

Biden Administration & Federal Reserve Advocate for More Stimulus

Retail Sales & Industrial Production Beat; Nonfarm Payrolls Miss with Prior Two Months Revised Lower

Main Points

Economic Environment: The U.S. economy perked up in January 2021 (refer to the Monthly Economic Recap below) after cooling in the final months of 2020 due to the resurgent virus. The improvement coincided with the late year fiscal stimulus package and \$600 stimulus checks. More stimulus is expected ahead as the Biden administration's ambitious \$1.9 trillion relief package works through the halls of Congress. The big components of the Biden relief bill are an additional \$1,400 stimulus check, expanded unemployment insurance, and funding for state and local municipalities. We expect a final stimulus package to reinvigorate economic activity, much like the December 2020 fiscal relief package did. Accommodative central bank policy should provide an additional boost. The economic outlook is fragile, but we remain hesitant to bet against the powerful Biden administration / Federal Reserve combination. In our view, the economic recovery will remain intact with the stimulus spigots wide open.

Monthly Economic Recap: U.S. economic activity rebounded in January after cooling to finish 2020. Retail sales, excluding food services, rose 5.3% m/m and 10.8% y/y after declining m/m in the final three months of 2020. Industrial production rose 0.9% m/m compared to the 0.5% consensus estimate, and capacity utilization hit a post-pandemic high. The increased manufacturing output came despite struggling auto production as automakers deal with a semiconductor shortage. The ISM Manufacturing PMI cooled from a two year high but remains elevated. Other segments of the economy also rebounded, but not as strong. Nonfarm payrolls rose by 49,000, but the gains missed the consensus estimate. In addition, November and December's prior numbers were both revised lower. Initial jobless claims remain elevated, and the > 27 weeks unemployment duration group continues to grow. While the unemployment rate fell from 6.7% to 6.3%, the labor force participation rate dropped from 61.5% to 61.4% in January 2021. Personal income increased as \$600 stimulus checks were mailed out. The housing market remains strong, with building permits rising 10.4% m/m and 22.5% y/y. However, housing starts fell 6% m/m and 2.3% y/y as homebuilders struggle to keep pace with building backlogs due to a shortage of land and materials. Inflation rose 1.4% y/y in January 2021. However, producer prices increased 1.8% y/y in January 2021 compared to 0.8% y/y in December 2020.

Economic Roundup

- ▶ **Labor Market:** Nonfarm payrolls rose after falling in December; Unemployment rate dropped, but so did labor force participation rate
- ▶ **Retail Sales:** First m/m increase after three consecutive m/m declines; Broad based spending, with all major categories growing m/m
- ▶ **Consumer:** Michigan Consumer Confidence hit a six month low, with lowest income households reporting the biggest drop
- ▶ **Housing:** Building permits rose m/m, but housing starts are lagging as builders face growing backlogs and input constraints
- ▶ **Manufacturing:** ISM Mfg. PMI cooled from an August 2018 high; Industrial production beat despite automaker production issues
- ▶ **Inflation:** 1.4% y/y growth in January 2021, but expectations are rising; Producer prices surge 1.8% y/y as factory inflation heats up

Monthly Insights

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Economic Outlooks

12-18 Month Horizon

GDP Input	Our View	Last Chg
Housing	Pos	May-20
Cons Spending	N	May-20
Bus. Conditions	N	May-20
PPI	N	May-20
Manufacturing	N	Nov-20
CPI	N	Jan-21
Labor Market	Neg	May-20

Source: MarketDesk Research

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The goal of this report is to simplify economic trends by focusing on the key drivers. A summary of our 12 month outlook across several key economic indicators is provided below. Up / down arrows indicate a positive (▲) or negative (▼) change in view since the prior monthly report.

● Negative Outlook (Neg) ● Neutral (N) ● Positive Outlook (Pos)

U.S. Economics	Outlook				Key Drivers of Current Outlook	Rationale
	Chg	Neg	N	Pos		
Consumers						
Housing Market		•	•	●	Low Mortgage Rates	U.S. housing market remains a bright spot; Low interest rates and pandemic support increased consumer demand, but supply is tight
Consumer Spending		•	●	•	Consumer Confidence; Retail Sales	Potential wave of pent-up consumer demand; Expect COVID-19 case counts to continue impacting consumer confidence
Labor Market		●	•	•	Growing Unemployment Duration	Reabsorbing unemployed will take time due to the start-and-stop reopening; Long-term unemployment remains a concern
Businesses						
Manufacturing		•	●	•	Industrial Production; ISM Data	ISM signals manufacturing expansion; Core durable goods orders remain strong despite pandemic uncertainty
Business Conditions		•	●	•	LEI; Small Business Optimism	LEI continues to trend higher; NFIB Optimism pressured by COVID-19 resurgence / reimposed restrictions
Inflation						
CPI		•	●	•	Oil Price Decline; Fed Stimulus	Inflation expectations continue to move higher but recent COVID-19 resurgence likely to pressure demand and inflation
PPI		•	●	•	Supply Chain Restart	Companies will incur excess costs to restart supply chain (e.g., testing, setup, etc.); Ability to pass on costs = Potential PPI increase

Labor Market includes Job's Created, Unemployment Claims, Average Weekly Hours, Wage Inflation, Productivity.

Consumer Spending includes Consumer Confidence, Retail Sales, Auto Sales.

Housing Market includes Housing Starts, New Building Permits, Housing Prices.

Business Conditions includes Business Confidence, Capital Spending.

Manufacturing includes U.S. ISM Manufacturing, New Orders, Productivity.

Consumer Price Index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services.

Producer Price Index (PPI) measures the average change in prices received by domestic producers for their output.

Key Indicators

Economic Datapoints

Monthly Report

February 19, 2021

Figure 1: Summary of Key U.S. Economic Indicators

Category	Economic Indicator	Report Date	Latest Report	1-Month Trend	6-Month Trend	10-Year Historical Percentile			Commentary	
						Current	Current (●) & 1-Month Change (—)			
						0%	50%	100%		
Employment	Nonfarm Payrolls	1/29	+49k	▲ 276k	▼ 1,677k	81%	-20,679k	●	+4,846k	M/M rebound after Dec. 2020 m/m decline
	Unemployment Rate	1/29	6.3%	▼ 0.4%	▼ 3.9%	25%	3.5%	●	14.7%	Decreased as labor participation rate fell
	Average Workweek	1/29	39	▲ 0.2	▲ 0.7	76%	38	—●	39	
	Average Hourly Earnings	1/29	\$29.96	▲ \$0.06	▲ \$0.59	98%	\$23	●	\$30	Low wage job losses likely overstating increase
	Initial Jobless Claims	1/29	+842k	▲ 07k	▼ 491k	13%	+0.2m	●	+5.0m	Trending lower after spiking in early Jan. 2021
	Continuing Jobless Claims	1/29	+4,837k	▼ 438k	▼ 11,558k	16%	+1.7m	●	+22.0m	Trending lower as workers are called back
Consumer	Personal Income	12/31	\$20B	▲ \$0.1B	▼ \$0.6B	81%	\$13B	●	\$21B	M/M growth after two m/m declines
	Personal Spending	12/31	\$14B	▼ \$0.0B	▲ \$0.3B	91%	\$10B	●	\$15B	Second consecutive m/m decline
	Consumer Confidence Index	1/29	89.3	▲ 2.2	▼ 2.4	50%	41	●	138	
	Michigan Confidence Index	1/29	79.0	▼ 1.7	▲ 6.5	51%	56	●	101	Confidence dips to six month low
Housing	New Home Sales	12/31	+842k	▲ 13k	▼ 137k	81%	+0.3m	●	+1.0m	First m/m increase in five months
	Housing Starts	12/31	+1,680k	▲ 127k	▲ 193k	100%	+0.5m	—●	+1.7m	Highest reading since September 2006
	Building Permits	12/31	+1,704k	▲ 69k	▲ 221k	87%	+0.5m	—●	+1.9m	Highest reading since August 2006
	Monthly Supply (# of months)	12/31	1.8mos	▼ 0.4	▼ 1.2	0%	2mos	—●	9mos	Housing supply remains extraordinarily tight
Manufacturing	Industrial Production (m/m%)	1/29	0.9%	▼ 0.4%	▼ 3.3%	72%	-13%	●	6.2%	Fourth consecutive m/m increase
	ISM Manufacturing PMI	1/29	58.7	▼ 1.8	▲ 5.0	89%	42	—●	61	Missed expectations, but remains strong
	Capacity Utilization	1/29	76%	▲ 0.7%	▲ 3.8%	74%	64%	—●	80%	Fourth consecutive m/m increase
	Durable Goods (New Orders)	12/31	\$255B	▲ \$22B	▲ \$38B	80%	\$166B	—●	\$277B	First m/m increase in three months
Inflation (y/y%)	CPI	1/29	1.40%	▲ 0.0%	▲ 0.4%	39%	-0.2%	●	3.9%	
	Core CPI	1/29	1.40%	▼ 0.2%	▼ 0.2%	29%	1.0%	—●	2.4%	
	PPI	1/29	1.68%	▲ 0.9%	▲ 1.9%	53%	-1.5%	—●	4.5%	
	Core PPI	1/29	2.03%	▲ 0.8%	▲ 1.4%	66%	0.2%	—●	3.0%	Factory inflation is creeping higher
	PCE	12/31	1.28%	▲ 0.2%	▲ 0.3%	40%	0.1%	—●	3.1%	
	Core PCE	12/31	1.45%	▲ 0.1%	▲ 0.2%	45%	0.9%	—●	2.1%	
GDP Price Index	12/31	1.30%	▲ 0.2%	▲ 0.2%	35%	0.6%	●	2.6%		
U.S. GDP (y/y%)	Real GDP	12/31	-2.50%	▲ 0.3%	▲ 0.3%	50%	-9.0%	●	4.1%	Second consecutive quarter of q/q growth

Refer to page 5 for additional detail on the U.S. labor market.

Refer to page 10 for additional detail on the U.S. mfg. output and capacity.

Refer to page 12 for additional detail on current inflation trends.

Source: MarketDesk Research, Federal Reserve, NBER, Institute for Supply Management, University of Michigan, DOL, U.S. Census

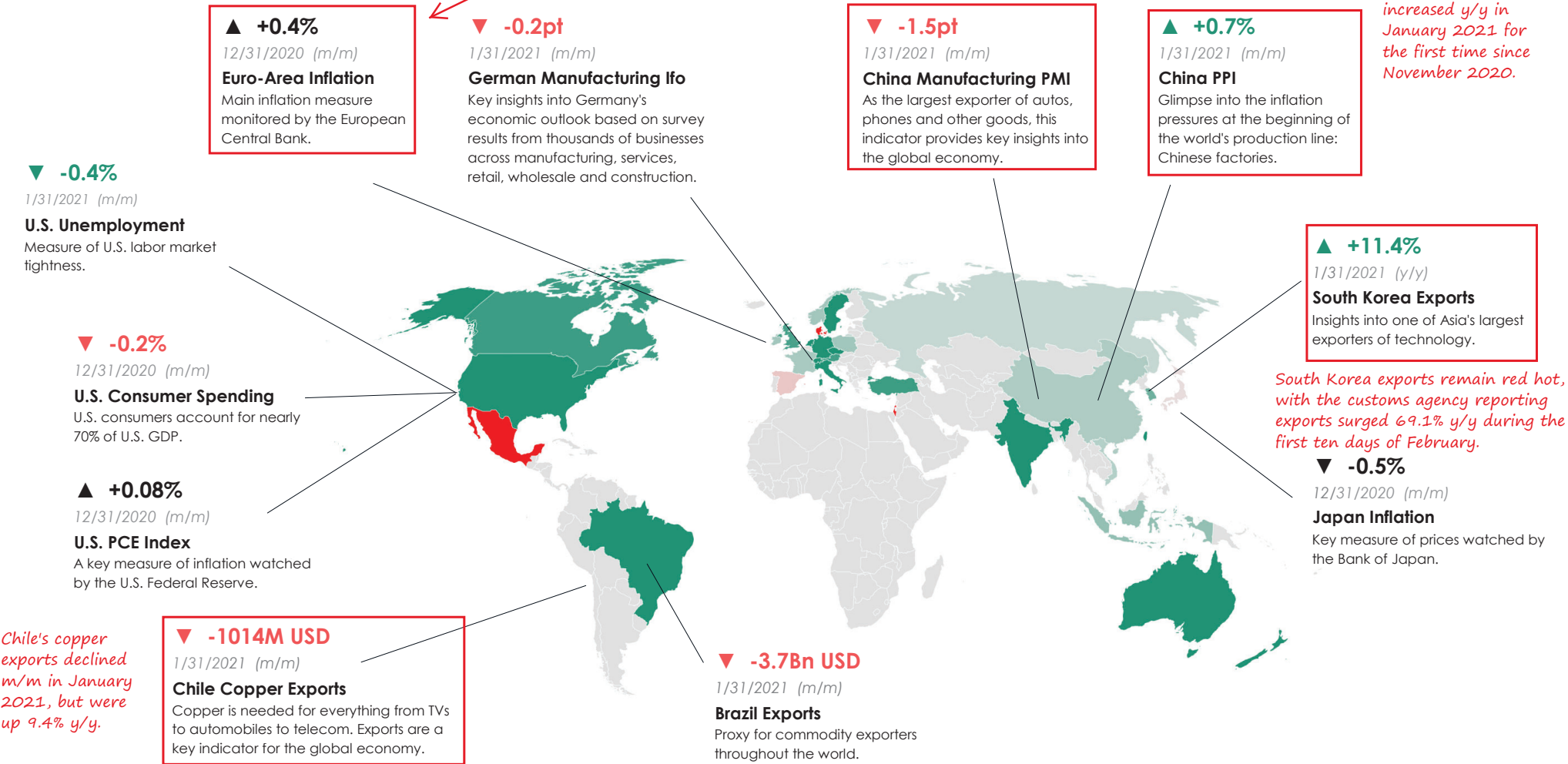
Global PMIs & Indicators

Economic Datapoints

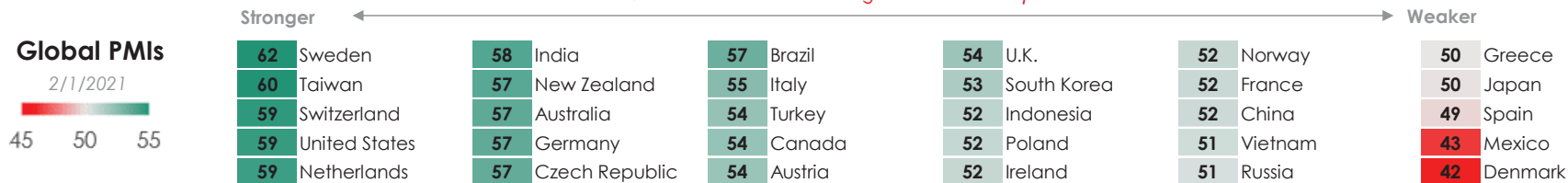
Inflation returned to the Euro area in January 2021, but primarily due to technicalities. As an example, a temporary sales tax reduction was phased out in Germany, and energy costs rose across the region. We caution against reading into the temporary inflation spike as sustainable, and expect Euro area inflation to remain weak.

China's PMI decreased m/m for a second consecutive month, but remains above 50 in expansionary mode.

Figure 2: Map of Global PMIs and Key Economic Data



Global PMIs continue to signal economic expansion.



Source: MarketDesk Research, U.S. Census Bureau, Central Bank of Chile, Eurostat, Ministry of Internal Affairs & Communications Japan, CEIC

Nonfarm payrolls rose by 49,000 in January 2021 after falling 227,000 in December 2020. Stay-in-place restrictions eased in multiple states, and the late year stimulus package relieved some of the labor market pressure. However, the job gains missed the +105,000 estimate, and the number of December jobs lost was revised lower. At the industry level, Professional and Education led the job gains in services, while Leisure/Hospitality, Health Care, Retail Trade, and Transportation all reported job losses. The data points to some stabilization in the labor market, but the recovery is likely to remain uneven and volatile.

Figure 3: Payroll Activity by U.S. Industry (m/m in 000s)

Breakdown of 1-month change in employment across industries.

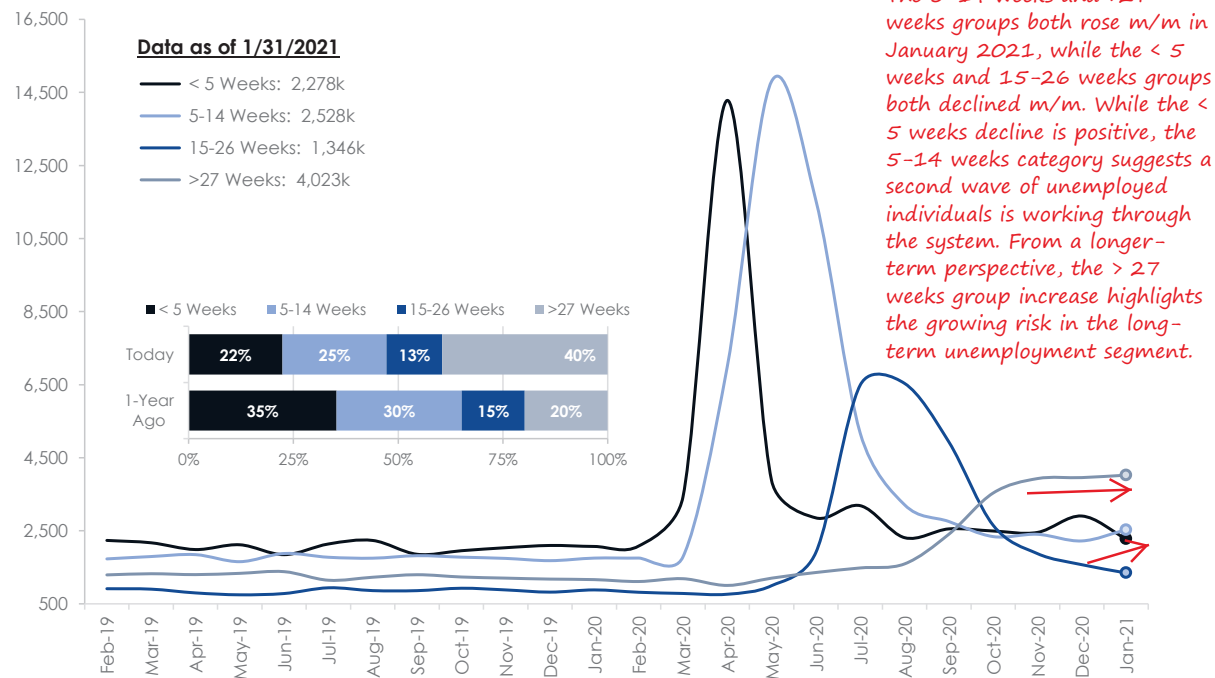
Industry	10-Year Historical Range		
	m/m Change	Current (●) & 1-Month Change (-)	
		0%	50%
Total Nonfarm Payroll	+49k	-20,679k	+4,846k
Goods			
Mining/Logging	+9k	-52k	+15k
Construction	-3k	-1,022k	+469k
Manufacturing	-10k	-1,304k	+342k
Services			
Wholesale Trade	+14k	-391k	+48k
Retail Trade	-38k	-2,248k	+859k
Transportation	-28k	-574k	+124k
Utilities	+1k	-7k	+8k
Information	+16k	-265k	+45k
Financial	+8k	-254k	+38k
Professional	+97k	-2,236k	+321k
Education	+34k	-443k	+89k
Health Care	-41k	-2,182k	+476k
Leisure/Hospitality	-61k	-7,442k	+2,012k
Other	+7k	-1,315k	+376k
Gov't			
Federal	-24k	-142k	+256k
State	+31k	-168k	+35k
Local	+36k	-784k	+240k

Source: MarketDesk Research, U.S. Bureau of Labor Statistics

Government experienced job gains for the first month in five months as both State and Local job gains offset Federal job losses.

Figure 4: U.S. Unemployment by Duration (weeks)

Breaking down the U.S. unemployment population by length of time over the past 24 months.

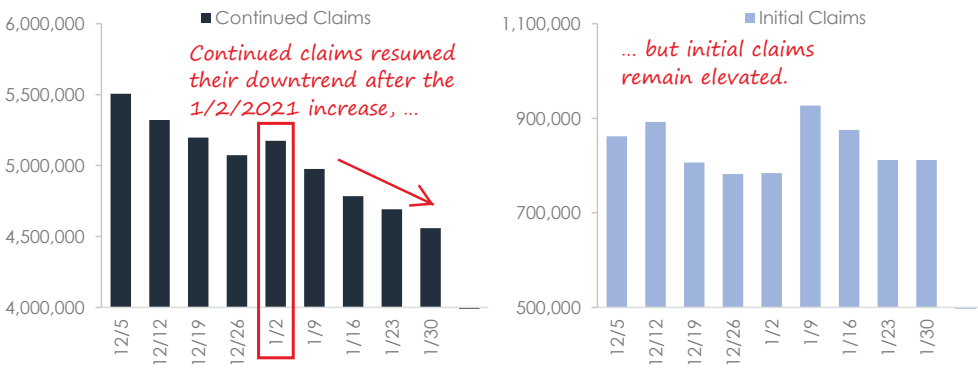


The 5-14 weeks and >27 weeks groups both rose m/m in January 2021, while the < 5 weeks and 15-26 weeks groups both declined m/m. While the < 5 weeks decline is positive, the 5-14 weeks category suggests a second wave of unemployed individuals is working through the system. From a longer-term perspective, the > 27 weeks group increase highlights the growing risk in the long-term unemployment segment.

Source: MarketDesk Research, U.S. Bureau of Labor Statistics

Figure 5: Unemployment – Initial & Continued Claims

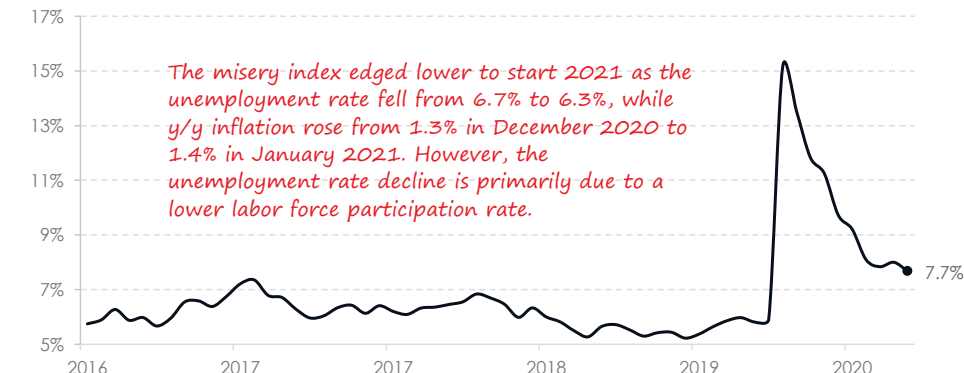
Rolling comparison of unemployment data split by continued and initial claims.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

Figure 6: U.S. Misery Index

The U.S. Misery Index adds the seasonally adjusted unemployment rate to the annual inflation rate.



Source: MarketDesk Research, St. Louis Federal Reserve Bank

Retail and food services sales rose in January 2021 after falling for three consecutive months to end 2020. The spending was broad based, with all major categories increasing m/m. Electronics & Appliances, Home Furnishings, Sporting Goods, and Restaurants all rose by more than 6.5% m/m.

Figure 7: Retail Sales by Industry

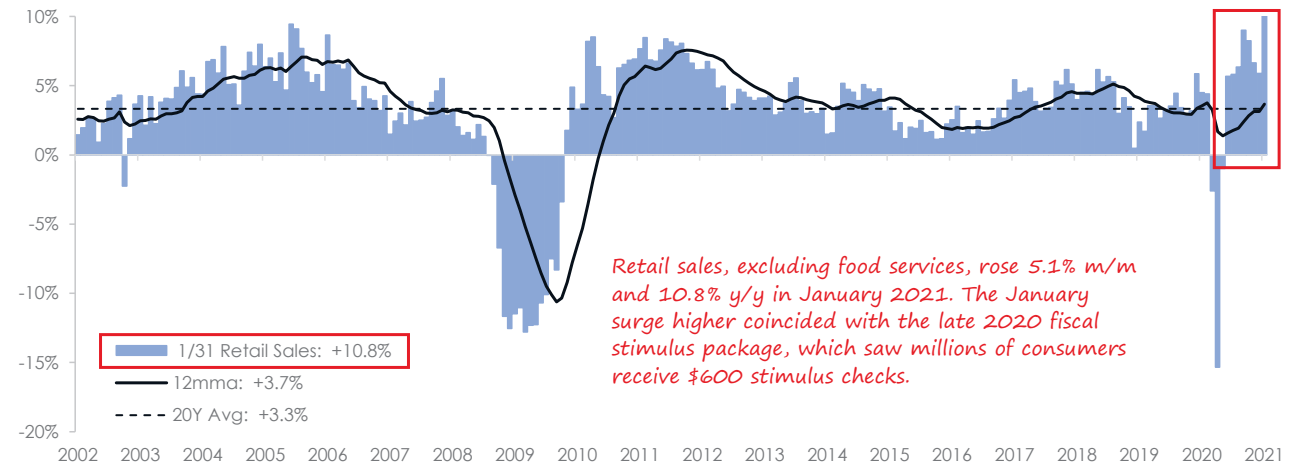
A monthly gauge of retail activity across industries. Investors closely follow retail sales as a leading indicator for U.S. economic health.

Industry Sales	m/m%	y/y%	LTM Trend
Electronics & Appliances	▲ 14.7%	▼ 4%	
Home Furnishings	▲ 12.0%	▲ 12%	
Sporting Goods	▲ 8.0%	▲ 22%	
Restaurants	▲ 6.9%	▼ 17%	
Total Retail Sales	▲ 5.3%	▲ 7%	
Clothing	▲ 5.0%	▼ 11%	
Building Materials	▲ 4.6%	▲ 19%	
Gas Stations	▲ 4.0%	▼ 8%	
Auto & Auto Parts	▲ 3.1%	▲ 13%	
Grocery Stores	▲ 2.5%	▲ 11%	
Pharmacies	▲ 1.3%	▲ 6%	

Source: MarketDesk Research, U.S. Census Bureau

Figure 8: Retail Sales excluding Food (y/y%)

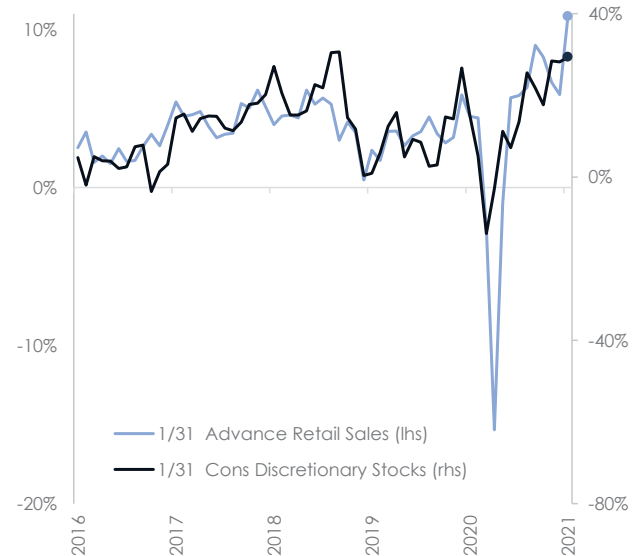
Retail sales are a key consumer growth indicator. To smooth the analysis, we remove food (historically a more volatile segment of retail sales).



Source: MarketDesk Research, U.S. Census Bureau

Figure 9: Retail Sales vs Cons Discretionary Stocks (y/y%)

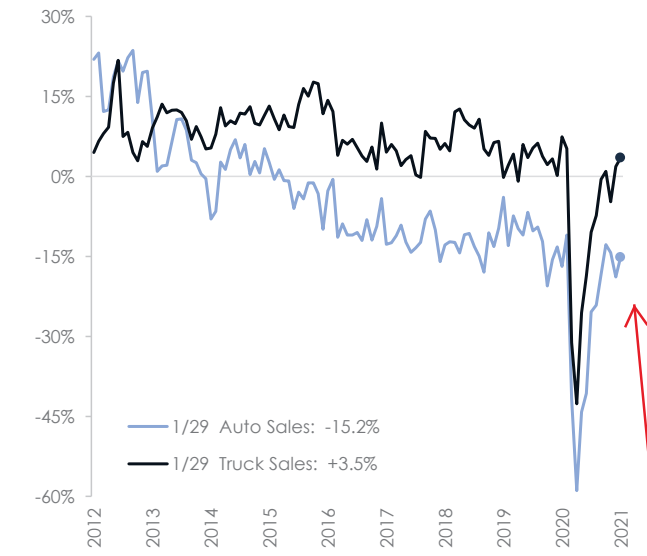
Retail sales tend to lead performance of consumer discretionary stocks by 1-month, which can offer a glimpse into future sector returns.



Source: MarketDesk Research, U.S. Census Bureau

Figure 10: Auto & Truck Sales (y/y%)

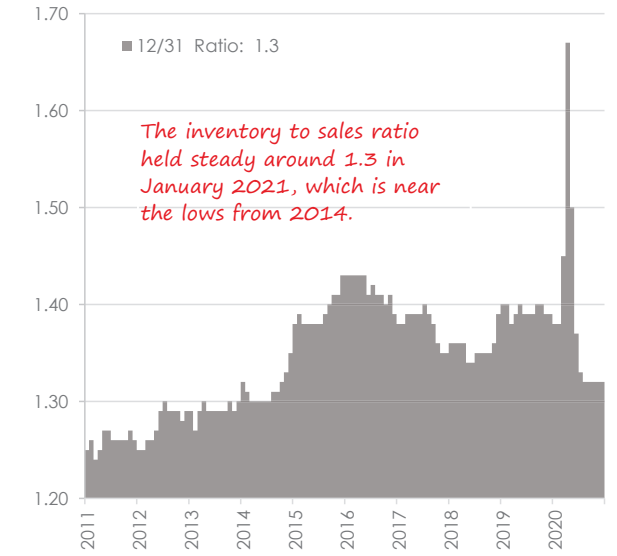
Automotive sales are closely followed by economists and investors because the industry represents ~3% of U.S. GDP.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

Figure 11: U.S. Inventory to Sales Ratio

This ratio measures inventory against sales. An increasing ratio may indicate declining sales or increasing inventory costs.



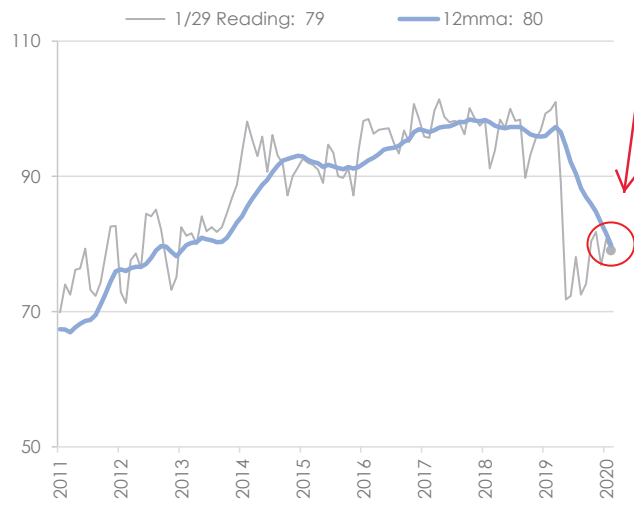
Source: MarketDesk Research, Census Bureau (delayed 1-month)

Auto sales increased m/m for the first time in three months, while truck sales increased m/m for a second consecutive month. Labor and parts shortage continue to limit auto production, with semiconductors shortages causing temporary production cuts across automakers. Refer to the 1/22/2021 Friday Strategist for our used vehicle market tactical position.

The University of Michigan Consumer Sentiment Index fell to a six month low in January 2021 despite improving COVID-19 trends and negotiations around another large fiscal stimulus bill. The decline was most evident in lower income households and highlights the continued risk of a K-shaped recovery. We expect sentiment to improve in the months ahead, but the gap based on household income level is highly concerning in our view.

Figure 12: University of Michigan Consumer Sentiment Index

This survey asks consumers questions about their financial standing and views on both the current and future economy.

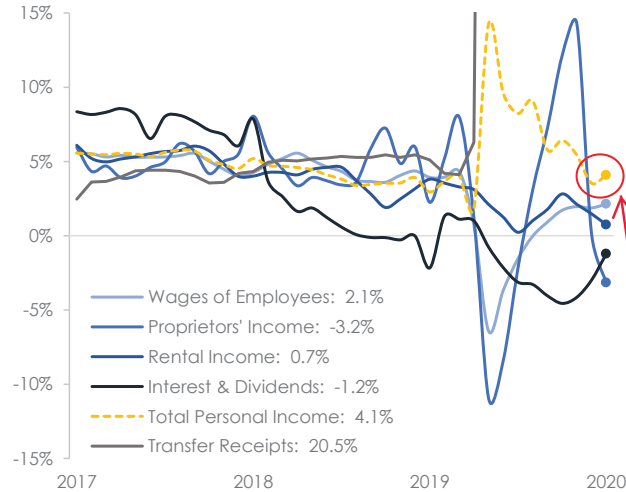


Source: MarketDesk Research, University of Michigan

Personal income increased m/m in December 2020 after falling m/m in the prior two months. Transfer Receipts accounted for a large portion of the increase as \$600 stimulus checks were mailed out.

Figure 13: Personal Income by Type (y/y%)

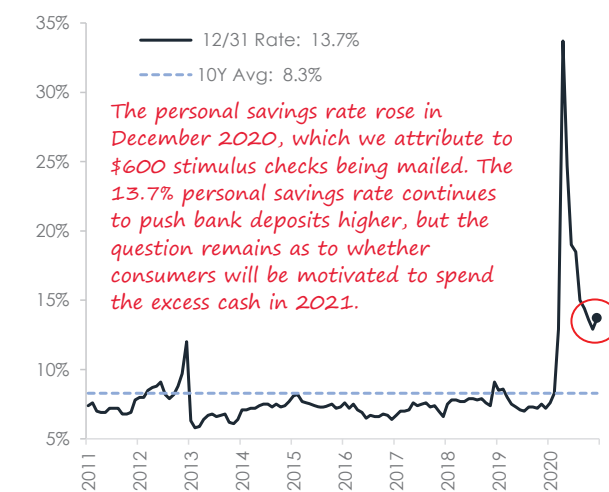
Personal income includes compensation from a number of sources and is a key input into the financial health of U.S. consumers.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

Figure 14: Personal Savings Rate (% of Income)

The ratio of personal savings to disposable personal income. The Personal Savings Rate reflects future consumer sentiment.

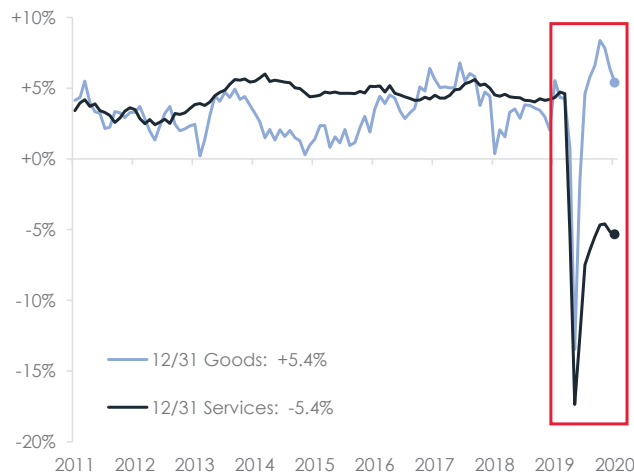


Source: MarketDesk Research, U.S. Bureau of Economic Analysis

The personal savings rate rose in December 2020, which we attribute to \$600 stimulus checks being mailed. The 13.7% personal savings rate continues to push bank deposits higher, but the question remains as to whether consumers will be motivated to spend the excess cash in 2021.

Figure 15: PCE Goods & Services (y/y%)

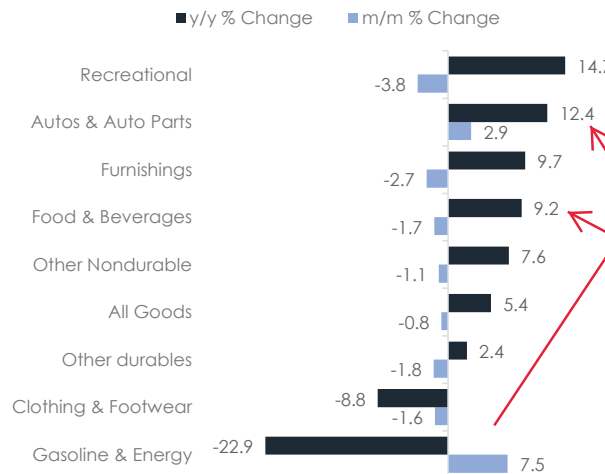
Personal Consumption Expenditures Index reflects changes in the prices of U.S. goods and services. It is the Fed's preferred inflation measure.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

Figure 16: Real PCE by Type of Goods

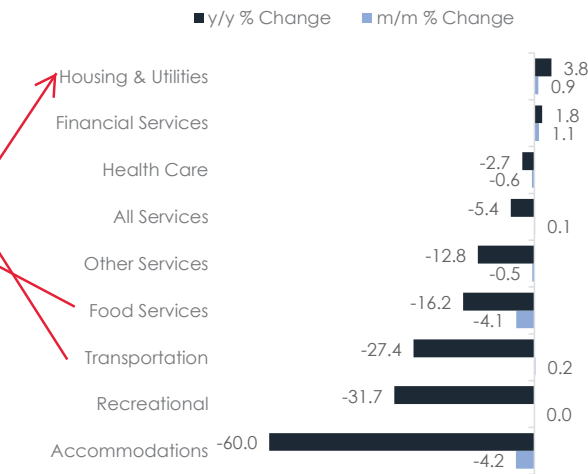
The analysis below highlights the PCE of consumer goods, which is used to track price movements in various goods and products.



Source: MarketDesk Research, U.S. Bureau of Economic Analysis

Figure 17: Real PCE by Type of Services

The analysis below highlights the PCE of consumer services, which is used to track price movements in various services.



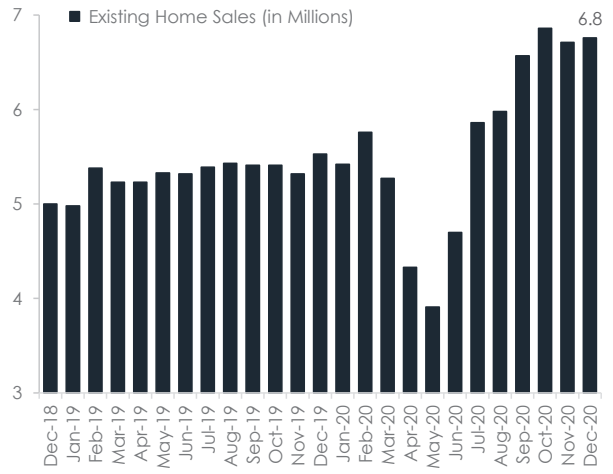
Source: MarketDesk Research, U.S. Bureau of Economic Analysis

PCE data indicates consumers continue to substitute spending on Goods in place of spending on Services. As an example, lower Transportation spending is being replaced by increased Autos & Auto Parts spending, while decreased Food Services is being replaced by more Food & Beverages. A few other high level trends stick out -- less time out of the house means lower Gasoline & Energy and Clothing & Footwear spending, but more Housing & Utilities spending. The question is how long these trends will endure as the economy reopens.

Pending home sales dipped in recent months, which we attribute to tight inventories and rising prices. However, the pending home sales index sits near 2005 levels and a twenty year high.

Figure 18: Existing Home Sales

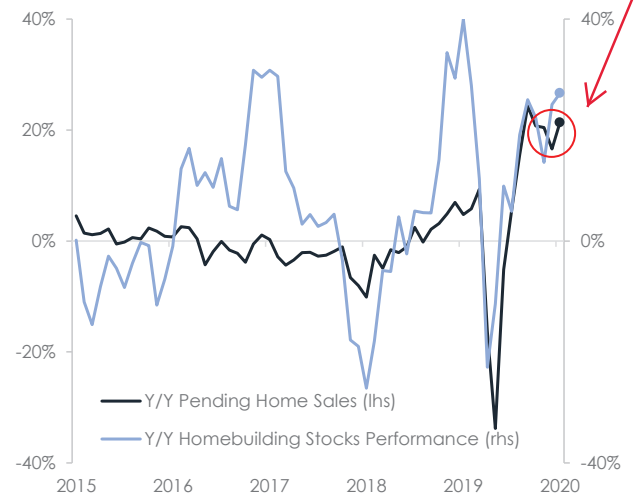
Existing home sales data measures sales of existing single-family homes, condos and co-ops within the U.S.



Source: MarketDesk Research, National Association of Realtors

Figure 19: Pending Home Sales vs Homebuilding Stocks

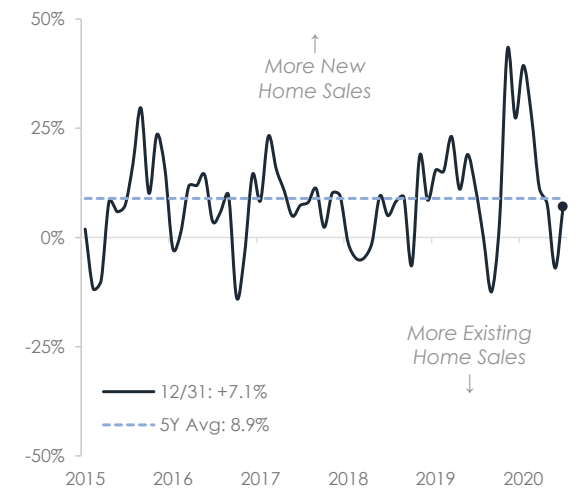
Homebuilding stock prices tend to lead actual home sales. Monitoring the Y/Y change in both can identify near-term changes.



Source: MarketDesk Research, National Association of Realtors

Figure 20: New vs Existing Home Sales (y/y%)

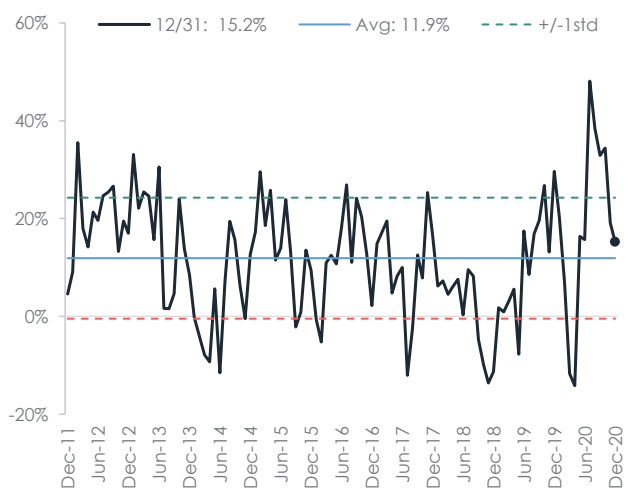
New homes tend to be more expensive than existing homes. Relative y/y sales growth highlights sentiment shifts.



Source: MarketDesk Research, National Association of Realtors

Figure 21: New Home Sales (y/y%)

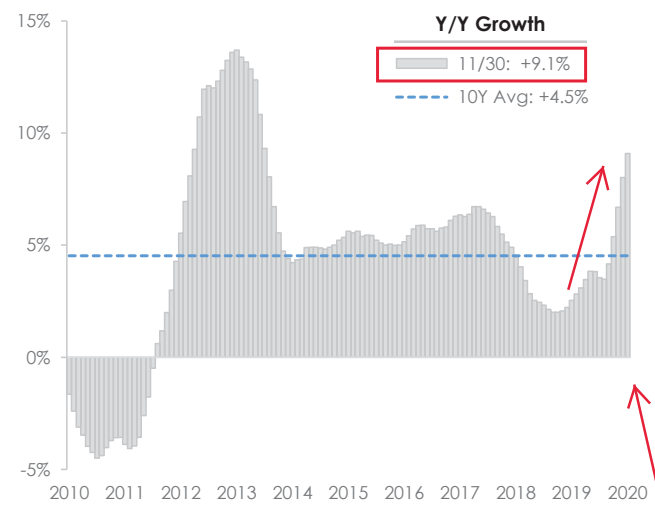
New home sales are a lagging indicator, but are still studied for broader economic clues due to the impact of income and interest rates.



Source: MarketDesk Research, U.S. Dept. of Housing & Urban Development

Figure 22: S&P/Case Shiller 20-City Home Price Index

The index tracks U.S. home prices across 20 major cities and is an indicator of how the broader economy is performing.



Source: MarketDesk Research, National Association of Realtors

Note: Home Prices are delayed by 2 months.

Figure 23: Home Prices by City

City	m/m%	y/y%	% Change 2008 Peak
New York	1.8%	8.2%	20%
Boston	1.4%	10.4%	62%
Tampa	1.4%	9.5%	58%
Phoenix	1.3%	13.8%	82%
Miami	1.3%	7.9%	62%
Atlanta	1.2%	7.9%	48%
Charlotte	1.1%	9.4%	50%
Washington DC	1.1%	9.1%	46%
Seattle	0.9%	12.7%	79%
Dallas	0.8%	7.2%	79%
Minneapolis	0.7%	9.4%	56%
Las Vegas	0.7%	6.8%	59%
Portland	0.7%	9.5%	66%
San Francisco	0.6%	8.3%	122%
Chicago	0.4%	7.5%	13%
Cleveland	0.1%	9.8%	33%

Source: MarketDesk Research, National Association of Realtors

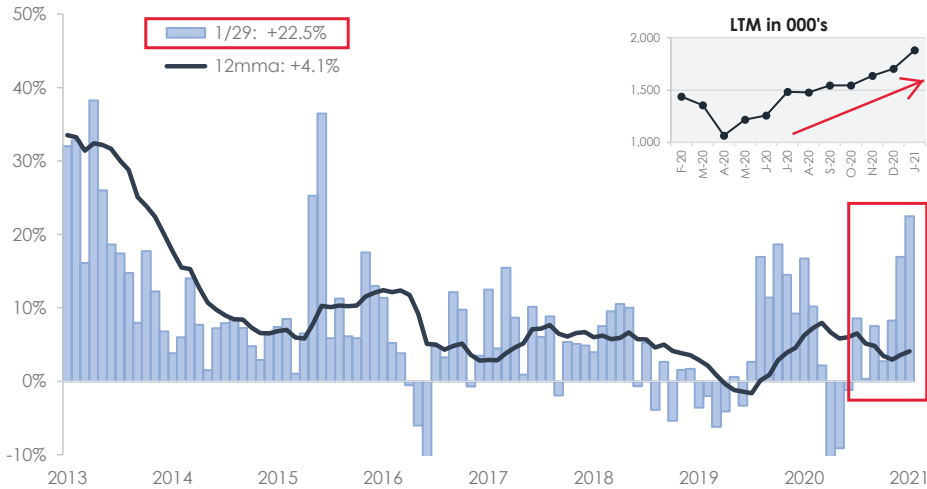
Note: Home Prices are delayed by 2 months.

Home prices surged 9.1% higher y/y in November 2020. Low mortgage rates and pandemic induced demand are overwhelming tight housing inventories. On an interesting note, New York homes prices rose 1.8% y/y in November 2020 as buyers return to the city's housing market. The question is whether the return represents bargain shoppers or a reversal of the exodus that occurred in 2020.

Recent housing market data highlights how hot the housing market is right now. Building permits rose 22.5% y/y to 1,881,000 in January 2021, which represents a 14 year high. In contrast, housing starts fell 2.3% y/y. The strong building permit data suggests housing demand remains strong despite the recent slowdown as material prices rise.

Figure 24: Building Permits (y/y%)

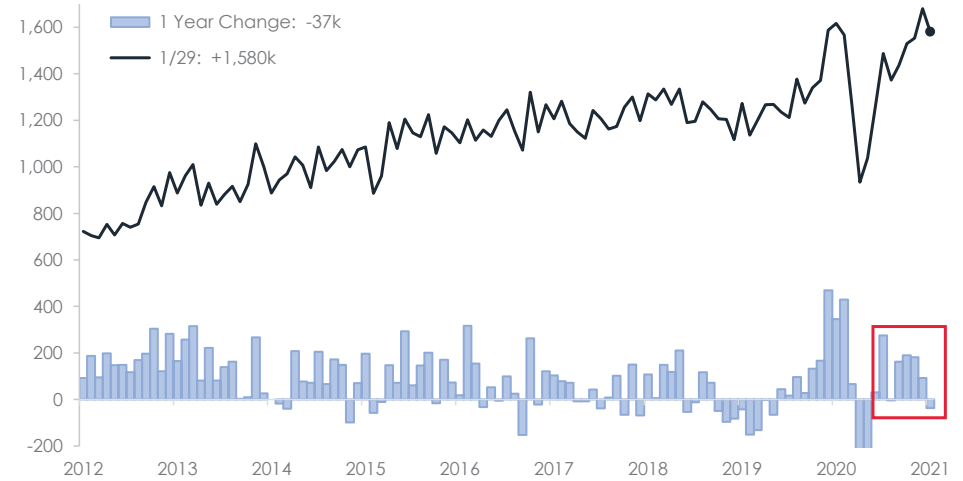
The monthly building permit report is seen as a leading indicator, providing a major hint as to the health of the construction industry and broader U.S. economic health. The chart below tracks the y/y growth of permits.



Source: MarketDesk Research, U.S. Dept. of Housing & Urban Development

Figure 25: Housing Starts (in 000s)

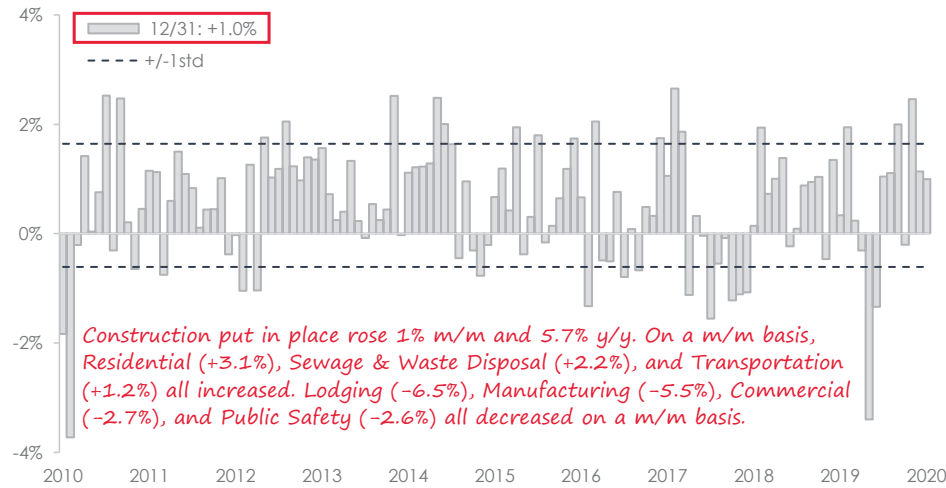
Housing Starts (new residential construction) is another early indicator of U.S. economic health due to its effect on related industries, such as banking, raw materials, employment, real estate, and manufacturing.



Source: MarketDesk Research, U.S. Department of Housing & Urban Development

Figure 26: Construction Spending (m/m%)

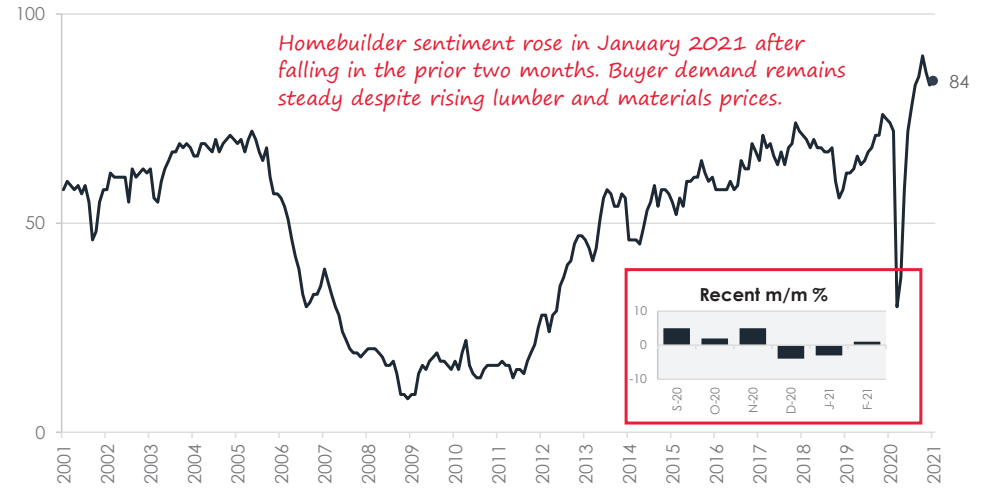
This indicator highlights growth in various construction-related expenses including labor, building materials, and engineering work across private residential, infrastructure and public improvements.



Source: MarketDesk Research, U.S. Department of Housing & Urban Development

Figure 27: NAHB Homebuilder Sentiment

The NAHB Housing Market Index is a gauge of builder opinion on the relative level of current and future single-family home sales. Readings >50 (<50) indicates a positive (negative) outlook on home sales.

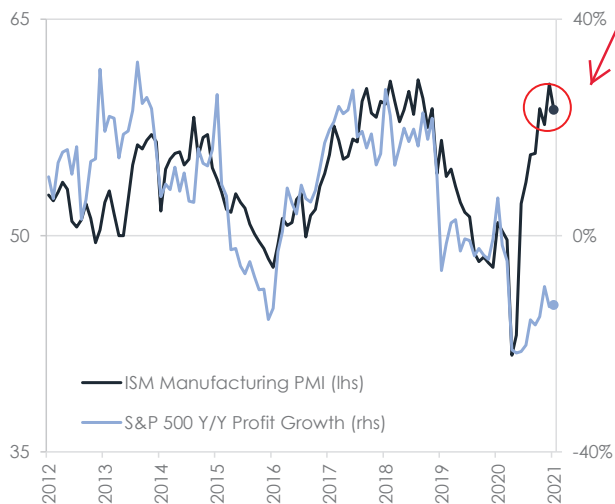


Source: MarketDesk Research, National Association of Home Builders

The ISM Manufacturing PMI declined to 58.7 in January 2021 from 60.5 in December 2020. The slight manufacturing deceleration coincided with a flare-up in COVID-19 infections following the holiday season. Within the index, supplier delivery lead times lengthened, prices for raw materials and other inputs jumped to a ten year high, and labor remained tight. From a positive perspective, customers' inventories remain tight and new orders remain elevated.

Figure 28: ISM Manufacturing PMI vs S&P 500 Profit Growth

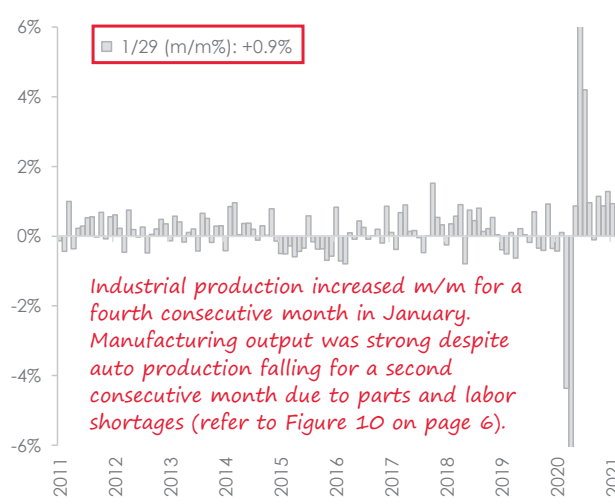
The ISM Manufacturing PMI monitors changes in production levels from month to month. Readings of >50 (<50) signal expansion (contraction).



Source: MarketDesk Research, Institute of Supply Management

Figure 29: Industrial Production Index (m/m%)

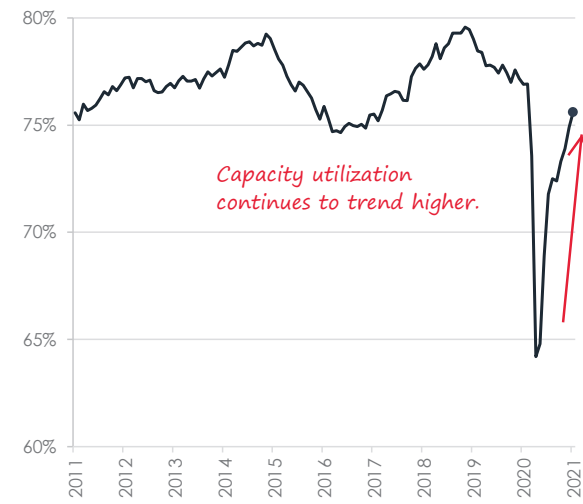
The IPI measures the real economic output across the manufacturing, mining, electric and gas industries.



Source: MarketDesk Research, Federal Reserve

Figure 30: Capacity Utilization Rate

A key indicator of "slack" in the economy. The CU measures the proportion of potential economic output that is actually realized.



Source: MarketDesk Research, Federal Reserve

Figure 31: Manufacturing Overview – U.S. Total

Below provides a leading (new orders), coincident (shipments), and lagging (inventories) indicator for the manufacturing sector.

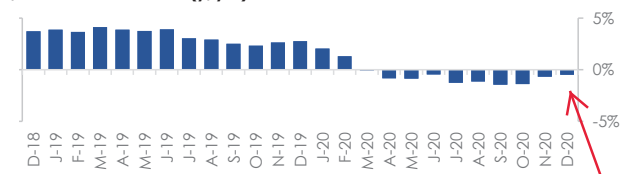
12/31 Total New Orders (y/y%) – Latest: ▲ +1.1%



12/31 Total Shipments (y/y%) – Latest: ▲ +1.8%



12/31 Total Inventories (y/y%) – Latest: ▼ -0.5%



Source: MarketDesk Research, U.S. Census Bureau

Figure 32: Manufacturing Overview – U.S. Durables

Durable goods include products that have a long life cycle (e.g. cars, appliances) and are largely considered "needs" instead of "wants".

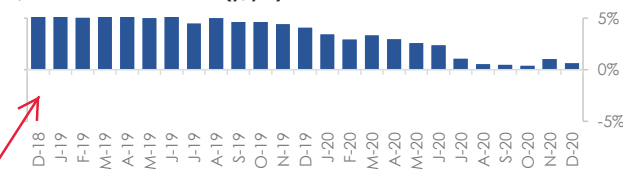
12/31 Durable New Orders (y/y%) – Latest: ▲ +4.3%



12/31 Durable Shipments (y/y%) – Latest: ▲ +5.8%



12/31 Durable Inventories (y/y%) – Latest: ▲ +1%



Source: MarketDesk Research, U.S. Census Bureau

Figure 33: U.S. Rail Traffic

Railroads link the U.S. economy, moving goods around the country. Below highlights traffic trends by carload type.

Traffic Type	This Month	m/m%	y/y%
Total Carloads	231,370	25.0	-4.1
Chemicals	34,023	23.8	3.0
Coal	61,405	21.0	-11.3
Farm/Food	16,373	20.7	0.6
Forest Products	10,031	20.1	-2.3
Grain	27,482	26.2	43.4
Ores/Metals	21,629	18.0	-4.3
Vehicles & Parts	15,447	51.3	-8.6
Minerals/Products	24,620	39.6	-18.1
Petroleum	11,291	9.7	-14.8
Other	9,069	36.4	-13.9
Total Intermodal	289,323	31.5	7.6
Total Traffic	520,693	28.5	2.1

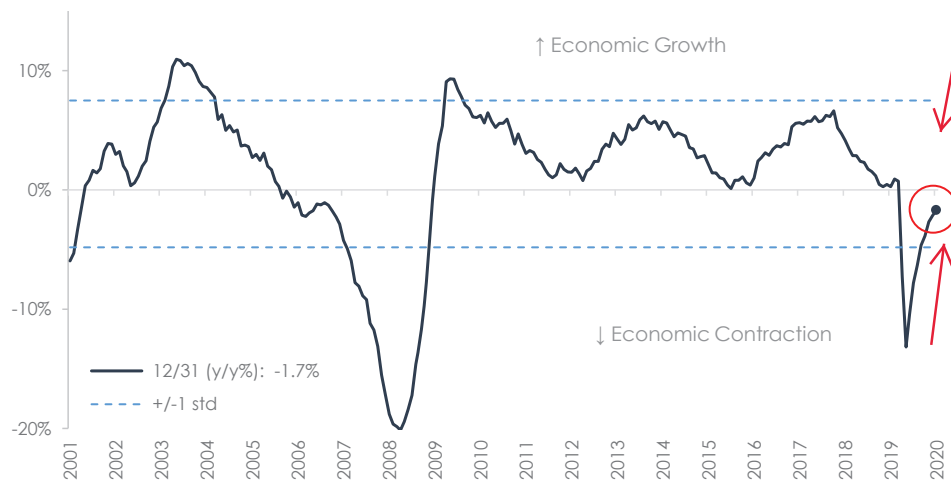
Source: MarketDesk Research, Assoc. of American Railroads

Total manufacturing New Orders and Shipments each increased m/m for the first time since the pandemic began, while Inventories contracted y/y for a tenth consecutive month. Durable goods are stronger, with consumer demand for autos, appliances, and new homes replacing spending on services and travel.

The Leading Economic Index rose for an eighth consecutive month, with ISM new orders and stock prices ending higher and weekly unemployment claims and consumer expectations moving lower.

Figure 34: Leading Economic Index (y/y%)

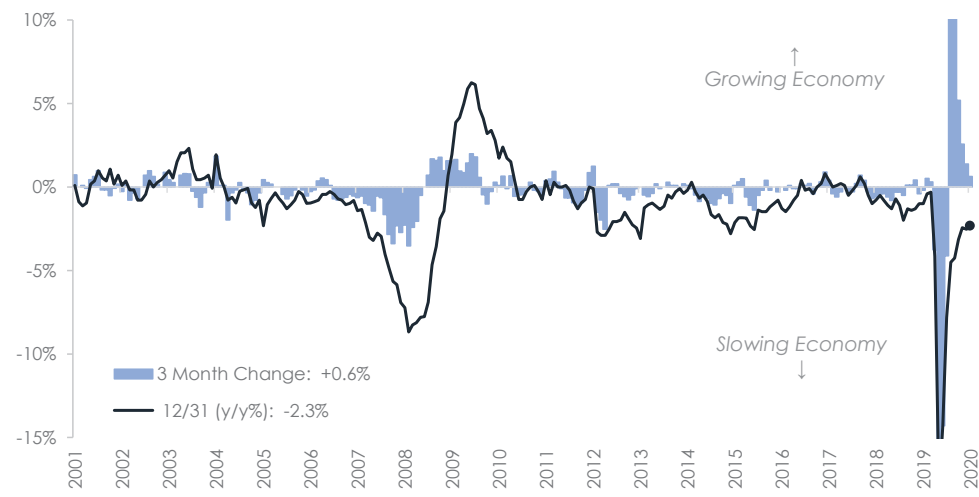
The LEI is a composite of several indicators used to predict economic growth. Inputs include: avg weekly hours, initial unemployment claims, new orders, building permits, monetary supply, and interest rate spreads.



Source: MarketDesk Research, U.S. Conference Board (delayed 1-month)

Figure 35: Ratio of the Coincident Index to the Lagging Index (y/y%)

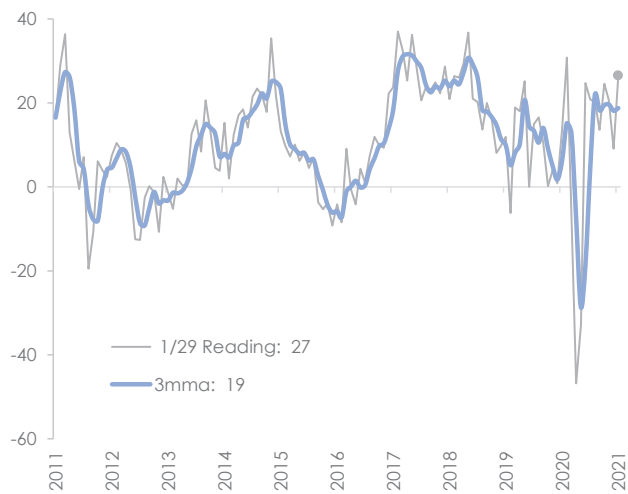
Coincident indicators provide a real-time pulse of the economy. Lagging indicators are seen as confirming a pattern in progress. A negative (positive) y/y% in the ratio indicates a slowing (growing) economy.



Source: MarketDesk Research, U.S. Conference Board

Figure 36: Philly Fed Business Outlook

A Fed survey of businesses in the Philadelphia region. Readings of >0 (<0) signal expansion (contraction).



Source: MarketDesk Research, Philadelphia Federal Reserve

Figure 37: NFIB Small Business Optimism Index

Small businesses make up ~50% of the U.S. workforce. This index provides a pulse on small business owners' outlook.



Source: MarketDesk Research, NFIB

Figure 38: NFIB Small Business Optimism Components

The analysis below looks at the underlying components of the NFIB Small Business Optimism Index.

Index Component	Net %	1 Month Change
Optimism Index		
Plans to increase Employment	17%	0%
Plans to Make Capital Outlays	22%	0%
Plans to Increase Inventories	4%	0%
Expect Economy to Improve	-23%	-7%
Expect Real Sales Higher	-6%	-2%
Current Inventory	5%	-2%
Current Job Openings	33%	1%
Expected Credit Conditions	-3%	2%
Now a Good Time to Expand	8%	0%
Earnings Trends	-16%	-2%

As of 1/31/2021

Source: MarketDesk Research, NFIB

The NFIB Small Business Optimism Index fell for a third consecutive month in January 2021. Expectations for the economy to improve fell seven points to the lowest level since November 2013. Earnings trends and real sales expectations also fell m/m in January. Small business owners continue to struggle in the current environment. Additional fiscal stimulus targeted at small businesses would help stabilize the group, which accounts for nearly 50% of U.S. employment.

Inflation

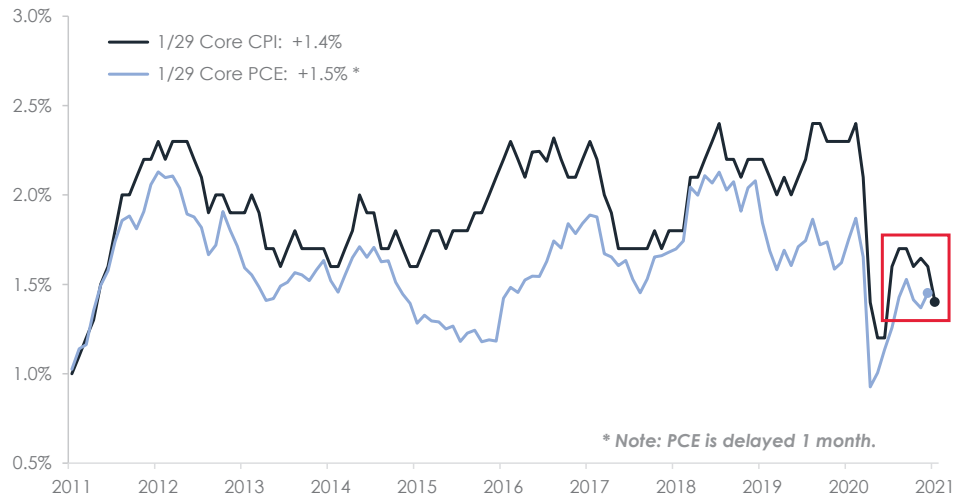
Consumers & Producers

Core CPI growth came in at 1.4% y/y in January 2021, which was below the 1.5% consensus estimate and 1.6% growth from December 2020. In contrast, Core PCE, which is the Fed's preferred inflation measure and delayed by 1 month, rose 1.5% y/y vs the 1.3% consensus estimate.

While consumer prices appear stable, Core PPI rose 2% y/y in January 2021 compared to 1.2% y/y in December 2020. It was the biggest gain since December 2009 when the Labor Department updated the series. The data indicates factory inflation is heating up, which we attribute to stressed supply chains.

Figure 39: Core CPI vs Core PCE (y/y%)

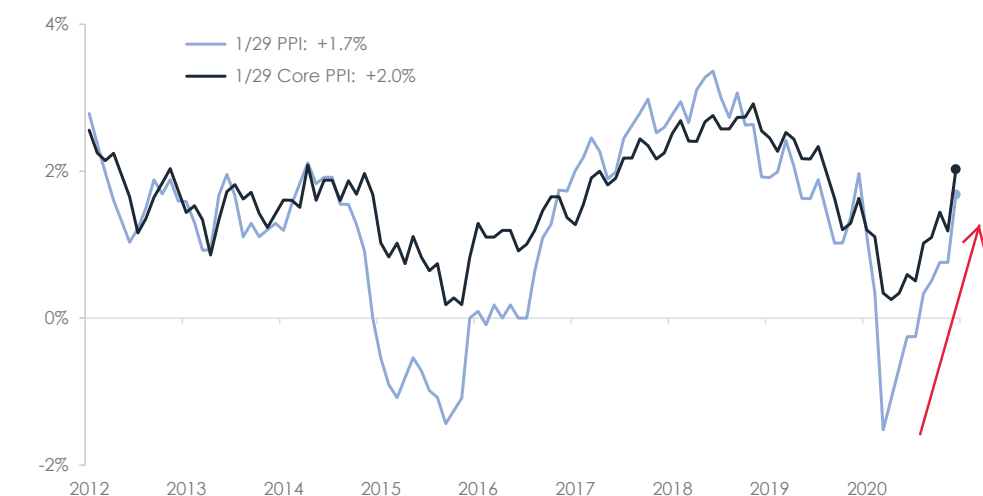
Core CPI measures the change in prices over time that consumers pay for a basket of goods and services. Core PCE is similar but represents the prices of goods and services purchased by consumers in the U.S.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

Figure 40: Producer Price Index (y/y%)

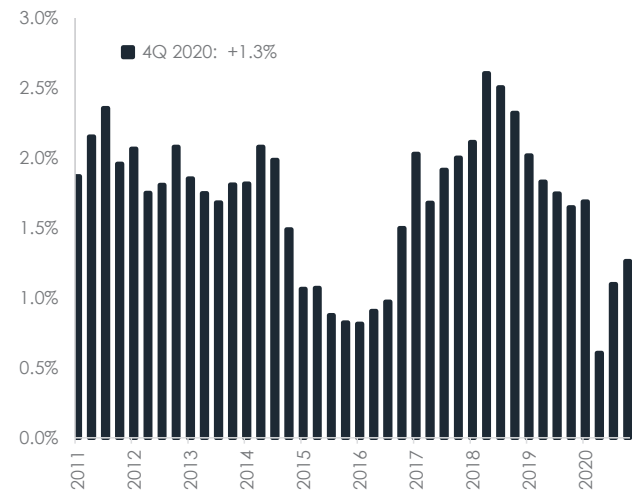
The PPI measures the average change in prices received by domestic producers for their output. Producers must react to increases in their cost of goods sold, making PPI an early indicator of inflation.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

Figure 41: GDP Price Index (y/y%)

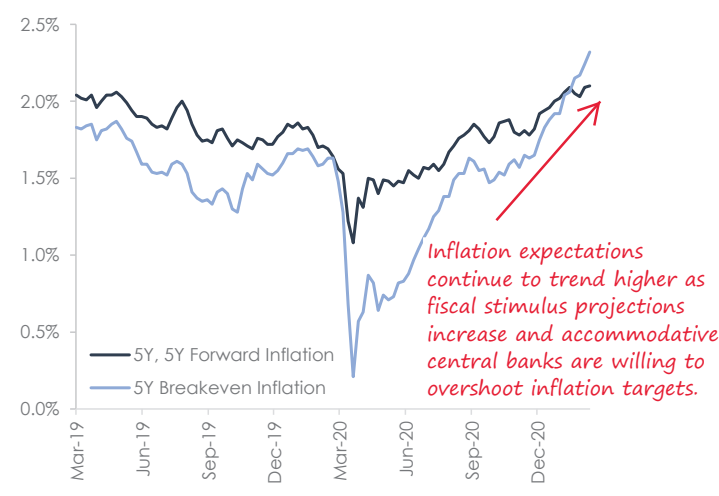
This index is a measure of inflation in the prices of the goods and services produced in the U.S. (it excludes the prices of imports).



Source: MarketDesk Research, U.S. Federal Reserve.

Figure 42: Inflation Expectations

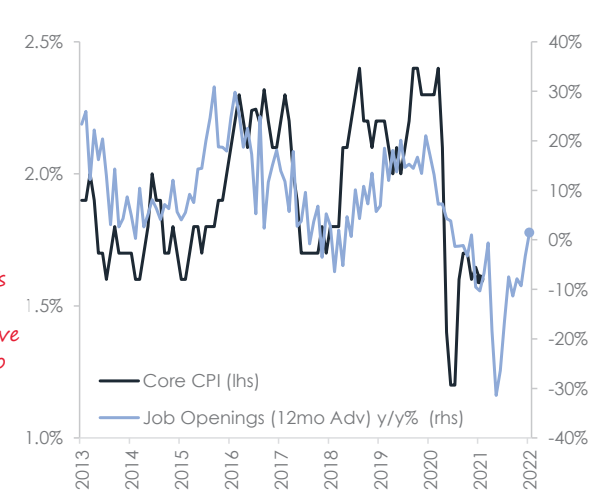
5Y, 5Y Forward measures avg expected inflation over the 5Y period that begins 5Y from today. The 5Y Breakeven = U.S. 5Y Trsy - U.S. 5Y TIPs.



Source: MarketDesk Research, St. Louis Federal Reserve

Figure 43: Job Openings Leading Future CPI

The y/y% in Job Openings has historically led CPI by 12 months. We graph this below to highlight potential future CPI.



Source: MarketDesk Research, U.S. Bureau of Labor Statistics

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