia (52.6), Greece (52.4), Turkey (51.5), Philippines (51.4), Kazakhstan (51.3), Mexico (51.1), US (50.2), Canada (50.2), WORLD (49.6), China (49.5), Japan (49.5), Spain (49.0), Malaysia (48.8), Ireland (48.6), South Korea (48.1), Australia (48.0), UK (47.8), Taiwan (47.1), Italy (46.8), Vietnam (46.7), Poland (46.6), EUROZONE (45.8), France (45.6), Netherlands (44.9), Germany (44.5), Brazil (44.3), Czech Republic (42.8), and Austria (42.0).

Eurozone Retail Sales (*link*): Eurozone retail sales in March sank to the lowest level since April 2021, falling four of the past six months, by 1.2% in March and 2.8% over the period. It's down 4.9% since reaching a record high in June 2021. Spending on *food, drinks & tobacco* fell for the fifth time in six months in March, sliding 1.4% m/m and 3.6% over the period; it increased only two months during all of 2022. Sales of *non-food products excluding fuel* remain on a volatile down trend, contracting 1.1% in March, after a 1.0% gain the first two months of the year and a 2.1% decline the final three months of last year—down 4.6% from its mid-2021 record high. Meanwhile, consumption of *automotive fuels* rebounded 1.6% in March after contracting 2.2% during the two months through February. March data are available for all four of the *Eurozone's largest economies*, with only Spain recording a gain. Retail sales in Spain increased during seven of the past eight months, climbing 0.7% in March and 5.5% over the period to its highest level since April 2011. Sales in Germany contracted for the third time in four months, down 2.4% m/m and 4.0% over the period, while sales in France have posted only one gain during the past six months, sliding 1.4% in March and 3.2% over the period. Italy saw sales decline for the third time in four months, by a total of 1.4%. Compared to a year ago, sales in Spain (10.8% y/y) are showing double-digit gains, while Germany (-8,4), France (-2.5), and Italy (-2.6) are experiencing losses

Germany Factory Orders (*link*): Recession fears rise as German factory orders tumble in March. *Manufacturing orders* plunged 10.7% in March, the steepest decline since the pandemic and more than triple the expected decline. *Foreign orders* contracted 13.3% in March after rebounding 9.5% the first two months of the year, up from a 9.4% drop during the final five months of 2022. Foreign orders from both outside and inside the Eurozone posted double-digit declines in March, with the former sinking to its lowest level since mid-2020. *Foreign orders from outside the Eurozone* plunged 14.8% in March, more than erasing the 12.0% rebound the first two months of the year, while *foreign orders from within the Eurozone* sank 10.8% in March after jumping 14.0% during the three months through February. *Domestic orders* contracted for the second time in three months, by 7.7%, dropping to its weakest level since July 2020. *Versus a year ago*, total orders are down 11.0%, with domestic and foreign orders falling 10.3% and 11.5%, respectively. Within foreign orders, billings were down 11.9% y/y within the Eurozone and 11.1% outside the Eurozone. Here's a look at the movements in domestic orders, along with the breakdown from both inside and outside the Eurozone, for the main industry groupings versus a year ago: capital goods (-8.3%, -8.4%, -10.0%), intermediate goods (-11.9, -16.9, -13.2), consumer durable goods (-13.8, -18.7, -22.7), and consumer nondurable goods (-15.7, -9.5, -9.4).

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