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Morning Briefing

Japan's Brawl With The Bond Vigilantes

Check out the accompanying [chart collection](#).

Executive Summary: After last week's portentous Japanese government bond auction, in which demand was so weak as to be off the charts, William explains what went wrong and why. Contributing factors included the BOJ's halted tightening owing to "tariff haze," the Prime Minister's unfortunate remark likening the nation's fiscal situation to that of Greece, and vestiges of Japan's economic past. But having Japan-specific causes doesn't detract from investors' fear that this auction was a canary in a coal mine, portending more upheaval for global financial markets and more difficulty for global policymakers amid Trump's Tariff Turmoil. ... Also: The implications of Japan's economic turmoil for the world at large and the conundrum facing the BOJ right now.

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available [here](#).

YRI Bulletin Board. In early May, William Pesek joined Yardeni Research. William is a seasoned pro when it comes to analyzing global economic and financial developments, particularly in Asia. William is an award-winning Tokyo-based journalist and author of [Japanization: What the World Can Learn from Japan's Lost Decades](#). He [won](#) the 2018 prize for excellence in opinion writing by the Society of Publishers in Asia for his work for the *Nikkei Asian Review*. He is a former columnist at *Barron's* and *Bloomberg*. Now he is head of our Tokyo Bureau.

Timing is everything. I asked William to update us on the latest developments in the Japanese bond market, which has become especially important in recent days.

Japanese Bonds I: Why Tokyo Is on the Ropes. Rarely has a single bond auction said so much about the fragile state of the global financial system as the one Tokyo held on May 20. As the sale of 20-year Japanese government bonds (JGBs) flopped, many sensed a canary-in-the-coal-mine moment for global markets reeling from President Donald Trump's

tariffs ([Fig. 1](#)). The fear is valid, even if the “Armageddon talk” going on may not be.

Tokyo’s weak debt sale isn’t just notable for *what* went wrong and *why* but also for the *when* of the story.

(1) *What happened*. What transpired is very well documented. The Ministry of Finance’s sale of [\\$6.9 billion](#) of bonds maturing in 2045 met with the weakest demand [since 2012](#). The bid-to-cover ratio was just 2.50 versus 2.96 in the previous auction. Equally troubling, the tail, or gap between the average and lowest-accepted prices, was 1.14, the widest [since 1987](#).

Explanations for *why* investors demurred start with the Bank of Japan. The BOJ is two years into an effort to “normalize” interest rates that have been at, or near, [zero since 1999](#). BOJ Governor Kazuo Ueda endeavored to pivot from the quantitative easing (QE) regime that this central bank pioneered back in 2001 to a policy of quantitative tightening (QT) ([Fig. 2](#)).

This QT process has the BOJ hoarding fewer and fewer JGBs. Since July 2024, the BOJ has committed to cutting purchases by [400 billion yen](#) (\$2.8 billion) each quarter in addition to ratcheting official interest rates higher. In January, the BOJ hiked the benchmark rate to a [17-year high of 0.50%](#) ([Fig. 3](#)).

Things were progressing well enough. Ueda had ample justification for draining liquidity with inflation increasing at a rate [nearly twice](#) the BOJ’s 2.0% y/y target ([Fig. 4](#)).

(2) *The Trump effect*. Then came President Trump’s trade war. The bedlam that the tariffs caused in the US Treasury market hit JGBs and Japanese stocks hard, forcing Ueda to throttle back on tightening. For weeks prior, traders had been buzzing that the BOJ might push the benchmark rate up to 0.75% at the April 30-May 1 meeting of its monetary policy committee. But Ueda stood pat, as the “tariff haze”—as Moody’s Analytics’ Stefan Angrick put it—had been fanning traders’ fears that the BOJ was tapering its JGB holdings too fast in attempts to throttle inflation.

Enter Japanese Prime Minister Shigeru Ishiba, who proclaimed what no Group of Seven leader ever should: “Our country’s fiscal situation is undoubtedly extremely poor, [worse than Greece’s](#).” Especially not one day ahead of Japan’s 20-year sale.

Now, Wednesday’s 40-year auction could be a perilous hinge-point for global financial

markets if bidding is weak for the [500 billion yen](#) (\$3.5 billion) of bonds on offer. Credit markets everywhere could pay a high price for Ishiba's over-sharing with parliament members.

(3) *When it all started.* Yet the *when* of it all helps explain how Japan got here and what the global financial community can learn from 2025 events that put JGBs in harm's way. The two different years highlighted at the May 20 auction—1987 and 2012—have something important in common: Each is a year to which Tokyo officials would return to fix big mistakes if time travel were possible.

In 1987, vital seeds for the worst of the asset bubble—and its spectacular implosion to come—were planted. This was two years after the “[Plaza Accord](#)” among the five top industrialized economies at the time. That September 1985 pact sent the yen skyrocketing by 46% versus the dollar by the end of 1986, according to an April 2011 International Monetary Fund report.

The fallout had Tokyo scrambling to pull the economy out of recession. By 1987, authorities had accelerated the pace and magnitude of monetary easing and fiscal stimulus. That turbocharged the flow of excess liquidity into real estate and stocks. Rather than generalized consumer price inflation, Japan was experiencing runaway asset inflation.

By 1989, when officials realized that the dueling bubbles in property and stocks had gotten away from them, it was too late. Only in [May 1989](#) did BOJ Governor [Satoshi Sumita](#) hit the monetary brakes. In December 1989, Sumita passed the baton to [Yasushi Mieno](#). By [August 1990](#), the BOJ's discount rate was up to 6.00%. The Nikkei Stock Average and property prices crashed.

(4) *The economic fallout.* Then came Japan's “lost decade” and a deflationary nightmare that today's China is struggling (hopelessly) to avoid. In 2012, Shinzo Abe returned to the premiership to stabilize prices, rekindle innovation, and restore Japan's competitive mojo. Instead, “Abenomics” created a new bubble—this time in JGBs.

At the time, Abe's Liberal Democratic Party had clawed back to power on the strength of pledges to slash bureaucracy, launch a startup boom, empower women, and strengthen corporate governance to remind China that Shanghai has nothing on Tokyo. This last effort had some success. Steps to give shareholders a louder voice, diversify boardrooms, and increase returns on equity sent the Nikkei above its 1989 highs by [July 2024](#) (at least until Trump 2.0 arrived).

But the rest of Abe's structural reforms fell by the wayside as he prioritized aggressive central bank easing. Abe tapped [Haruhiko Kuroda](#) not just to run the BOJ but also to push the boundaries of monetary science.

Beginning in [April 2013](#), Governor Kuroda supersized the BOJ's balance sheet, hoarding bonds and stocks via exchange-traded funds ([Fig. 5](#)). The BOJ became the biggest holder of shares and controller of more than half of all outstanding JGBs ([Fig. 6](#)). [By 2018](#), the BOJ's balance sheet topped the size of Japan's [\\$4.2 trillion GDP](#), a first for a G-7 power.

One of the many side effects was creating history's greatest [corporate welfare](#) boondoggle. The yen's sharp plunge boosted corporate profits. Yet that deadened incentives for CEOs to innovate, restructure, and take risks. It took pressure off bureaucrats to level playing fields and take on powerful vested interests.

This policy deadened something else: bond dealing. As the BOJ gorged on JGBs, secondary trading ground to a halt. Over the last decade, there have been many days when [not a single JGB traded hands](#) in the secondary market.

Japanese Bonds II: Tokyo Is Scrambling. Enter Ueda, who took the helm at the BOJ in April 2023. His task: to extricate Japan from QE and other deflation-era policies. And Ueda's efforts to withdraw from the bond market were working well enough until Trump triggered the Bond Vigilantes.

Turmoil in credit markets quickly hit Japanese shores. But it also refocused attention on Tokyo's crushing debt burden, the largest among developed nations. The optics of Japan's [260% debt-to-GDP ratio](#) is made worse by its shrinking and aging population ([Fig. 7](#)). Not to mention by the odd, unhelpful worse-than-Greece aside by Ishiba.

This discourse amplifies the importance of Wednesday's 40-year bond sale. A bid-to-cover ratio within normal parameters might soothe fears about the stability of the [\\$7.8 trillion JGB market](#). Yet another hint that Tokyo might have a bond buyer's strike on its hands could trigger shockwaves at a moment of maximum peril for credit markets.

(1) *Bad timing all around.* Asia's [second-biggest economy](#) in turmoil is arguably the last thing the global financial system needs in 2025. Japan is the top creditor nation. It's also balancing a titanicly large debt burden with an aging workforce that's shrinking at an accelerating rate ([Fig. 8](#)).

Exploding interest payments could unmoor the JGB market, unsettling an economy that's long been a pillar of global stability. This could blow up the "[yen carry-trade](#)" as surging yields trigger a titanicly large global margin call.

This "seismic shift," as Fawad Razaqzada at FOREX.com has called it, means "Buckle up: Something's about to snap" in world markets. Permabear Albert Edwards, chief global strategist at Société Générale, warns in a client note that a JGB blowup could amount to a "[global financial market Armageddon](#)" that could upend Nikkei and Wall Street stocks alike.

(2) *Japan really is different.* Such bearishness may ignore what differentiates Japan from its peers. To be sure, Japan is not Greece. Tokyo has avoided a crisis of the kind that hit Athens in 2009 because it has its own currency. The vast majority of debt is in local hands, limiting capital flight risks. And Japan has quite a rainy-day fund: [\\$1.13 trillion](#) of US Treasuries.

Jonathan Fortun at the International Institute of Finance has disputed the idea that Japan is the target of a "slow-moving warning shot against sovereign solvency. That interpretation is not just premature; it is fundamentally flawed."

One reason is that the 10-year yield is [just 1.5%](#) is the market's unique mutually-assured-destruction dynamic. Despite ultralow yields, JGBs are the main asset held by Japanese banks, companies, insurance funds, pension funds, universities and endowments, the postal system, and the swelling ranks of retirees. Strong domestic demand explains why foreign investors [hold only about 12%](#) of JGBs. If a critical mass of investors were to hold them to maturity, a systemic crisis might be averted.

(3) *Where the cracks are.* Yet tripwires abound. The collapse of Silicon Valley Bank (SVB) in March 2023 came a month before Ueda's arrival at the BOJ. His first course of business was assessing contagion risks among Japan's [100-plus regional leaders](#), long a vulnerable corner of the financial system.

For years, Tokyo had been prodding these banks—some a century-plus old, serving second- and third-tier cities and prefectures with shrinking populations—to consolidate. With business hard to come by, many regional lenders took to loading up on bonds rather than increasing lending SVB-style.

At the end of 2024, even before Trump's tariffs, short sellers were circling as regional lenders struggled to adjust to the BOJ's yanking away the proverbial punchbowl. [Top](#)

[targets](#) included Aozora Bank, First Bank of Toyama, and Chiba Bank. The problem, noted Hideo Oshima, a senior economist at Japan Research Institute, is that regional lenders are unprepared to “shoulder growing borrowing costs.”

Japanese Bonds III: The BOJ’s Conundrum. The question Ueda faces is whether Japan Inc. is as ready to kick its free-money addiction as the BOJ’s models might suggest. That readiness is especially questionable now that Trump’s tariffs on China, autos, metals and threats of reciprocal taxes are slamming Japanese business and household confidence. The BOJ’s immediate conundrum is whether to stick with its July 2024 plan to cut its JGB purchases each quarter.

Another question: When might be an opportune time to offload ETFs without tanking the stock market? Unwinding the biggest-ever central bank intervention in equities—roughly [¥37 trillion yen](#) (\$259 billion)—won’t be easy.

Headline-grabbing layoffs at Nissan Motor ([20,000](#)) and Panasonic Corp. ([10,000](#)) only increase the risks of a negative wealth effect as Nikkei stocks slide. A yield surge could crater the Nikkei. Aside from the risk of a blow to valuations predicated on a weak yen and low rates, Tokyo is a macro hedge fund trading center, making the Nikkei highly sensitive to zigs and zags in foreign money flows.

(1) *Yen risks abound.* Worries about a yen surge are also having a chilling effect. The currency’s [9.3% rally](#) versus the dollar so far this year is slamming exports ([Fig. 9](#)).

Global implications abound, too. A big piece of the puzzle is Trump’s plans not just for tariffs but for the dollar. Trump has mused about his own 1985-like “[Mar-a-Lago Accord](#).” Though that would mostly target the Chinese yuan, the yen would likely be dragged higher, too.

These risks complicate both Ueda’s policy plans and Ishiba’s ability to keep Japan out of a recession. Japan’s [GDP shrank 0.7%](#) in the January-March period from the previous quarter ([Fig. 10](#)). Odds are good that the current quarter will prove ever weaker as the full force of Trump’s tariffs hits.

(2) *Déjà vu risk.* Ueda is reluctant to signal that the BOJ’s rate-hiking cycle is over given its history with aborted tightening attempts. In 2007, the central bank got rates up to 0.50% only to return them to zero. In the meantime, Tokyo’s fiscal latitude is limited by the risk of higher yields—and just two months away from a national election. For now, Ishiba is avoiding borrowing more to juice GDP. The reason he uttered “the Greece word” recently

was to rebuff demands for lower taxes.

Yet Carlos Casanova at Union Bancaire Privée argues that the “gloomy” data “could pile pressure” on Ishiba to “heed lawmakers’ demands to cut taxes or deliver a fresh stimulus package.”

That is, if the Bond Vigilantes—and the credit rating companies, for that matter—let him.

Calendars

US: Tues: Durable Goods Orders Headline & Ex Transportation -7.9% & -0.1%; Consumer Confidence 87.2; Dallas Fed Manufacturing Index; Williams. **Wed:** MBA Mortgage Applications; Richmond Fed Manufacturing Index -9; FOMC Minutes; Williams; Waller; Kashkari. (FXStreet estimates)

Global: Tues: Eurozone Economic Sentiment Indicator 94; Germany Gfk Consumer Confidence -19.0; France CPI 0.1%/m/m, 0.9%/y/y; Nagel. **Wed:** Germany Unemployment Rate 6.3%; France GDP 0.1%. (FXStreet estimates)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index fell 2.6% last week, and dropped to 5.7% below its January 23 record high. That compares to a 0.8% gain for the AC World ex-US index, which has been hitting new record high since May 14 for the first time since June 15, 2021. The US MSCI has outperformed the AC World ex-US in just four of the past 18 weeks. EAFE was the best performing region last week, with a gain of 1.2%, ahead of Europe (0.9%), and the AC World ex-US. EM Latin America was the worst regional performer, with a decline of 0.3%, followed by EMEA (-0.2), EM (-0.1), EM Asia (-0.1), and EMU (0.3). The South Africa MSCI index performed the best among country indexes last week, with a gain of 2.4%, ahead of Mexico (2.2), the UK (2.1), Spain (2.1), and Japan (2.1). The USA MSCI index was the worst performer w/w, with a drop of 2.6%, followed by Brazil (-1.6), Taiwan (-0.9), Korea (-0.7), and Sweden (-0.5). In terms of ytd performance rankings, the US MSCI index is still the worst country and the sole decliner, with a drop of 1.3%, and trails the 12.1% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of

21.4%, followed by EMU (21.3), Europe (17.5), EAFE (14.0), and the AC World ex-US. EM Asia is the worst ytd performer, albeit with a gain of 7.8%, followed by EM (8.9) and EMEA (9.5). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 37.2%, followed by Germany (27.1%), Mexico (27.0), South Africa (22.7), and Brazil (18.8). The worst performing countries ytd: the US (-1.3), Taiwan (1.8), India (3.3), Australia (6.3), and Japan (7.0).

US Stock Indexes ([link](#)): All of the 48 major US stock indexes that we follow fell during the week ending May 23, down from all 48 indexes rising in the prior week. The Dow Jones 15 Utilities was the best performer, albeit with a decline of 0.7%, followed by Nasdaq Industrials (-2.2%) and Nasdaq 100 (-2.4). The S&P 600 SmallCap Value index, with a decline of 4.8%, was the worst performer, followed by S&P 600 SmallCap Equal Weighted (-4.7), S&P 600 SmallCap Pure Value (-4.6), S&P 500 Transportation (-4.4), and S&P SmallCap 600 (-4.2). Seven of the 48 indexes are now higher so far in 2025, down from 27 a week earlier and from 47 rising ytd in mid-February. With a gain of 5.4%, the Dow Jones 15 Utilities index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Pure Growth (2.4%), Russell MidCap Growth (2.0), S&P 100 Equal Weighted (1.5), and Russell 1000 Value (0.5). The worst performing major US stock indexes ytd: S&P 600 SmallCap Pure Value (-13.3), S&P 600 SmallCap Value (-13.1), S&P 600 SmallCap Equal Weighted (-11.3), S&P 600 SmallCap (-10.0), and Russell 2000 Value (-9.5).

S&P 500 Sectors Performance ([link](#)): All 11 S&P 500 sectors fell during the week ending May 23, and six were ahead of the S&P 500's 2.6% decline. That compares to all 11 S&P 500 sectors rising a week earlier, when four sectors were ahead of the S&P 500's 5.3% decline. The outperformers last week, albeit with declines: Consumer Staples (-0.4%), Communication Services (-0.6), Materials (-1.2), Utilities (-1.6), Industrials (-2.1), and Health Care (-2.1). The underperformers last week: Energy (-4.4), Information Technology (-3.5), Real Estate (-3.3), Consumer Discretionary (-3.1), and Financials (-3.1). The S&P 500 is down 1.3% ytd, with six of the 11 sectors positive ytd and seven ahead of the index. Industrials still wears the crown as the best ytd performer, with a gain of 6.7%, ahead of Utilities (6.5%), Consumer Staples (5.6), Financials (3.3), Materials (2.0), Communication Services (1.1), and Real Estate (-0.5). These four sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-7.8), Health Care (-5.5), Energy (-5.0), and Information Technology (-4.1).

US Economic Indicators

New Home Sales ([link](#)): New home sales (counted at the signing of a contract) was a surprise on the upside in April, blowing past forecasts, as builders lowered prices to boost demand, though rising mortgage rates remained an obstacle. New home sales soared 10.9% to 743,000 units (saar) in April, stronger than the consensus estimate of 693,000 and the highest sales level since February 2022. Meanwhile, March sales were revised significantly lower from the initial estimate of 724,000 to 670,000 units. Compared to a year ago, sales were up 3.3%. The estimate of new homes for sale was 504,000 units at the end of April, representing an 8.1 months' supply at the current sales pace, down from 9.1 months in March. Regionally, the Midwest (35.5% to 84,000 units, saar) posted the biggest monthly gain in April, followed by the South (11.7 to 478,000) and West (3.3 to 158,000), with sales in the Northeast (-14.8 to 23,000) once again posting a decline. Of the 743,000 *homes sold* during April, 394,000 were completed, 268,000 were under construction, while 81,000 weren't started. Of the 504,000 homes for sale during April, 117,000 had been completed, 268,000 were under construction, and 119,000 hadn't yet broken ground.

Existing Home Sales ([link](#)): "Home sales have been at 75% of normal or pre-pandemic activity for the past three years, even with seven million jobs added to the economy," noted Lawrence Yun, chief economist of NAR. "Pent-up housing demand continues to grow, though not realized. Any meaningful decline in mortgage rates will help release this demand." Existing home sales slipped 0.5% in April to 4.00 million units (saar) and were down 2.0% versus a year ago. Single-family sales were little changed in April, ticking down 0.3% to 3.63mu (saar), while existing condominium and co-op sales sank 2.6% to 370,000 units; these sales were down 1.4% and 7.5%, respectively, versus a year ago. Regionally, existing home sales were mixed in April: The West (-3.9% m/m & -1.3% y/y) and Northeast (-2.0 & 0.0) recorded declines in sales during the month, while sales in the Midwest (2.1 & -1.0) rose in April and were flat in the South (0.0 & -3.2). Versus a year ago, sales were below year-ago levels in the South, West, and Midwest and flat in the Northeast. The inventory of unsold existing homes at the end of April was at 1.45 million units, up 9.0% from March. Unsold inventory is at a 4.4 months' supply at the current sales pace.

Global Economic Indicators

Germany Ifo Business Climate Index ([link](#)): "The recent sharp rise in uncertainty among

companies has eased somewhat. The German economy is slowly regaining its footing,” noted Ifo President Clemens Fuest. The Ifo business climate index climbed for the fifth straight month to an 11-month high of 87.5 in May from 84.7 at the end of last year. The expectations component climbed to a 12-month high of 88.9 this month, while the current conditions component edged down to 86.1 in May, after climbing from a recent low of 84.2 in November to 86.4 in April. By sector, the manufacturing sector improved significantly, with companies revising their expectations sharply upward, while they assessed their current situation as “somewhat better.” Meanwhile, the service sector saw its business climate continue to improve due to rising expectations, while current conditions was assessed only somewhat less positively. Trade saw its index climb noticeably higher as expectations rose sharply in both wholesale and retail trade, while traders were also satisfied with their current situation. Meanwhile, construction saw its business climate index improve for the fourth successive month, as companies assessed their current situation more positively, while their expectations have become less pessimistic.

US PMI Flash Estimates ([link](#)): “Output growth improved in May, but prices spike higher amid tariff impact” was the headline of this month’s report. May’s C-PMI (to 52.1 from 50.6) showed activity expanded at a slightly faster pace, climbing above April’s 19-month low, though remains one of the weakest readings seen since early last year. Both the M-PMI (to 52.3 from 50.2) and M-PMI Output (50.7 from 49.6) measures rose at the fastest pace in three months—with the latter moving from contraction to expansion, while the NM-PMI (to 52.3 from 50.8) was at a two-month high. However, all measures remain historically subdued on concerns over the impact of tariffs on demand, supply chains, and prices. Within the M-PMI, the biggest positive contribution came from inventories, which rose at its best pace since the survey began in 2009, while factory production moved from contraction to expansion, and new orders growth reached a 15-month high. Longer delivery time also helped push the PMI higher. Meanwhile, employment contracted for the second straight month. Turning to prices, average prices for goods and services accelerated in May, rising at “a rate not witnessed since August 2022, when pandemic related shortages caused widespread price inflation,” according to the report. Manufacturing input costs rose at the sharpest pace since August 2022, while service-sector costs rose at the fastest rate since June 2023.

Eurozone PMI Flash Estimates ([link](#)): Eurozone output in May contracted for the first time in five months, led by a decline in the service sector. The Eurozone’s C-PMI (to 49.5 from 50.4) slipped into contractionary territory this month, to its weakest reading in six months, as the NM-PMI (48.9 from 50.1) sank below the 50.0 breakeven point—to a 16-month low. Meanwhile, the M-PMI (49.4 from 49.0) moved back toward the breakeven point of 50.0,

while the M-PMI Output (unchanged at 51.5) measure remained just above 50.0. Turning to the Eurozone's two largest economies, Germany's private sector saw its C-PMI (to 48.6 from 50.1) contract in May, falling to a five-month low, as its NM-PMI (47.2 from 49.0) deteriorated to a 30-month low. Meanwhile, Germany's M-PMI (48.8 from 48.4) climbed to a 33-month high—though remained in contraction territory, just below 50.0—while the M-PMI Output (51.5 from 52.3) measure slipped to a three-month low, though remained above 50.0. Meanwhile, France's economic downturn continued, as activity contracted for the ninth straight month, while business confidence was the most downbeat in close to five years. France's C-PMI (to 48.0 from 47.8) showed activity continued to contract in May, though at a slightly slower pace. The M-PMI (49.5 from 48.7) climbed to a 28-month high, nearing the 50.0 breakeven point, while the M-PMI Output (51.2 from 50.7) measure moved further above 50.0 to a 37-month high. Meanwhile, the NM-PMI (47.4 from 47.3) showed the service sector continued to contract. The report noted that excluding Germany and France, the rest of the Eurozone “continued to outperform the largest two economies, registering sustained growth, albeit with the pace of expansion the slowest since January.”

Japan PMI Flash Estimates ([link](#)): “Japan’s private sector slips back into contraction in May” was the headline of Japan’s May report. The C-PMI (to 49.8 from 51.2) fell back into contraction territory for the second time in the last three months this month, on a steeper fall in the M-PMI Output (48.0 from 48.9) measure and a weaker expansion in the service sector, with the NM-PMI (50.8 from 52.4) moving back down toward 50.0. According to the report, demand conditions looked more fragile, with new business across both the manufacturing and services sectors falling for the first time in nearly a year, coupled with a decline in foreign demand for the second consecutive month. As for pricing, the report notes that cost pressures remain elevated, though there were tentative signs that input price inflation is easing—exhibiting the lowest rise in operating expenses in over a year—translating into a softer uptick in selling prices.

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