



MORNING BRIEFING

December 10, 2018

Optimistic Analysts vs Pessimistic Investors

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

(1) Is the party over? (2) Analysts are still in a party mood. (3) S&P 500 forward revenues at another record high. (4) Analysts may finally be starting to curb their enthusiasm for earnings and profit margins. (5) Investors aren't in a party mood. (6) Is the most widely anticipated recession imminent? (7) Fed's expected rate pause is flattening yield curve and raising recession anxiety. (8) Tenuous trade ceasefire with China is also flattening yield curve. (9) Trump is a loose cannon. (10) Trump is glued to the tape. (11) Record full-time jobs. (12) *Beige Book*: Take this job and shove it.

Saturday Night Special. I spent the past weekend reading the stories explaining the background behind the arrest of Huawei Technologies Co. Finance Chief Meng Wanzhou a week ago Saturday. That was the very same day that President Donald Trump and Chinese President Xi Jinping agreed on a 90-day ceasefire in the trade war between the US and China. The arrest became known to the public this past Thursday morning. On Friday, White House adviser Larry Kudlow [told](#) Fox Business that "President Trump did not know—none of us knew as a matter of fact ... period full stop" about the arrest during the weekend negotiations. Kudlow explained that this is a law enforcement action and not related to trade, but admitted that the Chinese could take it the wrong way.

Ms. Meng was arrested in Vancouver at the request of US authorities, who are charging her with committing fraud and will now seek her extradition to the US. Meng is believed to have helped Huawei circumvent US sanctions on Iran by telling financial institutions that a Huawei subsidiary was a separate company, Canadian prosecutors said at a hearing Friday. The accusations against Meng are not new, with the investigation dating back to at least 2013.

The US and many of its allies have become increasingly concerned that Huawei is controlled by the Chinese government and will be able to use the company's 5G technology to spy on them and potentially to disrupt vital infrastructure systems that depend on it.

Reportedly, the Chinese government initially saw the arrest as a major escalation in the trade war, and a direct threat to their ambitions to dominate 5G and other technologies that they deem essential to their "China 2025" initiative. In a statement Saturday, the Vice Minister of the Chinese Foreign Ministry Le Yucheng said the arrest "severely violated the Chinese citizen's legal and legitimate rights and interests, it is lawless, reasonless and ruthless, and it is extremely vicious." However, a [NYT article](#) on Sunday covered comments from a senior adviser to Chinese leadership made during a conference that seemed to "compartmentalize" the Huawei issue from trade.

Strategy I: Analysts Looking Forward Optimistically. Did the latest bull market in stocks make a top at 2930.75 for the S&P 500 on September 20? Is "the most widely hated bull market of all time" over? That's what the bull market since March 2009 has been called. The answer is "yes" if "the most widely anticipated recession of all time," as I like to call it, is finally about to happen.

Then again, it's conceivable that a bear market might be underway even if the economy continues to grow. An extremely rare phenomenon, that alignment has occurred only once since the end of World War II: during late 1987, when the S&P 500 plunged 33.5% yet real GDP and earnings both continued to rise to new highs over the next six quarters.

Apparently, industry analysts who cover the S&P 500 companies have yet to get the recession memo. The flattening of the yield curve hasn't curbed their enthusiastic outlook for their companies. Neither has the trade war between the US and China. The problem with analysts is that they tend to like the companies they follow, which biases them toward optimism about the companies' prospects. So they don't see recessions coming. If, however, no recession is coming over the coming year, as I believe, then their consensus *forward* revenues and earnings forecasts tend to be accurate. Currently, these forecasts remain remarkably upbeat:

(1) *Forward revenues.* Joe and I have often noted that S&P 500 forward revenues is a very good coincident indicator of S&P 500 actual revenues ([Fig. 1](#)). The former is available weekly, while the latter is a quarterly series. Forward revenues is a time-weighted average of analysts' estimates for S&P 500 revenues during the current and coming years ([Fig. 2](#)). It is available through the 11/29 week, and continued to make new highs during November as analysts continued to raise their revenues estimates for both 2018 and 2019.

Analysts have also been raising their 2020 revenues estimates to new highs. That will boost forward revenues as that year's estimates start to figure into the forward revenues calculation starting next year. The latest estimates show that revenues are expected to grow 8.8% this year, 5.8% next year, and 4.6% in 2020.

(2) *Forward earnings.* S&P 500 forward earnings tends to lead actual earnings by a year ([Fig. 3](#)). But again, analysts don't anticipate earnings recessions. However, they may be starting to curb their enthusiasm slightly, as their estimate for 2019 has edged down recently while their 2020 estimate has flattened ([Fig. 4](#)).

Then again, their latest earnings estimates, as of the 11/29 week, remain astonishingly elevated at \$176.15 per share for 2019 and \$194.47 for 2020. In other words, after jumping 24.0% this year, earnings are expected to grow 8.3% in 2019 and 10.4% in 2020. As Joe and I have been explaining since late October, we doubt that earnings will grow more than half as fast. We don't really have a problem with analysts' expectations for revenues growth. However, analysts may be too optimistic on the outlook for the profit margin.

(3) *Forward profit margin.* Analysts may be starting to curb their enthusiasm for the profit margin, however, the latest data suggest. We use their weekly revenues and earnings consensus forecasts to calculate the forward profit margin, which is a good coincident indicator of the actual quarterly variable ([Fig. 5](#) and [Fig. 6](#)). The forward profit margin peaked at a record 12.4% during the 9/13 week. It edged down to 12.2% during the 11/29 week.

Strategy II: Investors Looking Ahead Pessimistically. While industry analysts remain bullish on the outlook for earnings, investors have soured on stocks. The divergence between S&P 500 forward earnings and the valuation of those earnings has been extraordinary. Our Blue Angels analysis shows that the former is up 18.9% ytd through the 11/29 week, while the latter has dropped 14.0% from 18.2 to 15.6 over this same period ([Fig. 7](#)). As a result, the S&P 500 has been basically flat so far this year, despite the fact that I/B/E/S' actual earnings rose 27.6% y/y through Q3 ([Fig. 8](#)).

Sometimes, life just isn't fair. Investors have been looking past this year's great earnings and fretting

about an imminent recession. Consider the following:

(1) *Interest rates.* Until recently, investors feared that the Fed's set course of "gradual," every-three-month 25bps hikes in the federal funds rate might not be gradual enough. In recent weeks, Fed officials have indicated that they are likely to take longer pauses, as I have been advocating.

But now, investors are fretting that the flattening yield curve suggests that the Fed has already gone too far. Of course, the recent decline in the 10-year US Treasury bond yield was partly attributable to the Fed's sudden willingness to pause its rate-hiking to reduce the risks of a recession!

(2) *Trade.* Then again, some of the drop in the bond yield in recent weeks has been attributable to the escalating trade war between the US and China. The truce announced a week ago was immediately undermined last week by President Trump's tweeting that he is "Tariff Man." Then the DJIA dropped about 800 points on Thursday on news that the CFO of Huawei had been arrested in Canada on behalf of the US. It recovered almost all of that lost ground by the end of the day, only to plummet 558 points on Friday.

Perhaps investors initially hoped that the arrest was a badly timed mistake, then realized on Friday that it might have significantly ratcheted up the risks of an out-of-control trade war, which we don't expect will happen. On the other hand, some corporate managements may be quickly concluding that the "truce" announced a week ago basically gives them 90 days (or less) to move their supply chains (and arrestable executives) out of China.

(3) *Trump.* Adding to the tumult over trade may be the legal problems for Trump that surfaced at the end of last week. Special Counsel Robert Mueller's investigation into Russian interference in the 2016 election has been aided by helpful information provided by Michael Cohen, President Trump's former personal lawyer, according to a new filing Friday. In recent days, Trump has issued more disparaging tweets about the Mueller probe. It's getting hard to assess the extent to which the stock market's volatility is attributable to Trump's tweets about China, Mueller, or both.

(4) *Dow Vigilantes.* On Friday afternoon, the *WSJ* posted a [story](#) titled "As Trade Battle Unfolds, Trump Keeps Close Focus on Markets." According to the article, one person close to the White House said that Trump keeps his TV tuned to business channels and is "glued" to the stock market. Last week, as the stock market churned, "President Trump anxiously called advisers both inside and outside the White House looking to ensure that his talks with China were not driving the selloff."

In a sign of how unsettled investors were, stock-index futures dropped so precipitously last Thursday on news of the Huawei arrest that the Chicago Mercantile Exchange (CME) triggered circuit breakers to avoid worse losses. Those futures spiked down to 2,659, a drop of 1.9%, before the CME stopped trading.

This raises an interesting and worrisome possibility. We and other market commentators have blamed much of this year's market volatility, especially the one-day meltdowns, on algorithm trading systems. We know that government-sponsored foreign bad actors have been hacking our computer systems and flooding us with fake news. What if they start manipulating our markets too, to influence our President?

Employment I: Full of Full-Time Jobs. Investors are so twitchy about an imminent recession that Friday's weaker-than-expected payroll report might have contributed to Friday's selloff. They've also taken note of a recent upturn in initial unemployment claims, which actually remain near record-cyclical-low levels. Then again, that upturn has been reflected in our very own Boom-Bust Barometer, which has dropped in recent weeks ([Fig. 9](#)). It has been a good coincident indicator of the S&P 500 since the

late 1990s.

Nevertheless, Debbie and I found lots of good news in the latest employment report, and attribute any weakness to shortages of workers rather than weakness in demand for labor, as confirmed by Melissa's review of the Fed's latest *Beige Book* in the next section. Of course, stock investors may also be worrying that the labor shortages will dampen economic growth. That's conceivable, but so is a rebound in the growth of productivity, in our opinion.

While payroll employment rose only 155,000 during November, the household measure increased 233,000, led by a 543,000 increase in full-time household employment to yet another record high ([Fig. 10](#)). Wage gains continued to outpace consumer price inflation last month, with the former up slightly above 3.0% while the latter continued to hover around 2.0% ([Fig. 11](#)). The unemployment rate was unchanged at just 3.7%, with the short-term rate at 2.9% and the long-term at only 0.8% ([Fig. 12](#)).

Employment II: Ghost Town. Workers are quitting their jobs simply by not showing up, giving no notice, and providing no future contact information—leaving their employers high and dry. Employees “ghosting” employers in this way was discussed anecdotally in the Fed's December *Beige Book*, which was released last week on Wednesday. Other anecdotal evidence of the “exceptionally” tight US labor market suggested that new hires are leaving jobs soon after—and sometimes even before—their start dates. Employees have a lot of leverage in this job market, according to the Fed's report.

These anecdotes capture a nationwide challenge among the Fed districts' business contacts: lots of job openings and a lack of qualified workers to fill them. Published eight times per year, the *Beige Book* includes helpful commentary from Fed district surveys of businesses. The commentary is not scientific or data-driven, but it can be a leading indicator of trends that eventually show up in the data. So it's worth some attention.

One might think that the uncertainty surrounding trade and interest rates could be responsible for slower (albeit still solid) employment trends. It would make sense for employers to take a wait-and-see approach before committing to incremental labor resources even though the US economy remains strong. However, we don't see much evidence of caution on hiring in the latest *Beige Book*. (See our [Table 1](#), which captures the December *Beige Book* commentary pertinent to the labor market as discussed in the following.)

Rather, Fed district business contacts noted that labor shortages for qualified workers are continuing to constrain employment and output growth. Some manufacturers say orders are being left on the table due to worker shortages. So the relative slowdown in employment during November (below the 200,000 mark)—as noted in Debbie's commentary below—likely reflects a lack of qualified labor supply rather than a lack of labor demand. Employers are upping wages to attract and retain workers, but that doesn't seem to be solving the problem. Hiring people with the right skills and keeping them remain challenges.

More takeaways from December's *Beige Book* report:

(1) *“Moderate” wage growth.* Nationwide, employment growth is on the “slower side of modest to moderate”; meanwhile, wage growth is on the “higher side” of modest to moderate. Most district contacts reported increasing wages around 3.0%-4.0%. Among the exceptions, some Boston contacts noted that a shortage of IT workers is driving wage increases for that market of up to 10.0%. Nevertheless, “moderate” was the word that districts used most to describe wage growth.

(2) *More non-wage incentives.* Businesses are increasing nonwage incentives to attract and retain

employees. These include: better health benefits, profit-sharing, bonuses, and paid vacation days. For example, Atlanta contacts noted that businesses are engaging in “internal programs and marketing initiatives to promote culture, build loyalty, and create a positive environment for workers.”

(3) *Low- and middle-skilled workers wanted.* Labor shortages are broad-based across occupations and industries. The neediest industries are those requiring low- and medium-skilled workers, such as construction, manufacturing, and transportation. However, IT and other professional services workers are also in high demand.

(4) *Off-schedule capital investment.* It's interesting that low- and medium-skilled workers are highly sought when employment for goods-producing industries (that often utilize that skill level) recently has tapered off more dramatically than for service industries, as Debbie notes below. One reason we see that manufacturers may be challenged to find qualified workers is that the work has become highly specialized by industry. Some district contacts noted that enhanced productivity is allowing them to slow hiring. Some even said that they are investing in “off-schedule” labor-saving capital projects to offset employee turnover and the shrinking pool of qualified applicants.

CALENDARS

US. Mon: Job Openings 7.000m. **Tues:** Small Business Optimism Index 107.0, PPI-FD Total, Core, and Core Less Trade Services 0.0%/0.1%/0.2%. (Econoday estimates)

Global. Mon: Germany Trade Balance, UK GDP, UK Industrial Production, UK Trade Balance, China New Yuan Loans, China Aggregate Financing. **Tues:** Eurozone ZEW Economic Sentiment, UK Employment Report, Japan Machine Tool Orders. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index tumble 4.6% w/w—its biggest drop since late March—and underperform all but five global stock markets of the 49 we follow; this, in a week when only 15/49 countries rose in US dollar terms. That compares to the prior week's 2/49 ranking, when the US MSCI soared 4.8% for its biggest gain in seven years and 39 markets rose. The AC World ex-US index fell 2.1% w/w; that compares to a 3.3% gain a week earlier. EM Eastern Europe was the best performer for the week with a gain of 2.4%, ahead of EMEA (1.6%), EM Latin America (-0.3), EM Asia (-1.8), and BRIC (-1.9). EMU (-3.1) fell the most, followed by EAFE (-2.3). Colombia was the best-performing country, rising 4.0%, followed by Greece (3.6), Russia (3.6), Mexico (1.3), and Thailand (1.1). Of the 18 countries that underperformed the AC World ex-US MSCI last week, Egypt fared the worst, falling 7.4%, followed by Pakistan (-6.2), Israel (-5.0), and Belgium (-5.0). The US MSCI's ytd ranking dropped two places last week to a still-impressive 5/49 ytd, with its 1.6% decline far ahead of the AC World ex-US' (-14.2) 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 (-3.4), EMEA (-7.9), EM Latin America (-8.4), BRIC (-13.3), and EAFE (-13.8). EMU (-17.1) and EM Asia (-15.9) are the biggest laggards. The best country performers ytd: Israel (2.0), Russia (1.8), Peru (-0.9), the US (-1.6), Brazil (-2.6), and Thailand (-4.0). The worst-performing countries ytd: Argentina (-49.9), Turkey (-42.2), Pakistan (-33.4), Greece (-31.7), and South Africa (-26.8).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes fell sharply last week and rejoined SmallCap in correction territory. LargeCap dropped 4.6% last week, less than the declines for MidCap (-5.2%) and SmallCap (-6.0). LargeCap ended the week above its recent low on November 23, and is now 10.2% below its record high on September 20. SmallCap and MidCap are 17.6% and 13.1% below

their August 29 records, respectively. SmallCap is the lowest since February and MidCap the lowest since September 2017. Just three of the 33 sectors moved higher last week, a complete turnaround from the week before when 30 rose. The biggest gainers in the latest week: MidCap Utilities (1.8), LargeCap Utilities (1.3), and LargeCap Real Estate (0.3). SmallCap Materials (-8.8) was the biggest decliner last week, followed by SmallCap Industrials (-8.1), MidCap Industrials (-7.6), and LargeCap Financials (-7.1). In terms of ytd performance, all three are in the red now; LargeCap is down by 1.5%, followed by SmallCap's 3.3% drop and MidCap's 6.3% decline. Twelve sectors are now positive to date in 2018, down from 16 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (23.5), MidCap Health Care (15.3), MidCap Utilities (10.6), LargeCap Health Care (9.4), SmallCap Communication Services (9.2), and MidCap Communication Services (8.7). The worst performers ytd: SmallCap Energy (-30.0), SmallCap Materials (-18.8), MidCap Materials (-17.7), MidCap Energy (-15.9), and LargeCap Materials (-14.7).

S&P 500 Sectors and Industries Performance ([link](#)): Two of the 11 sectors rose last week, and six outperformed the S&P 500's 4.6% drop. That compares to all 11 rising a week earlier, when seven outperformed the S&P 500's 4.8% gain. Utilities was the best-performing sector with a gain of 1.3%, ahead of Real Estate (0.3%), Consumer Staples (-3.1), Energy (-3.1), Communication Services (-4.1), and Consumer Discretionary (-4.2). Financials was the biggest underperformer with a drop of 7.1%, followed by the also-underperforming Industrials (-6.3), Materials (-5.2), Tech (-5.1), and Health Care (-4.6). Five sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in mid-September, which had matched the best ytd count also achieved in early March. The same five sectors are also outperforming the S&P 500's 1.5% ytd decline: Health Care (9.4), Utilities (6.4), Consumer Discretionary (4.1), Real Estate (2.7), and Tech (2.1). The seven ytd underperformers: Materials (-14.7), Communication Services (-13.5), Energy (-11.6), Industrials (-10.7), Financials (-10.5), and Consumer Staples (-4.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.4% for its second straight gain following seven declines; 18 of the 24 commodities moved higher in the best performance in 11 weeks. That compares to a 0.7% gain a week earlier, when 15 of the 24 commodities moved higher. Last week's strongest performers: GasOil (6.1%), Unleaded Gasoline (6.0), Brent Crude (3.8), Crude Oil (3.4), and Silver (3.4). Coffee and Natural Gas were the biggest decliners with a drop of 3.2%, followed by Nickel (-2.6), Copper (-1.0), and Feeder Cattle (-0.9). The S&P GSCI commodities index is now down 5.9% ytd after barely avoiding a bear market a week earlier. Its current level is down 17.2% 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 (51.2), followed by Wheat (24.4), Kansas Wheat (19.8), Cocoa (17.6), and Corn (9.9). The biggest laggards of 2018 to date are dominated by industrials metals: Zinc (-21.8), Lead (-19.7), Coffee (-17.5), and Unleaded Gasoline (-17.3).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 18/24 commodities, 2/9 global stock indexes, and 2/33 US stock indexes, compared to 16/24 commodities, 8/9 global stock indexes, and 30/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -3.7% from -4.9%, and six commodities ended the week trading above their 200-dmas, unchanged from a week earlier. Natural Gas leads all commodities and all assets at 45.9% above its 200-dma, but fell 6.9ppts w/w for the worst performance among commodities. GasOil (-11.6%) rose 5.1ppts w/w for the best performance among all assets. Unleaded Gasoline (-24.5) trades at the lowest relative to its 200-dma among commodities. The global indexes trade at an average of 4.9% below their 200-dmas, down from -3.5% in the prior week. Two of the nine global indexes trade above their 200-dmas, up from one a week earlier. Brazil (8.6) leads the global indexes, but Indonesia (2.4) rose 1.4ppts w/w for the best performance among global assets. Germany (-11.9) fell 3.6ppts for the worst performance among global assets and also trades at the

lowest point relative to its 200-dma among global assets. The US stock indexes trade at an average of 6.3% below their 200-dmas, with nine of the 33 sectors above, down from -1.9% a week earlier, when 13 sectors were above. MidCap Utilities (8.1) now leads the US stock indexes, as it gained 1.4ppts w/w for the best performance among US stock indexes last week. SmallCap Energy (-30.4) trades the lowest among all US stock indexes and all assets relative to 200-dmas, but SmallCap Materials (-18.8) and SmallCap Industrials (-13.8) both fell 7.5ppts for the worst performance among US stock indexes and indeed all assets last week.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index dropped 4.6% last week, and moved further below its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma fell for a ninth straight week, and dropped into a Death Cross for the first time in 137 weeks; the last time was in April 2016, when it was there for 17 weeks. The current Death Cross reading of -0.5% is down from 0.3% 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 an eighth 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 fell to 4.2% below its falling 50-dma from 0.3% 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 falling last week, and has dropped in five of the past eight 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 4.7% below its barely falling 200-dma, matching the 33-month low of 4.7% below its falling 200-dma at the end of November. 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](#)): Just one of the 11 S&P 500 sectors improved last week relative to their 50-dmas and 200-dmas. Two are now trading above their 50-dmas, compared to five 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 below their 50-dmas in the latest week, leaving 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 (28 straight weeks), Utilities (24), Consumer Staples (8), and Real Estate (6). Four sectors are still in a Golden Cross (with 50-dmas higher than 200-dmas), down from five a week earlier, as Communication Services left the club for the first time in 11 weeks. A week earlier, 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 eight straight weeks and during 20 of the past 24 weeks, Materials has been out for 32 straight weeks, Energy for four weeks, and Industrials for three 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: Consumer Staples, Real Estate, and Utilities; that's down from four a week earlier as Health Care left that club. In early October, eight sectors had rising 50-dmas, which compared to all 11 sectors with falling 50-dmas during late October and early April (the worst counts since before the election in November 2016). Four sectors had rising

200-dmas at the end of last week, down from five 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 left the rising 200-dma club now occupied by Consumer Staples, Health Care, Real Estate, and Utilities.

US ECONOMIC INDICATORS

Employment ([link](#)): Employment growth in November was much weaker than expected, and total nonfarm payrolls for October were revised lower. Last month, 155,000 were added to payrolls (vs a 190,000 consensus estimate), while October's (to 237,000 from 250,000) gain was revised lower and September's (119,000 from 118,000) barely budged from the initial estimate, for a net two-month loss of -12,000. Private payrolls added 161,000 jobs last month—18,000 below ADP's count of 179,000—following an upward revision to October's (251,000 from 246,000) gain and a downward one to September's (117,000 from 121,000) for a net gain of 1,000. Here's a tally of the industries leading November's gain, along with their year-over-year performances: Health care (32,100 m/m & 328,300 y/y), professional & business services (32,000 & 561,000), manufacturing (27,000 & 288,000), transportation & warehousing (25,400 & 191,800), and retail trade (18,200 & 23,700). Meanwhile, the breadth of job creation (i.e., the percentage of private industries increasing payrolls) show the three-month span (to 70.3% from 69.0%) moved back above 70.0%, while the one-month span (58.3 from 64.7) fell back below 60.0%. The household survey showed employment rose 233,000 last month, after gains of 600,000 and 420,000 over the prior two months, as 994,000 entered the labor force during the three months through November. Over the past 12 months, the measures for payroll and household employment climbed 2.443 million and 2.878 million y/y, respectively.

ADP Employment ([link](#)): In November, private industries added 179,000 to payrolls, in line with expectations though slowing from gains above 200,000 the prior two months. There were slight downward revisions to both October (to 225,000 from 227,000) and September (209,000 from 218,000) hirings, for a net loss of -11,000. According to the report, "Job growth is strong, but has likely peaked. This month's report is free of significant weather effects and suggests slowing underlying job creation. With very tight labor markets, and record unfilled positions, businesses will have an increasingly tough time adding to payrolls." Last month, employment gains in service-providing industries (163,000) decelerated for the first time in three months, slowing from November's nine-month high of 181,000; goods-producing (16,000) industries recorded their second slowest job gain this year—adding less than half the average monthly increase of 39,800 posted the prior 10 months. The latest goods' data show construction (10,000), manufacturing (4,000), and natural resources/mining (2,000) industries all added jobs last month, though at a slower pace. Within service-providing industries, the increase was broad-based, with professional & business services (59,000), health services (37,000), and leisure & hospitality (26,000) leading the pack. Medium-sized (119,000) companies accounted for nearly two-thirds of last month's gain—ousting large (13,000) companies from the number one spot to last place, likely because medium-sized firms are more insulated from the global challenges that large enterprises face. Small companies added 46,000 to payrolls, moving up from the number-three to number-two spot last month.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, was unchanged at its record high in November, not posting a decline in 21 months. Our EIP was flat last month after averaging monthly gains of 0.4% the first 10 months of this year; it's up 4.8% y/y. Average hourly earnings (AHE), one of the components of our EIP, rose 0.2% m/m last month, matching October's rate and just a tick below its average monthly gain the prior nine months; it's up 3.1% y/y—matching October's rate, which was the highest since April 2009. Over the past three months through November, wages rose to 2.6% (saar), slowing from Q3's recent high of 3.9%. Meanwhile, aggregate weekly hours—the other component of our EIP—fell -0.2% in November, after a

0.6% gain and a -0.3% loss the prior two month; its yearly gain slowed to 1.7%—the lowest y/y rate since the start of the year.

Unemployment ([link](#)): November's unemployment rate remained at its lowest reading since the end of 1969. The headline rate was at 3.7% for the third month, down from 3.9% the previous two months; it peaked at 10.0% in October 2009. Meanwhile, the participation rate remained at 62.9%—fluctuating within a narrow band between 62.5% and 63.0% the past three years. The volatile teenage rate ticked up to 12.0% after sinking to 11.9% in October—which was the lowest since December 1969—while the college-grad rate edged up to 2.2% from its cyclical low of 2.0% posted in September, May, and October of last year. The adult unemployment rate held at 3.4%, just above September's cyclical low of 3.3%. Those working part-time for economic reasons (a.k.a. “involuntary part-time workers”) increased for the second time in three months, by 423,000, to 4.8 million (3.0% of the civilian labor force). The sum of the underemployment and jobless rates (6.7%) edged up from October's 6.5%, which was the lowest reading since February 2001, while the U6 rate (7.6)—which includes marginally attached workers—rose from 7.4% in October, which matched its lowest reading since spring 2001.

Wages ([link](#)): November wage inflation—as measured by the average hourly earnings (AHE) rate for all workers on private nonfarm payrolls—remained above 3.0%, while the jobless rate held near a 50-year low. The wage rate was unchanged at October's 3.1% y/y, which was its best pace since April 2009; it was at a recent low of 2.3% 13 months ago. The wage rate for service-providing industries (3.2% y/y) remained on a volatile uptrend, just below October's 3.3% rate, which was the highest reading since January 2009. Meanwhile, the goods-producing rate (2.6) accelerated to its highest rate since September 2017. Within goods-producing, the manufacturing rate (1.8) is volatile around recent lows, while the construction (3.7) and natural resources' (2.2) rates are volatile around recent highs. Within service-providing, rates for retail trade (4.3) and information services (5.6) are at their highs for the series going back to 2006, while the rate for leisure & hospitality (3.6) is up from recent lows. Meanwhile, rates for professional & business services (3.0), education & health services (2.3), and wholesale trade (1.8) are stalled around recent highs. Down from recent highs are rates for utilities (3.4), financial activities (4.3), and transportation & warehousing (1.4)—with the latter at its lowest since May 2016.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity has stabilized after slowing to a two-year low in September. The JP Morgan Global Composite Output Index (C-PMI) slowly improved for the second month to 53.2 in November, after slumping from 54.2 in June to 52.8 in September. It was at a 3.5-year high of 54.8 in February. The Global NM-PMI rose from a 24-month low of 52.9 in September to 53.7 last month, while the Global M-PMI remained at October's 23-month low of 52.0, slowing fairly steadily from the recent peak of 54.5 at the end of last year. Looking at C-PMIs for the developed (to 53.3 from 53.6) and emerging (52.7 from 51.4) economies, the former continued to outpace the latter—though the latter is catching up, rebounding to a nine-month high in November. Looking at individual countries, the C-PMI for the US (54.7 from 54.9) shows it remains a big contributor to the latest expansion—despite a slight slowing in growth last month. Above-average global growth (53.2) was also recorded in Ireland (56.6), France (54.2), Spain (53.9), Russia (55.0), India (54.5), and Australia (53.9). Countries with C-PMIs below the global average show growth continued to slow in the major economies of Germany (52.3) and the UK (50.7), while Japan's (52.4) virtually matched October's pace; Italy (49.3) was the only nation to show a contraction in activity. Meanwhile, growth picked up in China (51.9) and Brazil (51.6).

Global Non-Manufacturing PMIs ([link](#)): November saw the rate of expansion in the global services economy accelerate for the second month as emerging economies gained momentum. JP Morgan's

NM-PMI rose to 53.7 last month after falling from 54.6 in June to two-year low of 52.9 in September. For the first time since July 2016, growth in the developed (to 53.7 from 53.9) economies did not surpass that of the emerging (53.7 from 52.0) ones, with the latter accelerating to a 10-month high. A country comparison shows the best growth was recorded in Ireland (57.1, 8-month low), Russia (55.6, 2-month low), France (55.1, 2-month low), US (54.7, 2-month low), Spain (54.0, holding at 4-month high), and China (53.8, 5-month high), with only the latter recording an acceleration. Rates of expansion were the weakest in the UK (50.4, 28-month low), Italy (50.2, 2-month high), and Brazil (51.3, 9-month high), though the latter is on an accelerating trend.

US Non-Manufacturing PMIs ([link](#)): The ISM measure shows growth in the US service sector last month accelerated at a near-record pace, while the IHS Markit measure virtually matched October's healthy rate. ISM's NM-PMI (to 60.7 from 60.3) moved back up toward September's record reading of 61.6. Two of the four components of the NM-PMI accelerated from October's pace, while two slowed—though remained at elevated levels. Both the business activity (65.2 from 62.5) and new orders (62.5 from 61.5) measures moved further above 60.0—the former matching its highest level since January 2004. The employment (58.4 from 59.7) gauge eased for the second month, though remains within striking distance of 60.0, while the supplier deliveries index slipped to 56.5 after improving the previous three months from 53.0 in July to 57.5 in October. The price (61.5 from 60.5) index ticked up, but remained below May's recent peak of 68.0. IHS Markit's NM-PMI (54.7 from 54.8) was broadly unchanged in November, showing a strong expansion in output. Foreign demand improved, boosted by the fastest rise in new export business in six months. The upturn in overall new business, however, moderated from rates posted earlier this year, leading to the weakest hiring rate since June 2017. Meanwhile, price pressures intensified for both input and output prices.

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