



MORNING BRIEFING

December 3, 2018

Restricting 'Restrictive'

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

(1) Disinflation. (2) One more rate hike, then done until mid-2019? (3) Core consumer goods prices still deflating. (4) In consumer services inflation, rent looks topy, while health care remains subdued. (5) Record-high real wages suggests productivity is fine. (6) So does record profit margin. (7) The Fed is less accommodative and also less restrictive. (8) A brief history of the Fed since late September. (9) Data dependent again. (10) Movie review: "Widows" (- - -).

Inflation: Less of It. While I was away visiting our London accounts last week, the Fed made lots of headlines. Evidence mounted that following another likely rate hike at the FOMC meeting on December 18-19, the monetary policy committee might pause during the first half of next year to reevaluate the course of monetary policy. Not as widely noticed last week was that inflationary pressures may be ebbing, which would also argue for a pause. Consider the following:

(1) *PCED*. While the labor market continues to tighten and wage gains are picking up, price inflation remains subdued according to the most currently available data. For starters, the core PCED rose 1.8% y/y during October, the lowest such pace since February ([Fig. 1](#)). Over the past three months through October, this measure is up just 1.1% (saar), the lowest reading since May 2017 ([Fig. 2](#)).

(2) *Goods*. The core PCED for goods fell -0.6% y/y during October ([Fig. 3](#)). The US import price index excluding energy has been moving higher since early 2017 after falling the previous two years. Nevertheless, it was up only 0.7% y/y during October, as a strong dollar this year mostly offset Trump's tariffs.

(3) *Services*. The PCED for services excluding energy rose 2.6% y/y during October, an eight-month low ([Fig. 4](#)). Wireless telephone services prices fell sharply during 2017, but stabilized this year. So some of the upward pressure on inflation this year simply reflected much less deflation in this services category ([Fig. 5](#)).

(4) *Rent*. More importantly, the rate of inflation for rent of primary residence has been moderating over the past two years after rising sharply during most of the current expansion ([Fig. 6](#)). It was still high at 3.6% during October. But the boom in multi-family housing construction in recent years may be closing the gap between the demand and the supply of rental housing units.

(5) *Medical care*. Of even greater importance may be what is happening to prices in the health care industry. They aren't rising much at all ([Fig. 7](#)). Over the past 12 months through October, the PCED for medical care is up just 1.3%, with hospital and physician services up only 1.5% and 0.7%, respectively, and prescription drug prices up just 0.8%! The moderation in the latter might reflect pressure from the Trump administration on drug companies to keep a lid on their prices. The services components of health care may finally be experiencing long-overdue upturns in their productivity, which may be a long-term phenomenon as new competitors—most notably Amazon—enter the field.

(6) *Regional price surveys*. Five of the Fed's regional district banks include questions on prices paid and prices received in their monthly surveys. Debbie and I monitor the averages of each of these two series ([Fig. 8](#)). Both peaked during July and have been edging down since then through November.

(7) *Oil*. Helping to moderate inflationary expectations has been the recent 31% plunge in the price of a barrel of Brent crude oil since October 3 through Friday ([Fig. 9](#)). Technological innovation continues to disrupt the global oil industry, as US frackers are now producing almost 12.0mbd ([Fig. 10](#)). US crude oil exports have doubled since mid-January 2015 to 7.4mbd currently ([Fig. 11](#)).

(8) *Real wages and productivity*. Average hourly earnings rose 3.2% y/y during October, while the overall PCED rose 2.0% over the same period. As a result, inflation-adjusted wages rose to yet another record high ([Fig. 12](#)). This measure has been on a solid uptrend since the mid-1990s, blowing away the myth that real wages have stagnated for decades.

This couldn't have been happening unless productivity has also been performing better than suggested by the data, which were revised higher for the late 1990s and may be revised higher for the current expansion, in our opinion. Another reason to believe that productivity is underestimated is the S&P 500 profit margin, which has been soaring to new record highs since late last year ([Fig. 13](#)). How did that happen if productivity has been as weak as widely believed? (It can't all be explained by the cut in the corporate tax rate at the end of 2017.)

In an 11/27 [speech](#), Fed Vice Chairman Richard Clarida acknowledged as much when he rhetorically asked: "What might explain why inflation is running at or close to the Federal Reserve's long-run objective of 2 percent, and not well above it, when growth is strong and the labor market robust?" He concluded that the answer might be that while "growth in aggregate demand in 2018 has been above the expected long-run growth rate in aggregate supply, it has not been exceeding this year's growth in *actual* aggregate supply." The explanation is better-than-expected growth in productivity. If this keeps up, we will all be supply-siders.

The Fed: Less Accommodative & Less Restrictive. Most of the disinflationary news reviewed above came out last week. The [minutes](#) of the latest, 11/7-8 FOMC meeting also came out last week, on Thursday. Fed officials had a balanced view of the outlook for inflation, suggesting that they believed that inflation would remain around their 2.0% target for the core PCED. The latest data suggest they may need to consider that there might be more downside than upside risk in their inflation outlook, justifying a pause in their rate-hiking. In any event, let's review the recent rapid evolution of group-think at the Fed:

(1) *No longer accommodative*. It was widely noted that the 9/26 FOMC [statement](#) deleted the following language that had appeared in previous statements: "The stance of monetary policy remains accommodative." This sentence had been in every FOMC statement since December 16, 2015, when the Fed started its latest rate-hiking program. Some interpreted this to mean that the Fed is setting up for more aggressive rate increases. On the contrary, Fed Chairman Jerome Powell reassuringly said at his 9/26 [press conference](#) that the language simply had outlived its "useful life." So the Fed will continue its gradual rate increases toward a neutral stance.

That stance was confirmed in the [minutes](#) of that 9/25-26 FOMC meeting, released on October 17: "Almost all considered that it was also appropriate to revise the Committee's postmeeting statement in order to remove the language stating that 'the stance of monetary policy remains accommodative.'" Participants discussed a number of reasons for removing the language at this time, noting that the Committee would not be signaling a change in the expected path for policy..."

(2) *Restrictive*. Notwithstanding the above, in a 10/3 [interview](#), Powell shocked the markets when he stated: “So interest rates are still accommodative but we’re gradually moving to a place where they will be neutral, not that they’ll be a restraint on the economy. We may go past neutral but we’re a long way from neutral at this point, probably.”

During his 9/26 press conference, Powell was asked whether the Fed might end the tightening cycle in a “restrictive posture,” as Fed Governor Lael Brainard suggested in a 9/12 [speech](#). Powell responded: “It’s very possible.” He added: “Maybe we will keep our neutral rate here [i.e., at 3.00%], and then go one or two rate increases beyond it.”

The minutes of September’s FOMC released on October 17 mentioned the word “restrictive” twice as follows:

“A few participants expected that policy would need to become modestly **restrictive** for a time and a number judged that it would be necessary to temporarily raise the federal funds rate above their assessments of its longer-run level in order to reduce the risk of a sustained overshooting of the Committee’s 2 percent inflation objective or the risk posed by significant financial imbalances. A couple of participants indicated that they would not favor adopting a **restrictive** policy stance in the absence of clear signs of an overheating economy and rising inflation.”

In a 10/25 speech, Clarida in effect endorsed Powell’s interview comment and contradicted September’s FOMC statement, saying, “However, even after our September decision, I believe U.S. monetary policy remains accommodative.” Melissa and I called it a rookie mistake, for sure, but Powell should have known better.

(3) *Open to suggestions*. Then we noticed that Clarida walked that statement back for himself, and maybe for Powell too, saying in a 11/16 CNBC [interview](#): “As you move in the range of policy that by some estimates is close to neutral, then with the economy doing well it’s appropriate to sort of shift the emphasis toward being more data dependent.”

In an 11/14 Q&A session led by Dallas Fed President Robert Kaplan, Powell turned more dovishly cautious, comparing monetary policy to walking through a room full of furniture when the lights go out. “What do you do? You slow down. You stop, probably, and feel your way,” he said. “It’s not different with policy.” He also warned about relying too much on data that are revised frequently. He said, “You pick things up sooner talking to business people because they start to feel it, and then it shows up in the data.”

Another hint that the Fed might be turning less hawkish—or at least more open to suggestions—occurred the day before. In a short 11/15 [press release](#), the Fed announced a year-long review of the “the strategies, tools, and communication practices it uses.” It was described as an “outreach effort,” promising a “series of public events around the country to hear from a wide range of stakeholders.”

The timing seemed odd to us given that monetary policy appeared set on a “gradual” tightening course of 25bps hikes every three months through next year. Also odd is that the review was announced following recent criticism of monetary policy by none other than President Trump. Presidents aren’t supposed to butt into monetary policymaking, and the Fed is supposed to resist such political interference in its independence.

(4) *Data dependent again*. The Tuesday 11/27 *WSJ* included an [article](#) titled “Fed Shifts to a Less Predictable Approach to Policy Making.” It was based on interviews with Fed officials who “will be

deciding whether and when to raise interest rates more on the basis of the latest signs of economic vigor—such as in inflation, unemployment and growth—and less on forecasts of how the economy is expected to perform in the months and years to come.”

They are admitting that they are more uncertain about the level of the neutral interest rate and “are looking for clues in markets and economic data that might suggest whether this point might be higher or lower.”

The very same day, in an 11/27 [speech](#), Clarida reiterated that both the neutral rate of interest and the unemployment rate consistent with stable inflation are unmeasurable. So to get a fix on them “supports the case for gradual policy normalization, as it will allow the Fed to accumulate more information from the data about the ultimate destination for the policy rate.” That also supports the case for longer pauses in between rate hikes.

In his Wednesday 11/28 [speech](#) at The Economics Club of New York, Powell said: “Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy—that is, neither speeding up nor slowing down growth.” In effect, he was admitting that the 10/3 long-ways-off comment was a gaff, and he took it back.

The next day, the [minutes](#) of the latest, 11/7-8 FOMC meeting came out on Thursday 11/29. The word “restrictive” did not appear even once.

Movie. “Widows” (- - -) ([link](#)) is a great way to get a snooze at a movie theater. Viola Davis stars as the ringleader of four women who are forced to commit a heist to pay off the debt of their four husbands, killed after their last botched robbery. This is an action movie without much action or any action hero. From now on, I think I will pass on any movie starring Liam Neeson (who plays Viola’s husband); he has been appearing in lots of forgettable low-wattage action movies of late.

CALENDARS

US. Mon: ISM & IHS Markit M-PMIs 57.2/55.4, Capital Spending 0.4%, Williams, Brainard. **Tues:** Motor Vehicle Sales 17.2mu, Williams. (Econoday estimates)

Global. Mon: Eurozone M-PMIs, UK M-PMI 52.0, Japan M-PMI, China Caixin M-PMI 50.1. **Tues:** RBA Cash Rate Target 1.50, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index soared 4.8% w/w for its biggest gain in seven year, ranking second out of the 49 markets as 39/49 countries rose in US dollar terms. That compares to the prior week’s 37/49 ranking, when the US MSCI fell 3.8% and five markets rose. The AC World ex-US index surged 3.3% w/w for its biggest gain in nine months; that compares to a 1.3% drop a week earlier. BRIC was the best performer for the week with a gain of 3.5% as all regions rose, ahead of EM Asia (3.2%) and EM Latin America (1.6). EMU (0.8) rose the least, followed by EAFE (1.0), EMEA (1.0), and EM Eastern Europe (1.2). Greece was the best-performing country, rising 5.3%, followed by the United States (4.8), India (4.8), Sri Lanka (4.4), and China (3.8). Of the 27 countries that underperformed the AC World ex-US MSCI last week, Jordan fared the worst, falling 5.8%, followed by Egypt (-4.6), Ireland (-1.6), and Pakistan (-1.4). In November, the US MSCI rose 1.7%, ranking 22/44 and ahead of the 0.8% gain for the AC World ex-US index in a month most regions rose. That compares to the US MSCI’s 7.0% decline in October, which was the worst since September 2011 and ranked 19/44 and ahead of the 8.2% decline for the AC World ex-US in a month when nearly all

regions fell. The best-performing regions in November: BRIC (5.7), EM Asia (5.1), EMEA (1.6), and EM Eastern Europe (1.4). November's worst-performing regions: EM Latin America (-2.4), EMU (-1.0), and EAFE (-0.3). The US MSCI's ytd ranking remained steady last week at an impressive 2/49 ytd, with its 3.1% gain far ahead of the AC World ex-US (-12.3) performance. All regions and nearly all countries—47/49—are in negative territory ytd. Among regions, those that have fallen less on a ytd basis than the AC World ex-US are: EM Eastern Europe (-5.7), EM Latin America (-8.1), EMEA (-9.4), BRIC (-11.6), and EAFE (-11.8). EMU (-14.4) and EM Asia (-14.4) are the biggest laggards. The best country performers ytd: Israel (7.4), the US (3.1), Brazil (-1.4), Russia (-1.7), and Peru (-1.8). The worst-performing countries ytd: Argentina (-49.2), Turkey (-40.4), Greece (-34.1), Pakistan (-29.0), and South Africa (-26.0).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes rose last week, but only SmallCap remains in a correction now. LargeCap soared 4.8% last week, ahead of the gains for MidCap (2.9%) and SmallCap (2.7). LargeCap remains 5.8% below its record high on September 20. MidCap and SmallCap are 8.4% and 12.3% below their August 29 records, respectively. Thirty of the 33 sectors moved higher last week, an impressive comeback after the week before when all 33 fell. The biggest gainers in the latest week: LargeCap Consumer Discretionary (6.4), LargeCap Tech (6.1), LargeCap Health Care (5.9), and LargeCap Communication Services (5.5). MidCap Consumer Staples (-1.9) was the biggest decliner last week, followed by SmallCap Energy (-0.8) and SmallCap Utilities (-0.4). All three of these market-cap indexes moved higher in November after falling in October. MidCap gained 2.9%, ahead of the increases for LargeCap (1.8) and SmallCap (1.4). Twenty-two of the 33 sectors advanced in November, up from just two rising in October in what was then the lowest count since one rose in February. November's best performers: LargeCap Health Care (6.8), MidCap Industrials (6.7), MidCap Utilities (5.9), LargeCap Real Estate (5.3), and SmallCap Health Care (5.1). November's biggest laggards: SmallCap Energy (-12.7), MidCap Energy (-10.2), LargeCap Energy (-2.2), LargeCap Tech (-2.1), and SmallCap Communication Services (-2.1). In terms of ytd performance, only MidCap now remains in the red with a drop of 1.2%; LargeCap is up by 3.2%, followed closely by SmallCap's 2.9% rise. Sixteen sectors are now positive to date in 2018, up from 12 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (30.8), MidCap Health Care (22.9), SmallCap Communication Services (15.8), LargeCap Health Care (14.7), and MidCap Communication Services (11.6). The worst performers ytd: SmallCap Energy (-25.4), MidCap Materials (-12.9), SmallCap Materials (-11.0), MidCap Energy (-10.1), and LargeCap Materials (-10.0).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors rose last week, and four outperformed the S&P 500's 4.8% gain. That compares to all 11 falling a week earlier, when seven outperformed the S&P 500's 3.8% decline. Consumer Discretionary was the best-performing sector with a gain of 6.4%, ahead of Tech (6.1%), Health Care (5.9), and Communication Services (5.5). Materials was the biggest underperformer with a gain of 2.4%, followed by the also-underperforming Utilities (2.7), Real Estate (2.7), Consumer Staples (2.9), Energy (3.5), Financials (3.9), and Industrials (4.0). The S&P 500 rose 1.8% in November as 8/11 sectors moved higher and seven beat the index. That compares to 2/11 rising and six beating the S&P 500's 6.9% decline in October. The leading sectors in November: Health Care (6.8), Real Estate (5.3), Materials (3.8), Industrials (3.5), Utilities (3.1), Consumer Discretionary (2.6), and Financials (2.6). The biggest laggards in November: Energy (-2.2), Tech (-2.1), Communication Services (-0.7), and Consumer Staples (-1.7). Five sectors are in the plus column so far in 2018, up from four a week earlier and down from nine in mid-September, which had matched the best ytd count also achieved in early March. However, these four sectors are outperforming the S&P 500's 3.2% ytd gain: Health Care (14.7), Consumer Discretionary (8.7), Tech (7.6), and Utilities (5.0). The seven ytd underperformers: Materials (-10.0), Communication Services (-9.8), Energy (-8.8), Industrials (-4.7), Financials (-3.6), and Consumer Staples (-1.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.7% for its first gain in eight

weeks as 15 of the 24 commodities moved higher. That compares to a 6.7% decline a week earlier, which was its worst in four years as seven of the 24 commodities moved higher. Last week's strongest performers: Natural Gas (5.9%), Cocoa (3.8), Sugar (3.0), Kansas Wheat (2.9), and Nickel (2.6). GasOil (-3.8) was the biggest decliner, followed by Coffee (-3.1), Feeder Cattle (-2.8), Heating Oil (-2.2), and Silver (-1.0). November saw 12 of the 24 commodities climb as the S&P GSCI Commodities index tumbled 10.9%, compared to nine rising in October, when the index fell 6.2%. November's best performers were Natural Gas (41.4), Lean Hogs (15.6), Soybeans (5.0), Corn (4.0), and Copper (3.5). November's laggards: GasOil (-22.0), Crude Oil (-22.0), Brent Crude (-20.8), Unleaded Gasoline (-20.0), and Heating Oil (-18.7). The S&P GSCI commodities index is now down 8.1% ytd, and has barely avoided falling into a bear market. Its current level is down 19.1% from its four-year high on October 3, which was just half of its record high in July 2008 before the financial crisis. The top performer so far in 2018 remains Natural Gas (56.2), followed by Wheat (20.8), Kansas Wheat (17.1), Cocoa (16.4), and Corn (7.7). The biggest laggards of 2018 to date are dominated by industrials metals: Zinc (-22.9), Unleaded Gasoline (-21.9), Lead (-20.7), Silver (-17.1), and Crude Oil (-15.7).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 16/24 commodities, 8/9 global stock indexes, and 30/33 US stock indexes, compared to 6/24 commodities, 1/9 global stock indexes, and 0/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -4.9% from -5.8%, and six commodities ended the week trading above their 200-dmas, up from five a week earlier. Commodities took home all the trophies among the asset classes last week (highest and lowest trading relative to 200-dmas as well as best- and worst-performing): Natural Gas leads all commodities and all assets at 52.8% above its 200-dma, and rose 6.3ppts w/w for the best performance among all assets. Unleaded Gasoline (-29.2) trades at the lowest relative to its 200-dma among commodities and all assets, while GasOil (-16.7) fell 3.2ppts w/w for the worst performance among commodities and all assets. The global indexes trade at an average of 3.5% below their 200-dmas, up from -5.0% in the prior week. Just one of the nine global indexes trades above its 200-dma, unchanged from a week earlier. Brazil (10.4) leads the global indexes, and rose 4.0ppts w/w for the best performance among global assets. Chile (-4.7) fell 0.3ppt for the worst performance among global assets. China (-10.8) trades at the lowest point relative to its 200-dma among global assets. The US stock indexes trade at an average of 1.9% below their 200-dmas, with 13 of the 33 sectors above, up from -4.6% a week earlier, when 11 sectors were also above. MidCap Communication Services (9.1) now leads the US stock indexes, but LargeCap Consumer Discretionary (-1.1) gained 6.0ppts w/w for the best performance among US stock indexes last week. SmallCap Energy (-26.1) trades the lowest among all US stock indexes relative to 200-dmas, but MidCap Consumer Staples (-0.1) fell 2.0ppts for the worst performance among US stock indexes last week.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 4.8% last week, but remains slightly below its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index remained in a Golden Cross (50-dma higher than 200-dma) for a 136th straight week (after 17 weeks in a Death Cross), but barely so, as its 50-dma relative to its 200-dma fell for an eighth straight week. The current Golden Cross reading of 0.3% is the lowest since April 2016; it's down from 1.0% a week earlier and a 27-week high of 4.1% in early October. That's well below its 55-month high of 7.2% in early February and compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma fell for a seventh week following 19 straight weekly gains, which compares to declines during eight of the 10 weeks from mid-March to late May in what was then the worst performance since before the 2016 election. The index improved to 0.3% below its falling 50-dma from 5.6% below its falling 50-dma a week earlier and compares to a 33-month low of 7.0% below at the end of October. That 33-month low had surpassed the then-25-month low of 5.6% below the index's falling 50-dma near the end of March, and is down from a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma resumed rising last week, but has dropped in four of the past seven weeks in

the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 had successfully tested its 200-dma in early April, and is not out of the woods yet. It ended the week 0.1% below its barely rising 200-dma, up from a 33-month low of 4.7% below its falling 200-dma a week earlier. That's down from a six-month high of 6.4% above its rising 200-dma during the week ending September 21 and remains well below the seven-year high of 13.5% above its rising 200-dma on January 29.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors improved last week relative to their 50-dmas and 200-dmas. Five are now trading above their 50-dmas, compared to two a week earlier. All 11 had been below at the end of October for the first time since late March and only the second time since February 2016. In late July, all 11 sectors had traded above their 50-dmas, the most since early December. Consumer Staples, Financials, and Health Care moved above their 50-dma in the latest week, and rejoined Real Estate and Utilities as the only members in that club. The longer-term picture—i.e., relative to 200-dmas—shows four sectors trading above currently, unchanged from a week earlier. That compares to three at the end of October in the lowest count since all 11 were below in January 2016. That's a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. Two long-term 200-dma leaders left the building during October: Tech fell below its 200-dma for the first time in 121 weeks, and Consumer Discretionary fell below its 200-dma for the first time in 102 weeks. The four sectors trading above their 200-dmas: Health Care (27 straight weeks), Utilities (23), Consumer Staples (7), and Real Estate (5). Five sectors are still in a Golden Cross (with 50-dmas higher than 200-dmas), down from seven a week earlier, as Consumer Discretionary and Tech left the club for the first time since April 2016. Among the remaining laggards, Financials has been out of Golden Cross territory for seven straight weeks and during 19 of the past 23 weeks, Materials has been out for 31 straight weeks, Energy for three weeks, and Industrials for two weeks. All 11 sectors had been in a Golden Cross back in mid-January (for the first time since a 26-week streak ended in October 2016). Three of the sectors have rising 50-dmas now, up from none a week earlier, as these three turned higher w/w: Health Care, Real Estate, and Utilities. That's down from eight sectors with rising 50-dmas in early October and compares to all 11 sectors with falling 50-dmas during late October and early April (the worst counts since before the election in November 2016). Six sectors had rising 200-dmas at the end of last week, up from three a week ago and two during early November in what was then the lowest count since January 2016, when all 11 sectors had falling 200-dmas. In the latest week, Consumer Discretionary, Consumer Staples, and Tech rejoined the rising 200-dma club also occupied by Health Care, Real Estate, and Utilities.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): The consumer once again could be the main driver of economic growth this quarter—with both real incomes and real spending off to strong starts in October. The latest monthly data show real consumer spending continued to expand to new record highs, rising at a seven-month high of 0.4% in October—led by the strongest advance in real services (0.5%) consumption since March 2017; real goods (0.3) consumption was also strong, with both durable (0.4) and nondurable (0.3) goods expenditures contributing. Real consumer spending expanded 3.3% (saar) during the three months through October, based on the three-month average—near Q3's pace of 3.6% (saar)—with consumer durable goods (4.5%, saar), nondurable goods (3.6), and services (3.1) consumption all posting healthy gains over the comparable three-month period. The latest movements in income measures support robust consumer spending, as real wages & salaries (3.2) and real disposable personal income (2.5) continued to accelerate during the equivalent three-month period. Meanwhile, October data show headline inflation remained at 2.0% y/y, while the core rate—the Fed's preferred measure—slowed to an eight-month low of 1.8%, remaining below its target rate of 2.0%.

Pending Home Sales ([link](#)): The Pending Home Sales Index (PHSI)—measuring sales contracts for

existing-home purchases—dropped to its lowest level since June 2014. October's PHSI fell for the fifth time in six months to 102.1—falling short of year-ago levels for the tenth straight month, contracting -6.7% y/y. “The recent rise in mortgage rates have reduced the pool of eligible homebuyers,” noted Lawrence Yun, NAR chief economist, though he sees less of a need for the Fed to aggressively raise interest rates given the easing in inflationary pressures. Regionally, sales fell in three of the four regions in October, and in all four regions y/y, with the West the weakest region—as sales sank -8.9% m/m and -15.3% y/y. Here's a tally of the other three regions: Northeast (0.7% m/m & -2.9% y/y), South (-1.1 & -4.6), and Midwest (-1.8 & -4.6). While Yun has some uncertainties about the short-term, he remains optimistic on the long-term: “Mortgage rates are much lower today compared to earlier this century, when mortgage rates averaged 8 percent. Additionally, there are more jobs today than there were two decades ago. So, while the long-term prospects look solid, we just have to get through this short-term period of uncertainty.”

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate ([link](#)): November's CPI rate is expected to slow after accelerating in October to its highest reading since the end of 2012. November's report estimates the rate eased to 2.0% y/y after accelerating the previous two months from 2.0% in August to 2.2% in October—remaining above the ECB's target rate of just under 2.0% for the seventh month. Looking at the main components, energy (to 9.1% from 10.7% y/y) once again is estimated to have the highest annual rate, though is expected to slow for the first time since August. Also assumed to move lower are rates for food, alcohol & tobacco (2.0 from 2.2) and services (1.3 from 1.5)—with the former slowing to its lowest rate since February; the rate for non-energy industrial goods is calculated to remain at 0.4%. Meanwhile, the core rate—which excludes energy, food, alcohol & tobacco—is expected to tick down to 1.0% y/y after accelerating from 0.9% to 1.1% in October, which had matched its high for the year posted in both July and May.

Eurozone Economic Sentiment Indicators ([link](#)): November's Economic Sentiment Index (ESI) for the Eurozone (-0.2 points to 109.5) fell for the 11th time this year, though barely budged last month; it's down -5.7 points from December's 17-year high of 115.2. Meanwhile, the EU's (-0.8 to 109.6) ESI posted another sharp drop, falling for the ninth time this year, down -5.4 points from its 17-year high of 115.0 at the end of last year. Both measures are at their lowest levels since May 2017. Among the Eurozone's five largest economies, Germany's (+0.6 point to 111.8) ESI rose while Italy's (-1.2 to 105.9) fell—with sentiment in France (+0.2 to 104.8), the Netherlands (+0.1 to 108.3), and Spain (-0.3 to 107.1) broadly stable. At the sector level, sentiment in the Eurozone was mixed: industry (+0.4 to 3.4) and retail trade (+0.2 to -0.6) sentiment ticked up, while both services (at 13.3) and construction (7.9) confidence were unchanged, the latter just below record highs; only consumer (-1.2 to -3.9) confidence deteriorated last month.

Italy GDP ([link](#)): The revision to Q3 real GDP growth shows Italy's economy contracted for the first time in 15 quarters, slumping -0.5% (saar), on weak domestic demand. Trade contributed positively to growth last quarter as exports (4.3%, saar) outpaced imports (3.2). Real gross capital formation sank -4.2% (saar) as investment in machinery & equipment and weapons systems (-10.9) dropped at a double-digit rate, while real construction expenditures (1.9) expanded for the fifth straight quarter. Real consumer spending (-0.3) was in the red for the first time since Q1-2014, while government spending (-0.2) was little changed. Real GDP climbed only 0.7% y/y—a three-year low—slowing steadily since Q2-2017's 1.8%.

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