



MORNING BRIEFING

October 14, 2019

Below the Headlines

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

(1) Spinning wheels to new highs. (2) Higher highs and higher lows. (3) Is Trump the pied piper for stock investors, or just the tweeter-in-chief? (4) Deal or truce? US and China stop escalating their trade war. (5) The art of the no-big-deal. (6) Forward revenues and earnings story remains resiliently bullish. (7) Profit margins reverting to the highs. (8) S&P 500 Railroads has same profit margin as lots of tech stocks. (9) Movie review: "Joker" (+ + +).

Strategy I: Head-Spinning Headlines. The stock market has been spinning its wheels since early 2018 when the S&P 500 rose to a record high of 2872.87 on 1/26/18 ([Fig. 1](#) and [Fig. 2](#)). That has been the view of the bears. During the summer of this year, they observed that this stock price index had fallen back below that high.

Along the way, though, it made new record highs of 2930.75 on 9/20/18 and 2945.83 on 4/30/19. The most recent record high at 3025.86 was achieved on 7/26/19. On Friday, the S&P 500 closed at 2970.27, just 1.8% below that high. It still looks like a classic bull market to Joe and me, with higher highs since early 2018 and higher lows since the panic selloff late last year.

Much of the wheel-spinning since early 2018 is attributable to head-spinning headlines, mostly related to President Donald Trump. For investors, the question isn't whether he is a good man or a bad man, which has preoccupied the media on the Right and the Left. For investors, the question is whether he is bullish or bearish for the stock market.

The answer is "YES": Trump has been simultaneously the most bullish and the most bearish president of all times. His policies of deregulation and tax cuts have been bullish and drove the S&P 500 to its high early last year. Since then, his escalating trade wars have been bearish at times when progress toward resolution has seemed to be floundering and bullish when progress seemed to be advancing—i.e., when Trump responded to market selloffs by tweeting that progress is being made in the various trade negotiations. The result has been lots of wheel-spinning action.

On balance, Trump has been bullish for stocks since the day he was elected. Here is the performance derby of the S&P 500 and its 11 sectors since 11/8/16 through Friday's close: Information Technology (79.1%), Consumer Discretionary (51.2), S&P 500 (38.8), Financials (38.5), Utilities (30.1), Health Care (31.8), Real Estate (29.2), Industrials (28.8), Materials (21.3), Consumer Staples (15.5), Communication Services (7.5), and Energy (-16.2) ([Fig. 3](#)).

US stocks have also done well on a global basis as Trump's trade wars weighed more on overseas stock markets in economies that depend more on exporting to the US than the US depends on exporting to them. Here is the performance derby of the major MSCI stock price indexes since Election Day in dollars and in local currencies: US (38.8%), EMU (18.2, 18.3), Japan (13.7, 17.8), Emerging Markets (12.1, 16.5), and UK (6.9, 4.6) ([Fig. 4](#)). Our Stay Home investment strategy (as opposed to Go

Global) has worked well so far under Trump.

Contributing to the market's wheel-spinning has been the escalating political wars in Washington, DC as Democrats have been aiming to impeach Trump. He dodged the Mueller Report bullet: He didn't collude with the Russians to win the election. Now the question is whether he committed an impeachable offense when he asked the Ukrainian president to investigate his political rival, former Vice President Joe Biden. Friday morning, former Trump adviser Steve Bannon opined on CNBC that Biden would self-destruct anyway, and that former presidential contender Hillary Clinton or former NYC mayor Michael Bloomberg might jump into the race, countering Senator Elizabeth Warren's (D, MA) presidential bid and possibly defeat Trump.

Meanwhile, in the UK, Prime Minister Boris Johnson seemed to be making some progress in negotiating a soft Brexit with the European Union at the end of last week. The S&P 500 fell 1.6% last Tuesday as the headlines suggested that Trump was expanding his trade war with China. It has risen 2.7% since then on his tweets that a partial deal might be imminent. Sure enough, an outline of the deal emerged before Friday's close:

(1) The Dow gave up 200 of its 500-point gain in the final half hour as investors realized that it was more of a truce than a peace treaty. There was a cessation of tariff hikes but no clear timeline for removal of the existing tariffs. The US won't increase tariffs on \$250 billion in annual Chinese imports from 25% to 30% that had been scheduled for this week.

(2) China agreed to buy \$40 billion to \$50 billion in American farm products, though the timeframe wasn't specified. Trump touted it as a "substantial phase one deal," but the details still need to be ironed out over the next few weeks. Chinese state media said the two sides made "substantive progress" on a range of issues including agriculture but didn't mention potential Chinese purchases.

(3) So it is more of a mini-deal than a big deal. However, investors are relieved that Trump isn't likely to escalate America's trade war with China for now. The *WSJ* reported: "The planned tariff increases in December on electronics, apparel and other imported consumer goods—a big uncertainty for many U.S. firms—haven't been shelved so far, Mr. Trump's trade adviser, Robert Lighthizer, said in the Oval Office."

Strategy II: The Earnings Story. This is all head-spinning stuff, for sure. Yet here we are within sight of yet another new record high for the S&P 500. Why?

Well, below the manic-depressive headlines, industry analysts are remaining calm and continue to report that S&P 500 companies are doing well. S&P 500 forward revenues per share rose to yet another record high during the 10/3 week ([Fig. 5](#)). As we have often observed, this weekly series is highly correlated with the actual quarterly revenues of the S&P 500, which also rose to a fresh record high during Q2. The weekly series suggests that the quarterly series may have hit a new record high again during Q3.

Forward earnings also has been edging higher in record territory in recent weeks, and the forward profit margin has been flat nearly all year at around 12.0%. Forward revenues are trending higher among of the 11 sectors of the S&P 500, with the laggards being Materials and Utilities ([Fig. 6](#)).

So despite the depressing headline news about the slowing global economy, S&P 500 companies still are finding more revenues. Despite the headlines warning about rising labor and tariff costs, the forward profit margin implied by analysts' forward revenues and earnings estimates remains flat in record-high territory. It has yet to revert to the mean as the bears have been forecasting it would for

many years now. Now let's have a closer look at the profit margins of the S&P 500 sectors.

Strategy III: The Margins Story. In the decade since the Great Recession, S&P 500's profits and margins have more than recovered—they've displayed impressive resilience in the face of slowing global growth, rising tariffs, and a tightening labor market. The S&P 500 forward profit margin based on forward earnings and forward revenues estimates is 12.0%, close to its record high of 12.4% hit on 9/13/18 ([Fig. 7](#)).

It got a nice boost of about 1.1ppts in the first half of 2018 from the Trump administration's tax cuts. But even before those cuts, the profit margin had been moving higher. It climbed past its 2007 peak of 10.5% by May 2014 and kept improving. The margin went sideways during the energy-related economic slowdown of 2015 and 2016, then climbed to another record high of 10.9% during Q4-2017, just before the tax cuts boosted it again.

Let's take a closer look at the margin story:

(1) *Information Technology.* Information Technology is the S&P 500 sector with the highest forward profit margin, at 21.5%—wide relative to both the S&P 500 broadly and the sector's own history ([Fig. 8](#)). The Tech sector's forward margin was only 13.8% in 2007 before it collapsed in the recession. The Tech sector is chock full of industries with wide forward profit margins including Systems Software (29.2%), Data Processing & Outsourcing (28.5), Semiconductors (27.7), Communications Equipment (25.0), and Application Software (23.5) ([Fig. 9](#) and [Fig. 10](#)).

Notably, Systems Software, the Tech industry with the widest margin, has traditionally had margins ranging between 25%-30%. Data Processing & Outsourcing, however, has seen its operating margin almost triple in the past decade. And the Communications Equipment industry's profit margin has jumped to 25% from 15% in 2006.

(2) *Communication Services.* The S&P 500 Communication Services sector, after being reconfigured in September 2018 with growthy stocks from the Internet and media industries, saw its forward profit margin jump. In 2012 its forward profit margin was 6.4%, 3.6ppts below the S&P 500's profit margin. Now the margin has widened to 15.1%, 3.1ppts above the S&P 500's profit margin ([Fig. 11](#)).

(3) *Financials.* Despite the low-interest-rate environment, the S&P 500 Financials sector's forward profit margin has returned to heights last seen before the Great Recession. Imagine what the sector's margins and shares could do if the yield curve ever steepened. At 18.3%, the industry's profit margin has had a resurgence from 2009, when it wallowed in the single digits during the recession ([Fig. 12](#)). Among the Financials industries with the highest profit margins are: Financial Exchanges & Data (39.8%), Diversified Banks (27.4) and Regional Banks (26.1), Asset Management & Custody Banks (24.6), and Investment Banking & Brokerage (23.3) ([Fig. 13](#) and [Fig. 14](#)).

(4) *Energy and Health Care.* The S&P 500 Energy and Health Care sectors at one time traded with a forward profit margin approximating the S&P 500's. But in recent years, the sectors' forward profit margins have shrunk relative to the broader index. The S&P 500 Energy sector has a forward profit margin of 6.8%, almost half that of the broader index ([Fig. 15](#)). The Health Care sector has a forward profit margin of 10.6%, well below the S&P 500's; that's quite a reversal from the higher margin relative to the S&P 500's that Health Care maintained from 2006 through 2011 ([Fig. 16](#)).

(5) *Consumer Discretionary and Consumer Staples.* For a number of sectors, profit margins haven't expanded sharply through this bull market. The Consumer Discretionary sector has a forward profit margin of 7.5%, below that of the S&P 500 and not far from where it stood when the stock market

began to recover in 2011 ([Fig. 17](#)). The same goes for Consumer Staples, which has had a similar forward profit margin (7.4%) for the past decade ([Fig. 18](#)).

(6) *Industrials and Materials*. Given the US-China trade war, it's surprising that the Industrials and Materials sectors' forward profit margins have held up as well as they have. The Industrials' profit margin, at 10.4%, is right near its high of the last decade ([Fig. 19](#)). The one industry within Industrials that has seen its profit margin surge over the last decade is Railroads, which has a profit margin of 28.3%, almost triple its 2006 level ([Fig. 20](#)).

The Materials sector's forward profit margin has fallen from a high of 11.6% in 2018 to a recent 10.2%, but that's still not far from the highest levels of the past decade ([Fig. 21](#)).

Movie. "Joker" (+ + +) ([link](#)) is a very disturbing movie about a very disturbed man, Arthur Fleck, played brilliantly by Joaquin Phoenix. It is about the formative years of Batman's arch enemy. But it's really much more than that. Like "Natural Born Killers" and "Network," it is a searing examination of numerous destructive forces in our society including the arrogance of the ruling class, the decline of civility, and the media's obsession with ratings at any price. Mostly though, it is about the awful consequences of mental illness when it isn't properly diagnosed and treated. Fleck is on several drugs for his psychiatric disorder. His psychiatrist tells him that because of budget cuts in public assistance, she can no longer see him, leading him to ask how he will continue to get his medications. Early in the movie, he asks her: "Is it me, or is it getting crazier out there?" The movie leaves it up to us to decide. Hint: It's easy to feel sorry for this Joker.

CALENDARS

US. Mon: Monthly Budget Statement \$86.0b. **Tues:** Empire State Manufacturing Index 1, George. (DailyFX estimates)

Global. Mon: Eurozone Industrial Production 0.2%/m/-2.5%/y/y, China CPI & PPI 2.9%/-1.2% y/y, RBA October Meeting Minutes, Guindos, Cunliffe, Kuroda. **Tues:** Germany ZEW Survey Current Situation & Expectations -23.0/-26.8, UK Employment Change & Unemployment Rate (3-month) 26k/3.8%, Carney Vileghe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.6% to 2.0% below its 7/27 record high. The AC World ex-US surged 2.0% higher for the week, but remains in a correction at 14.7% below its record high, in January 2018. The US MSCI's weekly performance ranked 33rd among the 49 global stock markets of which 41 of the 49 countries rose in US dollar terms. All regions rose w/w, but the following outperformed the AC World ex-US: EMU (3.6%), EM Eastern Europe (2.7), and EAFE (2.3). The regions underperforming the AC World ex-US last week, albeit with gains: EM Latin America (0.4), EMEA (0.4), EM Asia (1.7), and BRIC (1.7). Greece was the best-performing country, with a gain of 6.8%, followed by Pakistan (4.6), United Kingdom (4.5), Finland (4.3), and South Africa (4.2). Of the 25 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst with a drop of 7.4%. Also underperforming were Jordan (-0.7), Argentina (-0.5), New Zealand (-0.4), and Colombia (-0.4). The US MSCI's ytd ranking dropped three spots last week to 7/49, with its 18.6% ytd gain double that of the AC World ex-US (9.3). All regions and 33/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (13.8), EMU (12.7), and EAFE (10.3). EMEA (4.2) is now the biggest laggard ytd, followed by EM Asia (5.1), EM Latin America (5.3), and BRIC (7.8). The best country performers ytd: Egypt (34.4), Greece (25.8), Russia (24.4), the Netherlands (21.5), and Belgium (19.6). The worst-performing

countries so far in 2019: Argentina (-30.2), Pakistan (-10.7), Poland (-9.9), and the Czech Republic (-9.4).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for the first time in four weeks after dropping in seven of the prior 10 weeks. MidCap's 0.7% gain last week was slightly ahead of the 0.6% increases recorded by LargeCap and SmallCap. LargeCap ended the week 1.8% below its 7/26 record high of 3025.86, and MidCap improved to 6.5% below its record high on 8/29/18. SmallCap remained in a correction for a 12th month, as it improved to 14.8% below its 8/29/18 record. Twenty-two of the 33 sectors moved higher last week, compared to nine rising a week earlier. Last week's best performers: SmallCap Energy (2.7), MidCap Consumer Discretionary (2.4), SmallCap Consumer Discretionary (1.9), LargeCap Materials (1.9), and MidCap Industrials (1.8). SmallCap Consumer Staples (-2.1) was biggest underperformer, followed by LargeCap Utilities (-1.4), LargeCap Consumer Staples (-0.9), and MidCap Communication Services (-0.7). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 18.5% ytd, 3.3ppts ahead of MidCap (15.2) and well ahead of SmallCap (10.7). Thirty of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (31.6), MidCap Tech (26.7), LargeCap Real Estate (26.1), SmallCap Tech (24.7), and SmallCap Utilities (21.5). MidCap Energy (-26.3) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-23.6), SmallCap Communication Services (-1.4), and LargeCap Energy (0.9).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week as seven outperformed the S&P 500's 0.6% gain (versus six rising and seven outperforming the S&P 500's 0.3% drop the week before). Materials was the best-performing sector with a gain of 1.9%, ahead of Industrials (1.5%), Tech (1.3), Energy (1.0), Consumer Discretionary (1.0), Financials (0.8), and Communication Services (0.8). Last week's underperformers: Utilities (-1.4), Consumer Staples (-0.9), Real Estate (-0.6), and Health Care (-0.3). All 11 sectors are up so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These seven sectors have outperformed the S&P 500's 18.5% rise ytd: Information Technology (31.6), Real Estate (26.1), Communication Services (21.2), Consumer Discretionary (21.1), Utilities (20.8), Consumer Staples (19.7), and Industrials (19.5). The ytd laggards: Energy (0.9), Health Care (3.9), Materials (13.5), and Financials (16.0).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.5% as 18 of the 24 commodities moved higher. That compares to a 2.5% decline a week earlier when nine of the 24 commodities moved higher. The index had nearly climbed out of a correction during mid-April, recovering to a drop of just 10.0% shy of its high in early October 2018, after being down as much as 26.9% from that high on 12/24/18. It moved out of a bear market in the latest week, improving to 18.5% below its 10/3/18 high. Zinc and Natural Gas were the strongest performers last week, each rising 4.5%, ahead of Kansas Wheat (3.8%), Soybeans (3.7), and Crude Oil (3.7). Coffee was the biggest decliner, with a drop of 5.4%, followed by Sugar (-2.7), Gold (-1.6), Nickel (-1.5), and Feeder Cattle (-0.6). The S&P GSCI commodities index is up 9.4% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (65.0), Unleaded Gasoline (22.3), Crude Oil (20.6), Gold (16.2), and Heating Oil (15.6). The biggest laggards in 2019: Natural Gas (-16.4), Kansas Wheat (-14.2), Cotton (-11.5), Live Cattle (-9.5), and Coffee (-8.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.6% last week, and improved relative to 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 just the ninth time in 34 weeks and is down from a 17-month high of 5.4% in mid-August, but formed a Golden Cross for a 29th week after 16 weeks in a Death Cross formation. The index had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted 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 Golden Cross reading fell to a 25-week low of 2.5% from 3.0% a week earlier and compares to -5.2% in early February, which had matched the lowest reading since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma rose for the first time in four weeks as the price index improved to 1.2% above its now-rising 50-dma from 0.4% above its falling 50-dma a week earlier. It had peaked recently during mid-July at a 19-week high of 4.3% above. That was up from a 22-week low of 4.2% below its falling 50-dma at the end of May, but down from 6.6% above during mid-February, which was its highest since October 2011. The 200-dma rose for an 18th week. It had been rising for 16 weeks through mid-May after falling from October to February in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded above its 200-dma for a 19th week, and improved to 3.7% above its rising 200-dma from a six-week low of 3.5% above its rising 200-dma a week earlier. That compares to a 17-month high of 8.8% above its 200-dma at the end of July and 14.5% below on 12/24, which was the lowest since April 2009; the index remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up from five a week earlier. Energy was below for a second week and Health Care for a third week. The longer-term picture—i.e., relative to 200-dmas—remained steady w/w at nine sectors trading above. That's up from just six at the end of August, which was the lowest count since early June. Health Care was below its 200-dma for a third week, and Energy was below for a 13th week after being above—just for a week—for the first time since early October. Nine sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), down from 10 a week earlier, as Health Care dropped out for the first time in 15 weeks. That compares to just two sectors in the club during February and all 11 in January 2018. Again, Energy is the other laggard, not having been in a Golden Cross for 47 straight weeks. Nine sectors have rising 50-dmas now, up from three a week ago. Among the laggards, Energy and Health Care have had mostly declining 50-dmas since late spring. Ten sectors have rising 200-dmas, down from 11 a week ago, as Energy turned down yet again and has been mostly falling since last October. Materials and Financials moved higher for a seventh week in their attempts at new uptrends for the first time since last September. That compares to just two sectors with rising 200-dmas in early January, in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

CPI ([link](#)): September's core CPI rate held at August's recent peak rate of 2.4% (above the Fed's 2.0% target rate)—matching July 2018's rate—which was the highest since September 2008. Before accelerating to 2.4% in August, the core rate had fluctuated in a narrow band from 2.0% to 2.2% for 12 months. Core prices rose 0.1% last month, after climbing 0.3% during each of the prior two months, with the three-month rate slowing to 2.7% (saar) from 3.4% during September—which was the fastest since May 2006. Here's a ranking of the 12-month core rates in September from lowest to highest for goods: medical care commodities (-0.3% y/y), apparel (-0.3), new vehicles (0.1), alcoholic beverages (1.3), used cars & trucks (2.6), tobacco & smoking products (5.9)—with only the latter two accelerating. Here's the same drill for the core services rates: motor vehicle insurance (0.2), physicians' services (0.9), airfares (1.9), hospital services (2.1), motor vehicle maintenance & repair (3.5), owners' equivalent rent (3.4), and rent of primary residence (3.8). The headline CPI rate remained at 1.7% y/y, holding below 2.0% for the eighth time this year; it was at a recent high of 2.9% last July.

Import Prices ([link](#)): Import prices in September rose for first time in four months, after falling two of the prior three months, as petroleum prices rebounded. Petroleum prices jumped 2.3% last month, after falling 9.4% during the three months through August, while nonpetroleum prices haven't posted a gain in eight months. These prices ticked down 0.1% in September after no change the prior two months.

Compared to a year ago, total import prices were down 1.6% y/y in September, with both petroleum (-5.8% y/y) and nonpetroleum (-1.1) rates falling. The latter has been below a year ago every month this year, with the yearly rate turning negative in January for the first time since November 2016. The rate for capital goods imports (-1.2% y/y) was in negative territory in September for the 12th consecutive month, while the rate for industrial materials & supplies (-3.7) was negative for the seventh time this year. Prices for consumer goods ex autos (-0.4) remained just below year-ago levels, while the yearly change in auto prices was fractionally below zero for the ninth time this year. The rate for food prices (-1.7% y/y) slipped back below zero in September, after being above the previous three months. Looking at our Asian trading partners, we're importing deflation, with import prices for goods from China (-1.8% y/y) and the NICs (-1.2) falling, while those from Japan remain basically flat y/y. Meanwhile, there's no sign of inflation in EU (-0.2% y/y) import prices, decelerating sharply from last May's 4.1%, while import prices for goods from Latin America (-3.3) were negative for the 10th month.

Consumer Sentiment ([link](#)): Prospects of larger income gains and lower inflation pushed consumer sentiment higher in mid-October—with real income expectations climbing to their most favorable level in two decades, as inflation expectations over the next five to 10 years dropped to 2.2%—the lowest level on record going back to 1979. Buying plans were moderately higher. The University of Michigan's Consumer Sentiment Index (CSI) climbed for the second month to a three-month high of 96.0 in mid-October, with both the present situation (to 113.4 from 105.3 in August) and expectations (84.8 from 79.9) components up the past two months—the former to a high for this year. However, the report notes that these favorable trends did not change consumers' overall prospects for the national economy: "A slower pace of overall economic growth is still anticipated, including some modest increases in the national unemployment rate during the year ahead." Meanwhile, trade remains a concern, though was cited by 29% of consumers in mid-October, down from 36% last month. "The impeachment inquiry has not had a significant negative impact on economic prospects," according to the report, showing a widening gap between consumer expectations by political party—with Republicans growing more confident while Democrats' sentiment was the weakest since October 2008.

GLOBAL ECONOMIC INDICATORS

UK Industrial Production ([link](#)): Output has weakened since reaching a cyclical high in March of this year. Headline production fell 0.6% in August, after little growth the prior two months. Since peaking in March, output is down 2.5%, with manufacturing contracting 3.9%. The main industrial groupings show the decline is widespread, with consumer nondurable (-5.1%), consumer durable (-4.8), intermediate (-3.9), and capital (-2.8) goods production all down over the five-month period; energy (0.8) eked out a small gain. Looking ahead, IHS Markit's M-PMI in September (to 48.3 from 47.4) contracted for the fifth successive month—its longest streak below 50.0 since mid-2009. September's reading was not far from August's—which was the weakest since July 2012. Business optimism remained at a subdued level in September, despite improving from the series-record low registered in the prior survey month. Companies reported that ongoing uncertainties made forecasting future trends increasingly difficult.

France Industrial Production ([link](#)): Output in August contracted for the second time in three months to its lowest level so far this year. Headline production, which excludes construction, sank 0.9% in August and 2.9% over the three-month period, with manufacturing down 0.8% and 2.6%, respectively, over the comparable period. The main industrial groupings were all down over the three-month period, with consumer durable goods (-6.1%), consumer nondurable goods (-4.6), and energy (-4.3) output posting the biggest declines, followed by capital (-1.8) and intermediate (-1.5) goods output. According to IHS Markit, manufacturing firms reported broadly stable business conditions in September, with its M-PMI slipping to 50.1, after improving from 49.7 from 51.1 in August.

Italy Industrial Production ([link](#)): Production remains in a volatile flat trend around recent lows. Italy's

headline series, which excludes construction, climbed 0.3% in August after falling 0.8% and 0.2% the previous two months. Over the past 12 months, total output is down 1.8% y/y, while manufacturing production is 2.8% lower. Of the main industrial groupings, consumer durable goods (5.9% y/y) and energy (1.8) output are rising on a y/y basis, while capital (-4.9) and intermediate (-3.1) goods output are in the red; consumer nondurable goods production is flat with a year ago. IHS Market reports manufacturing conditions in Italy worsened at its fastest pace in six months in September, as a sharp reduction in new orders led to a further decline in production. Italy's M-PMI fell to 47.8 in September from 48.5 in August, with operating conditions contracting throughout the past year.

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