**MORNING BRIEFING**
**June 20, 2023**

## Hop, Skip & A Jump?

*Check out the accompanying chart collection.*

**Executive Summary:** The ranks of stock market bears are thinning as investors increasingly concede that no recession is on the horizon. Inflation will continue to drop, with positive—not negative—effects on earnings, we contend, because profit margins have been hurt—not helped—by high inflation. Lower inflation should boost margins and earnings. … The ranks of stock market bulls are growing, their case strengthened by broadening stock market leadership and more bullish sentiment. … Also: We don't buy the argument that recession will descend once consumers spend their pandemic windfalls, for several reasons. … And: The latest economic releases support our rolling-recession-with-disinflation outlook. … Finally: Dr. Ed reviews "FDR" (+ + +).

**YRI Weekly Webcast.** Join Dr. Ed's live Q&A webinar today at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays of the weekly webinars are available *here*.

**Strategy I: Bearish vs Bullish Spins on Earnings.** The most widely anticipated recession of all times remains a no-show. The audience has mostly left the theater, figuring there is no point in *waiting for Godot* any longer. A few diehard fans of the recession script are staying in their seats, convinced that Godot will show up later this year or early next year. Since the recession is still coming, in their opinion, they are bearish on stocks.

The June 14 Bloomberg *reported*: "Morgan Stanley's Mike Wilson is reinforcing his status as Wall Street's most-famous bear. The bank's top US equity strategist reiterated his year-end target of 3,900 on the S&P 500 …" He expects S&P earnings to drop 16% this year. Industry sell-side analysts are currently expecting a 2.4% decline for 2023. He thinks that the earnings recession will be worsened by a drop in inflation: "Inflation is going to come down. It's not going to be good for stocks because that is where the earnings power has been coming from," said Wilson. He predicts that S&P 500 earnings per share will fall to $185 this year (down 16% from last year) and that the S&P 500 is heading back down.

That's an interesting bearish spin. He will be right if a recession takes down the economy and brings inflation down with it. He'll be wrong, in our opinion, if inflation moderates without a recession, as we expect. It's true that inflation has boosted S&P 500 revenues, while earnings have been weak in recent quarters. That's because inflation has eroded profit

margins, as companies' costs have risen faster than the prices they charge.

Accordingly, an easing of inflation should ease the pressure on profit margins. This scenario may be starting to unfold, we can see from the latest weekly readings of forward revenues, forward earnings, and the forward profit margin (*Fig. 1*):

(1) *Forward revenues* (i.e., the time-weighted average of analysts' consensus revenue estimates for S&P 500 companies this year and next) rose to yet another record high during the week of June 8. They are up 4.3% y/y. Over the past 12 months through May, the PPI and CPI are up 1.1% and 4.0%. Inflation has certainly boosted revenues.

(2) *Forward earnings* (i.e., the time-weighted average of analysts' consensus operating earnings-per-share estimates for S&P 500 companies this year and next) on the other hand fell 5.9% from the week of June 16, 2022 through the week of February 23 this year. It has been edging higher since then and is up 3.0% through the June 8 week.

(3) *Forward profit margin* (i.e., the margin calculated from forward revenues and earnings) narrowed from a record high of 13.4% during the June 9, 2022 week to a recent low of 12.3% during the March 30 week. Now it is back up to 12.5%.

The bulls clearly have gained ground in their tug-of-war with the bears. As a result, Wilson and the other bears are no longer growling about a retest of the S&P 500's October 12 low, which was 3577.03. They are implicitly acknowledging that perhaps the bear market ended on October 12, 2022, as we've long been saying.

A fleet of trucks can drive through the difference between our S&P 500 earnings-per-share estimate for this year and the Morgan Stanley outlook. As we reiterated last week, we are at $225 this year (up 3.2%), $250 in 2024 (up 11.1%), and $270 in 2025 (up 8.0%) (*Fig. 2*). That's with revenues growth slowing to 4.0% during each of those years, reflecting lower inflation and average global economic growth, i.e., no recession. In our forecast, the actual quarterly profit margin is flat this year at 12.3% and rises to 13.2% next year and to 13.7% in 2025 (*Fig. 3*). (See *YRI S&P 500 Earnings Forecast*.)

**Strategy II: Tug-of-War Favoring Bulls.** Meanwhile, the bulls continue to gain ground in our tug-of-war with the bears. Consider the following:

(1) The S&P 500 is now up 23.3% since October 12 to 4425.84 through last Thursday (*Fig. 4*). That was the highest level since April 20, 2022. It was still 7.7% below the January 3,

2022 record high.

(2) Measures of breadth are improving. The percentage of S&P 500 companies with positive y/y share price changes rose to 72.3% on Friday (*Fig. 5*). The percentage of S&P 500 companies with positive three-month percent changes in forward earnings rose to 73.5% on Friday (*Fig. 6*).

The breadth of the market narrowed significantly earlier this year because of the banking crisis in early March. The MegaCap-8 stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla) led a very narrow advance through May. Since the first week of 2023 through the June 16 week, their collective market cap rose 57.4%, while the S&P 492's market cap rose 0.9% (*Fig. 7*).

The market's rally has broadened significantly so far in June: Consumer Discretionary (9.3%), Industrials (8.8), Materials (8.7), Information Technology (5.7), Financials (5.6), S&P 500 (5.5), Real Estate (4.0), Energy (5.3), Communication Services (3.0), Utilities (3.5), Health Care (3.4), and Consumer Staples (2.8) (*Fig. 8* and *Table 1*).

(3) The rebound in Financials, especially the SMidCap Financials, suggests that investors have concluded that the banking crisis has been successfully contained by the Fed (*Fig. 9*). Indeed, bank loans remained at a record high during the June 7 week (*Fig. 10*).

The rebound in Industrials has also been impressive during June (*Fig. 11*). Here is the performance derby in June so far for the major industries in the S&P 500 Industrials: Agricultural & Farm Machinery (17.8%), Construction Machinery & Heavy Transportation (17.0), Industrial Machinery & Supplies & Components (12.4), Electrical Components & Equipment (10.2), Industrials (8.8), Railroad Transportation (7.1), and Industrial Conglomerates (6.5).

We would like to take some credit for the recent dramatic rebound in the Industrials that are likely to benefit from onshoring and infrastructure boom. Since late May, we've been calling your attention to the soaring spending on nonresidential construction, particularly manufacturing facilities (*Fig. 12*). Also soaring is public construction, especially of highways and streets.

(4) Bullish sentiment has been rising, but not to levels that are too bullish and therefore bearish from a contrarian perspective. The bulls minus bears spread based on the Investors Intelligence and the AAII surveys rose to 25, the highest reading since just before last year's

bear market (*Fig. 13*).

The bears have clearly lost the hearts and minds of lots of investors since October 12. Nevertheless, they should get at least a small correction for all their efforts. The S&P 500 currently is trading at 10.6% above its 200-day moving average (dma), which was 3985.70 on Friday (*Fig. 14*). A drop to this average would amount to a 9.6% drop, just shy of a 10%+ correction.

Did you notice that the S&P 500's 200-dma is just slightly higher than Mike Wilson's year-end price target for the S&P 500 of 3900? A drop to the 200-dma or even Wilson's target could happen. But we don't think it is very likely. And if it does, then we can debate whether it is a continuation of the bear market or a correction in a bull market.

**US Economy I: Postponed Recession?** When the Fed started to raise interest rates aggressively last year, there was lots of talk that it would cause a recession. Late last year, the consensus view was that it could start during H1-2023. The common explanation for the no-show recession despite the 500bps hike in the federal funds rate is that consumers were still spending their excess savings from the pandemic. But once this cash is spent over the rest of this year, a consumer-led recession is likely in 2024.

That's a plausible scenario, but not one that we think is very likely, for several reasons:

(1) Much of the tightening of monetary policy has been offset by extremely stimulative fiscal policy, as evidenced by booming nonresidential construction (led by manufacturing facilities and data centers) and public construction (led by highways).

(2) Consumers may run out of their excess savings by the end of this year, but they have lots of other sources of purchasing power. These include not only fast-rising wages and salaries but also a record $7.6 trillion in unearned income including interest income ($1.8 trillion), dividend income ($1.7 trillion), proprietors' income ($1.9 trillion), rental income ($0.9 trillion), and Social Security ($1.3 trillion) (*Fig. 15*).

(3) There's more: According to Google's chatbot Bard, as of the end of 2022, Americans had $8.6 trillion in 401(k) retirement plans. The AI know-it-all also suggests: "If you are not already contributing to a 401(k), I encourage you to start today. Even if you can only contribute a small amount, it will add up over time. And the earlier you start saving, the more time your money has to grow." Bard also claims that at the end of 2022, there was $17.5 trillion in IRAs.

Bard also points out that distributions from many retirement plans are required at a certain age, so more and more Baby Boomers will be taking their required minimum distributions in future years. As we've noted before, the Baby Boomers have $73 trillion in net worth.

We will be fact-checking Bard, which doesn't source its data. We will also follow up with more detail on the net worth of the Baby Boomers.

**US Economy II: RRWD Update.** Meanwhile, last week's batch of economic indicators was consistent with our rolling-recession-with-disinflation scenario (RRWD):

(1) *Employment.* The job market may finally be cooling off. Thursday's 262,000 jobless claims was unchanged from the previous week's revised figure. The latest reading came in above the forecast of 250,000. Initial claims remain at their highest level since October 2021 but still consistent with slower employment growth (*Fig. 16*). Keep in mind that the measures of job openings continue to show plenty of them (*Fig. 17*).

(2) *Retail sales.* Retail sales at stores, online, and in restaurants grew 0.3% m/m in May. That was above economists' expectations of a 0.1% m/m decline, according to Refinitiv. Inflation-adjusted retail sales has stalled in record-high territory since late 2021 as consumers pivoted to buying more services (*Fig. 18*).

(3) *Industrial production.* Industrial production declined 0.2% m/m in May after rising the two prior months, pulled down by falling mining and utilities output. Manufacturing, the bulk of industrial output, gained 0.1% after rising 0.9% in April (chart). Motor vehicles and parts output edged up 0.2% in May following a nearly 10% rise in April.

**The Fed: Powell's Plateau.** After the FOMC meeting adjourned last Wednesday, Fed Chair Jerome Powell held his regular post-meeting *press conference*. The basic message was that the FOMC has tightened monetary policy considerably and sees a possibility that it might have to raise interest rates by 25bps a couple more times. But for now, the committee is giving it a rest "to assess additional information and its implications for monetary policy."

We expect that the incoming data between the previous and the next meeting of the FOMC on July 25-26 will confirm our RRWD scenario. If so, then the committee might conclude that monetary policy is sufficiently restrictive to cool inflation without causing an economy-wide recession. So we don't expect that the hops in the federal funds rates so far and the latest skip will be followed by any more jumps.

**Movie.** “FDR” (+ + +) (*link*) is a three-part miniseries portrait of President Franklin Delano Roosevelt on the History channel. It was produced by presidential historian Doris Kearns Goodwin and Bradley Cooper. It’s mostly a glowing account from a liberal perspective and fails to address any of the conservative critiques of FDR’s three terms in the White House. He clearly was a Progressive who believed that big government is the answer to most of our national problems. Nevertheless, it is well worth watching for a refresher course on the Great Depression and World War II.

---

## Calendars

**US: Tues:** Housing Starts & Building Permits 1.405mu/1.435mu; Williams. **Wed:** MBA Mortgage Applications; API Weekly Crude Oil Inventories; Powell; Cook; Jefferson; Goolsbee; Mester. (Bloomberg estimates)

**Global: Tues:** Eurozone Current Account €30.1b; Germany PPI -0.7%m/m/1.7y/y; Japan Industrial Production & Capacity Utilization -0.4%/0.3%; BOJ Monetary Policy Minutes; Adachi. **Wed:** UK Headline & Core CPI 8.5%/6.7%y/y; UK Input & Output PPI 2.4%/4.1%y/y; UK Nationwide HPI; UK CBI Industrial Trends; Canada Retail Sales 0.2%; Nagel; Balz; Noguchi. (Bloomberg estimates)

---

## Strategy Indicators

**Global Stock Markets Performance** (*link*): The US MSCI index rose 2.6% last week for its fifth straight weekly gain and finally exited its bear market to end the week at 9.6% below its record high on December 27, 2021. The US MSCI ranked 20th of the 48 global stock markets that we follow in a week when 42 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed with a 2.7% gain, but remains in a 13.9% correction from its June 15, 2021 record high. All regions rose w/w, but BIC and EMU were the best performers with gains of 3.7%, ahead of EM Eastern Europe (3.4%), EM Asia (3.0), and EAFE (2.9). EMEA was the worst performing region last week, albeit with a gain of 1.2%, ahead of EM Latin America (1.7). Argentina was the best-performing country last week, with a gain of 8.5%, followed by Peru (5.6), Ireland (5.5), Morocco (5.4), and South Africa (4.8). Among the 29 countries that underperformed the AC World ex-US MSCI last week, the 3.3% declines for Pakistan and Turkey were the biggest, followed by Jordan (-1.7), Indonesia (-1.0), and Sri Lanka (-0.9). Looking at 2023’s performance so far, the US MSCI

is up 15.1% as its ytd ranking was unchanged w/w at 15/48. The AC World ex-US's ytd gain of 10.1% is trailing the US, with 37/48 countries now in positive territory. EM Eastern Europe is the best regional performer ytd, with a gain of 25.9%, followed by EM Latin America (16.2), EMU (16.1), and EAFE (11.7). The regional laggards so far in 2023: BIC (2.6), EMEA (3.4), and EM Asia (7.7). This year's best ytd country performers: Greece (41.4), Argentina (35.4), the Czech Republic (28.3), Mexico (28.2), and Ireland (26.5). Here are the worst-performing countries of the year so far: Pakistan (-30.7), Turkey (-16.8), Malaysia (-11.4), Norway (-8.0), and Thailand (-6.4).

**S&P 500/400/600 Performance** (*link*): All three of these indexes moved higher w/w. LargeCap rose 2.6% w/w, ahead of MidCap's 1.5% gain and SmallCap's 0.3% rise. At Friday's close, LargeCap finished the week at 8.1% below its record high on January 3, 2022, MidCap at 11.4% below its record high on November 16, 2021, and SmallCap edged further away from a bear market to end at 17.8% below its November 8, 2021 record high. Twenty-five of the 33 LargeCap and SMidCap sectors moved higher for the week, the same count as a week earlier. LargeCap Tech was the best performer with a gain of 4.4%, ahead of MidCap Tech (3.7), LargeCap Materials (3.3), LargeCap Consumer Discretionary (3.2), and LargeCap Industrials (2.9). Among the biggest decliners for the week were SmallCap Utilities (-3.5), MidCap Utilities (-1.3), LargeCap Energy (-0.7), SmallCap Financials (-0.6), and SmallCap Energy (-0.2). Looking at performances so far in 2023, LargeCap, with a gain of 14.8%, remains well ahead of MidCap (6.2) and SmallCap (4.1); 18 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (40.9), LargeCap Communication Services (36.1), LargeCap Consumer Discretionary (29.2), MidCap Tech (21.2), and SmallCap Tech (19.6). Here are 2023's biggest laggards: SmallCap Financials (-13.2), SmallCap Energy (-9.6), LargeCap Energy (-8.3), MidCap Utilities (-8.2), and MidCap Financials (-7.5).

**S&P 500 Sectors and Industries Performance** (*link*): Ten of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 2.6% gain. That compares to a 0.4% gain for the S&P 500 a week earlier, when seven sectors rose and seven outperformed the index. Tech was the best performer, with a gain of 4.4%, followed by Materials (3.3%), Consumer Discretionary (3.2), and Industrials (2.9). Energy was the worst performer, with a 0.7% decline, followed by Financials (1.2), Real Estate (1.2), Utilities (1.3), Health Care (1.4), Consumer Staples (2.0), and Communication Services (2.1). Looking at 2023's performance so far, the S&P 500 is up 14.8% ytd, with just three sectors still outperforming the index but six now higher for the year. The best ytd performers: Tech (40.9), Communication Services (36.1), and Consumer Discretionary (29.2). These are 2023's worst performers: Energy (-8.3), Utilities (-5.4), Health Care (-3.1), Financials (-2.3),

Consumer Staples (-0.1), Real Estate (1.1), Materials (4.6), and Industrials (6.9).

**S&P 500 Technical Indicators** (*link*): The S&P 500 rose 2.6% 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 12th week and its 200-dma for a 13th 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 20-week high of 5.4% above its rising 50-dma from 3.5% 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 June 2022. 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 19-month high of 10.6% above its rising 200-dma, up from 8.1% above 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 a 13th week, and the 200-dma rose for a third week but has risen in just 15 of the past 57 weeks.

**S&P 500 Sectors Technical Indicators** (*link*): Eight of the 11 S&P 500 sectors are trading above their 50-dmas, up from six a week earlier and down from all 11 sectors above during the April 28 week. Health Care and Materials moved above in the latest week, leaving these three as the only sectors still trading below their 50-dma: Consumer Staples, Energy, and Utilities. Seven sectors have a rising 50-dma, up from six a week earlier, as Materials and Real Estate turned up w/w and Health Care turned down and joined Consumer Staples, Energy, and Utilities in the falling 50-dma club. Looking at the more stable longer-term 200-dmas, the positive club improved to seven members w/w from five as Consumer Staples and Health Care moved above. These four sectors still trade below their 200-dma: Energy, Financials, Real Estate, and Utilities. The rising 200-dma club dropped to eight members w/w from nine as Financials turned down w/w and joined Real Estate and Utilities as the only sectors with a falling 200-dma.

## US Economic Indicators

**Retail Sales** (*link*): Retail sales unexpectedly rose in May for the second month, while inflationary pressures eased, with May's CPI climbing only 0.1% and May's PPI for both final demand and personal consumption expenditures falling 0.3% and 0.4%, respectively. *Total retail sales* increased 0.3% (vs -0.1% expected) in May after rising 0.4% in April; sales fell 1.6% during the two months through March after starting the year with a 2.8% jump. Through the first five months of 2023, sales are up 1.9%. Meanwhile, sales in the *control group*—which excludes autos, gasoline, building materials, and food services—climbed 0.2% in May following a 0.6% gain in April, with sales up 1.7% ytd. This measure correlates closely with the consumer spending component in GDP; it's up 2.0% ytd. Of the *13 nominal retail sales categories*, nine rose in in May, while two fell and two were unchanged. Here's a snapshot of the 13 categories' *May sales performance versus that of a year ago*: building materials & garden equipment (2.2% m/m & -0.9 y/y), motor vehicles & parts (1.4 & 4.4), food services & drinking places (0.4 & 8.0), furniture & home furnishings (0.4 & -6.4), general merchandise stores (0.4 & 2.0), nonstore retailers (0.3 & 6.5), food & beverage stores (0.3 & 3.1), sporting goods & hobby stores (0.3 & 1.2), electronics & appliance stores (0.2 & -5.0), health & personal care stores (0.0 & 7.8), clothing & accessories stores (0.0 & -0.2), miscellaneous store retailers (-1.0 & 4.5), and gasoline stations (-2.6 & -20.5).

**Consumer Sentiment Index** (*link*): Consumer sentiment recovered to a four-month high in mid-June as inflation concerns eased and policymakers resolved the debt crisis. However, Joanne Hsu, director of consumer survey for the University of Michigan, cautions, "As it stands, though sentiment remains low by historical standards as income expectations softened. A majority of consumers still expect difficult times in the economy over the next year." *Overall consumer sentiment* rose for the fifth time in seven months, by 4.7 points in mid-June and 7.1 points over the period, to 63.9, while the *present situation* component climbed 3.1 points and 9.2 points over the comparable periods to 68.0. They were at record lows of 50.0 and 53.8, respectively, a year ago. The expectations component rose 5.9 points and 5.7 points over the comparable periods to a four-month high of 61.3. Turning to inflation, the *one-year expected inflation rate* moved down for the second month, from a five-month high of 4.6% in April to 3.3% in mid-June; that's the lowest reading since March 2021, easing worries about sticky inflation. The *five-year expected inflation rate* eased from 3.1% to 3.0% in mid-June. It was at 2.9% the first three months of this year, remaining within the narrow 2.9%-3.1% range of 22 of the past 23 months. Long-run inflation expectations remained elevated relative to the 2.2%-2.6% range seen in the two year pre-pandemic.

**Business Sales & Inventories** (*link*): Both nominal and real business sales remain in record territory, though are down from their recent record highs. Since reaching a record high last June, *nominal business sales* has decreased five months, increased four months, and was unchanged one month—falling 2.6% over the ten-month period through April. Meanwhile, *real business sales* reached a new record high in January 2022, and was down only 1.3% during the 14 months through March. In the meantime, the real inventories-to-sales ratio in March moved back up to November's recent high of 1.49—which was the highest since mid-2020. Meanwhile, the nominal ratio in April was unchanged at March's 1.40—which was the highest since mid-2020.

**Regional M-PMIs** (*link*): Two Fed districts have reported on manufacturing activity for June—New York and Philadelphia—and show *manufacturing activity* (to -3.5 from -21.1) moved closer to positive territory, as the New York (to 6.6 from -31.8) region showed a big swing from contraction to expansion, while Philadelphia's (-13.7 from -10.4) fell at a slightly faster rate. *New orders* (-3.9 from -18.4) also moved closer toward expansion, posting a brief blip up in April (to 1.2), after ten months in negative territory. Billings in the New York (3.1 from -28.0) region showed a return to expansion in June, while Philadelphia's (-11.0 from –8.9) continued to contract, though at a slightly faster pace. *Employment* (-2.0 from -5.9) contracted for the fifth month, though at a slower pace, as hirings in the Philadelphia (-0.4 from -8.6) area moved back toward the breakeven point of zero, while New York's (-3.6 from -3.3) fell at a steady pace. Looking at *prices-paid* indexes, the Philadelphia (10.5 from 10.9) measure held steady, not far from April's 8.2 reading—which was its lowest since mid-2020—while New York's (22.0 from 34.9) posted its lowest reading since August 2020. The former was at a recent high of 83.6 in November 2021, while the latter was at a record high of 86.4 in April 2022. *Prices-received* indexes were mixed: New York's (9.0 from 23.6) eased to its lowest reading since October 2020; it was at a record high of 56.1 in March 2022. Philadelphia's measure moved up for the first time in five months, to 0.1, after falling from 37.6 in November to -7.0 in May—which was the weakest since April 2020. It was at a record high of 65.8 in November 2021.

**Industrial Production** (*link*): Output in May declined for the first time this year, led by a big drop in utilities output. *Headline production* fell 0.2% in May, after rebounding 1.7% the first four months of this year. Last year ended with a three-month slump of 1.9% in output. May production was only 0.5% below last September's recent high and within 1.1% of August/September 2018's record high. By industry group, *mining* production remains on a steep uptrend, though dipped 0.3% in May. It is up 3.2% ytd, and up 31.6% from its May 2020 bottom. Meanwhile, *utilities* output decreased for the fourth time in five months, by

1.8% in May and 5.8% ytd. *Manufacturing* production increased for the fourth time in five months, climbing 0.1% in May and 2.2% ytd; it had dropped 2.9% the final two months of last year. By *market group*, *consumer goods* production inched down 0.1% in May, after climbing the prior three months by 1.4%. *Durable consumer goods* production in May increased for the fourth time this year, up 0.3 m/m and 3.9% over the period—getting a boost in April from an 8.3% surge in production of auto products. Durable goods output is within 1.3% of January 2021's record high. *Nondurable consumer* goods production has been volatile in recent months, edging up only 0.1% ytd. *Business equipment* production fell three of the past four months, contracting 0.1% m/m and 0.8% over the period, though is in the plus column ytd, up 0.4%. Transit equipment output jumped 5.6% during the two months ending May, after falling the prior five months by 5.8%, while production of industrial & other equipment fell three of the past four months by 1.7%. Meanwhile, production of information processing equipment is down 3.8% from its recent peak last October.

**Capacity Utilization** (*link*): The *headline* capacity utilization rate moved down to 79.6% in May after climbing to 79.8% in April. It peaked recently at 80.8% last September falling to 79.5% in March and April of this year. May's rate is 0.1ppt below its long-run (1972-2022) average. The *manufacturing* utilization rate remained at 78.4% in May, down from a recent peak of 79.9% last April, putting it 0.2ppt above its long-run average. Meanwhile, the *mining* utilization rate remained in a volatile flat trend around recent highs, at 92.2%, not far from its all-time record high of 94.0% in 1980, while the *utilities* rate in remained on a volatile downtrend, falling to 70.7% in May. May's rate for mining is 5.5ppts above its long-run average, while the utilities rate is substantially below its long-run average.

**Import Prices** (*link*): Import prices fell in May for the fourth time this year and the ninth time in 11 months, with the yearly rate showing its sharpest decline in three years, led by a big drop fuel prices. Nonpetroleum prices also fell on both a monthly and yearly basis. *Fuel prices* continued to slide, falling 6.4% in May, with the yearly rate plunging to -35.4%, while the yearly rate in *food prices* dipped into negative territory for the first time since the end of 2020. *Total import* prices fell 0.6% in May and 5.9% y/y, the sharpest decline since May 2020. Meanwhile, *nonpetroleum import prices* fell for the fourth consecutive month, by a total of 1.3%, after a two-month gain of 1.2%; these prices had dropped 2.2% during the seven months through November. The yearly rate turned negative in March (-1.5% y/y), steepening to 2.2% in May; the rate had peaked at 8.1% last March. Here's the yearly rate in import prices for several industries from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to -20.4% from 55.2%); foods, feeds & beverages (-0.5 from 15.7); capital goods (0.8 from 4.2); and consumer goods ex autos (-0.1 from 3.2).

## Global Economic Indicators

**Eurozone CPI** (*link*): The CPI rate for May ticked 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* contracted 1.8% 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* slowed 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 eased for the third month to 5.8% y/y from February's record-high 6.8%. The *services* rate slowed 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 (8.0% 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's. 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).

---

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102

Copyright (c) Yardeni Research, Inc. Please read complete copyright and hedge clause.