MORNING BRIEFING
December 17, 2018

Deflationary Demographics

See the collection of the individual charts linked below.

(1) No relief yet for latest panic attack. (2) The new worry is that China's weak data suggest global growth at risk. (3) Investors accentuating the negatives, ignoring the positives. (4) GDPNow now at 3%. (5) Jobless claims drop. (6) ECB ready to end QE, but not ready to lift interest rates. (7) China's real retail sales growth continues to fall as a result of rapidly aging demography. (8) Baby Boomers are turning into minimalists, like the Millennials. (9) Demographic trends suggest consumer-led boom unlikely in US. (10) No boom, no bust. (11) Movie review: "The Mule" (+).

Strategy I: Correction or Bear? The S&P 500 dropped 1.9% on Friday to 2599.95, the lowest reading since April 2 (*Fig. 1*). Panic Attack #62 isn't over yet. Instead, it is back in correction territory. The S&P 500 is now down 11.3% from the 9/20 record high of 2930.75 (*Fig. 2*). This makes it the sixth correction since the start of the bull market.

The latest panic attack has been mostly driven by fears that the Fed has been hiking the federal funds rate too rapidly, raising the odds of a recession, as evidenced by the flattening of the yield curve. In addition, the escalating trade war between the US and China has been a concern. Yet in recent weeks, Fed officials have indicated that they are likely to pause their rate-hiking, and the two sides declared a ceasefire in the trade war. So why hasn't there been a relief rally to new highs, or at least a retest of the previous record high?

The yield curve remains relatively flat, and there are some signs of distress in the corporate credit markets, especially in the collateralized loan obligation (CLO) segment. Furthermore, ceasefires are often broken in wars, though there are preliminary signs that the Chinese are getting serious about meeting some of America's demands for fairer trading practices. Friday's selloff seemed to be triggered mostly by a batch of weak Chinese economic indicators, suggesting that the trade war is hurting China's economic growth.

In addition, Europe's prospects are souring as Britain, France, Germany, and Italy are facing domestic economic and political challenges. The US economy is in good shape, but economic growth may be slowing a bit. In any event, year-over-year comparisons for S&P 500 earnings will be challenging in the coming year given the boosts to earnings this year from the corporate tax cut and strong revenues growth. So investors may be lowering their expectations for global economic growth across the board.

While the S&P 500 is still in a correction rather than a bear market, quite a few of its industries have crossed the 20% downside demarcation, putting them in bear-market territory since the 9/20 record high in the overall index. Here are some stats:

(1) *S&P 500 sectors.* The performance derby of the S&P 500 sectors since the record high is as follows: Utilities (6.8%), Real Estate (0.0), Consumer Staples (-1.8), Health Care (-5.8), Communication Services (-8.2), S&P 500 (-11.3), Consumer Discretionary (-13.6), Information Technology (-14.2),

Materials (-16.1), Industrials (-16.1), Financials (-16.4), and Energy (-17.5) (*Fig. 3*). So six of the 11 sectors are in a correction.

(2) *S&P 500 industries.* We track over 120 of the S&P 500 industries. Only 17 of them are up since the 9/20 high in the overall index, while 49 are in corrections (with declines of 10%-20%). So far, 27 industries are in bear markets (down by 20% or more). (See our *Performance Derby: S&P 500 Sectors & Industries* for the 9/20-12/14 timeframe.)

(3) *S&P 500/400/600.* Since the 9/20 top, the S&P 500/400/600 are down 11.3%, 15.3%, and 18.7% (*Fig. 4*). However, the S&P 400 and the S&P 600 are down 15.5% and 20.1%, respectively, from their tops at the end of August. So LargeCaps and MidCaps are in a correction, while the SmallCaps are verging on a bear market. On Friday, the forward P/Es of the S&P 500/400/600 were down to 14.8, 13.9, and 14.6. That's the lowest P/E for LargeCaps since February 2016 and the lowest reading since November 2012 for MidCaps and SmallCaps. Those three peaked at the beginning of this year at 18.6, 18.6, and 20.1.

(4) *MSCI major indexes.* Since the 9/20 top, here is the performance derby of the major MSCI stock market indexes around the world in local currencies: Emerging Markets (-6.4%), the United Kingdom (-7.0), All Country World (-10.0), Japan (-10.6), EMU (-10.7), and the United States (-11.4) (*Fig. 5*). Here is the same comparison ytd: the United States (-2.8%), All Country World (-6.5), the United Kingdom (-11.0), Emerging Markets (-11.2), Japan (-11.4), and EMU (-12.0) (*Fig. 6*). China's MSCI is down 7.1% over this period and 17.5% ytd.

Strategy II: Correction Case. Investors certainly remain panic-prone. They haven't found any relief from recent headlines suggesting that the Fed may slow its rate-hiking and that the US and China are working to de-escalate their trade war. Investors continue to accentuate the negatives rather than the positives. Their adverse reaction to Friday's economic news out of China suggests the new worry is that the damage has already been done to the global economy. Below, I reiterate my view that China's problems are homegrown.

Meanwhile, US economic growth remains solid, as evidenced by Friday's strong readings for November retail sales and industrial production, which Debbie reviews below. As a result, the GDPNow model raised the estimated Q4 growth rate for real GDP from 2.4% to 3.0%, with real consumer spending now estimated at 4.1%, up from 3.3%. Those numbers were obviously ignored by the market on Friday.

There's no sign of recessionary conditions in the US labor market and consumer spending. On Thursday, we learned that initial unemployment claims fell sharply during the 12/8 week to 206,000, suggesting that the recent upturn might have been weather-related rather than a harbinger of weaker employment (*Fig. 7*). Retail sales continue to grow in line with our Earned Income Proxy, with November y/y growth rates of 4.2% and 4.7%, respectively (*Fig. 8*).

Yes, we know: There are stresses in the CLO market, but they're not likely to lead to a systemic credit crunch. The housing industry seems to have hit a brick wall recently, but that might have more to do with Millennials demographics than mortgage rates, as we discuss below. Labor shortages could slow economic growth, but that could stimulate productivity. It's especially hard to find truck drivers; yet employment in the trucking industry is at a record high, and so is truck freight tonnage.

We also know that the European Central Bank (ECB) confirmed last week that it will terminate its bond-buying program by the end of this year. The bears have been growling that without the QE programs of the major central banks, the bull market in stocks would never have occurred. Our response has been: "So what's your point?" Their point now is that they are finally about to be proven right by a global bear market in stocks.

Maybe so, but keep in mind that neither the ECB nor the Bank of Japan has announced any plans to raise their official interest rates back above zero anytime soon. And the Fed might hike rates one more time Wednesday, after the FOMC's 12/18-19 meeting, but then pause for a while.

It may all add up to slower global growth. That's not very bullish; but it isn't bearish either, especially if it means that inflationary pressures will remain subdued.

Demography I: Rapidly Aging in China. In recent months, I've observed that the Chinese government's one-child policy, which was in place from 1979 through 2015, may be starting to weigh heavily on China's economic growth. I've been focusing on the growth rate in the country's inflation-adjusted retail sales. November data came out on Friday showing that the growth rate in nominal retail sales fell to 8.1% y/y, the lowest since April 2003 (*Fig. 9*). Adjusting this number for the CPI inflation rate shows that real retail sales growth was 5.9% y/y last month. It's been on a downtrend since 2010. It's been falling at a faster pace since March 2017, when it was 10.0%.

The US stock market never paid any attention to this number until Friday. That same day, we learned that Chinese industrial production growth slowed more than expected to 5.4% (*Fig. 10*). The widespread interpretation was that this confirms that the trade war is depressing China's economy. I disagree. I think that rapidly aging demographic forces are depressing domestic retail sales growth, which is weighing on production.

The trade war may exacerbate these trends if manufacturers move their supply chains out of China. Recognizing these developments, the Chinese government may already be scrambling to placate the Trump administration's demands for fairer trade practices.

Demography II: Proliferating Minimalists in US. Demography may also be starting to weigh on US consumers' demand for autos and single-family homes. The Baby Boomers are now 54-72 years old (*Fig. 11*). Many of them are retiring. They are mostly empty-nesters. They are downsizing and turning into minimalists.

The Millennials are 22-37 years old. They are natural-born minimalists, as Melissa and I have often discussed in the past. There are a few signs that some are finally getting married and starting to have children. However, many apparently prefer staying single while living and working in cities. So they aren't buying houses. They also aren't buying cars, opting to use Uber and Lyft instead.

November data released in the latest employment report show that single persons continue to exceed married persons (*Fig. 12*). Last month, there were 131 million of the former and 128 million of the latter. Those who have never married numbered 81 million, while those who've been divorced, separated, and/or widowed numbered 50 million.

We could put a negative spin on all this, but we prefer a positive spin: US demographic trends suggest that a consumer-led boom is unlikely. That increases the chances that the current economic expansion will continue for the foreseeable future.

Movie. "The Mule" (+) (*link*) was directed and produced by Clint Eastwood. He is also the film's star. He plays Earl Stone, an elderly horticulturist who is broke, alone, and facing foreclosure of his business. He turns into a drug runner for the Mexican cartel. It's funny and entertaining, but disappointing. It seems almost like a bittersweet reflection on Eastwood's own life. His daughter is in the movie, playing

Earl's daughter. The problem is that it is full of clichés. The movie could have been titled "Make My Day Lilies!"

CALENDARS

US. Mon: Empire State Manufacturing Index 21.0, Housing Market Index 61, Treasury International Capital. **Tues:** Housing Starts & Building Permits 1.222mu/1.258mu. (Econoday estimates)

Global. Mon: Eurozone CPI, Eurozone Trade Balance. **Tues:** Germany Ifo Business Climate Index, UK Gfk Consumer Confidence. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index fall 1.3% w/w and rank 28th of the 49 global stock markets we follow in a week when only 13/49 countries rose in US dollar terms. That compares to the prior week's 44/49 ranking, when the US MSCI tumbled 4.6% for its biggest drop since late March and 15 markets rose. The AC World ex-US index fell 1.0% w/w; that compares to a 2.1% decline a week earlier. EMU was the best performer, albeit with a decline of 0.1%, ahead of EM Asia (-0.6%), BRIC (-0.6), and EAFE (-0.9). EM Eastern Europe (-2.3) fell the most, followed by EMEA (-2.0) and EM Latin America (-1.6). Egypt was the best-performing country, rising 5.1%, followed by Finland (2.7) and Hungary (1.6). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 4.6%, followed by Russia (-3.5) and Colombia (-3.3). The US MSCI's ytd ranking gained one place last week to an impressive 4/49 ytd, with its 2.8% decline far ahead of the AC World ex-US' (-15.0) performance. All regions and nearly all countries—48/49—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), EMEA (-9.7), EM Latin America (-9.9), BRIC (-13.9), and EAFE (-14.5). EMU (-17.1) and EM Asia (-16.5) are the biggest laggards. The best country performers ytd: Israel (0.3), Russia (-1.8), Peru (-2.5), and the US (-2.8). The worst- performing countries ytd: Argentina (-51.1), Turkey (-44.9), Pakistan (-34.0), and Greece (-32.5).

S&P 1500/500/400/600 Performance (*link*): All of these indexes fell again last week as SmallCap dropped into a bear market. LargeCap dropped 1.3% last week, less than the declines for MidCap (-2.7%) and SmallCap (-3.0). LargeCap ended the week at its lowest level since April 2, and is now 11.3% below its record high on September 20. SmallCap and MidCap are 20.1% and 15.5% below their August 29 records, respectively, and at their lowest levels since September 2017. Just five of the 33 sectors moved higher last week, a minor improvement from the week before when three rose. The biggest gainers in the latest week: SmallCap Utilities (1.6%), MidCap Consumer Staples (1.5), LargeCap Utilities (0.6), LargeCap Communication Services (0.5), and MidCap Utilities (0.2). SmallCap Energy (-9.6) was the biggest decliner last week, followed by MidCap Energy (-8.6), SmallCap Health Care (-4.6), and MidCap Financials (-4.3). In terms of ytd performance, all three are still in the red; LargeCap is down by 2.8%, followed by SmallCap's 6.2% drop and MidCap's 8.8% decline. Eleven sectors are now positive to date in 2018, down from 12 a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (17.8), MidCap Health Care (12.1), MidCap Utilities (10.8), LargeCap Health Care (7.4), MidCap Communication Services (6.8), and SmallCap Communication Services (5.6). The worst performers ytd: SmallCap Energy (-36.7), MidCap Energy (-23.1), SmallCap Materials (-20.8), MidCap Materials (-19.9), and MidCap Consumer Discretionary (-16.7).

S&P 500 Sectors and Industries Performance (*link*): Two of the 11 sectors rose last week, and six outperformed the S&P 500's 1.3% drop. That compares to two rising a week earlier, when six again outperformed the S&P 500, with a 4.6% decline. Utilities was the best-performing sector with a gain of

0.6%, ahead of Communication Services (0.5%), Tech (0.0), Consumer Staples (-0.5), Materials (-1.1), and Consumer Discretionary (-1.2). Financials was the biggest underperformer with a drop of 3.5%, followed by the also-underperforming Energy (-3.3), Health Care (-1.8), Real Estate (-1.8), and Industrials (-1.5). 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 2.8% ytd decline: Health Care (7.4), Utilities (7.1), Consumer Discretionary (2.9), Tech (2.1), and Real Estate (0.9). The seven ytd underperformers: Materials (-15.6), Energy (-14.5), Financials (-13.6), Communication Services (-13.0), Industrials (-12.0), and Consumer Staples (-5.4).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 2.4% for its eighth decline in 10 weeks; just five of the 24 commodities moved higher in the worst performance in five weeks. That compares to a 2.4% gain a week earlier, when 18 of the 24 commodities moved higher. Last week's strongest performers: Nickel (1.7%), Feeder Cattle (1.3), Kansas Wheat (1.2), Live Cattle (0.7), and Cocoa (0.5). Natural Gas was the biggest decliner with a drop of 16.0%, followed by Lean Hogs (-5.0), GasOil (-3.7), and Unleaded Gasoline (-3.2). The S&P GSCI commodities index is now down 8.2% ytd and in danger of slipping into a bear market. Its current level is down 19.2% 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 (27.1), followed by Wheat (24.1), Kansas Wheat (21.3), Cocoa (18.2), and Corn (9.7). The biggest laggards of 2018 to date: Zinc (-23.6), Lead (-21.6), Unleaded Gasoline (-19.9), Coffee (-19.0).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 5/24 commodities, 6/9 global stock indexes, and 5/33 US stock indexes, compared to 18/24 commodities, 2/9 global stock indexes, and 2/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to -5.5% from -3.7%, and five commodities ended the week trading above their 200-dmas, down from six a week earlier. Natural Gas leads all commodities and all assets at 21.2% above its 200-dma, but tumbled 24.6ppts w/w for the worst performance among commodities and all assets. Nickel (-16.5%) rose 1.8ppts w/w for the best performance among all assets. Unleaded Gasoline (-26.4) trades at the lowest relative to its 200-dma among commodities. The global indexes trade at an average of 4.8% below their 200-dmas, up from -4.9% in the prior week. Two of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. Brazil (7.7) leads the global indexes, but Chile (-3.6) rose 1.3ppts w/w for the best performance among global assets. Germany (-11.0) trades at the lowest point relative to its 200-dma among global assets, but Japan (-4.3) fell 1.4ppts for the worst performance among global assets. The US stock indexes trade at an average of 8.2% below their 200-dmas, with seven of the 33 sectors above, down from -6.3% a week earlier, when nine sectors were above. LargeCap Utilities (8.1) now leads the US stock indexes, but MidCap Consumer Staples (-2.4) gained 1.5ppts w/w for the best performance among US stock indexes last week. SmallCap Energy (-36.6) trades the lowest among all US stock indexes and all assets relative to 200-dmas, but MidCap Energy (-28.1) fell 6.6ppts for the worst performance among US stock indexes last week.

S&P 500 Technical Indicators (*link*): The S&P 500 price index dropped 1.3% 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 tenth straight week, and was in a Death Cross for a second week; it had been in Golden Cross for 137 weeks. It was last in a Death Cross for 17 weeks through April 2016 when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016. The current Death Cross reading of -1.4% is the lowest since then; it's down from -0.5% a week earlier and a 55-month high of 7.2% in early February. The S&P 500's 50-dma fell for a ninth 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 4.4% below its falling 50-dma from 4.2% 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 fell for a second straight week, and has dropped in six of the past nine 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, but is clearly struggling now. It ended the week at a fresh 34-month low of 5.8% below its faster-falling 200-dma. 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*): Five of the 11 S&P 500 sectors improved last week relative to their 50-dmas and three relative to their 200-dmas. Real Estate and Utilities are the only sectors still trading above their 50-dmas, unchanged from 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. The longer-term picture—i.e., relative to 200-dmas—shows four sectors trading above currently, also 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, and is 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 (29 straight weeks), Utilities (25), Consumer Staples (9), and Real Estate (7). Those same four sectors are still are in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier. At the end of November, 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 nine straight weeks and during 21 of the past 25 weeks, Materials has been out for 33 straight weeks, Energy for five weeks, and Industrials for four 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). Three sectors had rising 200-dmas at the end of last week, down from four a week ago and compared to 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 Staples left the rising 200-dma club now occupied by Health Care, Real Estate, and Utilities.

US ECONOMIC INDICATORS

Retail Sales (*link*): Core retail sales in November expanded at the fastest pace in a year, while the biggest drop in gasoline prices since May 2017 depressed total sales; both posted upward revisions to October spending. Retail sales advanced 0.2% last month after a revised gain of 1.1% (from 0.8) in October; core retail sales jumped at a 12-month high of 0.9% (double consensus expectations), following a 0.7% gain in October, which was more than double the initial estimate of 0.3%. (The BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) We estimate that real retail sales rebounded 1.2% during the two months through November after falling -0.4% during the two months through September. Based on these estimates, real retail sales expanded 5.3% (saar) during the two months ending November, based on the two-month average—the fastest pace since the summer, while core retail sales expanded 5.6% (saar) over the comparable period—the strongest since May. In November, nine of the 13 major nominal sales categories rose, while four fell—led by a -2.3% plunge in gasoline service stations sales, followed by restaurants (-0.5%), building materials (-0.3) and clothing (-0.2) retailers. The biggest gains were recorded by nonstore (2.3), electronics (1.4), furniture (1.2), and health & personal care (0.9) retailers—with the remaining categories posting gains from 0.2% to 0.4%.

Business Sales & Inventories (*link*): Both nominal business sales in October and real business sales in September reached new record highs, yet again. Nominal manufacturing & trade sales (MTS) advanced for the 16th time in 17 months, rising 0.3% in October and a robust 10.1% over the period; inflation-adjusted MTS expanded 0.4% in September and at a 5.2% pace since April 2017. Real sales of both retailers and wholesalers climbed to new record highs in September, while manufacturers' sales continued to accelerate after a year-long flat trend. Except for a temporary blip earlier this year, the real inventories-to-sales ratio has been on a fairly steady downtrend since reaching a cyclical high of 1.47 in early 2016, holding at 1.42 again in September. October's nominal inventories-to-sales ratio climbed to 1.35 from 1.34 the prior three months, after falling from a seven-year high of 1.43 two years ago to 1.33 in June—which was the lowest since November 2014.

Industrial Production (*link*): Cold weather pushed headline industrial production higher in November, while manufacturing output remained depressed. Total production rebounded 0.6%, following a revised decline of -0.2% in October—first reported as a 0.1% gain. Utilities (3.3%) output got a boost from wintery weather, while mining (1.7) rose on higher output from coal mines and oil & gas drillers. Manufacturing production was unchanged last month, while October's 0.1% gain was revised to a -0.1% loss. By market grouping, production of business equipment fell for the first time in six months, by -0.2%, after a five-month gain of 5.6% to its highest reading since November 2014. Within business equipment, output of information processing equipment fell for the third time since reaching a new record high in July, by -0.5% m/m and -1.0% over the period. Transit equipment production dipped -0.9% during the two months though November after a two-month spurt of 4.2%, while output of industrial equipment was flat last month following a five-month surge of 5.7%. Consumer goods production climbed for the fifth time in six months, by a total of 1.5%, reflecting a 4.6% jump in consumer durable goods production over the time span; consumer nondurable goods output was negligibly higher at 0.7%.

Capacity Utilization (*link*): The headline capacity utilization rate in November rose from 78.1% back up to August's 78.5%, which was the highest since January 2015. Still, it was 1.3ppts below its long-run (1972-2017) average. Meanwhile, the manufacturing capacity utilization rate eased for the second month, from 76.0% in August and September to 75.7% last month; it was roughly 2.5ppts below its long-run average. The utilization rate for mining rebounded a percentage point to 94.1%, remaining well above its long-run average of 87.0%, while unseasonably cold weather boosted the utilities rate from 77.0% to a seven-month high of 79.4%, a rate that is about 6.0ppts below its long-run average.

Import Prices (*link*): Import prices in November posted their biggest decline in more than three years, led by a double-digit loss in petroleum prices, though there was widespread weakness. Total import prices sank -1.6%, the steepest since August 2015—with petroleum prices tumbling -12.1%—after a seven-month climb of 16.6%. Nonpetroleum import prices sank -0.3% last month, its fourth decline in six months, with prices for industrials supplies & materials (-5.3%) and foods, feeds & beverages (-2.2) in the red last month, while prices for capital goods, consumer goods less autos, and autos were flat. The yearly rate for import prices slowed to 0.7% y/y, down from July's 4.8% (which was the highest since February 2012). The yearly rate for petroleum imports has dropped from a recent peak of 44.6% in July to 4.4% y/y in November—its first single-digit gain since July 2017; the rate for nonpetroleum prices peaked at 2.0% in February, slowing to a 23-month low of 0.4% y/y last month. The rate for capital goods imports (-0.2% y/y) remained slightly negative, after falling below zero in September for the first time since May 2017, while the rate for industrial materials & supplies (3.2) has dropped dramatically from its recent high of 21.1% in July. Meanwhile, the yearly rate for consumer goods ex autos (0.4) continued to bounce around recent highs just below 1.0%, while autos' (0.3) rate remained in a volatile flat trend around zero; the rate for food prices (-1.7) turned negative in June for the first time in two years, and continued to fall in November—though has narrowed fairly steadily from July's -3.6% decline.

GLOBAL ECONOMIC INDICATORS

European Car Sales (*link*): EU passenger car registrations (a proxy for sales) for November fell -8.0% y/y—the third month of yearly declines—though a drop in demand was expected after August sales surged 31.2% y/y ahead of the introduction of the new WLTP test at the beginning of September. The market continued to contract in most EU countries, including the five largest car markets: Spain (-12.6% y/y), Germany (-9.9), Italy (-6.3), France (-4.7), and the UK (-3.0). Through the first 11 months of the year, new car registrations were 0.8% above the comparable period in 2017—fueled by a 9.6% y/y gain in Central Europe. Looking at the major EU markets, sales in Spain (8.0) and France (4.7) recorded solid gains, while demand fell in Italy (-3.5) and the UK (-6.9); sales in Germany (0.4) were basically flat with 2017's comparable period.

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