Yardeni Research

MORNING BRIEFING

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Shock Absorbers

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Executive Summary: Why is economic growth seemingly defying gravity, or at least the gravitational pull of the Fed's tightening measures over the past year and change? It's not that the rules of business-cycle physics are defunct. Rather, the pandemic has added new forces to the equation, with distortive effects. Eight unusual forces are acting as shock absorbers to keep the economy from sinking into the widely expected recession. Today, we examine each, including the amount of liquidity in the economy, the uncommonly strong labor market, productivity-enhancing technological advancements ushering in the "Roaring 2020s," and well-heeled Baby Boomers consuming like there's no tomorrow.

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US Economy: Reprising Its Surprising Resilience. Many economists have been spending a lot of time predicting an imminent recession since early last year. Debbie, Jackie, Melissa, and I have been spending our time explaining why they've been so wrong so far.

Today, let's review a list of the reasons for the economy's surprising resilience. We aren't arguing that the business cycle is dead. Rather, we think that the pandemic has significantly distorted the boom-bust cycle in the economy. So macroeconomic models that don't take the distortions into account have been missing an important new and unique development.

After all, global pandemics don't occur very often. The last one was the global Spanish flu beginning in 1918 and ending in 1920. It was followed by a remarkable decade of prosperity in the US, i.e., the Roaring 1920s. The latest pandemic was a shock to the global economy. It has mostly ended, but the shockwaves continue. The impact of the initial shock and the subsequent shockwaves on the economy seem to have been offset by significant shock absorbers, as follow:

(1) *Monetary & fiscal stimulus & liquidity. The* hard-landers' main reason for expecting a recession invariably has been the tightening of monetary policy since early last year.

The federal funds rate had been trading mostly around zero from late 2008 through March 2022 (Fig. 1). Once Fed officials realized that they had fallen well behind the inflation curve in 2022, they scrambled to raise the federal funds rate, bringing it up by 500 basis points from March 16, 2022 through May 3, 2023. In addition, the Fed reduced the size of its balance sheet and continues to do so. The Fed's holdings of securities peaked at a record $8.5 trillion on May 18, 2022 (Fig. 2). It was down to $7.8 trillion by May 24, 2023, and is scheduled to fall by $95 billion per month for the foreseeable future.

These two tightening measures together represent the most significant round of monetary tightening since the one engineered by former Fed Chair Paul Volcker during the late 1970s and early 1980s. That (predictably and intentionally) caused a recession. So why hasn't this one?

The economy is still awash in the liquidity that was provided by monetary and fiscal policies during the pandemic. On a 12-month basis, the federal deficit swelled from $1.1 trillion through January 2020 (just before the pandemic) to a record $4.1 trillion through March 2021 (Fig. 3). Federal outlays (also on a 12-month basis) jumped from $4.6 trillion through January 2020 to a record $7.6 trillion through March 2021 (Fig. 4). Most of that increase was attributable to direct cash payments to households and businesses to provide pandemic relief.

All this deficit-financed fiscal spending was accommodated by the Fed. The federal funds rate was lowered from 1.50%-1.75% at the start of 2020 to 0.00%-0.25% on March 15 of that year. In addition, the Fed increased its holdings of securities by $4.5 trillion from mid-March through the summer of 2022.

The impact of all this "helicopter money" was to boost M2 by $6.3 trillion from January 2020 through July 2022, when it peaked at a record high (Fig. 5). Over this same period, demand deposits in M2 rose by a whopping $3.4 trillion. Demand deposits accounted for 24.1% of M2 during April of this year, up from 10.3% just before the pandemic and the highest reading since spring 1972 (Fig. 6).

Our conclusion is that liquidity as measured by M2 hasn't been this liquid for quite some time. All this liquidity has been a significant shock absorber, offsetting much of the Fed's tightening shock.

(2) *Strong labor market.* The epicenter of the economy's resilience has been the labor market. The Fed's monetary tightening cycle since early last year has been aimed at

boosting the unemployment rate to slow wage inflation (by creating some slack in the labor market) and to cool price inflation (by weakening the demand for goods and services). Instead, the unemployment rate has declined from 4.0% during January 2022 to 3.4% during April 2023 (*Fig. 7*). At 3.2%, the adult jobless rate matches its lowest rate since January 1970, while the teenage unemployment rate, at 9.2%, is the lowest since November 1953. Payroll employment has increased by 4.2 million from March 2022 (when the Fed started to tighten) through April 2023, or 327,000 per month on average (*Fig. 8*).

The most cyclical and interest-rate sensitive segments of the labor market are showing remarkable resilience. In April, payroll employment in durable goods manufacturing rose to the highest since November 2008 (*Fig. 9*). Construction employment remained at a record high during April (*Fig. 10*). The same can be said about transportation & warehousing employment (*Fig. 11*). Wholesale and retail trade employment were quite cyclical in the past, but the former is at a record high, while the latter has recovered to its pre-pandemic level (*Fig. 12*). Payroll employment in professional & business services, also cyclical in the past, rose to a record high in April (*Fig. 13*).

(3) *Baby Boomers spending & wealth.* Melissa and I have observed that as more and more of the aging Baby Boomers retire, they are spending more on travel (including airfare and accommodations), eating out, and health care. Employment is expanding in all these areas of the labor market. The retired Baby Boomers may no longer be getting paychecks, but they are receiving Social Security and pension benefits. They also are required by law to draw down their 401(k) plans. Many of them have accumulated lots of wealth that throws off lots of dividend and interest income.

At the end of last year, the Baby Boomers had a net worth of 73.1 trillion (*Fig. 14*). That amounted to 52.3% of the total net worth of all households. During April, consumers had record or near-record amounts of proprietor’s income ($1.9 trillion), interest income ($1.8 trillion), dividend income ($1.7 trillion), and rental income ($0.9 trillion) (*Fig. 15*).

(4) *Onshoring & infrastructure spending.* Jackie and I have been monitoring the onshoring trend for a while. In the May 4 *Morning Briefing*, we wrote: “Manufacturers, large and small, domestic and foreign, are tapping into the trillions of dollars of incentives available in the CHIPS and Science Act, the Inflation Reduction Act (IRA), and the Infrastructure Investment and Jobs Act to build factories in the US. They plan to make semiconductors, batteries, solar equipment, electric vehicles (EVs), and green hydrogen, among other things. So many manufacturers have locked down locations for new plants that it’s now hard to find shovel-ready ‘megasites,’ an April 13 Reuters *article* reported. If the US manages to skirt a

recession, it will be due in good part to the massive capital spending and building related to these plants."

As we've noted before, capital spending in real GDP rose to a record high of $3 trillion (saar) during Q1-2023, and manufacturing construction put in place jumped 62.3% y/y through March to its latest record high of $147.4 billion (*Fig. 16*). Many of the proposed factories have yet to break ground and are not reflected in these numbers. If the projects go forward, building and then operating these facilities should provide an economic tailwind.

Also receiving a big boost from federal spending is infrastructure construction. We can see that in the record (or near-record) highs in construction put-in-place of highways and streets, sewage & waste disposal, water supply, and health care facilities (*Fig. 17*).

(5) *Real wage gains, productivity & technology.* Real wages stagnated during 2022 when higher wage inflation was offset by higher price inflation. Average hourly earnings for production & nonsupervisory workers rose 5.4% y/y through December 2022, while the PCED rose 5.3% over the same period (*Fig. 18*). Real wages have been rising along their long-term trendline of 1.2% since the start of this year. This upward trend can only be sustainable if productivity growth is making a comeback. Productivity was slammed by the impact of the pandemic on the labor market causing record highs in quits and job openings.

Debbie and I believe that the pandemic was a temporary setback to the productivity growth boom that started in late 2015 (*Fig. 19*). We also think that the pandemic might have accelerated the pace at which technological innovations (including state-of-the-art onshoring) are used to boost productivity growth and to offset labor shortages.

(6) *The Roaring 2020s.* During 2020, Jackie and I often wrote that the pandemic might be followed by the Roaring 2020s. Needless to say, the naysayers thought that was delusional and probably still think so. After all, the world economy was hard hit by the pandemic. Although it recovered quickly and strongly as lockdowns and social distancing restrictions were lifted, inflation soared, forcing central banks to slam on the monetary brakes during 2021 and 2022.

We countered that the Roaring 1920s were preceded by a global pandemic and a US depression in 1920. But the decade's technological innovations boosted productivity and standards of living significantly. Today, productivity growth has been derailed by the remarkable turnover in the labor market that has been largely attributable to the pandemic. But we think it soon will be back on track.

We are sticking with what we wrote in the November 24, 2020 *Morning Briefing*:

“Today’s ‘Great Disruption,’ as Jackie and I like to call it, is increasingly about technology doing what the brain can do, but faster and with greater focus. Given that so many of the new technologies supplement or replace the brain, they lend themselves to many more applications than did the technologies of the past, which were mostly about replacing brawn. Today’s innovations produced by the IT industry are revolutionizing lots of other ones, including manufacturing, energy, transportation, healthcare, and education. My friends at BCA Research dubbed it the ‘BRAIN Revolution,’ led by innovations in biotechnology, robotics, artificial intelligence, and nanotechnology. That’s clever, and it makes sense.

“The current pandemic seems to be speeding up the pace at which these and other technologies are proliferating. Debbie and I believe that productivity growth has been heading toward a secular rebound during the post-pandemic Roaring 2020s. Even before the Great Virus Crisis (GVC), companies had been moving to incorporate into their businesses a host of state-of-the-art technologies in the areas of computing, telecommunications, robotics, artificial intelligence, 3-D manufacturing, the Internet of Things, among others. The GVC is accelerating that trend as companies rethink how to do business ever more efficiently in the post-pandemic era.”

Two years and a week later, on November 30, 2022, ChatGPT was launched, triggering just the kind of excitement about the potential impact of AI that we had envisioned. Myriad companies now have plans to leverage ChatGPT and other AI software to boost productivity and ameliorate their labor shortage problems.

(7) *Excess saving.* Above, we observe that M2 was boosted by the helicopter money resulting from the pandemic. The surge in M2 was reflected in a similar surge in excess saving (*Fig. 20*). M2 currently exceeds its pre-pandemic trendline by roughly $0.5 trillion. Hard-landers continue to predict that once this windfall is spent, consumers will be forced to retrench, resulting in a recession. We doubt that because we expect that employment and real wages will continue to fuel the growth in real disposable income and consumer spending (*Fig. 21*).

(8) *Banks pass a stress test.* Finally, we would like to give credit to the yield curve. It has been inverted since last summer, reflecting bond investors’ anticipation that something in the financial system will break as the Fed continues to tighten, triggering an economy-wide credit crunch that causes a recession. Sure enough, in early March, a banking crisis

unfolded because of deposit runs at three banks.

However, there's no sign of a credit crunch and recession so far. We continue to expect that the banking system will pass this unofficial real-world stress test. We will continue to monitor the Fed's weekly H.8 release titled "*Assets and Liabilities of Commercial Banks in the U.S.*" We are capturing the relevant data in our *Commercial Bank Book* and *Commercial Bank Loans*.

The latest updates show that total bank deposits are continuing to fall, but they remain above their pre-pandemic uptrend through the May 17 week (*Fig. 22*). The deposit outflows have been offset by decreases in securities held by the banks, presumably as they mature and are not rolled over. Borrowings seem to have peaked over the past few weeks. Bank loans are looking toppy.

Through the May 17 week, consumer and residential real estate loans rose to record highs (*Fig. 23*). Commercial and industrial loans are looking toppy, but that could be attributable to less unintended inventory accumulation in the goods sector of the economy. Also looking toppy are commercial real estate loans, suggesting that the rolling recession is starting to roll through the commercial real estate industry.

Calendars

US: Tues: Consumer Confidence 99.0; Dallas Fed Manufacturing Index; S&P Composite HPI 20-City Composite -0.4%m/m/-1.6%y/y. **Wed:** Job Openings 9.775m; MBA Mortgage Applications; Chicago PMI 47.0; API Weekly Crude Oil Inventories; Beige Book; Bowman; Harker; Jefferson. (Bloomberg estimates)

Global: Tues: Eurozone Business & Consumer Survey 99.9; Italy PPI 0.5%m/m/-4.0%y/y; ; Spain CPI 0.6%m/m/4.1%y/y; Japan Industrial Production 0.5%; Japan Retail Sales 5.8%y/y; China M-PMI & NM-PMI 51.4/54.9; Lowe. **Wed:** Germany CPI 0.8%m/m/7.8%y/y; Germany Import Prices -0.9%m/m/-5.9%y/y; Germany Unemployment Change & Unemployment Rate 14k/5.6%; France CPI 0.3%m/m/6.4%y/y; France GDP 0.1%q/q/0.8%y/y; France Consumer Spending 0.3%; Italy GDP 0.5%q/q/1.8%y/y; Italy CPI -0.1%m/m/7.8%y/y; Canada CPI 0.4%q/q/2.8%y/y; Japan Household Confidence 36.1; Japan Housing Starts -4.3%; Japan M-PMI 50.8; China Caixin M-PMI 50.3; Australia M-PMI 48.0; Australia Retail Sales 0.0%; ECB Financial Stability Report; Lagarde Mann. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 0.4% last week and edged further away from a bear market to a 13.6% correction from its record high on December 27, 2021. The US MSCI ranked 13th of the 48 global stock markets that we follow in a week when 15 of the 48 countries rose in US dollar terms. The AC World ex-US index fell 1.9% and dropped further into a correction, albeit at 17.8% below its June 15, 2021 record high. All non-US regions fell w/w, but EM Eastern Europe was the best regional performer with a 0.2% decline, ahead of EM Asia (-0.3%), EM Latin America (-0.4), EMEA (-1.0), and BIC (-1.5). EAFE was the worst performing region last week, with a decline of 2.4%, followed by the EMU (-2.3). Greece was the best-performing country last week, with a gain of 7.1%, followed by Egypt (2.8), Taiwan (2.7), Sri Lanka (2.6), and India (2.4). Among the 23 countries that underperformed the AC World ex-US MSCI last week, the 7.6% decline for New Zealand was the biggest, followed by Chile (-4.7), Portugal (-4.0), Australia (-3.9), and Sweden (-3.7). Looking at 2023's performance so far, the US MSCI is up 9.7% as its ytd ranking rose two places w/w to 17/48. The AC World ex-US's ytd gain of 5.2% is trailing the US, with 27/48 countries now in positive territory. EM Eastern Europe is the best regional performer ytd, with a gain of 15.9%, followed by EMU (12.1), EM Latin America (7.6), and EAFE (7.0). The regional laggards so far in 2023: BIC (-3.9), EMEA (0.4), and EM Asia (2.0). This year's best ytd country performers: Greece (32.0), the Czech Republic (24.5), Mexico (22.8), Ireland (21.2), and the Netherlands (18.3). Here are the worst-performing countries of the year so far: Pakistan (-29.1), Turkey (-19.3), Colombia (-17.8), Norway (-14.3), and South Africa (-13.3).

S&P 500/400/600 Performance (*link*): Two of these three indexes moved higher w/w. LargeCap rose 0.3% w/w, ahead of SmallCap's 0.1% gain and MidCap's 0.5% decline. At Friday's close, LargeCap finished the week at 12.3% below its record high on January 3, 2022, MidCap finished at 16.1% below its record high on November 16, 2021, and SmallCap—remaining in a bear market—finished at 21.8% below its November 8, 2021 record high. Just nine of the 33 LargeCap and SMidCap sectors moved higher for the week compared to 19 rising a week earlier. SmallCap Tech was the best performer with a gain of 5.4%, ahead of LargeCap Tech (5.1%), MidCap Tech (5.1), SmallCap Financials (1.5), and LargeCap Communication Services (1.2). Among the worst performers for the week were LargeCap Consumer Staples (-3.2), MidCap Health Care (-3.2), LargeCap Materials (-3.1), LargeCap Health Care (-2.9), MidCap Communication Services (-2.9), and SmallCap Materials (-2.9). Looking at performances so far in 2023, LargeCap, with a 9.5% gain, remains well ahead of MidCap (0.5) and SmallCap (-1.0); 13 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (34.0), LargeCap Communication Services (32.3), LargeCap Consumer Discretionary (18.4), SmallCap Tech (15.5), and MidCap Tech (15.1). Here are 2023's biggest laggards: SmallCap Financials (-18.7), SmallCap Energy (-14.5), MidCap Financials (-12.1), SmallCap Real Estate (-11.7), and MidCap Energy (-11.3).

S&P 500 Sectors and Industries Performance (*link*): Three of the 11 sectors rose last week, and three outperformed the composite index's 0.3% gain. That compares to a 1.6% gain for the S&P 500 a week earlier, when seven sectors rose and four outperformed the index. Tech was the best performer, with a gain of 5.1%, followed by Communication Services (1.2) and Consumer Discretionary (0.4). Consumer Staples was the worst performer, with a 3.2% decline, followed by Materials (-3.1), Health Care (-2.9), Utilities (-2.4), Financials (-1.5), Industrials (-1.4), Real Estate (-1.4), and Energy (-1.1). Looking at 2023's performance so far, the S&P 500 is up 9.5% ytd, with just three sectors outperforming the index and three higher for the year. The best ytd performers: Tech (34.0), Communication Services (32.3), and Consumer Discretionary (18.4). These are 2023's worst performers: Energy (-10.4), Utilities (-9.0), Financials (-6.5), Health Care (-6.4), Real Estate (-3.7), Materials (-2.1), Consumer Staples (-1.8), and Industrials (-0.1).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.3% last week and was mixed relative to its moving averages. It weakened relative to its 50-day moving average (50-dma) and improved relative to its 200-day moving average (200-dma). The index was above its 50-dma for a ninth week and its 200-dma for a tenth 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 2.5% above its rising 50-dma from 2.7% above a week earlier, and remains below its 10-week high of 3.4% above during the April 28 week. That also compares to a 20-week low of 3.6% below at the beginning of March, 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 16-week high of 6.1% above its barely falling 200-dma, up from 5.6% above its falling 200-dma a week earlier. That also compares to a nine-week low of 0.3% in early March and a 13-month high of 6.2% above in early February. The S&P 500 is well above its 26-month low of 17.1% below its falling 200-dma in June 2022 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 moved higher for a tenth week, but the 200-dma dropped for a third week and has risen in just 12 of the past 54 weeks.

S&P 500 Sectors Technical Indicators (*link*): Just three of the 11 S&P 500 sectors are trading above their 50-dmas, down from seven during the prior two weeks and down from all 11 sectors during the April 28 week. Consumer Staples, Financials and Industrials moved back below in the latest week, leaving these three as only sectors still above: Communication Services, Consumer Discretionary, and Information Technology. However, nine sectors have a rising 50-dma, unchanged from a week earlier as Energy and Financials turned up in the latest week. Real Estate and Utilities turned down and are now the only two sectors with falling 50-dmas. Looking at the more stable longer-term 200-dmas, the positive club dropped to four members w/w as Consumer Staples, Health Care, and Materials moved below and left Communication Services, Consumer Discretionary, Industrials, and Information Technology as the only sectors trading above their 200-dmas. The rising 200-dma club shrank to two members w/w from four as Consumer Staples and Energy turned down. That left Communication Services and Information Technology as the only sectors with a rising 200-dma.

US Economic Indicators

Personal Income & Consumption (*link*): Consumer spending continued to reach new record highs in April, both in nominal and real terms, while real incomes were flat last month as prices accelerated during the month. *Personal income* rose 0.4% in April, following gains of 0.3% in each of the prior two months, following a 0.6% rise at the start of the year. It was the 15th successive gain, climbing 6.8% over the period. *Wages & salaries* has posted only two declines in the past 26 months, climbing 0.5% in April and 18.5% over the period; *adjusted for inflation*, however, wages & salaries remain stalled around last September’s record high. *Personal consumption expenditures* continued to set new record highs in April, boosted by a 6.2% increase in new motor vehicles and higher fuel prices. Spending climbed the first four months of this year, increasing a larger-than-expected 0.8% in April and 3.0% over the period to a new record high—with spending on goods up 1.1% and 3.6% over the comparable periods and services up 0.7% and 2.7%. In real terms, consumer spending in April rose for the first time in three months, by 0.5%, with spending on goods up 0.8% and services up 0.3%. Year to date, real goods consumption climbed 2.8%, while real services consumption was up 1.0%; compared to a year ago, the former was up 1.5% and the latter 2.7%. Meanwhile, personal saving fell for the first time in seven months, dropping $76.7 billion in April to $802.1 billion, after a six-month jump of $304.4 billion, with the saving rate dipping to 4.1% from 4.5% in March.

Consumer Sentiment Index (*link*): "Consumer confidence in the government's handling of the economy fell substantially this month, reflecting the government's failure thus far to resolve the debt-ceiling crisis," commented Joanne Hsu, director of the survey. It's worth noting that during the 2011 debt ceiling crisis, sentiment fell sharply, though recovered quickly once the ceiling was lifted. *Overall consumer sentiment* fell for the second time in three months, sinking 4.3 points during May and 7.8 points over the period to a six-month low of 59.2; it was at a 13-month high of 67.0 in February. (The final May reading was an improvement from the mid-month reading, which showed declines of 5.9 points during the month and 9.3 points over the period to 57.7.) The *present situation* component also fell for the second time in three months, by 3.3 points m/m and 5.8 points over the period, to a five-month low of 64.9, while the *expectations* component fell 5.1 points and 9.3 points over those same periods to a 10-month low of 55.4. That's higher than the mid-month readings of 64.5 for the former and 53.4 for the latter. Turning to inflation, the o*ne-year expected inflation rate* moved down from a five-month high of 4.6% in April, to 4.2% in May, remaining well above its 2.3%-3.0% range recorded during the two years prior to the pandemic. The one-year rate peaked at 5.4% during March and April 2022, falling to 3.6% by this March—which was the lowest rate since April 2021. The *five-year expected inflation rate* rose for the second month to 3.1% in May from 2.9% the first three months of the year, though remains within the narrow 2.9%-3.1% range of 21 of the past 22 months.

Personal Consumption Deflator (*link*): April's PCED accelerated 0.4% after slowing from 0.6% in January to 0.1% in March. Core prices also increased 0.4% in April—matching its monthly average so far this year. The yearly headline rate ticked up to 4.4% after easing from a peak of 7.0% last June—which was the highest since the end of 1981—to a 22-month low of 4.2% this March. The yearly core rate ticked up to 4.7% after easing from a recent peak of 5.4% during February and March of last year to 4.6% this March. On a *three-month annualized* basis, the core rate eased for the second month to 4.2% (saar) in April, from 5.1% in February, a few ticks below its 4.7% yearly rate. The three-month rate for durable goods fell 0.3% (saar) in April, not posting a gain since October, while the three-month rate for core nondurable goods prices slowed to 9.3% (saar) after accelerating 10.3% in March—from a recent low of 1.0% during December and November. Meanwhile, services prices ex energy slowed for the second month to 4.9% (saar) during the three months through April, from 6.2% in February. The three-month annual rates for both consumer durable goods (-0.3%, saar & 0.8% y/y) and consumer services ex energy (4.9 & 5.5) were below their yearly rates, while the three-month rate for core nondurable goods (9.3 & 4.5) was double its yearly rate. *PCED components for which three-month rates lag yearly rates*: airfares (-7.5 & 4.6), sports & recreational vehicles (-3.0 & 1.1), transportation services (-0.5 & 7.6), alcoholic beverages purchased for off-premise consumptions (-0.1 & 3.7), food & nonalcoholic beverages purchased for off-premise consumption (0.0 & 7.5), new motor vehicles (1.4 & 6.3), prescription drugs (1.8 & 2.9), motor vehicles & parts (2.0 & 6.6), education services (2.1 & 2.7), owner-occupied rent (6.9 & 8.2), tenant rent (7.3 & 8.9), recreation services (4.2 & 5.7), and household appliances (-14.7 & -9.7). *PCED components for which three-month rates exceed yearly rates*: professional & other services (21.6 & 8.0), lodging away from home (8.5 & 1.3), personal care products (7.9 & 7.0), tobacco (7.5 & 6.6), used motor vehicles (2.8 & -5.1), clothing & footwear (5.5 & 3.1), hospitals (5.1 & 3.3), and gasoline & other energy products (-7.7 & -13.5). *PCED components for which three-month rates & yearly rates are comparable*: physician services (0.7 & 0.8), furniture & home furnishings (0.2 & 0.4), and video audio & information processing (-2.6 & -2.5).

Regional M-PMIs (*link*): So far, four Fed districts have reported on manufacturing activity for May—New York, Philadelphia, Kansas City, and Richmond—and show *manufacturing activity* (to -14.6 from -10.1) contracted at its fastest pace since May 2020. New York's (to -31.8 from 10.8) activity showed a big swing from expansion to contraction, while Richmond's (-15.0 from -10.0) activity fell at a faster pace than in April, and Philadelphia's (-10.4 from -31.3) fell at a third of April's rate. Meanwhile, Kansas City's (-1.0 from -10.0) was at a virtual standstill. *New orders* (-20.0 from -9.7) fell deeper into contractionary territory, posting its weakest reading since May 2020—and the 13th consecutive reading in negative territory. Billings in the New York (-28.0 from 25.1) region showed a deep contraction in May after a big expansion in April, while Richmond's (-29.0 from -20.0) contracted at its fastest pace since the height of the pandemic. Meanwhile, orders in the Philadelphia (-8.9 from -22.7) and Kansas City (-14.0 from -21.0) regions continued to contract, though at a slower pace. *Employment* (0.0 from -2.3) was flat in May after contracting the prior four months, as hirings in the Kansas City (7.0 from -1.0) region swung from contraction to expansion, while Richmond's (5.0 from 0.0) showed the first expansion in employment this year. Meanwhile, Philadelphia (-8.6 from -0.2) hirings contracted at a faster pace, while New York's (-3.3 from -8.0) declined at a slower pace. Looking at *prices-paid* indexes, the Philadelphia (10.9 from 8.2) measure picked up marginally this month after slowing dramatically in April to its lowest percentage since mid-2020, while New York's (34.9 from 33.0) was little changed near two-year lows. Meanwhile, the Kansas City (16.0 from 32.0) prices-paid measure posted its slowest pace since July 2020, and Richmond's (49.5 from 75.7) was the slowest since February 2021. *Prices-received* indexes were mostly lower: Kansas City's (16.0 to 21.0) eased a bit in May, while New York's (23.6 from 23.7) held steady, not far from January's two-year low of 18.8. Meanwhile, Philadelphia's moved down for the fourth month to -7.0—the weakest since April 2020—and Richmond's (53.9) was the weakest since May 2021. (Note: The New York, Philadelphia, and Kansas City measures are diffusion indexes, while Richmond's measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures.)

Durable Goods Orders & Shipments (*link*): Durable goods orders beat expectations in April, with billings rising rather than falling. *Durable goods orders* expanded 1.1% in April, rather than falling 1.0% as expected, led by transportation equipment, which was boosted by a 32.7% increase in orders for defense aircraft; orders for nondefense aircraft pulled back 8.3% during the month. Excluding transportation, durable goods orders dipped 0.2%. Meanwhile, *nondefense capital goods orders excluding aircraft* (a proxy for future business investment) rebounded 1.4% to a new record high, more than reversing the 0.8% decline during the two months ending March. *Nondefense capital goods shipments excluding aircraft* (used in calculating GDP) followed suit, increasing 0.5% to a new record high, after falling the prior two months from January's then record high. On a year-over-year basis, core capital goods orders and shipments are up 2.6% and 4.2%, respectively, slowing from their peak rates of 23.7% and 16.9% during April 2021. In April, orders for electrical equipment, appliances & components held just below March's record high, while orders for machinery, motor vehicles & parts, and fabricated metals remained in record-high territory.

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