



MORNING BRIEFING

January 3, 2018

Happy New Year!

See the [collection](#) of the individual charts linked below.

(1) Back from abroad, and back to work. (2) Invest in Chinese tourists. (3) 2018: Continuation of the global synchronized boom. (4) Global trade growing solidly. (5) US economic surprise index very strong. (6) Housing may be starting to boom. (7) Trucking index off the chart. (8) Tax cuts could fuel a stock market meltup this year. (9) Deferred tax assets make analyzing effective tax rate a taxing exercise. (10) Movie Review: "All the Money in the World" (+ +).

Welcome Back. I hope you had a great holiday season with your families and friends. My family and I spent 10 days in Southeast Asia. We started by dodging mopeds in [Hanoi](#). Then we took a two-day cruise in [Hai Long Bay](#), Vietnam followed by sightseeing in [Siem Reap](#), Cambodia, and a couple of days on the beach in [Krabi](#), Thailand, which looks just like Hai Long Bay. We stopped off in [Bangkok](#) on the way back home. It was a long way to go, but very worthwhile.

We didn't run into very many American tourists, but Chinese tourists were everywhere. My number-one investment idea for the New Year is to invest in any company that benefits from Chinese tourism. The numerous ancient ruins of palaces and temples indicated how much was spent by Asian kings (like all kings) on such extravagances. Today's Asian governments are pouring money into infrastructure and shopping malls.

As Sandy Ward reviewed in our 12/19 [Morning Briefing](#), Southeast Asia's major economies are booming. The Vietnam MSCI stock price index soared 60.7% in local currency and 61.2% in dollars last year ([Fig. 1](#)). The Emerging Markets Asia MSCI stock price index jumped 33.3% in local currencies and 40.1% in US dollars during 2017 ([Fig. 2](#)).

During 2016, the region benefited from a global synchronized recovery from the energy-led growth recession of 2015. During 2017, that recovery turned into a global synchronized boom, which is likely to continue in 2018. Contributing to the global economic boom is solid growth in the US. Consider the following:

(1) *US trade is solid.* The sum of US real exports and real imports rose to a record high in October ([Fig. 3](#)). The yearly percent change in this series is highly correlated with the comparable growth rate in the volume of world exports ([Fig. 4](#)). The former was up 4.4% through October, while the latter rose 3.9% over the same period. These growth rates were both around zero in early 2016.

(2) *Surprise index is surprisingly strong.* The Citigroup Economic Surprise Index closed 2017 at a reading of 75.7, a remarkable recovery from the year's low of -78.6 on June 16 ([Fig. 5](#)). This index (along with US GDP) has tended to be weak at the start of every year since 2011 and then to rebound later in the year. If the global economy and US economies really are booming, then the index shouldn't weaken much at the start of the current year.

(3) *Housing may finally be recovering.* During November, new home sales jumped 17.5% m/m and 26.6% y/y to 733,000 units (saar), the highest pace since July 2007 ([Fig. 6](#)). Nevertheless, this pace

remains closer to this series' previous cyclical lows than its previous cyclical peaks. This implies that there is more upside if home buying really is finally taking off. Lumber prices soared at the end of last year as single-family building permits rose during November to 865,000 units (saar), the highest since August 2007 ([Fig. 7](#) and [Fig. 8](#)). Existing home sales jumped to 5.81 million units (saar) during November, the best reading since December 2006.

(4) *Transportation indicators off the charts.* The ATA trucking index soared 2.3% m/m and 7.6% y/y during November ([Fig. 9](#)). Intermodal railcar loadings also rose to record highs at the end of last year, as the sum of outbound and inbound West Coast port container traffic did the same ([Fig. 10](#)).

(5) *M-PMIs flashing bright green.* The US M-PMI rose from 53.9 during November to 55.1 during December, the best reading in 33 months. Overseas, the M-PMI for the Eurozone rose to 60.6, its best level since the survey began in mid-1997! Japan's M-PMI flash estimate rose to a 46-month high of 54.2 last month. (Japan's final estimate will be released on January 4.)

US Taxes I: Too Stimulative? In the past, Congress often has cut taxes to revive economic growth following a recession. Last year's tax cut came long after the last recession and despite clear signs that the US economy is strong. This potentially raises the risk of a typical boom-bust scenario. If so, then it's quite possible that the economy will heat up, with real GDP closer to 3% than 2% and inflation moving higher. Debbie and I won't be surprised to see higher growth, but we still believe that global competition, technological innovations, and aging demographics will keep a lid on inflation. If so, then productivity could make a long-awaited comeback.

For the stock market, this scenario provides more support for our meltup-meltdown scenario. Joe and I continue to assign subjective probabilities of 55% that stocks will melt up, 20% that stocks will march higher at a moderate pace in line with earnings, and 25% that stocks will melt down. Notably, these are not independent scenarios, since the latter one depends on whether the first scenario unfolds.

The tax cuts enacted at the end of last year are likely to push stocks higher as investors anticipate that corporate earnings will be significantly boosted as a result. Joe and I are forecasting that the Trump administration's tax cuts and deregulatory actions will boost S&P 500 earnings this year by \$6 per share to \$147, up 11.8% from last year. Also driving stock prices higher should be significant repatriation of foreign earnings, boosting share buybacks and dividends.

So what could go wrong? Bond yields could jump as the Fed continues to normalize monetary policy, possibly faster than widely expected. Now let's turn to how the tax cuts might affect earnings and buybacks.

US Taxes II: Deferred Tax Assets & Earnings. Tech companies took big earnings hits after the tech bubble burst in 2000. Financial services companies took huge hits during 2008. But on the plus side, many firms in both sectors converted their losses into "deferred tax assets," using the accumulated losses to reduce their reported earnings when they turned profitable again. The bad news is that now those assets are worth much less after Congress lowered the statutory corporate tax rate from 35% to 21%. The good news is that affected companies will take one-time charge-offs and enjoy a lower corporate tax rate.

During the late 1980s and through the 1990s, the NIPA data (i.e., the National Income and Product Accounts data that the Bureau of Economic Analysis uses to calculate GDP) showed that the global effective tax rate (G-ETR)—which includes taxes paid to the IRS as well as other domestic and foreign taxing authorities—was quite close to the IRS statutory tax rate (IRS-STR) ([Fig. 11](#)). During 1999, the G-ETR was 34.1%, about the same as the 35.0% IRS-STR. The tech wreck caused the effective rate to

plunge to around 25% during 2002-2007. Then the financial crisis of 2008 pushed the effective rate down to around 20% from 2008-2017.

Previously, Melissa and I have observed that the NIPA corporate profits and taxes paid data include the profits earned and taxes paid by the Federal Reserve. Both rose sharply as a result of the “profits” earned by the Fed on its mounting QE assets ([Fig. 12](#)). Removing the Fed from the numerator and denominator of the G-ETR calculation doesn’t change the basic story other than to show an even lower global effective tax rate ([Fig. 13](#)).

Now corporations will have fewer deferred losses but also a lower IRS-STR. Melissa and I aren’t sure how this will all add up for S&P 500 operating earnings. Presumably, pre-Trump reported earnings and taxes were held down by the deferred tax losses. We can’t quantify it for the S&P 500, but we suspect that deferred losses were excluded from operating earnings, which are often referred to as “EBBS,” i.e., “earnings before bad stuff.” The hits to deferred tax assets most likely will be treated as one-time charges this year, which means that they won’t depress operating earnings.

In the short term, this implies a wash for the tax impact on operating earnings. Instead of paying a 20% G-ETR, with the help of deferred losses, they’ll be paying a 21% statutory rate on US income. So why are Joe and I adding \$6 per share to S&P 500 earnings this year? Chalk it up to “animal spirits” as Trump’s pro-business policies boost earnings growth. Besides, lots of companies and industries don’t have enough in deferred assets to rack up significant tax savings.

US Taxes III: Overseas Cash Stash & the Meltup. On Friday 12/29, the IRS and Treasury issued [new regulations](#) on the taxation of foreign profits. Bloomberg [reported](#): “The tax-overhaul bill signed last week by President Donald Trump requires companies to pay taxes on those earnings at two discounted rates—15.5 percent on income held as cash and cash equivalents and 8 percent for illiquid assets. Those rates apply to an estimated \$3.1 trillion in earnings stockpiled overseas since 1986.” Previously, repatriated earnings were taxed at 35%, though companies were allowed to defer paying taxes on foreign earnings until they were brought back to the US.

The Fed’s [Financial Accounts of the United States](#) includes a series for “foreign earnings retained abroad” by nonfinancial corporations (NFCs) ([Fig. 14](#)). It is shown as an annualized quarterly flow. The level is not available. It isn’t insignificant, but it is a relatively small percentage of NFCs’ pretax profits ([Fig. 15](#)). However, on a cumulative basis, it totals \$3.5 trillion since 1986 ([Fig. 16](#)). The Bloomberg article mentions “an estimated \$3.1 trillion in earnings stockpiled overseas since 1986.” If much of that gets repatriated, the result could be a meltup in the stock market and a boom in the US, followed by a meltdown in stocks and possibly a bust for the economy.

US Taxes IV: More Taxing Math. Melissa and I continue to tinker with the macro corporate tax data for clues to the likely impact of the tax cut on corporate taxes. The conclusion we keep coming up with is that it isn’t all that significant, running around 20% since 2000. Above, we discussed the “wash effect” on operating earnings between the tax rates with and without deferred tax assets. Now let’s look at how much taxes paid overseas amounts to. The surprise is that it’s not much, which is consistent with the Fed’s data showing that NFCs’ profits retained abroad have accounted for about 20% of total profits since 2000. Consider the following:

(1) At the end of last year, we sought to compare the NIPA data on taxes paid by corporations to the IRS data. The former is global, including taxes paid to the IRS as well as other domestic and foreign entities. Subtracting the “taxes” paid by the Fed and taxes paid to state and local governments should yield a series reflecting corporate taxes paid to the IRS and foreign taxing authorities ([Fig. 17](#)).

(2) Now let's subtract from this derived series the amount of corporate taxes paid to the IRS. The result is a surprisingly small number for what should be taxes collected overseas from US corporations ([Fig. 18](#)). Over the past four quarters through Q3, the residual was \$50 billion (\$347 billion minus \$297 billion), presumably collected by foreign taxing authorities.

This implies either that US corporations collectively aren't doing as much business overseas as they are domestically or that they are paying very low tax rates overseas, or both. Whichever the case, the fact remains that the US corporate tax rate now is more important in determining their after-tax profits.

(3) Accounting for corporate taxes at the macro level gets even messier when we consider that the profits of S corporations are included in NIPA pretax profits, but their profits get taxed by the IRS as individuals when the owners pay themselves dividends. We do have data on dividends paid by S corporations. However, these data can't be used as a proxy for their profits since there are plenty of money-losing S corporations that aren't paying dividends. So we probably have hit a dead end regarding a macro analysis of the effective corporate tax rate. We may have gone as far as we can trying to analyze corporate taxes at the macro level.

Movie. "All the Money in the World" (+ +) ([link](#)) is a docudrama about the kidnapping of 16-year-old John Paul Getty III in Italy during 1973 and his mother's desperate struggle to convince his billionaire grandfather, J. Paul Getty, to pay the ransom. At first, he refused to pay, arguing that complying would increase the chances that his 14 other grandchildren would be kidnapped too. He relented after the kidnappers sent an envelope with the boy's ear. However, the skinflint negotiated a deal to get his grandson back for about \$2.9 million. He paid \$2.2 million—the maximum amount that was tax deductible—and he loaned the remainder to his son, who was held responsible for repaying the sum at 4% interest.

CALENDARS

US. Wed: Total & Domestic Motor Vehicle Sales 17.5mu/13.4mu, Construction Spending 0.6%, ISM M-PMI 58.0, MBA Mortgage Applications, FOMC Minutes. **Thurs:** ADP Employment 185k, Jobless Claims 240k, Challenger Job-Cut Report, NM-PMI 52.4, Weekly Consumer Comfort Index, EIA Natural Gas Report, EIA Petroleum Status Report. (*Wall Street Journal* estimates)

Global. Wed: Germany Unemployment Change & Unemployment Rate -13k/5.5%. **Thurs:** Eurozone, Germany, France, and Italy Composite PMIs 58.0/58.7/60.0/56.0, Eurozone, Germany, France, and Italy NM-PMIs 56.5/55.8/59.4/54.7, UK NM-PMI 54.0, China Caixin NM-PMI 51.8. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The 19.5% gain for the US MSCI index in 2017 was up from a 9.2% rise in 2016, but its global ranking dropped to 32/49 from 16/49 in 2016. Forty-seven of the 49 markets rose in 2017 in US dollars, up from 25 rising in 2016. The 21.6% gain for the All Country World MSCI Index was up from a 5.6% rise in 2016. The All Country World ex-US MSCI rose 24.1% for the year, up from a 1.7% gain in 2016. All regions rose in 2017, better than 2016 when all regions rose except EMU and EAFE. EM Asia was the best performer with a gain of 40.1%, followed by BRIC (38.7%) and EMU (25.3). EMEA (11.8) was the worst-performing region in 2017, followed by EM Eastern Europe (12.9), EM Latin America (20.8), and EAFE (21.8). Among countries, the best performers in 2016 were Argentina (72.3), Austria (55.0), Poland (52.2), China (51.1), and Korea (45.5); the worst performers were Pakistan (-28.0), Sri Lanka (-1.0), Russia (0.3), and Israel (0.5).

S&P 1500/500/400/600 Performance ([link](#)): The S&P LargeCap index rose 19.4% for the year, and

outperformed the SuperComposite (18.8%), MidCap (14.5), and SmallCap (11.7) indexes. That's a reversal from the rankings in 2016 when SmallCap (24.7) outperformed the MidCap (18.7), SuperComposite (10.6), and LargeCap (9.5) indexes. Twenty-six of the 33 sectors rose in 2017, down from 32/33 sectors rising in 2016. The best-performing sectors and their changes for 2017: LargeCap Tech (36.9), SmallCap Health Care (34.5), MidCap Tech (24.4), MidCap Health Care (22.2), and MidCap Industrials (22.2). The weakest performers were MidCap Telecom (-43.7), SmallCap Energy (-26.7), MidCap Energy (-16.8), LargeCap Telecom (-6.0), and LargeCap Energy (-3.8).

S&P 500 Sectors and Industries Performance ([link](#)): The S&P 500 rose 19.4% in 2017 as nine of its 11 sectors moved higher; that compares to ten sectors rising in 2016, when the S&P 500 rose 9.5%. The best performers of 2017 among sectors: Tech (36.9%), Materials (21.4), Consumer Discretionary (21.2), Financials (20.0), and Health Care (20.0). The year's worst performers: Telecom (-6.0), Energy (-3.8), Real Estate (7.2), Utilities (8.3), Consumer Staples (10.5), and Industrials (18.5). Three sectors ended the year higher for an impressive ninth straight year: Consumer Discretionary, Consumer Staples, and Information Technology. Health Care rose in 2017 after falling in 2016 for the first time in eight years. Energy and Telecom both fell in 2017 and are down in three of the past four years.

Commodities Performance ([link](#)): Eighteen of the 24 commodities that we follow rose in 2017, unchanged from 2016. The S&P GSCI Commodities index rose 11.1% in 2017. That compares to a 27.8% gain in 2016, and remains down 50.3% from its record high in 2008. Industrial Metals-related commodities dominated the best performers in 2017: Aluminum (34.1%), Copper (30.8), Zinc (29.6), Nickel (27.5), and Lead (23.8). Agricultural commodities dominated the worst performers in 2017: Sugar (-22.3), Natural Gas (-20.7), Cocoa (-11.0), Coffee (-7.9), Soybeans (-4.2), and Corn (-0.4). Gold rose 13.7% for the year, up from its 8.6% gain in 2016.

S&P 500 Technical Indicators ([link](#)): The S&P 500 index remained in a Golden Cross last week for an 87th week (after 17 weeks in a Death Cross) as both the short-term and long-term trends weakened for a second straight week. However, the index's 50-day moving average (50-dma) relative to its 200-dma rose to a 37-week high of 5.4% from 5.3% a week earlier. That 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 an 18th 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 a 17th 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 a five-week low of 2.0% above its rising 50-dma from 2.9% above a week earlier, which compares to a nine-month high of 3.1% in mid-December and 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% in December 2016 and a 52-month high of 6.2% in March 2016. The S&P 500 fell last week to a five-week low of 7.5% above its rising 200-dma from 8.3% a week earlier, which compares to a nine-month high of 8.3% in mid-December, a post-election 38-month high of 9.4% on March 1, a post-election low of 3.0% in mid-August, and an eight-month low of -0.1% immediately before the 2016 election.

S&P 500 Sectors Technical Indicators ([link](#)): Among the 11 sectors, only two improved w/w relative to both their 50-dmas and their 200-dmas: Real Estate and Utilities. Energy was mixed, but improved relative to its 200-dma. Nine of the 11 sectors traded above their 50-dmas for a second week, down from 10 in mid-December before Real Estate fell below and joined Utilities. Still, that's up sharply from six at the end of November and contrasts with the week before the 2016 election when all 11 were below (for the first time since December 11, 2015). The longer-term picture is similarly strong: 10 sectors were above their 200-dmas for a second week (all but Utilities). All 11 had been above in mid-December for the first time since mid-February. Ten sectors are in a Golden Cross, with 50-dmas higher than 200-dmas. That's up from nine a week earlier as Consumer Staples joined the Golden

Cross club for the first time in 11 weeks, leaving Telecom out for a 43rd straight 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 sectors have rising 50-dmas, unchanged from a week earlier as Health Care's 50-dma fell for the first time in five weeks and Utilities' dropped for a second week. Ten sectors have rising 200-dmas, up from nine a week earlier. Telecom's 200-dma fell for an 18th straight week, and Energy's 200-dma rose for a second week after falling for 34 weeks.

S&P 500/400/600 Forward Earnings ([link](#)): Forward earnings rose to yet another record high last week for all three indexes. LargeCap's forward earnings was higher for a 23rd straight week; MidCap's was higher for a 19th week; and SmallCap's has risen in 17 of the past 23 weeks. Momentum remains strong as the yearly change in forward earnings is up from six-year lows in early 2016, and should remain strong as the new tax rates take effect in 2018. In the latest week, the rate of change in LargeCap's forward earnings rose to a six-year high of 11.0% y/y from 10.7%, which compares to a six-year low of -1.8% in October 2015; MidCap's rose to a six-year high of 16.6% from 16.2%, which compares to a six-year low of -1.3% in December 2015; and SmallCap's rose to a five-week high of 11.3% from 10.3%, which compares to a 39-month high of 13.0% in mid-July and a six-year low of 0.3% in December 2015. LargeCap's consensus growth rates expected for 2017 and 2018 remained strong throughout 2017 instead of falling, and the growth rates for 2018 should improve for all three indexes as the lower corporate tax rate takes effect. Here are the latest consensus earnings growth rates for 2017 and 2018: LargeCap 11.4% and 12.0%, MidCap 10.8% and 14.8%, and SmallCap 4.1% and 21.4%.

S&P 500/400/600 Forward Valuation ([link](#)): Forward P/E ratios were lower for the three indexes last week. LargeCap's weekly forward P/E fell to 18.2 from 18.3 and is down from a 14-year high of 18.4 in mid-December. It's up from a 15-month low of 14.9 in January 2016 and the post-Lehman-meltdown P/E of 9.3 in October 2008, but remains well below the tech bubble's record high of 25.7 in July 1999. SMidCap's P/E had stalled for most of 2017 following the post-election meltup, but has been rising again recently. MidCap's forward P/E edged down to 18.3 from 18.4, and is above LargeCap's P/E again after being below in mid-December for only the third time since 2009. MidCap's P/E remains below its 15-year high of 19.2 in late February when the Energy sector's earnings were depressed and the record high of 20.6 in January 2002, but is up from a three-year low of 15.0 in January 2016. SmallCap's fell to 19.9 from 20.2, which compares to a 51-week high of 20.2 at the beginning of December and a 15-year high of 20.5 in December 2016 when Energy's earnings were depressed. That's up from a three-year low of 15.5 in February 2016, and just 1ppt below SmallCap's record-high P/E of 20.9 in April 2002. Prices remain near record highs for all three indexes, but their "E"s still remain low as the bottom-up consensus awaits management guidance about the impact of the lower corporate tax rate. Looking at their daily forward price/sales (P/S) ratios, valuations last week were mostly steady for the three indexes: LargeCap's P/S of 2.06 on Friday is a tad below its record high of 2.08 on December 18, MidCap's 1.34 is down from a record high of 1.39 in early March, and SmallCap's 1.04 is down from 1.08 in early March and its record high of 1.17 in November 2013.

S&P 500 Sectors Quarterly Earnings Outlook ([link](#)): With the Q4 earnings season set to begin, earnings revisions activity has slowed considerably. The S&P 500's Q4-2017 EPS forecast rose two cents w/w to \$34.84, and is down only 0.4% from \$34.98 at the end of Q3. That decline marks the smallest decrease in a quarterly forecast since Q1-2011. The \$34.84 estimate represents a forecasted pro forma earnings gain for Q4-2017 of 12.0%, up from 11.7% a week earlier, and compares to Q3-2017's blended estimate/actual of 8.5%, Q2's 12.3%, and Q1's 15.3% (which was the strongest growth since Q3-2011 owing mostly to easier comps for Energy). Since the end of Q3, Q4 estimates are higher for three sectors, lower for seven, and steady for one. Energy's Q4 forecast has jumped 23.5%, followed by these sectors: Tech (up 2.5%), Utilities (2.4), and Telecom (0.0). Materials' Q4-2017 forecast has fallen 9.6% for the worst decline, and is followed by: Industrials (-9.3), Consumer

Discretionary (-5.8), Real Estate (-5.1), Financials (-2.8), Health Care (-2.3), and Consumer Staples (-1.0). The S&P 500's Q4-2017 forecasted earnings gain of 12.0% y/y would be its sixth straight gain after four declines. Nine of the 11 sectors are expected to record positive y/y earnings growth in Q4-2017, and four are expected to beat the S&P 500's forecasted y/y earnings gain of 12.0%. That's because analysts expect Energy to report another large profit jump in Q4 relative to very low earnings a year ago. That's better than Q3-2017, when eight sectors rose y/y, but down from Q2-2017, when all 11 sectors rose y/y for the first time since Q3-2011. The latest forecasted Q4-2017 earnings growth rates vs their blended Q3-2017 growth rates: Energy (134.4% in Q4 vs 162.6% in Q3), Materials (25.5, 7.0), Tech (15.6, 24.2), Financials (13.3, -7.3), S&P 500 (12.0, 8.5), Utilities (8.9, -4.6), Consumer Staples (8.7, 4.7), Consumer Discretionary (5.7, 3.9), Health Care (4.6, 8.3), Industrials (4.2, 3.1), Real Estate (-1.2, 3.8), and Telecom (-2.0, -2.8). On an ex-Energy basis, S&P 500 earnings are expected to rise 9.5% y/y in Q4, up from 6.1% in Q3 (which was the slowest growth since ex-Energy earnings rose just 2.2% in Q2-2016) but down from gains of 9.6% in Q2 and 11.0% in Q1.

S&P 500 Q4 Earnings Trend vs. Past Quarters ([link](#)): With the December-quarter books closed, the current Q4-2017 EPS forecast of \$32.76 has dropped just 0.4% over the 13 weeks since the quarter's start. That's the slowest pace of decline since Q1-2011 and much better than 2.6% decline recorded for Q3 over the same time period. It marks the 27th straight quarter that forecasts have fallen, but the decline is smaller than the average 4.0% decrease over the same time period and below the average 6.4% decline in Q4 estimates since 1994. Analysts expect EPS for Q4-2017 to be up 11.4% y/y on a frozen actual basis, ahead of the 7.2% gain for Q3-2017, but that would mark the sixth straight quarter of higher EPS on a y/y basis. Since 1994, the Q4 earnings surprise has been positive in 15/23 years (all but 1995, 1997-1998, 2000-2002, and 2007-2008). We think Q4 will mark the S&P 500's 36th straight quarter of positive surprises—a streak dating back to Q1-2009 and longer than the prior 10-quarter positive surprise streak (Q1-2003 to Q2-2005).

US ECONOMIC INDICATORS

Existing Home Sales ([link](#)): Existing home sales in November blew past forecasts, soaring to its highest level since the end of 2006. These sales—tabulated when a purchase contract closes—rose for the third straight month, by 5.6% m/m and 8.6% over the period, to 5.81mu (saar)—the highest reading since December 2006. Single-family sales surged 7.4% over the three-month period to 5.09mu (saar), while multi-family sales soared 20.0% during the two months ending November to 720,000 units. According to NAR's chief economist, "Faster economic growth in recent quarters, the booming stock market and continuous job gains are fueling substantial demand for buying a home as 2017 comes to an end." Total (3.8% y/y), single- (3.3), and multi- (7.5) family sales all were above year-ago levels. However, sales continue to face headwinds due to lack of supply and higher prices. The number of existing single-family homes on the market at the end of November fell to 1.47mu—9.8% below a year ago—recording y/y declines for the 30th consecutive month; unsold inventory was at a record-low 3.5 months' supply—well below the 5-6 months' supply that normally signals a balanced market.

Pending Home Sales ([link](#)): The Pending Home Sales Index—measuring sales contracts for existing-home purchases—eked out a small gain in November after rebounding strongly in October. The index edged up 0.2% to a five-month high of 109.5; sales were 0.8% above a year ago—the first positive annual reading since June. Sales were above year-ago levels in three of the four regions—the South (2.5% y/y), Northeast (1.1), and Midwest (0.8); sales in the West fell 2.3% y/y. NAR's Chief Economist Lawrence Yun noted: "The housing market is closing the year on a stronger note than earlier this summer, backed by solid job creation and an economy that has kicked into a higher gear. However, new buyers coming into the market are finding out quickly that their options are limited and competition is robust." Availability is a big concern heading into 2018, as November's 3.4 months' supply was the lowest since NAR began tracking the data in 1999.

New Home Sales ([link](#)): November new home sales raced to more than a 10-year high. New home sales posted a sizable gain for the second time in three months, jumping 17.5% in November and 31.1% over the period, to 733,000 units (saar)—its best pace since July 2007. (New home sales are tabulated when contracts are signed, making new home sales a timelier barometer of the residential market than existing home sales.) In November, there were 283,000 homes on the market, with the supply of homes at the current sales rate dropping to 4.6 months. Meanwhile, homebuilders are very optimistic—NAHB's gauge of home-builder confidence for December rose 5 points to 75—the highest level in more than 18 years, on expectations for a stronger economy. The index's three components—buyer traffic (+8 points to 58), current sales (+4 to 81), and sales expectations (+3 to 79) all moved higher.

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