Inflation Is Here

The core PCE accelerated to +1.8% y/y in Mar and is likely to accelerate to +2.5% in Apr.
The headline PCE accelerated to +2.3% y/y in Mar and is likely to accelerate to +3.0% in Apr.
Old News

The ECI in 1Q accelerated slightly to just +2.7% y/y. Wages are probably accelerating more than this report indicates. We expect +2.9% in 2Q, +3.1% in 3Q, and on up to +3.5% in 2022.
Uncharted Territory

The saving rate in 1Q was 21.0%, slightly higher than its 12 mo avg. This unprecedented surge in consumer savings is a cushion for when the fiscal cliff hits. Consumers have roughly $3t in excess saving. If $1t is spent a year, that would lift consumer spending by +6% per year for three years.
Uncharted Territory  Contd

We knew this was happening to DPI, but seeing the chart is eye-popping! Of course, DPI will decline significantly in Apr.

Strong Carryover For 2Q

If nominal consumer spending for 2Q is unchanged at its Mar level, it will increase at almost a +10% q/q annual rate.
U.S. Nominal Consumer Spending Up At A +14.6% Q/Q Annual Rate

The PCE deflator was +3.5%, taking nominal consumer spending growth to +14.6% versus +10.7% for real consumer spending. Nominal consumer spending in 1Q moved above its pre-pandemic high.
U.S. Nominal GDP Up
At A +10.7% Q/Q Annual Rate

The GDP price deflator was up an outsized +4.1%, taking nominal GDP growth to +10.7% from +6.4% for real GDP. Nominal GDP in 1Q moved above its pre-pandemic high.
Will This Make A Difference?

When compared to the recession low in 2Q of last year, nominal GDP in 2Q of this year will be up +16% y/y, a record by a very wide margin. Investors may look through this easy comparison, but S&P earnings will be up roughly +85% y/y and companies will have glowing commentaries about their businesses.
Reopenings Boosts Coming

Looking immediately ahead, reopenings will lift economic activity in the US.

Looking further ahead, reopenings will lift economic activity in Europe.

Looking even further ahead, reopenings will lift economic activity in India, Brazil, etc.

- Disneyland is reopening.
- New York City Mayor says city will reopen 100% on July 1.
- EU set to let vaccinated US tourists visit this summer.
- Hong Kong to reopen bars, nightclubs to vaccinated people.
S&P Peaks With Earnings

Peaks in the S&P usually coincide with peaks in S&P earnings. If anything, the S&P peaks **after** earnings peak. Looking ahead, the peak in S&P earnings is probably years out. Of course, this doesn’t preclude corrections along the way.

![S&P Earnings Chart]

**S&P Earnings**

**S&P**
Synchronized Global Liftoff

Reported today, S Korea IP and Taiwan real GDP were both stronger in 1Q. EVRISI’s proprietary survey of cap goods survey surged this week to a very strong 76.5! AMAZING.

EVRISI AIR CARGO SURVEY

S KOREA IP

TAIWAN REAL GDP

+10.9% Q/Q A.R.
Synchronized Global Liftoff  Contd

Economic activity in Europe is probably stronger than today’s negative Eurozone GDP report. EVRISI’s proprietary survey of company sales in Europe and the Eurozone composite PMI both show strength.
Self-Sustaining

As employment increases, confidence is likely to continue to increase. This is one example of the expansion becoming *self-sustaining*.
It’s Not All Up

Most everywhere there’s evidence of inflation, eg, the PMIs for prices and the PCE data today. However, the Eurozone core CPI was reported today with a -0.12% m/m decrease in Apr and is up less than +1% y/y.

EUROZONE CPI CORE
3 Mo. Avg. Y/Y %  Apr: 0.9%
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