OBSERVATIONS

- COVID-19: The US has administered nearly 145 million doses of the Pfizer and Moderna vaccines and nearly 73% of US adults over 65 have received at least one dose[1].
    - Meanwhile CDC data shows the seven-day moving average of COVID-19 deaths has declined to about 1,000 per day—a level not seen since early November of 2020.
- The US housing market continues to look healthy overall despite rising mortgage delinquencies.
    - New home sales for February were reported at 775,000 on a seasonally adjusted annual rate basis, while sales for the previous three months were revised up significantly.[2]
    - National Association of Realtors data reported that existing home sales were 6.22 million units in February, 9.1% higher than February-2020.
    - Federal Housing Administration mortgage delinquency rate hit 17.5% in February, while those loans regarded as "seriously delinquent" (>90 days overdue) hit an historic high of 12%.
- The headline durable goods orders fell 1.1% in February[3] compared to January—well below consensus—but much of this decline can be attributed to the large, mid-February winter storm that temporarily shutdown Texas and many surrounding states due to power outages.
- A 1,300-foot container ship became lodged on March 23rd 2021 in the Suez Canal blocking all traffic on the canal since then; the ship was partially dislodged this morning, but global supply chains remained strained due the canal's blockage.
- US gasoline prices approached $3 per gallon ahead of the summer-driving season.[4]
- Weekly unemployment claims fell to 684,000 last week—this is the first time there have been less than 700,00 weekly claims since the pandemic recession began in March-2020.[5]

EXPECTATIONS

- Federal Reserve Chairman Jay Powell tried to alleviate monetary policy uncertainty last week by trying to provide greater details on the conditions that would prompt the Fed to begin raising rates under their new average inflation targeting regime. Powell's testimony to Congress included the statement that, "everyone on the Committee agrees with the three criteria for liftoff" would be maximum employment, sustained inflation above 2%, and confidence that inflation will remain at or above 2%.
- PMI data generally shows progress towards the US economic recovery in 2021. US services PMI bounced to 60.0 a nearly six-year high, while the manufacturing PMI moved higher 59.0—any reading above 50 denotes an expansion.[6]
- Outside of the US, PMIs were generally consistent with an improving economic landscape, but the services sectors remain weak, reading 48.8 in Europe and 46.5 in Japan, while manufacturing PMIs scored 62.4 and 52.0 respectively.[7]

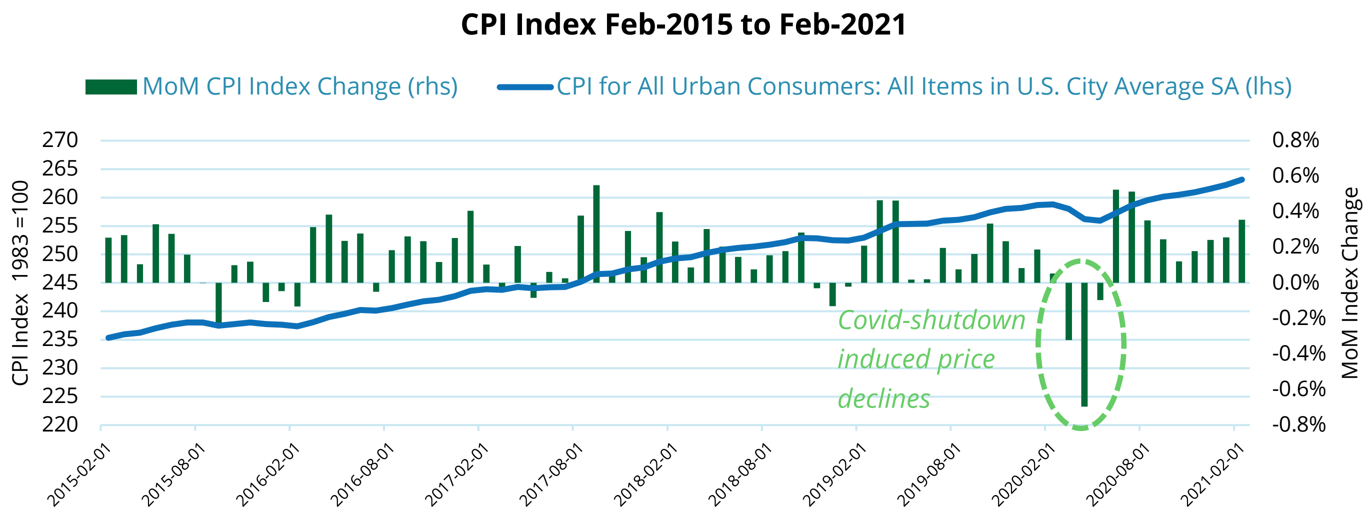
ONE MORE THOUGHT: Base Effects Set to Impact US Inflation Numbers[8]

Over the past decade US CPI has average an increase of 1.7% per year. In some periods of the past decade prices moved up over 3% over the preceding 12 months (mid-2011), but in other periods prices barely moved over the course of year (2015). In general, however, the US month-to-month inflation numbers typically have average

[1] CDC as of 3/28/2021
2 US Department of Commerce "Monthly New Residential Sales, February 2021" 3/23/2021
[3] US Department of Commerce "Monthly Advance Report on Durable Goods Manufacturers' Shipments, Inventories, & Orders February 2021" 3/24/2021
[4] WSJ 3/24/2021 "Leap in Gas Prices Puts $3 a Gallon in Sight"
[5] Department of Labor "Unemployment Insurance Claims" 3/25/2021
[6] Market IHS PMI Press Releases US, Eurozone, and Japan 3/24/2021
[7] Market IHS PMI Press Releases US, Eurozone, and Japan 3/24/2021
[8] US Bureau of Labor Statistics - Consumer Price Index for All Urban Consumers – March, 2021

increase 0.16% per month over the past five years ending in February 2020. However, the Covid shutdown upended these stable trends and caused prices to plummet for three straight months in the Spring of last year before recovering strongly in June and July. This has created large base effects that will skew inflation numbers over the coming months. The sudden and short-lived price decline—-0.3% in March, -0.7% in April, and -0.1% in May—will make corresponding the year-over-year comparisons difficult to interpret. For example, when we get the April 2021 CPI data it is likely only to increase about 0.2% over the March 2021 price levels on a month-to-month comparison, however it will likely show at least a 3% year-over-year increase based on its comparison to the price level from April-2020. The May 2021 CPI data may show in increase in annual inflation of over 3.5% due to base effects given the price-level bottomed in May-2020. This can create confusion. A 20-basis point increase in month-to-month inflation—which is what the US CPI has been averaging over the past six months—is typically associated with about 2.5% increase in annual inflation, but the next few months may show annual inflation running at or over 3% on year-over-year basis. A similar base effect phenomenon will be seen in the other inflation measures—Core CPI Index, PCE Index, and Core PCE Index. By July, these base effects will fade—prices largely recovered by July-2020—and the year-over-year inflation figures should provide a clearer estimate of how fast prices are really increasing on a yearly basis for US households.

CHART OF THE WEEK



Source: Federal Reserve Bank of St. Louis CPI as of March-2021

CPI index declined a cumulative -1.1% between March and May of 2020, before recovering nearly all of those losses by the end of July-2020.

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