Yardeni Research, Inc.

**MORNING BRIEFING**
**October 30, 2017**

## Everything's Just Rosy

*See the collection of the individual charts linked below.*

(1) Everything is just swell too. (2) Cyclicals confirming global boom with performance and earnings growth. (3) An earnings-led meltup isn't a meltup. It's a bull market. (4) Capital spending rises to record high. (5) Spending on manufacturing structures is weak, but industrial equipment spending is at a record high. (6) Spending on IT equipment and software continues to soar into record-high territory. (7) Caterpillar operating on all cylinders, while Union Pacific is chugging along, and GE is sputtering. (8) Movie review: "The Foreigner" (+ +).

**Strategy I: Earning-Led Meltup.** If Ethel Merman were singing about the US economy today, she'd undoubtedly belt out her classic "Everything's Coming Up Roses" from the 1959 Broadway musical *Gypsy*. That's because all signs indicate that things are just swell for the US economy.

Q3 GDP rose 3.0% (saar), with solid gains led by both consumer spending on goods and services as well as business spending on capital equipment. (See Debbie's analysis below.) New orders for nondefense capital goods excluding aircraft rose 1.3% in September, the latest in a string of gains. And a string of positive earnings reports over the past few weeks confirms that business has picked up. Strength is no longer confined mostly to the S&P 500 Tech sector. Other cyclical industries are enjoying strong demand from customers in the US oil patch and in construction, as well as from China and other international customers.

The stock market started to anticipate the improvement in late summer when the S&P 500 Energy, Materials, and Industrials sectors joined the Tech sector in outperforming the broader market. Here's how the 11 S&P 500 sectors have performed since August 31: Financials (8.8%), Energy (8.2), Materials (7.5), Tech (7.5), Industrials (5.2), S&P 500 (4.4), Consumer Discretionary (3.2), Health Care (1.3), Utilities (0.7), Real Estate (-2.1), Consumer Staples (-2.6), and Telecom Services (-4.5) (*Fig. 1*).

There is mounting chatter about a stock market meltup. Joe and I have been chattering about that possibility since early 2013. We first assigned a 30% subjective probability to this scenario on May 9, 2013. This year, we raised the odds to 40% on March 6, and again to 55% on October 9. The good news is that some of the meltup in stock prices since last year's low on February 11 has been attributable to earnings, as shown by our Blue Angels analysis (*Fig. 2*). Consider the following metrics since last year's low:

(1) *The S&P 500 index* is up 41.1%, with forward earnings up 15.3% and the forward P/E up 22.3% from 14.8 to 18.1.

(2) *The S&P 400 index* is up 48.5%, with forward earnings up 20.3% and the forward P/E up 23.4% from 14.8 to 18.3.

(3) *The S&P 600 index* is up 55.8%, with forward earnings up 18.9% and the forward P/E up 31.0% from 15.2 to 20.0.

Here's the performance derby of the forward earnings of the S&P 500 sectors' forward earnings over this same period: Energy (87.3%), Information Technology (25.4), Materials (19.8), Consumer Staples (13.3), Industrials (10.8), Financials (8.7), Health Care (8.7), Consumer Discretionary (7.6), Utilities (6.5), Real Estate (2.8), and Telecommunication Services (2.1) (*Fig. 3*).

Of course, an earnings-led meltup isn't really a meltup. It's a great bull market. The big gain since February 11, 2016 has been roughly half earnings-led and half P/E-led. It could turn into a full-fledged meltup, if P/Es continue to soar from current highly elevated levels. Then again, maybe earnings will lead the way over the rest of this year and next year.

**Strategy II: Capital Improvements.** The data continue to belie the widely held notion that corporate America isn't investing enough to expand capacity and to increase productivity. The widespread myth is that companies have been using most of their cash flow to buy back their shares. Quarterly data compiled by the Fed show that during 2016 and the first half of this year, both the internal cash flow of nonfinancial corporations and their capital expenditures were at record highs (*Fig. 4*).

That's impressive considering that the world-wide recession in the energy industry depressed nondefense capital goods orders excluding aircraft during 2015 and most of 2016 (*Fig. 5*). Those orders have rebounded smartly, with a y/y gain of 7.8% through September. Also impressive is that inflation-adjusted capital spending in real GDP rose 4.4% y/y through Q3 to a record high (*Fig. 6*). Let's drill down some more into the real GDP data on capital spending:

(1) *Weakness in structures.* Capital spending on structures rose to a cyclical high during Q2-2015, which was below the previous four cyclical highs (*Fig. 7*). It dropped sharply during second half of 2015, led by a plunge in energy-related structures, which have rebounded this year (*Fig. 8*). Also down sharply, by 26.7% from its cyclical high during Q2-2015, and yet to rebound is spending on manufacturing structures (*Fig. 9*).

(2) *Strength in equipment.* Despite the weakness in manufacturing structures, spending on industrial equipment is up 7.6% y/y to a new record high (*Fig. 10*). Even more impressive is the increase in spending on information processing equipment, which is up 8.6% y/y to a record high.

(3) *Strength in intellectual property products.* Software is included in the intellectual property products category of capital spending in real GDP. Not surprisingly, it is highly correlated with spending on information procession equipment (*Fig. 11*). Inflation-adjusted spending by businesses on software is up 5.1% y/y to a record high. By the way, spending on research and development, which is a component of intellectual property products too, rose 1.7% y/y, also to a record high.

**Strategy III: Hot & Cold Industrials.** I asked Jackie to have a look at some of the strong earnings reported by a few of the major companies in the S&P 500 Industrials sector in recent days. Here is her report:

(1) *Digging it.* Caterpillar's Q3 revenue jumped almost 25% y/y to $11.4 billion and, showing the power of leverage, profit climbed to $1.95 a share excluding restructuring costs, up from 85 cents a year ago. Results blew past estimates of $1.11 of earnings per share.

CEO Jim Umpleby credited the results to strength in China's construction market, North America's onshore oil and gas industry, and the construction market, along with increased orders from mining customers in all geographic regions. All four geographic regions saw sales and revenue increases ranging from 20% to 29% y/y. The only area of remaining weakness is the energy and transportation unit outside of North America.

Caterpillar expects the good times to continue, and the company upped its full-year EPS outlook to $6.25 from $5.00. "The increase in the profit outlook is largely a result of a higher estimate for sales combined with a favorable mix, improved price realization, and the slower ramp of period cost spend for targeted investments," explained CFO Bradley Halverson. "These positives are slightly offset by an increase in short-term incentive compensation expense and higher material cost." One of the few clouds on the horizon is the rising price of steel. Another concern is how quickly suppliers will be able to bring on additional capacity to meet demand.

Lots of good news is priced into the S&P 500 Construction Machinery & Heavy Trucks stock price index, which is up 112.5% since January 25, 2016 (*Fig. 12*). Revenue is expected to grow 7.2% over the next 12 months, and earnings are estimated to increase 20.5% over the same time period (*Fig. 13*). However, the forward P/E for the industry at 18.5 is historically high (*Fig. 14*).

(2) *Chugging along*. The Q3 earnings report from Union Pacific—the railroad that transverses the western half of the US—was a mixed bag, with most industries shipping fewer products, including autos, crude oil, chemicals, coal, and agriculture.

The one area that did have a huge increase in business: industrial products. Revenue in the division was up 26% due to a 15% increase in volume and a 10% jump in average revenue per car. The area benefitted from a 120% jump in sand shipments to the fracking business it services, a 22% increase in waste due to West Coast remediation projects, and a 130% increase in military shipments due to more deployments and rotations, according to Beth Whited, UNP's chief marketing officer.

Overall, revenue increased 4.6% to $5.4 billion, operating income edged up 3%, and EPS jumped 10.3% to $1.50—one cent above analysts' estimates—helped by stock repurchases.

Railroads have been chugging along nicely since early 2016. Railcar loadings are up sharply from early 2016 (*Fig. 15*). The industry's stock index is up 22.6% ytd, with analysts optimistically calling for a 4.3% revenue increase over the next 12 months and a 14.2% jump in earnings (*Fig. 16*). The industry's P/E ratio has also climbed from 12.4 during January 2016 to a recent 18.5 (*Fig. 17*).

(3) *Stumbling along*. Holding back the performance of the S&P 500 Industrials sector—and clouding many of its performance stats—is General Electric. And nothing in its first quarterly report under new CEO John Flannery indicated that the company's problems would end soon. Excluding restructuring charges and other bad stuff, GE reported EPS of 29 cents, below the 32 cents earned a year ago and almost half the 49 cents Wall Street consensus, according to a 10/20 *WSJ* article.

The company's plans to restructure, and questions about whether it will be able to maintain its dividend have sent GE shares down 12.8% over the last five trading days and 34.2% ytd. The shares now trade at 16.9 times 2018's expected earnings of $1.23 a share. Were GE excluded, the S&P 500 Industrials stock price index would be up an additional 8 ppts ytd.

Largely because of GE, the S&P 500 Industrials sector is only expected to show a 4.7% revenue gain and a 10.0% increase in earnings over the next 12 months (*Fig. 18*). Yet the industry sports a forward P/E of 18.4, which is higher than usual during the past 20 years or so, except for one period early in the century when the P/E reached a peak of 22.7 (*Fig. 19*).

**Movie.** "The Foreigner" (+ +) (*link*) is an action-packed thriller produced by and starring Jackie Chan, who is a movie producer and a martial arts actor. He has appeared in over 150 films. However, this is the first of his work that I've seen, and I really enjoyed it. The movie is set mostly in London, where a small cell of terrorists is trying to revive the IRA despite the opposition of one of their elders, played by Pierce Brosnan, who has turned from terrorist to statesman. Chan, seeking revenge for the death of his daughter resulting from the terrorists' bombing of a bank, plays a one-man special forces unit.

## CALENDARS

**US. Mon:** Personal Income & Consumption 0.4%/0.4%, Core PCED 1.3% y/y, Dallas Fed General Activity Index 21.3. **Tues:** Consumer Confidence Index 121.0, Employment Cost Index 0.7%, Chicago Fed PMI 62.0, S&P Corelogic Case-Shiller HPI 0.6%m/m/6.0%y/y, FOMC Meeting Begins. (*Wall Street Journal* estimates)

**Global. Mon:** Germany Retail Sales 0.5%m/m/3.0%y/y, Germany CPI 0.1%m/m/1.7%y/y, Japan Industrial Production -1.6%m/m/2.0%y/y, Japan Jobless Rate 2.8%. **Tues:** Eurozone GDP 0.5%q/q/2.3%y/y, Eurozone Headline & Core CPI Flash Estimate 1.5%/1.0% y/y, Canada GDP 3.5% y/y, China M-PMI 52.1, BOJ Balance Rate & 10-Year Yield Target -0.10%/0.00%, Kuroda, Poloz, Wilkins. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** (*link*): The US MSCI index rose 0.2% last week, and ranked a very impressive ninth out of the 49 markets as 12 countries rose in US dollar terms. That compares to sixth a week earlier, when it rose 0.9% as 14 countries moved higher. The AC World ex-US index, with a 0.6% decline, underperformed the US MSCI for the sixth time in nine weeks; that result compares to a 0.4% decline a week earlier. All regions fell for a second straight week, but EM Asia performed best as it dropped 0.3%, followed by EAFE (-0.4%) and EMU (-0.5). EM Latin America was the worst-performing region as it fell 2.6% w/w, followed by EMEA (-1.7), EM Eastern Europe (-1.3), and BRIC (-0.9). Argentina was the best-performing country, with a gain of 3.0%, followed by Japan (1.9), India (1.9), Singapore (1.3), and Egypt (1.2). Colombia was the worst performer as it fell 4.7%, followed by Greece (-4.5), New Zealand (-4.2), Finland (-4.0), and Turkey (-4.0). The US MSCI is up 15.4% ytd, with its ranking up one place w/w to 31st of the 49 markets, but continues to trail the AC World ex-US (19.9) on a ytd basis. Forty-four of the 49 markets are positive ytd, led by Argentina (72.0), Austria (49.8), Poland (45.3), China (45.1), Korea (39.2), Chile (35.5), and Hungary (34.8). The worst country performers ytd: Pakistan (-25.3), Israel (-7.6), Russia (-4.6), New Zealand (-2.7), and Jordan (-2.2). EM Asia is now the best-performing regions ytd with a gain of 34.8%, ahead of BRIC (34.1), EMU (24.1), and EM Latin America (21.8). The worst-performing regions, albeit with gains: EMEA (6.7), EM Eastern Europe (7.6), and EAFE (18.2).

**S&P 1500/500/400/600 Performance** (*link*): Last week, the LargeCap and MidCap indexes rose for a seventh straight week and the ninth time in 10 weeks, SmallCap rose for a second week and in six of the past seven weeks. SmallCap's 0.3% rise barely edged out MidCap's 0.3% gain and LargeCap's 0.2% advance. LargeCap and MidCap ended the week at new record highs, but SmallCap was down 0.2% from its October 3 record. Nineteen of the 33 sectors rose w/w, compared to 21 a week earlier. Last week's biggest gainers: LargeCap Tech (2.9%), SmallCap Telecom (2.0), SmallCap Consumer Staples (1.5), MidCap Tech (1.5), and SmallCap Financials (1.4). Last week's worst performers: LargeCap Telecom (-3.2), LargeCap Health Care (-2.1), LargeCap Real Estate (-1.6), SmallCap Health Care (-1.6), and LargeCap Consumer Staples (-1.5). Twenty-six of the 33 sectors are positive ytd, unchanged from a week earlier, as LargeCap (15.3) continues to outperform both MidCap (10.8) and SmallCap (9.4). Tech and Health Care dominate the biggest sector gainers ytd: LargeCap Tech (34.6), SmallCap Health Care (25.6), MidCap Tech (23.4), MidCap Health Care (20.3), SmallCap Utilities (20.2), and LargeCap Health Care (19.2). Telecom and Energy dominate the worst performers ytd:

MidCap Telecom (-39.1), SmallCap Energy (-34.6), MidCap Energy (-28.7), LargeCap Telecom (-15.1), and LargeCap Energy (-9.9).

**S&P 500 Sectors and Industries Performance** (*link*): Five of the 11 sectors rose last week, and five outperformed the S&P 500's 0.2% gain. This compares to six sectors rising a week earlier, when six outperformed the S&P 500's 0.9% rise. Tech was the best-performing sector as its 2.9% gain was its strongest in 15 weeks and beat these outperforming sectors: Consumer Discretionary (1.1%), Materials (0.7), Financials (0.6), and Utilities (0.3). Telecom (-3.2) was the worst performer, and was followed by these underperformers: Health Care (-2.1), Real Estate (-1.6), Consumer Staples (-1.5), Industrials (-1.2), and Energy (-0.6). So far in 2017, nine of the 11 sectors are higher, but only three have outperformed the S&P 500's 15.3% gain. The best performers in 2017 to date: Tech (34.6), Health Care (19.2), and Materials (18.7). The seven sectors underperforming the S&P 500 ytd: Telecom (-15.1), Energy (-9.9), Consumer Staples (2.9), Real Estate (4.5), Utilities (13.1), Consumer Discretionary (13.5), Industrials (13.8), and Financials (15.0).

**Commodities Performance** (*link*): Fifteen of the 24 commodities we follow rose last week as the S&P GSCI commodities index rose 2.4% for its best gain in 13 weeks. That compares to 10 commodities advancing a week earlier, when the GSCI index edged down 0.1%. The week's strongest performers: Sugar (4.5%), Unleaded Gasoline (4.5), Brent Crude (4.4), Crude Oil (4.0), and Live Cattle (3.6). Last week's biggest laggards: Natural Gas (-4.8), Silver (-1.9), Lead (-1.8), Copper (-1.8), and Nickel (-1.3). Industrial metals-related commodities dominate the best performers in 2017 so far: Aluminum (27.9), Feeder Cattle (24.7), Zinc (24.4), Copper (23.3), Lead (20.5), and Nickel (15.7). This year's laggards: Sugar (-25.0), Natural Gas (-20.4), Coffee (-7.6), and Cotton (-3.5).

**Assets Sorted by Spread w/ 200-dmas** (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 15/24 commodities, 5/9 global stock indexes, and 18/33 US stock indexes compared to 8/24, 4/9, and 20/33 rising a week earlier, respectively. Commodities' average spread surged w/w to 3.5% from 2.5%. Fifteen commodities trade above their 200-dmas, down from 16 a week earlier as Natural Gas fell 4.7ppts last week to -3.3% for the worst performance of all commodities and all assets. Heating Oil now leads all commodities and all assets at 16.2% above its 200-dma, followed by Nickel (13.8%), Brent Crude (13.7), and GasOil (13.6). Lean Hogs (-8.9) trades the lowest of all commodities relative to its 200-dma, followed by Sugar (-7.2), which performed the best of all assets it improved 4.9ppts w/w. The global indexes trade at an average of 8.4% above their 200-dmas, up from 7.9% in the prior week. All nine of the global indexes trade above their 200-dmas, also unchanged from a week earlier. Chile (13.1) now leads the global indexes, followed by Brazil (12.9), which fell 1.1ppts for the worst performance among the global indexes. Japan (11.5) gained 2.4ppts for the best performance among its peers. The UK (1.8) trades the lowest among its country peers, followed closely by Canada (3.4). The US indexes trade at an average of 3.9% above their 200-dmas, with 26 of the 33 sectors above, down slightly from an average of 4.0% a week earlier, when 26 sectors were above. LargeCap Tech now leads all US stock indexes at 14.2% above its 200-dma as it rose 2.5ppts w/w for the best performance of the US stock indexes. MidCap Telecom trades 19.0% below its 200-dma, the lowest among the US stock indexes and all assets, followed by SmallCap Energy (-10.5). LargeCap Health Care (6.1) and LargeCap Telecom (-6.7) each dropped 2.7ppts for the worst performance among US assets last week.

**S&P 500 Technical Indicators** (*link*): The S&P 500 index remained in a Golden Cross last week for a 79th week (after 17 weeks in a Death Cross), but both the short-term and long-term technicals weakened w/w. The index's 50-day moving average (50-dma) relative to its 200-dma fell to 2.9% from 3.4%, but is up from a four-week of 2.0% on Thursday. That also compares to a 34-month high of 5.4% in early April, a 39-week low of 3.4% in early October, and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma and 200-dma both rose together for a 10th straight week, after failing to rise together in mid-August for the first time in 36 weeks. The index closed above its 50-dma for an ninth week after three weeks below, which was its worst streak since it closed below its 50-dma for 10 straight weeks from September 2016 until the November election. The S&P 500 fell to 2.9% above its rising 50-dma from a 33-week high of 3.1% above its rising 50-dma a week earlier, which compares to a four-month low of 1.0% below its falling 50-dma in mid-August. These 50-dma readings compare to a 38-week high of 4.8% on December 13 and a 52-month high of 6.2% in March 2016. The S&P 500 edged down to 6.6% above its rising 200-dma from a 13-week high of 6.7% a week earlier, which compares to a post-election low of 3.0% above its rising 200-dma in mid-August. That's down from a 38-month high of 9.4% on March 1, but up from an eight-month low of -0.1% immediately before the election.

**S&P 500 Sectors Technical Indicators** (*link*): Among the 11 sectors, just three improved w/w relative to their 50-dmas and five relative to their 200-dmas. Financials and Materials improved relative to their 200-dmas, and these three had improvements in both moving averages: Consumer Discretionary, Tech, and Utilities. Eight of the 11 sectors trade above their 50-dmas, down from nine a week earlier, as Real Estate moved below after two weeks above. Telecom was below for a third straight week and Consumer Staples for a sixth week. Still, that's a turnaround from mid-August when just three sectors traded above their 50-dmas (matching mid-April's reading, which was the lowest since the election). All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. The longer-term picture is similarly strong: Nine of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier. Energy traded above its 200-dma for a fifth week after 29 weeks below; Consumer Staples was below its 200-dma for a sixth week after 32 straight weeks above; and Telecom ended the week below its 200-dma for a 31st straight week. Eight sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier. Consumer Staples was out of the Golden Cross club for a second week and for the first time since early March; Telecom was out for a 33rd week; and Energy for a 29th week. All 11 sectors had been in a Golden Cross during a 21-week streak that ended in late October of 2016, the longest such stretch since October 2014. Nine of the 11 sectors have rising 50-dmas, unchanged from a week earlier. Consumer Staples' 50-dma has been falling for six weeks, and Telecom's for four weeks. Nine sectors have rising 200-dmas, unchanged from a week earlier. Energy's 200-dma fell for a 26th straight week, and Telecom's dropped for a ninth week.

## US ECONOMIC INDICATORS

**GDP** (*link*): Real GDP was stronger than expected last quarter, marking the first time in three years that growth expanded at least 3.0% for two consecutive quarters. The economy grew 3.0% (saar) during Q3 after a 3.1% increase during Q2—which was the best pace since Q1-2015. Last quarter's growth reflected positive contributions from consumer spending, business spending, inventory investment, and exports. Real personal consumption expenditures (to 2.4% from 3.3%) grew at a slower, but still solid pace last quarter. Goods consumption increased 4.2% (saar), coming on the heels of Q2's 5.4% rate—with spending on durable goods (8.3 from 7.6) accelerating and nondurable goods (2.1 from 4.2) decelerating. Services' spending slowed from 2.3% to 1.5% (saar). Real nonresidential investment expanded 3.9% (saar) after a 6.7% increase the prior quarter; robust spending on equipment (8.6%, saar) and intellectual property products (4.3) more than offset the first decline in structures (-5.2) this year. Meanwhile, inventory investment improved for the second quarter, rising to $35.8 billion (saar) from $5.5 billion and $1.2 billion the prior two quarters. Trade was a positive as real exports rose (2.3) and real imports (-0.8) fell. Partially offsetting these positive contributions were negative contributions from real residential fixed investment (-6.0) and state & local government (-0.9) spending. (Note: While the BEA noted it was impossible to estimate the overall impact of hurricanes Harvey and Irma, preliminary estimates showed that the back-to-back storms had caused losses of $121.0 billion in privately owned fixed assets and $10.4 billion in government-owned fixed assets.)

**Contributions to GDP Growth** (*link*): Real consumer spending once again was the number-one contributor to real GDP last quarter, while residential investment was a drag on growth for the second consecutive quarter. Some details: (1) Real consumer spending accounted for 1.62ppt of real GDP growth during Q3 as goods consumption added 0.92ppt—durable (0.61ppt) and nondurable (0.31)—while services contributed 0.70ppt. (2) Inventory investment (0.73) was the number two contributor to Q3 growth, mostly nonfarm-related (0.65). (3) Nonresidential fixed investment (0.49ppt) also contributed positively to GDP growth as gains in spending on equipment (0.47) and intellectual property products (0.17) more than offset a decline in structures (-0.15). (4) Trade (0.41) added to growth for the third consecutive quarter after detracting from growth at the end of last year; exports contributed 0.28ppt during Q3, while imports added 0.12ppt. (5) The contribution from real government spending (-0.02) was basically neutral last quarter, as a positive contribution from federal spending (0.08) offset a negative contribution from state & local spending (-0.09). Residential investment (-0.24) was a negative contributor for the second straight quarter after adding to growth the previous two quarters.

**Consumer Sentiment** (*link*): Confidence soared to its highest level in 13 years in October! "Lingering doubts about the near term strength of the national economy were dispelled," according to Richard Curtin, director of the University of Michigan consumer survey. "More than half of all respondents expected good times during the year ahead and anticipated the expansion to continue uninterrupted over the next five years." The Consumer Sentiment Index (CSI) rebounded from 95.1 to 100.7 this month, its best reading since January 2004. Both the present situation (to 116.5 from 111.7) and expectations (90.5 from 84.4) components surged—to their highest levels since November 2000 and January 2015, respectively. (The final October reading was down from the mid-month estimate of 101.5, as the expectations component was 0.8ppt lower than the initial reading of 91.3; the present situation component was a tick higher than its 116.4 mid-month reading.)

**Regional M-PMIs** (*link*): Four Fed districts have now reported on manufacturing activity for this month—New York, Philadelphia, Richmond, and Kansas City—and they show growth in the sector accelerated for the third straight month at a healthy pace. We average the composite, orders, and employment measures as data become available. The composite index rebounded from 13.3 in July to 23.3 this month, fractionally below February's 23.8—which was the highest reading since May 2004. The New York (to 30.2 from 24.4), Philadelphia (27.9 from 23.8), and Kansas City (23 from 17) measures all accelerated sharply this month, while Richmond's (12 from 19) slowed. The employment measure (19.3 from 12.6) posted its best job rate since May 2004 as Philadelphia (30.6 from 6.6) manufacturers hired at their best pace in the history of the series going back to May 1968, while Kansas City (21 from 18) and New York (15.6 from 10.6) factories expanded payrolls at the fastest rates since March 2001 and March 2015, respectively. Meanwhile, Richmond (10 from 15) manufacturers continue to add jobs, though at a slower pace. The new orders gauge showed billings expanded at a solid, but slower pace, slipping from 21.1 in September to 20.4 this month as orders growth in the New York (18.0 from 24.9), Philadelphia (19.6 from 29.5), and Richmond (17 from 20) districts eased, while billings in the Kansas City (27 from 10) region accelerated.

**Pending Home Sales** (*link*): The Pending Home Sales Index—measuring sales contracts for existing-home purchases—was at 106.0 in September, the lowest reading since January 2015 and unchanged from August's downwardly revised level. Sales sank 3.5% y/y last month, the fifth negative reading in the past six months. Sales were below year-ago levels in every region: South (-5.0% y/y), West (-2.9), Midwest (-2.5), and Northeast (-2.4). According to NAR's chief economist, Lawrence Yun, demand continues to exceed supply in most markets. He went on to warn, "Buyers looking for a little relief from the stiff competition from over the summer may unfortunately be out of luck in the coming months. Inventory starts to decline heading into the winter, and many would-be buyers from earlier in the year are still on the hunt to find a home.

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