MORNING BRIEFING
June 5, 2023

MAMU & MAMA

Check out the accompanying chart collection.

Executive Summary: Is all the AI euphoria leading the stock market into another "MAMU"—"Mother of All Meltups"? If so, our 4600 target for the S&P 500 by year-end might prove conservative, not controversial. This bull market began differently than most, with higher P/Es at the outset, and this MAMU's timing would be different, early in the bull market versus late. … Lifting the economy has been "MAMA"—"Make America Manufacture Again." Manufacturing capacity—flat since 2011—is about to expand given all the factory building implied by the 150% two-year surge in nonresidential construction of factories. Also: The job market refuses to land, but wage inflation is coasting lower. … Dr. Ed reviews "After Waco" (+ + +).

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Strategy: Remembering MAMU. You might recall that Joe and I coined the acronym "MAMU" in the May 16, 2013 *Morning Briefing*. We wrote: "After the widely dreaded 'fiscal cliff' scare turned out to be a non-event at the start of 2013, [stock investors] were tired of being anxious that the bull would get tripped by a bear." We opined: "Perhaps now that investors are no longer fearful that the end is near, all the liquidity pumped into the financial markets by the major central banks over the past four years to avert the Endgame scenario is about to cause the Mother of All Melt-Ups (MAMU)."

The ensuing MAMU ended on February 9, 2020 as the pandemic hit. The next MAMU started soon after on March 23, 2020, when the Fed announced QE4ever, and ended on January 3, 2022, when investors started to conclude that nothing is forever in the stock market. The recent bear market ended on October 12. Now that the latest fiscal cliff has been averted, is another MAMU starting, led by stocks that are AI frenzy plays? Maybe.

In any event, the S&P 500 rose to a new 2023 high on Friday, providing support to our call in late October that the index had bottomed on October 12 (*Fig. 1*). It is up 19.7% since then to its highest reading since August 18, 2022. The Nasdaq bottomed on December 28 of last year and is up 29.6% since then to the highest reading since April 20, 2022 (*Fig. 2*).

You also might recall that since the start of this year, Joe and I have been targeting 4600 on the S&P 500 by the end of this year. That was a contrary call. We sure hope this bull market doesn't get there too far ahead of schedule. Past MAMUs have always occurred at the end of bull markets, not when they are just starting.

The latest bear market ended with much higher valuation multiples than most previous ones. The forward P/E of the S&P 500 was 15.1 on October 12. It was 18.3 on Friday (*Fig. 3*). The forward P/E of the MegaCap-8 was 29.6 on Friday. Excluding them, the forward P/E of the S&P 492 was 15.6. Most astonishing is that the MegaCap-8's market cap has melted up by 58.1% from this year's low of $6.8 trillion on January 5 to $10.7 trillion through Friday's close. Together, these eight stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla) now account for a record 26.6% of the market cap of the S&P 500 (*Fig. 4*).

US Economy I: Coming Home to MAMA. Now Jackie and I are coining another acronym: "MAMA." It stands for "Making America Manufacture Again." In our 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. Many of the proposed factories have yet to break ground and are not reflected in these numbers. Assuming that the projects go forward, building and then operating these facilities should provide an economic tailwind."

Notwithstanding the recession rolling through the single-family housing industry, construction spending rose to yet another record high in April (*Fig. 5*). Leading the way has been nonresidential construction, particularly of manufacturing facilities (*Fig. 6*). The latter rose to yet another record high of $189.0 billion (saar) during April, up a whopping 152.2% over the past 24 months (*Fig. 7*).

No wonder payroll employment in construction rose to yet another record high during May, of 7.9 million (*Fig. 8*). Payroll employment in heavy and civil engineering construction also rose to a record high last month, of 1.1 million (*Fig. 9*).

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By the way, keep in mind that manufacturing capacity in the US has been flat since China joined the World Trade Organization on December 11, 2011 (*Fig. 10*). Now it should start expanding again.

US Economy II: Job Market Refuses To Land, But … Payroll employment rose 0.2% m/m to yet another new record high during May. However, average weekly hours fell 0.3%. As a result, our Earned Income Proxy (EIP) for private-sector wages and salaries in personal income rose just 0.2%, as average hourly earnings rose 0.3% m/m (*Fig. 11*). This suggests that May's retail sales will show a slight increase at best.

The jobs report also showed that aggregate weekly hours in manufacturing was flat in May, suggesting that industrial production was too (*Fig. 12*). So the Index of Coincident Economic Indicators (CEI) was probably flat in May given that the strong employment gain was likely offset by the weakish real personal income and real business sales components of the CEI. A positive May CEI reading would force hard-landers to push their recession forecasts further out into the future, as they have been doing since early last year. A flat or negative CEI would probably incite them to claim that a recession has started.

We remain in the soft-landing camp. Debbie and I track all the payroll employment data for the major industries. We are impressed by how many of the cyclical ones rose to new record highs in May. They include construction, financial activities, professional & business services, transportation & warehousing, and wholesale trade (*Fig. 13*, *Fig. 14*, *Fig. 15*, and *Fig. 16*).

US Economy III: Wage Inflation Still Moderating? During his May 3 *press conference*, Fed Chair Jerome Powell discussed the relationship between wage inflation and price inflation a few times. He observed that the two move together, but he stated: "I've never said … that wages are really the principal driver, because I don't think that's really right." In any event, he proceeded to explain why he would like to see wage inflation fall to 3.0%. He believes that would be consistent with 2.0% price inflation, assuming, as he does, that productivity growth is 1.0%.

Powell also said that he is focusing on four measures of wage inflation. I detailed them in my book *Predicting The Markets* (2018), in *Appendix 4.1*. Here are their latest readings:

(1) *Average hourly earnings (AHE).* AHE for all workers was 4.3% y/y through May, down from a March 2022 peak of 5.9% (*Fig. 17*).

(2) *Atlanta Fed's Wage Growth Tracker (WGT).* The unsmoothed WGT rose 5.1% y/y through April (*Fig. 18*). That's down from a June 2022 peak of 7.4%.

(3) *Employment Cost Index (ECI).* The ECI rose 4.8% y/y through Q1-2023, with wages up 5.1% and benefits up 4.3% (*Fig. 19*). The wage component peaked at 5.7% last year during Q2.

(4) *Hourly compensation (HC).* HC is the most comprehensive and volatile of the four measures of wages. It was up 3.0% y/y through Q1 (*Fig. 20*). It's down sharply from its 2020 peak of 10.3% during Q2.

So which one should we pick? All the above, according to Powell. They all are still moderating from their peaks. Our personal favorite is hourly compensation, currently at Powell's ideal 3.0% reading, but it is volatile. He will probably wait to see whether the other wage inflation measures continue to head toward 3.0% before concluding that wage inflation has moderated sufficiently.

Traders' Corner. We asked Joe Feshbach to update his views on the stock market: "The 10 day put/call ratio is low. The cumulative advance/decline lines along with individual net new highs are nowhere near to confirming the latest rally. Yet the market continues to ignore all these warning signs, which have worked so well over the past 20 months. The speculative fever seems to be back in the Nasdaq, led by exuberance over AI as the next New, New Thing. This suggests to me that the market may be in a euphoric blowoff phase. How high is impossible to tell, but I'd much rather be risk averse at this point and stay on the sidelines."

Movie. "After Waco" (+ + +) (*link*) is an excellent docudrama series about how Waco led to the Oklahoma City bombing in 1995. The series, a chilling reminder about the threat of homegrown terrorism, is a sequel to "Waco," which recounted the tragedy and the events that led up to it.

Calendars

US: Mon: ISM NM-PMI 54.5; C-PMI & NM-PMI 54.5/55.1; Factory Orders 1.1%; CB Employment Trends. **Tues:** Weekly Crude Oil Inventories; EIA Short-Term Energy Outlook. (Bloomberg estimates)

Global: Mon: Eurozone, Germany, and France C-PMIs 53.3/54.3/51.4; Eurozone, Germany, and France NM-PMIs 55.9/57.8/52.8; Germany Trade Balance €16.0b; Eurozone Sentix Investor Confidence; Eurozone PPI -3.1%m/m/5.9%y/y; Spain Consumer Confidence; UK C-PMI & NM-PMI 53.9/55.1; UK BRC Retail Sale Monitor; Japan Household Spending 1.5%m/m/0.4%y/y; Nagel. **Tues:** Eurozone Retail Sales 0.2%m/m/-3.1%y/y; Germany Factory Orders -2.2%; Spain Industrial Production; Australia GDP 0.8%q/q/2.7%y/y; China Trade Balance ¥71.6b; RBA Interest Rate Decision 3.85%; Lowe; Bullock. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.9% last week and moved further away from a bear market to a 12.0% correction from its record high on December 27, 2021. The US MSCI ranked 14th of the 48 global stock markets that we follow in a week when 34 of the 48 countries rose in US dollar terms. The AC World ex-US index gained 1.0%, but remains in a deep 17.0% correction from its June 15, 2021 record high. Nearly all non-US regions rose w/w, but EM Eastern Europe was the best performer with a 2.2% gain, ahead of EM Latin America (1.4%), EM Asia (1.3), and BIC (1.2). EMEA was the worst performing region last week, with a decline of 0.6%, followed by the EMU (0.2) and EAFE (0.8). Colombia was the best-performing country last week, with a gain of 9.2%, followed by Turkey (6.8), Peru (4.3), Korea (3.3), and Portugal (3.1). Among the 22 countries that underperformed the AC World ex-US MSCI last week, the 2.5% decline for Denmark was the biggest, followed by Israel (-2.4), Indonesia (-1.5), Belgium (-1.3), and Malaysia (-1.2). In May, the US MSCI ranked 11/48 as it rose 0.5%, well ahead of the 4.1% decline for the AC World ex-US index, as just 12 of the 48 countries moved higher. Greece was the best performer, with a gain of 8.7%, followed by Taiwan (7.3), Morocco (4.8), and Korea (4.8). The worst-performing countries in May: South Africa (-14.1), the Czech Republic (-13.9), Belgium (-11.8), Austria (-10.9), and Portugal (-10.3). All of the non-US regions fell in May, but EM Asia was the best performer with a 1.2% decline, less than that of EM Latin America (-1.4), EMEA (-3.3), and the AC World ex-US (-4.1). EMU (-6.7) was

May’s worst-performing region, followed by EAFE (-4.8), BIC (-4.7), and EM Eastern Europe (-4.5). Looking at 2023’s performance so far, the US MSCI is up 11.8% as its ytd ranking rose one place w/w to 16/48. The AC World ex-US’s ytd gain of 6.2% is trailing the US, with 30/48 countries now in positive territory. EM Eastern Europe is the best regional performer ytd, with a gain of 18.5%, followed by EMU (12.3), EM Latin America (9.2), and EAFE (7.9). The regional laggards so far in 2023: BIC (-2.7), EMEA (-0.2), and EM Asia (3.3). This year’s best ytd country performers: Greece (31.0), the Czech Republic (26.5), Ireland (22.3), Mexico (22.2), and Taiwan (18.8). Here are the worst-performing countries of the year so far: Pakistan (-29.2), Turkey (-13.8), Norway (-13.6), Malaysia (-11.2), and South Africa (-11.1).

S&P 500/400/600 Performance (*link*): All three of these indexes moved higher w/w. LargeCap rose 1.8% w/w, behind SmallCap’s 3.1% gain and MidCap’s 2.6% rise. At Friday’s close, LargeCap finished the week at 10.7% below its record high on January 3, 2022, MidCap at 13.9% below its record high on November 16, 2021, and SmallCap exited a bear market to end at 19.4% below its November 8, 2021 record high. All 33 LargeCap and SMidCap sectors moved higher for the week compared to nine rising a week earlier. SmallCap Real Estate was the best performer with a gain of 4.8%, ahead of SmallCap Financials (4.6%), SmallCap Materials (4.6), SmallCap Industrials (3.5), MidCap Industrials (3.5), and SmallCap Energy (3.5). Among the smallest gainers for the week were LargeCap Consumer Staples (0.3), SmallCap Tech (0.6), MidCap Tech (0.7), LargeCap Utilities (0.8), and LargeCap Communication Services (1.1). During May, LargeCap rose 0.2% for its third straight monthly gain, compared to the fourth straight monthly declines for SmallCap (-1.9) and MidCap (-3.4). Just five of the 33 sectors rose in May compared to 15 rising in April. May’s best performers: SmallCap Tech (14.5), LargeCap Tech (9.3), MidCap Tech (9.1), LargeCap Communication Services (6.2), and LargeCap Consumer Discretionary (3.1). May’s biggest laggards: MidCap Communication Services (-13.3), LargeCap Energy (-10.6), SmallCap Energy (-8.7), SmallCap Communication Services (-7.5), and LargeCap Materials (-7.1). Looking at performances so far in 2023, LargeCap, with a gain of 11.5%, remains well ahead of MidCap (3.1) and SmallCap (2.1); 18 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (35.8), LargeCap Communication Services (33.8), LargeCap Consumer Discretionary (22.2), SmallCap Tech (16.3), and MidCap Tech (15.8). Here are 2023’s biggest laggards: SmallCap Financials (-14.9), SmallCap Energy (-11.6), MidCap Financials (-9.2), LargeCap Energy (-9.2), and MidCap Energy (-8.9).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week, and six outperformed the composite index’s 1.8% gain. That compares to a 0.3% gain for the S&P 500 a week earlier, when three sectors rose and three outperformed the index. Consumer Discretionary was the best performer, with a gain of 3.3%, followed by Real Estate (3.1%), Materials (2.9), Industrials (2.6), Health Care (2.2), and Financials (2.1). Consumer Staples was the worst performer, albeit with a 0.3% gain, followed by Utilities (0.8), Communication Services (1.1), Energy (1.3), and Tech (1.4). The S&P 500 rose 0.2% in May as just three sectors moved higher and three outperformed the broader index. That compares to eight sectors rising and six outperforming the S&P 500's 1.5% gain in April. The leading sectors in May: Tech (9.3), Communication Services (6.2), and Consumer Discretionary (3.1). May's laggards: Energy (-10.6), Materials (7.1), Utilities (-6.4), Consumer Staples (-6.2), Real Estate (-4.6), Financials (-4.5), Health Care (-4.4), and Industrials (-3.5). Looking at 2023's performance so far, the S&P 500 is up 11.5% ytd, with just three sectors outperforming the index and three higher for the year. The best ytd performers: Tech (35.8), Communication Services (33.8), and Consumer Discretionary (22.2). These are 2023's worst performers: Energy (-9.2), Utilities (-8.3), Financials (-4.5), Health Care (-4.4), Consumer Staples (-1.6), Real Estate (-0.8), Materials (0.7), and Industrials (2.4).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.8% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index was above its 50-dma for a tenth week and its 200-dma for an 11th 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 improved to a 15-week high of 3.7% above its rising 50-dma from 2.4% above a week earlier. That 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 17-month high of 7.9% above its now rising 200-dma, up from 6.1% above its barely falling 200-dma a week earlier. 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 an 11th week, but the 200-dma rose for the first time in four weeks and has risen in just 13 of the past 55 weeks.

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

US Economic Indicators

Employment (*link*): *Payroll employment* in May expanded a stronger-than-expected 339,000 (vs 190,000 expected), while there were upward revisions to both April (to 294,000 from 253,000) and March (217,000 from 165,000) payrolls for a net gain of 93,000. May employment is 3.7 million above its pre-pandemic level. Jobs gains in private *service-providing* industries increased 257,000 in May, stronger than the gains of 225,000 and 176,000 the prior two months, while *goods-producing* jobs rose 26,000 in May, following a 28,000 gain and a 19,000 loss the prior two months. The gain in goods-producing jobs was virtually all construction, which climbed 25,000 during the month, while mining and logging ticked up 3,000, and manufacturing jobs were 3,000 lower, as nondurable goods payrolls fell 5,000. The gain within *service-providing* jobs was led by professional & business services (64,000) once again, which was in line with April's 65,000 increase, followed by health care (52,000), which was in line with the average monthly gain of 50,000 the prior 12 months. Employment in leisure & hospitality (48,000) took the number-three slot again, though it came in below its average 77,000 increase of the prior 12 months; the gain was led by food services & drinking places (33,000). The gain transportation & warehousing (24,200) has shown no clear trend in recent months. The increase in social assistance (22,000) jobs in May was in line with the average monthly gain of 23,000 the prior 12 months. Meanwhile, employment was little changed in wholesale trade, retail trade, information services, financial activities, and other services. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services

(+1.6 million), transportation & warehousing (+977,300), construction (+320,000), health care (+331,300), financial activities (+261,000), social assistance (+192,100), information services (+176,000), wholesale trade (+158,500), education (+154,600), durable goods manufacturing (+103,000), nondurable goods manufacturing (+96,000), and retail trade (+30,900). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-43,000) and leisure & hospitality (-349,000).

Wages (*link*): Average hourly earnings (AHE) for all workers in May rose 0.3%, a tick above April's 0.4% gain but matching the average monthly gain the first five months of this year. The yearly rate ticked down from 4.4% to 4.3% in May, back at March's 20-month low; it reached a recent high of 5.9% during March 2022. May's AHE rate was a few ticks below the April CPI inflation rate of 4.9% and a tick below the 4.4% PCED rate. Private industry wages over the three months through May increased 4.0% (saar), just below the yearly rate of 4.3%, with the service-providing (3.8%, saar & 4.3 y/y) industries' three-month rate below its yearly rate, while the goods-producing (5.5 & 4.6) industries' three-month rate was above its yearly rate. *Service-providing industries showing three-month rates above their yearly rates*: utilities (6.9 & 5.2), transportation & warehousing (6.7 & 3.6), and professional & business services (4.8 & 4.4). *Service-providing industries showing three-month rates below their yearly rates*: other services (1.5 & 4.5), retail trade (2.0 & 4.7), financial activities (2.2 & 3.9), wholesale trade (2.6 & 5.4), education & health services (2.9 & 3.8), and information services (4.8 & 5.3), while the three-month and yearly rates for leisure & hospitality (5.4 & 5.5) are nearly identical. *Goods-producing industries*: The three-month rate is above the yearly rate for natural resources (7.7 & 6.3) and durable goods manufacturing (5.9 & 3.7), while the three-month and yearly rates for both construction (5.0 & 5.1) and nondurable goods manufacturing (4.3 & 4.4) are nearly identical.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 36th increase in the past 37 months, with May's increase slowing to 0.2% from April's 0.6%—and the EIP climbing 37.4% over the 37-month period to yet another record high. In May, *average hourly earnings* advanced 0.3%, with *aggregate weekly* hours down 0.1%; private payroll employment was up 0.2%, while the average workweek fell 0.3%. Over the past 12 months, our EIP advanced 6.2%, slowing from April's 6.6%—with aggregate weekly hours up 1.9% and average hourly earnings up 4.3%; May's rate is below the 8.1% at the start of this year. It peaked last February at 11.8%, which was the fastest since spring 2021.

Unemployment (*link*): The unemployment rate climbed in May to 3.7%, after slipping to 3.4% in April—which matched its lowest rate since May 1969. The number of unemployed jumped 440,000 in May, as the household measure of employment fell 310,000, while the civilian labor force increased 130,000. The participation rate in May remained at 62.6% for the second month, up from 62.2% in November, though below its pre-pandemic reading of 63.3%. *By race*: Only Hispanics (to 4.0% from 4.4%) saw a decline in their unemployment rate in May, posting its third consecutive decrease—sinking 1.3ppts over the period to only a tick above its all-time record low of 3.9%. Meanwhile, the unemployment rate for African Americans (5.6% from 4.7%) increased nearly a full percentage point in May after falling to a record low in April, while the rates for Whites (3.3 from 3.1) and Asians (2.9 from 2.8) also moved higher last month, though held near their record lows of 3.0% and 2.1%, respectively. *By education*: The rate for those with less than a high-school diploma (to 5.7% from 5.4%) climbed in May, along with those with some college (3.2 from 2.9) and a college degree or higher (2.1 from 1.9); the rate for those with a high school degree held at 3.9%.

ADP Employment (*link*): Jobs growth was strong again in May, while pay growth continued to slow. "This is the second month we've seen a full percentage point decline in pay growth for job changers," noted Nela Richardson, chief economist, ADP. "Pay growth is slowing substantially, and wage-driven inflation may be less of a concern for the economy despite robust hiring." *Private payrolls* in May blew past forecasts again, climbing 278,000 (vs 180,000 expected), averaging monthly gains of 284,500 the past two months, versus average monthly gains of 174,000 the first three months of this year. Total payrolls continued to reach new record highs in May, as employment in service-providing and goods-producing industries rose 168,000 and 110,000, respectively, both to new record highs, with the pace nearly doubling in goods-providing industries from April's gain of 62,000. Within *goods-producing* industries, construction jobs advanced for the fourth month, by 64,000 in May and 220,000 over the period, to a new record high, while jobs in natural resources & mining increased the first five months of this year, by 94,000 in May and 246,000 ytd. Meanwhile, manufacturing payrolls contracted for the third month, by a total of 120,000, after a three-month gain of 55,000, though remains in record territory—within 159,000 of January 2019's record high. Within *service-providing* industries, leisure & hospitality (+208,000) once again posted the largest gain, followed by trade, transportations & utilities (+32,000)—with both climbing to new record highs; other services (+12,000) employment reached a new cyclical high. Financial activities' jobs declined for the sixth consecutive month, by 35,000 during May and 148,000 over the period, while jobs in professional & business services were cut for the fourth month, by 5,000 last month and 124,000 over the period. That was the first decline in the latter since July 2020. Information services dropped for the fourth time this year, by 15,000 m/m and 53,000 ytd, while education & health services' jobs fell 29,000 in May—only the second decline since May 2021; this February's 6,000 drop was the other. Turning to ADP's *median annual pay* measures, the yearly rate for *job-stayers* slowed to a 17-month low of 6.5% in May, down from last September's 7.8% peak, while the rate for *job-changers* eased to 12.1%, 4.3ppts below last June's 16.4% peak.

Productivity & Unit Labor Costs (*link*): Nonfarm productivity began 2023 on a weak note after finishing 2022 strong, though this measure tends to be volatile. Revisions show Q1 productivity contracted at a sharp pace, though not as steep as initially reported. Productivity, which measures output per hours worked, contracted 2.1% (saar) during Q1, vs the preliminary estimate of a 2.7% drop, following gains of 1.6% and 1.2% the prior two quarters. Output (to 0.5% from 0.2%, saar) growth during Q1 was faster than first reported, while hours worked (2.6 from 3.0) was slower. The gain in Q1 unit labor costs was revised down to 4.2% (saar) from 6.3%, as the gain in hourly compensation slowed to 2.1% (saar) from 3.4%, and productivity wasn't as weak as first reported. Unit labor costs and hourly compensation had declined an annualized 2.2% and 0.7%, respectively, during Q4. 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.

Auto Sales (*link*): Total sales remain on a volatile uptrend, though took a step back in May, slipping to 15.1mu (saar) after rebounding from 15.0mu to 16.1mu in April; it was above last May's 12.7mu. *Domestic light-truck* sales continue to bounce around recent highs, slipping to 9.4mu (saar) last month after climbing from 9.4mu in March to 9.9mu in April, averaging 9.6mu so far this year—up from last year's 8.5mu average. Sales were at 10.0mu at the start of the year—which was the highest since April 2021. *Domestic car* sales continue to fluctuate in a volatile flat trend between 2.0mu to 2.5mu the past nine months—slipping to 2.3mu (saar) in May from 2.5mu in April—matching its nine-month average in May. Sales of *imports* are in a volatile flat trend, slipping to 3.4mu (saar) in May after climbing from 3.4mu in March to 3.7m in April; it was at 3.8mu at the start of this year.

Construction Spending (*link*): Construction spending jumped more than expected in April, to a new record high, on widespread gains. *Total* construction spending increased for the third month, by 1.2% m/m and 4.0% over the period. *Private construction* investment rose 1.3%, and 4.1% over the comparable periods—also to a new record high. *Public construction* spending increased for the 10th time in 11 months, by a total of 17.3%, to yet another new record high. *Within private construction*, nonresidential investment continues to soar, advancing for the 11th time in 12 months, by a whopping 31.2%, reaching another new record high in April; manufacturing and health care investment hit new record highs, while office, commercial, and transportation building came in just below record highs. Meanwhile, *residential* investment remained depressed, rising for the first time since May 2022, climbing only 0.5% in April, after no change the prior two months; it had contracted 11.0% over the eight months through January. The weakness in residential investment continues to be driven by *single-family* construction, which hasn't recorded a gain since reaching a new record high last April, plunging 24.7% y/y to its lowest level since November 2020. *Home improvement* spending has been volatile, bouncing around recent lows, rising 3.9% over the three months ending April, following a 3.7% drop in January and a 3.1% gain during the final two months of 2022. It is 5.7% below last July's record high. Meanwhile, *multi-family* construction continues to set new record highs, soaring 24.4% over the nine months through April, though the pace has slowed in recent months.

Global Economic Indicators

Global Manufacturing PMIs (*link*): "Global manufacturing output rises as supply chains improve, but new order intakes continue to fall" was the headline of the May release. The JP Morgan Global M-PMI, however, continues to hover just below the breakeven point of 50.0, unchanged for the second month at 49.6 in May and averaging 49.4 over the past nine months. According to the survey, while improving supply chains have boosted production, "there were more worrying signs on the demand front, as total new orders and international trade flows deteriorated further." May data are available for 30 nations, with 11 signaling expansions in output and 19 signaling contractions. Here's how May *M-PMIs ranked by country/region* from highest to lowest: India (58.7), Thailand (58.2), Russia (53.5), Myanmar (53.0), Kazakhstan (52.3), Philippines (52.2), Greece (51.5), Turkey (51.4), China (50.9), Japan (50.6), Mexico (50.5), Colombia (49.9), WORLD (49.6), Canada (49.0), Spain (48.4), Australia (48.4), South Korea (48.4), US (48.4), Malaysia (47.8), Ireland (47.4), UK (47.1), Brazil (47.1), Poland (47.0), Italy (45.9), France (45.7), Vietnam (45.3), EUROZONE (44.8), Taiwan (44.3), Netherlands (44.2), Germany (43.2), Czech Republic (42.8), and Austria (39.7).

US Manufacturing PMI (*link*): "The US manufacturing sector shrank again, with the Manufacturing PMI losing a bit of ground compared to the previous months, indicating a faster rate of contraction. The May composite index reading reflects companies continuing to manage outputs to better match demand for the first half of 2023 and prepare for growth in the late summer/early fall period," notes Timothy R. Fiore, chairman of ISM.

Manufacturing activity contracted in May for the seventh consecutive month, falling from 47.1 in April to 46.9 last month, back near March's 34-month low of 46.3—the longest span of readings below the 50.0 threshold since the Great Recession. (There have been several periods, during the mid-1990s and late-1980s, when prolonged readings below 50.0 were not accompanied by a recession.) Looking at May's report, the new orders (42.6 from 45.7) measure continued to contract, while production (51.1 from 48.9) expanded for the first time in six months. Meanwhile, factories increased employment (51.4 from 50.2) at the best pace in nine months. The *supplier deliveries* (43.5 from 44.6) measure for May fell to its lowest level since March 2009's 43.2—down sharply from May 2021's peak of 78.8. (A reading below 50.0 indicates faster deliveries to factories.) Meanwhile, the inventories (45.8 from 46.3) gauge showed the slowest pace since August 2020, as businesses continue to carefully manage inventories. ISM's *prices-paid* measure eased to 44.2 in May, from April's nine-month high of 53.2, moving back toward December's 32-month low of 39.4. It peaked at 92.1 in mid-2021—which was the fastest since the summer of 1979.

Eurozone CPI Flash Estimates (*link*): The CPI rate for May is expected to tick down to 6.1% y/y, after a slight uptick to 7.0% in April; it had slowed steadily from a record-high 10.6% last October to 6.9% this March. Looking at the main components, *energy* is expected to contract 1.7% y/y, its second negative reading in three months and the weakest since February 2021, following double-digit yearly gains from April 2021 through February of this year. It peaked at a record high of 44.3% last March. The rate for *food, alcohol & tobacco* is expected to slow for the second month to 12.5% y/y after accelerating steadily from June 2021's 0.5% to a record high of 15.5% this March. The rate for *non-energy* industrial goods is forecast to ease for the third month to 5.8% y/y from February's record-high 6.8%. The *services* rate is predicted to slow to 5.0% y/y in May, after accelerating the prior three months, from 4.4% to 5.2% y/y—which was the highest since May 1993. Of the *top four Eurozone economies*, only Italy (8.1% y/y) and Germany (6.3) showed rates above the Eurozone's 6.1% rate—the latter barely—while France's (6.0) was only a few ticks below. Meanwhile, Spain's (2.9) rate was half that of the overall Eurozone. Here are the record-high inflation rates and dates they were achieved for the four countries: Italy (12.6%, October & November 2022), Germany (11.6%, October 2022), France (7.3%, February 2023), and Spain (10.7%, July 2022).

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