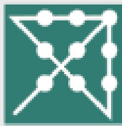
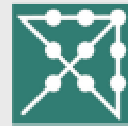
 Yardeni Research 

May 16, 2024

Morning Briefing

Natural Gas, Earnings & VPPs

Check out the accompanying chart collection.

Executive Summary: A warm winter and a pause in the development of future LNG plants has pushed natural gas prices down at a time when domestic demand for the fuel is increasing. Could a hot summer, data center demand, and a Trump presidency send natural gas prices higher? … Good news abounds, with Q1 earnings coming in better than expected. Joe reports that these rosy results have analysts revising their 2024 and 2025 earnings estimates higher. … Virtual power plants—or VPPs—are sprouting up in California, Puerto Rico, Vermont, and South Australia. Jackie takes a look at this electric development.

YRI Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

Energy: Playing Politics with Natural Gas. These should be boom times for US natural gas. At home, demand for electricity generated using natural gas and other fuels is surging thanks to the proliferation of electric vehicles and data centers used to run Cloud computing and artificial intelligence (AI) programs. Abroad, demand for US natural gas exports remains high as the West tries to limit the sale of Russian LNG exports in response to that country's invasion of Ukraine.

But at a recent reading at $2.34, the price of US natural gas is near its all-time low (*Fig. 1*). Blame Mother Nature and President Biden. States in the contiguous US just had their warmest winter on record, sapping demand for natural gas used to heat homes. Meanwhile, President Biden announced in January a pause on approvals for new and future applications to export liquefied natural gas (LNG) from new projects. There are four projects with export approvals pending at the Department of Energy (DOE). During the pause, the DOE will review the "economic and environmental impacts" of these projects, a January 26 Reuters *article* reported. The review is expected to take "months" and then results will be opened to public comment.

This pause is problematic because the US produces more natural gas than it consumes and depends on the export of LNG to soak up the excess production. While Biden's pause doesn't impact current LNG exports, it raises uncertainty about future demand for natural gas from LNG plants that were in development.

A resolution to this political hot potato isn't expected before the election. Environmentalists and climate activists, who typically back President Biden, support the move because blocking the construction of new LNG plants will prevent the increase of pollution. Meanwhile, the LNG industry is against the pause and former President Donald Trump has vowed to revoke it if he returns to the White House.

If a hot summer follows the warm winter and the Biden pause is reversed, natural gas prices could be off to the races. Just look at what utility stocks have done in anticipation of stronger demand for electricity from data centers. Here's a look at some of the trends affecting the price of natural gas:

(1) *US demand on the rise.* Natural gas is used to generate 42% of US electricity, a percentage that's up slightly from 39% in 2022 but expected to remain largely flat this year and next, according to US Energy Information Administration (EIA) *data*. However, the energy pie is growing. The amount of US natural gas used to generate electric power has jumped to 13.1 trillion cubic feet, up from 8.2 trillion a decade earlier (*Fig. 2*).

"U.S. power usage is projected to expand by 4.7% over the next five years, according to a review of federal filings by the consulting firm Grid Strategies. That is up from a previous estimate of 2.6%. The projections come after efficiency gains kept electricity demand roughly flat over the past 15 years," a May 12 *WSJ* *article* reported. Georgia Power is meeting increased demand for electricity by adding battery storage, buying power from plants in Mississippi and Florida, and building three new gas-fired turbines in Georgia.

Demand for natural gas is also expected to increase as coal-fired electricity plants are retired and as temperatures are expected to be warmer than normal. So, it's somewhat surprising that the EIA only expects total US natural gas demand to climb from 89.1 billion cubic feet per day (Bcf/d) in 2023 to 89.3 Bcf/d this year and 89.6 Bcf/d in 2025. We'd bet those demand estimates will be revised higher.

(2) *Utilities power higher*. Given its role in fueling power plants, a leading indicator for future natural gas demand may be the S&P 500 Utilities sector. Utilities' stocks have rallied sharply as earnings estimates have been revised upward on expectations that the industry will benefit from strong data center demand for electricity. The S&P 500 Utilities sector's stock price index has risen 12.5% ytd through Tuesday's close, trailing the performance of only the Communication Services (19.2%) and Information Technology (13.1%) sectors' stock price indexes (*Fig. 3*).

The utilities sector has also outperformed the ytd stock price performance of US natural gas producer and transmission company EQT, up 5.3% ytd through Tuesday's close, and Chevron shares' 9.7% gain.

The S&P 500 Utilities sector's forward operating earnings per share estimates remain near recent record levels and earnings growth estimates are robust (*Fig. 4*). Analysts expect utilities to grow earnings by 11.7% this year and 8.3% in 2025 (*Fig. 5*).

(3) *Exports grew sharply.* Natural gas exports are extremely important to the market because US production is much larger than domestic demand. Last year, the US became the world's largest exporter of natural gas for the first time. Europe accounted for 66% of total U.S. LNG exports, followed by Asia (26%) and Latin America and the Middle East combined (8%), a May 12 Oilprice.com *article* reported.

Demand for exports of natural gas via pipelines and LNG shipments have also grown sharply. Since December 2019, US exports of natural gas have jumped 40% to 679.9 trillion cubic feet (*Fig. 6*). The EIA *expects* LNG exports will grow 2% y/y to 12.2 Bcf/day this year and another 18% in 2025. US natural gas exports by pipeline to Mexico are forecast to grow 3% this year and 4% in 2025. But if President Biden is reelected, the future growth of LNG exports will be called into question, hurting natural gas prices at a time when the market might otherwise have the wind at its back.

(4) *Producers pause production.* Meanwhile, producers are expected to pull back on production a bit this year in response to low prices. There is also an above-average amount of natural gas in storage for this time of the year: 2,563 Bcf as of May 3, compared to 2,119 Bcf a year ago and the five-year average of 1,923 Bcf, according to EIA *data* (*Fig. 7*).

Natural gas production is expected to dip to 103.0 Bcf/d this year, down from 103.8 in 2023. Next year production growth is expected to resume, hitting 104.8 Bcf/d, the EIA estimates.

Strategy: Q1 Reports Spark Upward Revisions. With the Q1 earnings season now 92% complete, investors are breathing a sigh of relief because results were better than feared. Analysts are fine-tuning their aggregate S&P 500 consensus estimates higher for the rest of this year and next. That positive development has led to an increase in the percentage of S&P 500 companies with rising forward earnings expectations over the past three months. However, the percentage of companies with rising forward revenues estimates over the past three months continues to muddle along.

(1) *Many companies had positive y/y earnings growth.* Positive y/y earnings growth was recorded by 67% of the S&P 500 companies in Q1. That's the highest since Q4-2021. Just 64% recorded positive y/y revenues growth, which is up to a three-quarter high now from its 11-quarter low of 63% during Q3-2023.

(2) *Analysts like what they see.* Analysts have reacted positively to the Q1 results by raising their forecasts. The S&P 500 consensus annual 2024 earnings estimate is up 0.5%, or $1.10, since the start of the Q1 earnings season six weeks ago, to $244.01 as of the May 11 week. The consensus annual 2025 earnings estimate is up 0.7%, or over $2.00, since the start of the Q1 earnings season, to $278.12.

The recent gains in the annual forecasts are unusual. Analysts typically revise their annual and quarterly estimates down following earnings reports.

Forward earnings, which is a time-weighted average of the consensus annual forecasts for this year and next, can rise even when annual forecasts are falling, so long as next year's estimate remains higher than the current year. Positive upward revisions to analysts' estimates since the start of Q1 earnings season are powering forward earnings higher at an even faster rate than usual. Forward earnings has risen 2.1% since the start of the earnings season, or over $5, to a record high of $256.47.

(3) *Earnings improving more than revenues.* More companies have rising forward earnings forecasts than have rising forward revenues forecasts. Since 1998, we've been tracking the percentage of S&P 500 companies with rising and falling consensus forward revenues and earnings estimates over the past three months and y/y. The percentage of companies with rising forward earnings estimates over the past three months rose to a near two-year high of 78.4% during the May 10 week (*Fig. 8*). That helped the y/y rate improve to a 19-month high of 71.7% after bottoming 13-months earlier (*Fig. 9*).

The percentage of companies with rising forward revenues estimates, on the other hand, is not showing signs of improvement. Just 74.2% have higher forward revenues estimates over the past three months, down from 75.3% during the March 22 week (*Fig. 10*). Still, the three-month rate is above the y/y rate, which is down to 70.5% from a recent high of 72.8% during the January 26 week (*Fig. 11*).

Following 2023's year of efficiency for a few of the MegaCap-8 companies, more companies are getting on the cost-cutting train. While earnings are benefitting from expense controls and share buybacks, there have been fewer price increases to boost revenues amid stubborn inflation.

Disruptive Technologies: California Taps VPPs. Through the years, we've written about virtual power plants (VPPs), i.e., power systems composed of batteries in many homes and businesses (like the Tesla Powerwall) that the local utility can tap for electricity. Utilities might need to do so when they don't have enough electricity supply to meet demand or when generation systems are down due to weather or other calamities. Consumers benefit because they get paid for their stored electricity, and utilities benefit when a critical mass of VPPs allows them to avoid building a new generating plant. California is considering a very large VPP program, which would follow in the footsteps of Puerto Rico, Vermont, South Australia, and others.

Here's a look at some of the recent news on VPPs:

(1) *The Golden State's VPP.* California is considering creating a VPP that could generate 7.7 gigawatts of electricity by 2035. The VPP would tap into electric vehicles, batteries, smart thermostats, and water heaters to boost its supply of and reduce demand for electricity, an April 22 *article* in Carbon Credits reported. Such a system could provide enough electricity to supply 15% of the state's peak power demand, according to one analysis.

The VPP would eliminate $750 million per year of spending on traditional infrastructure projects and less spending could result in more affordable utility rates, the article noted. In addition, participants would get compensated for both agreeing to participate in the VPP program and for supplying energy to the grid.

(2) *Puerto Rico tests a VPP.* Late last year, Tesla launched a VPP in Puerto Rico, an island that's often in the direct path of hurricanes. There are 75,000 Powerwall owners on Puerto Rico who can sign up for the program using the Tesla app, a November 2 Electrek *article* reported. A Tesla executive estimated that the system could theoretically generate 300MW of electricity, which would make it the biggest VPP in the world.

When the VPP was being proposed, program participants were expected to receive $1 for every kWh of electricity their Powerwall supplies during emergencies, a November 2023 CleanTechnica *article* reported. Participants were expected to be able to adjust the amount of electricity they're willing to contribute during emergencies—including opting out entirely. The amount participants will be paid for their electricity was expected to be far above the cost of 22.12 cents that residential customers are charged for their electricity.

(3) *A VPP Down Under.* South Australia's VPP was one of the first VPPs we discussed, in the August 15, 2019 *Morning Briefing*. The region was linking solar panels and Telsla's Powerwall 2 battery storage units in 1,100 low-income households. The program has been expanding and is slated ultimately to link 50,000 households, creating electricity equivalent to that generated by a 250 MW power plant.

(4) *The Green Mountain State's VPP.* Vermont's Green Mountain Power operates a VPP that taps into Tesla's Powerwalls in about 4,000 customers' homes. Last year, the utility lifted its cap on the number of customers that could sign up to participate in the VPP program. The utility did it both to increase its access to electricity and to make its system more resilient to storms.

Three utilities in Massachusetts also have VPP programs, and the Colorado Public Utilities Commission is pushing Xcel Energy to develop a VPP pilot program by this summer, a February 7 MIT Technology Review *article* reported.

Calendars

US: Thurs: Housing Starts & Building Permits 1.410mu/1.480mu; Industrial Production & Capacity Utilization 0.2%/78.4%; Philadelphia Fed Manufacturing Index 7.7; Jobless Claims 220k; Import Prices 0.2%; Natural Gas Storage; Barr; Mester; Bostic. **Fri:** Leading Indicators -0.3%; Baker-Hughes Rig Count; Waller. (FXStreet estimates)

Global: Thurs: Italy CPI 0.6%m/m/1.0%y/y; ECB Financial Stability Review; BoE Financial

Stability Report; Japan Industrial Production 3.8%; China Industrial Production 5.4%yy; China Retail Sales 3.9%/y; China Unemployment Rate 5.2%; Mauderer; Nagel. **Fri:** Eurozone Headline & Core CPI 0.6%m/m/2.4%y/y & 0.7%m/m/2.7%y/y; De Guindos; Mann. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* rose for the third week to 3.19 this week, after falling from 4.43 six weeks ago—which was the highest reading since February 5, 2018—to 2.15 three weeks ago. *Bullish* sentiment rose for the third week to 56.5% this week, after retreating the previous three weeks from 62.5% to 46.2%, which was the lowest percentage since late October. Meanwhile, *bearish* sentiment slipped for the third week to 17.7% this week, after climbing to 21.5% three weeks ago from 14.5% in each of the prior two weeks; it was at 14.1% six weeks ago—which was the fewest bears since 12.6% in late January 2018. The *correction count* fell for the second week to 25.8% this week after climbing the prior four weeks from 23.4% to 33.3%, which was the highest since early October 2023. Turning to the *AAII Sentiment Survey* (as of May 9), pessimism fell during latest reporting week, while optimism and neutral sentiment increased. The *percentage expecting stocks to fall over the next six months* dropped 8.7ppts to 23.8%, with pessimism dropping below its historical average of 31.0% for the first time in four weeks. The *percentage expecting stock prices to rise over the next six months* rose 2.3ppts to 40.8%, above its historical average of 37.5% for the 26th time in the past 27 weeks. The *percentage expecting stock prices will stay essentially unchanged over the next six months* rebounded 6.4ppts to 35.4%, with neutral sentiment above its historical average of 31.5% for the third time in eight weeks. Neutral sentient was last higher on September 14, 2023 (36.4%).

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady w/w at an 18-month high of 13.1% during the May 9 week. That's up from a 24-month low of 12.3% during the March 30, 2023 week and just 0.3pt below its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.8pts above its seven-year low of 10.3% during April 2020. Forward revenues ticked down less than 0.1% w/w from its record high a week earlier. Forward earnings rose 0.2% w/w to a new record high. It had hit that mark during the September 21 week for the first time since the June 16, 2022 week. Revenues and earnings had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at an 18-month high of 5.3%. It has gained 3.0pts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.1pt w/w to a 30-month high of 12.2%. It's now 8.9pts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021,

which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.6% in 2024 (up 0.1pt w/w) and 5.6% in 2025 (down 0.1pt w/w) compared to a revenues gain of 2.2% in 2023. They expect an earnings gain of 10.4% in 2024 (up 0.2pt w/w) and a 14.0% rise in 2025 (unchanged w/w) compared to an earnings gain of 2.4% in 2023. Analysts expect the profit margin to rise 0.7ppt y/y to 12.6% in 2024 (unchanged w/w), compared to 11.9% in 2023, and to rise 1.0ppt y/y to 13.6% in 2025 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.6pt w/w to a four-week high of 20.3 from a 15-week low of 19.7, but remains below its 26-month high of 21.1 at the end of March. That's up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.08pt w/w to a five-week high of 2.66 from a 13-week low of 2.58, but is down from a 25-month high of 2.71 at the end of March. That's up from a six-month low of 2.22 during the October 26 week and compares to a 31-month low of 1.98 in October 2022. That also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*):
Looking at the 11 S&P 500 sectors during the May 9 week, six had forward revenues that rose w/w, and six had forward earnings that moved higher. This led to a broad gain in forward profit margins too, as seven sectors moved higher w/w on that measure. Four sectors have forward revenues at post-pandemic or record highs this week: Health Care, Industrials, Information Technology, and Real Estate. Among the remaining seven sectors, only three have forward revenues more than 5.0% below their post-pandemic highs: Energy, Financials, and Materials. These four are less than 1.5% from their recent record highs: Communication Services, Consumer Discretionary, Consumer Staples, and Utilities. When adjusted for the incoming transfer of five former Tech sector firms in March 2023, Financials' forward revenues would be at a record high. Three sectors have record-high forward earnings this week: Communication Services, Consumer Discretionary, and Information Technology. Consumer Staples, Industrials, and Utilities were in that camp in very recent weeks, and Financials would be too when adjusted for GICS changes in March 2023. Among the remaining four sectors, two still have forward earnings down more than 20.0% from their post-pandemic highs: Energy and Materials. Looking at the forward profit margin, nearly all of the sectors are showing signs of recovering from their early 2023 forward profit margin lows. Communication Services, Consumer Discretionary, and Information Technology are the only sectors with their forward profit margin at a record high this week. In recent weeks, Industrials was in that camp as well. Energy's forward margin is improving now from its 23-month low of 10.4% in February, while those of Consumer Staples and Health Care remain at or close to their record lows. The annual profit margin is expected to fall y/y in 2024 for Energy, Materials, and Real Estate and improve for the other eight sectors. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (26.7%, up 0.1pt w/w to a new record high), Financials (19.0, up 0.1pt w/w, down from its 19.8 record high in August 2021), Communication Services (17.8, a new record high this week), Real Estate (17.0, up 0.4pt w/w, down from its 19.2 record high in 2016), Utilities

(13.7, down 0.1pt w/w and from its 14.8 record high in April 2021), S&P 500 (13.1, unchanged at an 88-week high, but down from its record high of 13.4 achieved intermittently in 2022 from March to June), Materials (11.0, unchanged w/w at a 29-week high, but down from its 13.6 record high in June 2022), Energy (10.9, unchanged w/w and down from its 12.8 record high in November 2022), Industrials (10.7, unchanged w/w and down from its 10.8 record high in early April), Consumer Discretionary (9.1, up 0.1pt w/w to a new record high this week), Health Care (8.6, unchanged w/w at 0.1pt above its record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.9, unchanged w/w and down from its 7.7 record high in June 2020).

US Economic Indicators

CPI (*link*): Both headline and core CPI were in line with expectations. The *headline* CPI rose 0.3% in April, a tick below March's 0.4%, with shelter and gasoline accounting for over 70% of the increase in the headline number. *Core* prices also rose 0.3%, easing from the 0.4% gains in each of the prior three months. On a *year-over-year basis,* the *headline* rate dipped to 3.4% from 3.5%, and has hovered in a range between 3.0% and 3.7% the past eleven months. It peaked at 9.1% in June 2022. Meanwhile, the *core* rate continues to ease, falling to 3.6%—the lowest rate since April 2021; it peaked at 6.6% during September 2022. *Goods inflation* is easing, with durable goods prices falling 3.2% y/y in April, down from the 18.2% peak in March 2022, while the rate for nondurable goods is at 1.8%, down from 14.4% in June 2022. *Services excluding energy services* is drifting lower, though remains relatively high at 5.3%, well above rates a couple of years ago. Looking at *durable goods* prices, there's lots of red, with the yearly percent changes for major appliances (-5.6%), furniture & bedding (-3.8), motor vehicle parts & equipment (-1.5), and used cars & trucks (-6.9) all falling, though the latter has narrowed sharply from its -13.6% rate last February. Meanwhile, the yearly rate in new vehicle prices (-0.4%) slipped below zero for the first time since mid-2020 in March (-0.1%), and continued its decline in April. Here's a snapshot of yearly rates for some key *nondurable goods* prices from highest to lowest: recreational commodities (11.2% y/y), medical care commodities (2.5), food (2.2), apparel (1.3), and housekeeping supplies (-0.5). Energy prices (2.6%) showed a yearly gain for the first time since February 2023 in March (2.1%) and moved higher in April; the rate bottomed at -16.7% last June. Turning to *services* inflation, rent of shelter remains high, though the yearly rates are easing from their recent highs in April 2023: rent of primary residence (5.4% from 8.8%) and owners' equivalent rent (5.8 from 8.1). Turning to non-housing-related services, the yearly rate of transportation service (11.2% y/y) remains high, at the top of its recent flat trend, though is down from its peak rate of 15.2% during October 2022, while rates for other personal services (4.9) and recreation services (4.1) are beginning to slow from their recent flat trends. Meanwhile, the yearly rate for education & communication services (1.6) is trending lower, though has flattened out recently, while the medical services (2.7) rate moved further above zero in April after moving above in January for the first time since last April; it was at a recent low of -2.6% during September.

Retail Sales (*link*): Retail sales was weaker than expected in April as higher gasoline prices crimped spending. *Total retail sales* were flat in April, following a gain of 0.6% in March, first reported up 0.7%. Meanwhile, sales in the *control group*—which excludes autos, gasoline, building materials, and food services—fell 0.3% in April, following a 1.1% increase in March. This measure correlates closely with the consumer spending component of GDP. Of the *13 nominal retail sales categories*, six rose in April, while seven fell. Here's a snapshot of the 13 categories' *April sales performance versus that of a year ago*: gasoline stations (3.1% m/m & 4.0% y/y), clothing & accessories stores (1.6 & 2.7), electronics & appliance stores (1.5 & 0.8), food & beverage stores (0.8 & 2.2), building materials & garden equipment (0.5 & -1.0), food services & drinking places (0.2 & 5.5), general merchandise stores (-0.3 & 3.7), miscellaneous store retailers (-0.4 & 6.8), furniture & home furnishings (-0.5 & -8.4), health & personal care stores (-0.6 & -0.3), motor vehicles & parts (-0.8 & 0.8), sporting goods & hobby stores (-0.9 & -4.7), and non-store retailers (-1.2% & 7.5).

Business Sales & Inventories (*link*): Nominal and real business sales remain in record territory, with nominal sales edging lower in March, while real sales moved higher in February. *Nominal business sales* were little changed in March, ticking down 0.1% after rebounding 1.4% in February from January's 1.1% decline. Nominal sales are within a percentage point of June 2022's record high. *Real business sales* rose 0.5% in February, after falling 1.3% from December's record high, and are within 0.8% December's record reading.

Regional M-PMI (*link*): The New York Fed released its first glimpse of manufacturing activity for May, and showed manufacturing activity continued to deteriorate. The *general activity* measure fell 1.3 points (to -15.6 from -14.2), remaining deep in contractionary territory. May's reading was steeper than the -7.5 expected. New orders (-16.5 from -16.2) showed a steep decline, while shipments (-1.2 from -14.4) held relatively steady this month; unfilled orders (-8.1 from -10.1) continued to decline. *Delivery times* (-9.1 from -7.9) continued to shorten while *inventories* (2.0 from 3.4) were little changed. Meanwhile, labor market indicators were weak, as both the *employment* (-6.4 from -5.1) and the *average workweek* (-5.8 from -10.6) components continued to decline. *Turning to prices*, both the prices-paid (to 28.3 from 33.7) and *prices-received* (14.1 from 16.9) measures eased slightly this month. Looking ahead, the index for *future business conditions* (14.5 from 16.7) remained subdued, dipping 2.2 points, with 40% of respondents expecting conditions to improve in the next six months, while a quarter of the respondents expect conditions to be worse. The *new orders* (to 17.7 from 17.9) and *shipments* (12.6 from 21.8) measures continued to expand, though the latter at a slower pace. Meanwhile, the outlook for *employment* (6.3 from 4.5) remained weak, holding just above the breakeven point of zero. Both the *future prices paid* (41.4 from 40.4) and *future prices received* (24.2 from 29.2) measures held steady, with the latter easing a bit.

NAHB Housing Market Index (*link*): Builder sentiment posted its first decline since November, with mortgage rates averaging above 7.0%. The *housing market index (HMI)* sank six points in May, to 45, after climbing from a recent low of 34 in November to

51 in April. All three HMI components posted declines this month: *future* sales (-9 points to 51), current *sales* (-6 points to 51) and *traffic of prospective buyers* (-4 to 30). (Any reading below 50 is considered negative.) "A lack of progress on reducing inflation pushed long-term interest rates higher in the first quarter and this is acting as a drag on builder sentiment," noted Robert Dietz, NAHB's chief economist. "The last leg in the inflation fight is to reduce shelter inflation, and this can only occur if builders are able to construct more attainable, affordable housing." In May, 25% of homebuilders reported cutting prices to bolster sales, ending four months of consecutive declines in this metric. Meanwhile, the average price reduction held steady in May at 6% for the 11th successive month, though the use of sales incentives edged up to 59% in May from 57% in April.

Global Indicators

Eurozone Industrial Production (*link*): Eurozone industrial production rose for the second month in March after beginning the year on a down note, once again being heavily influenced by volatile Irish output. *Headline* production, which excludes construction, increased 0.6% in March, building on February's 1.0% gain, following a 3.2% drop in January. Looking at the *largest Eurozone economies*, output fell across the board, with Spain (-1.0%) posting the largest decline, followed by Germany (-0.7), Italy (-0.5), and France (-0.3). (Ireland production increased 12.8% in March, following a 5.7% gain and a 28.3% drop in February and January, respectively). Compared to a year ago, Germany (-4.3% y/y) posted a steep decline in production, as did Italy (-3.5), while production in both France (0.5) and Spain (0.5) were fractionally higher. Among the *main industrial groups*, only capital goods (1.0%) output posted an increase, while consumer nondurable goods (-2.7), consumer durable goods (-1.1), energy (-0.9), and intermediate goods (-0.5) output were all in the red. *Compared to a year ago*, total production fell 1.0%, with only capital goods (1.8% y/y) in the plus column. Consumer durable (-8.3) and nondurable (-7.0) goods production posted sizable declines, followed by energy (-3.5), and intermediate good (-2.3).

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