



MORNING BRIEFING

October 21, 2019

Global Soft Patch

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

(1) Soft patches now and then. (2) Revenues with and without Energy. (3) Business sales growth has slowed significantly this year. (4) Forward revenues makes another new record high. (5) Industry analysts tend to be too optimistic about earnings, but realistic about revenues. (6) Not much cheer in IMF's world economic outlook, except 2020 should be better than 2019. (7) A list for optimists. (8) Time for Go Global to outperform? (9) Online shopping releases dopamine. (10) Consumers likely to keep consuming. (11) The repo story.

S&P 500 Revenues: Still Growing But Slowing. During 2015, the US and global economies hit a soft patch as a recession rolled through the global energy and commodities industries. This year, the US and global economies hit a soft patch partly attributable to Trump's escalating trade wars. This is plain to see in the growth rate of aggregate S&P 500 revenues back then and now ([Fig. 1](#)). During 2015, it turned negative. However, excluding the aggregate revenues of the S&P 500 Energy sector, which dropped by roughly 40% at the time, it remained around zero ([Fig. 2](#)).

During Q2-2019, aggregate Energy revenues fell 4.3% y/y, but S&P 500 aggregate revenues rose 3.0% and 3.8% with and without the Energy sector. Nevertheless, either way, S&P 500 revenues growth has slowed from last year's peaks of 10.0% and 8.0% with and without Energy during Q2-2018. Energy revenues were growing at double-digit rates above 20% for much of last year.

Now consider the following:

(1) *Weak business sales growth.* It will be interesting to see how Q3-2019 revenues growth comes in during the current earnings season. On Wednesday last week, we learned that manufacturing and trade sales (a.k.a. business sales of goods) rose just 1.1% y/y during August, down from a recent peak of 8.3% during May 2018 ([Fig. 3](#)). This series is highly correlated with the quarterly series for aggregate S&P 500 revenues growth. So the latest data suggest that Q3's aggregate revenues growth results could be closer to zero.

(2) *Forward revenues going strong.* The good news, as Joe and I have been observing recently, is that S&P 500 forward revenues per share has been rising into record territory all year, auguring well for actual quarterly S&P 500 revenues per share ([Fig. 4](#)). Forward revenues per share rose 4.2% y/y through the 10/10 week ([Fig. 5](#)).

(3) *Analysts tend to be optimistic, but realistic, about revenues.* Industry analysts remain optimistic about S&P 500 revenues growth. They are projecting gains of 4.2% this year, 5.5% next year, and 4.4% in 2021 ([Fig. 6](#)). Their estimates for this year and next year have been holding up well all year ([Fig. 7](#)).

Last week, we observed that industry analysts tend to be too optimistic about future earnings results

and have to cut their annual estimates when visibility into actual results improves as earnings seasons approach ([Fig. 8](#)). The same generalization does not apply to revenues. The analysts seem to have a more realistic handle on the outlook for revenues. We aren't sure why there's this discrepancy, but it is a fascinating dichotomy.

(4) *Better global growth ahead?* Of course, the key assumption for the optimists, including the YRI team, is that global growth picks up in 2020. That's consistent with the latest IMF [World Economic Outlook](#) released last week. It is subtitled "Global Manufacturing Downturn, Rising Trade Barriers." Here is the key excerpt from the report:

"The global economy is in a synchronized slowdown, with growth for 2019 downgraded again—to 3 percent—its slowest pace since the global financial crisis. This is a serious climbdown from 3.8 percent in 2017, when the world was in a synchronized upswing. This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors, such as low productivity growth and aging demographics in advanced economies.

Global growth in 2020 is projected to improve modestly to 3.4 percent, a downward revision of 0.2 percent from our April projections. However, unlike the synchronized slowdown, this recovery is not broad based and is precarious. Growth for advanced economies is projected to slow to 1.7 percent in 2019 and 2020, while emerging market and developing economies are projected to experience a growth pickup from 3.9 percent in 2019 to 4.6 percent in 2020."

That doesn't sound very cheery, but we agree with the IMF projection that global growth should pick up next year. We expect that Trump will continue to deescalate America's trade tensions with the rest of the world as the 2020 presidential election approaches. We've been expecting a soft Brexit deal, which seems to have been accomplished in recent days, though another postponement is also possible. We believe that Germany's manufacturing output is bottoming along with the country's car production. Recent Chinese data including the M-PMI, rail freight traffic, and bank loans are all improving. The latest rounds of easing by the Fed and ECB should provide some policy stimulus for the global economy.

Strategy: Time To Go Global? All the above suggests that a Go Global investment strategy could outperform Stay Home over the rest of this year through the first half of next year. We first raised this possibility in our 10/8 [Morning Briefing](#) titled, "Cabin Fever." Here again are a few key points:

(1) *More attractive valuations abroad.* Stocks in the rest of the world look cheap compared to those in the US. At the end of September, the US MSCI had a forward P/E of 17.3, while the All-Country World ex-US had a 13.3 valuation multiple. Keep in mind that the US has tended historically to command a premium P/E compared to the rest of the world, but the recent spread of 4.0 P/E points is among the widest since the start of the data in May 2001.

(2) *More resilient PMIs in emerging economies.* The PMIs of the emerging economies have been holding up better than those of the advanced economies so far this year. Here are September's M-PMIs for a few of the major emerging economies: Brazil (53.4), China (51.4), India (51.4), Thailand (50.6), and Vietnam (50.5). Some of those in Southeast Asia may be benefitting from manufacturers' moving their supply chains out of China.

(3) *Further easing in Europe.* The European Central Bank (ECB) last month cut its key deposit facility rate further into negative territory, from -0.40% to -0.50%, and relaunched a €20 billion per month bond-buying program without setting a termination date. Outgoing ECB President Mario Draghi said, in

effect, that the ECB would be delighted to purchase €240 billion per year in Eurozone government bonds to finance stimulative fiscal policy in the region.

US Consumers: E Pluribus Unum & Dopamine. The key question for the global economy is whether US consumers will continue to do what they do best. A big concern is that jobs growth may be slowing. Debbie and I think it has more to do with labor shortages than with weakening demand for workers. We also believe that more and more companies will react to the shortage of workers by boosting their productivity, which should allow wages to grow faster than prices. Real wage gains should continue to drive consumer spending in the US, along with a slower, but steady, pace of hiring.

Might the deep divide over politics depress American consumers and their spending? Debbie and I don't think so. When Americans are happy, we go shopping. When Americans are depressed by the news, we do even more shopping, because it releases dopamine in our brains. And online shopping gives us an even stronger dopamine fix than going to the mall, reported [Psychology Today](#), citing a Razorfish report, *Digital Dopamine*. High percentages of shoppers from the US, UK, Brazil, and China in 2014 reported getting more excited to receive online purchases than to buy things in a store.

As Debbie reported last Thursday, September retail sales fell 0.3% m/m. However, August retail sales was revised up from 0.4% to 0.6%. The latest report is titled "[Advance Monthly Sales for Retail and Food Services](#)." It shows that the "nonstore retailers" category was down 0.3% during September (the first decline this year), which is a rough estimate. This item consists mostly of "Electronic shopping & mail-order houses," which won't be available for September until next month. Numerous other items also won't be available until next month, including new car dealers, furniture stores, pharmacies & drug stores, and warehouse clubs & supercenters. We expect an upward revision next month in September's preliminary estimate.

In any case, retail sales remained strong during Q3. On an inflation-adjusted basis and at an annual rate, they rose 5.9% last quarter ([Fig. 9](#)). In current dollars, retail sales are up 4.1% y/y, matching the comparable growth in our Earned Income Proxy for private-sector wages and salaries ([Fig. 10](#)).

The Fed: Repo Man. In an unscheduled 10/11 [press release](#), the Fed announced that beginning on 10/15 it "will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019."

More details were released in a separate New York Fed [statement](#) (and accompanying [FAQs](#)). The initial pace of these "reserve management" (RM, our acronym) purchases will be approximately \$60 billion per month and will be in addition to ongoing purchases of Treasuries related to the reinvestment of principal payments from the Fed's maturing holdings of agency debt and agency mortgage-backed securities. As the new holdings mature, the principal payments will be reinvested again into T-bills.

Many have commented that these actions look a lot like quantitative easing (QE). After all, the Fed is expanding its balance sheet sizably, possibly by up to \$300 billion or more assuming \$60 billion a month through March as a ballpark. The Fed's balance sheet currently totals \$3.9 trillion, including \$2.1 trillion in US Treasury securities, of which \$345 billion are T-bills maturing in one year or less.

However, in a 10/8 [speech](#), Fed Chair Jerome Powell insisted that this operation is not the same as QE: "I want to emphasize that growth of our balance sheet for reserve management purposes should in no way be confused with the large-scale asset purchase programs that we deployed after the financial crisis," he said. We agree they are RM, not QE. Whatever you call the Fed's latest balance-sheet expansion plan, here's more information on it:

(1) *The backstory.* In October 2017, the Fed began reducing its massive \$4.4 trillion post-crisis balance sheet by allowing up to \$50 billion in maturing securities to roll off the balance sheet per month. On 3/20, the Fed [announced](#) that it would end this practice by September, leaving the balance sheet sized appropriately, though still significantly bigger than pre-crisis. By September's end, total assets on the Fed's balance sheet had been reduced to \$3.8 trillion.

(2) *The crunch.* The fed funds rate is mainly controlled by paying banks interest on the reserves they hold at the Fed. Reserve balances increased after the crisis when the Fed flooded the debt markets with cash by purchasing bonds. But now, the Fed seems to have allowed bank reserves to shrink too much, creating a crunch in the overnight repurchase, or "repo," market. Reserves [declined](#) to less than \$1.4 trillion last month, the [lowest](#) since 2011 and down from \$2.8 trillion in 2014, with most of that decrease in the last two years.

Limited access to cash on reserve in overnight lending markets caused such a significant squeeze on 9/16 and 9/17 that short-term rates surged as high as 10%. Meanwhile, the federal funds rate [rose](#) 5 basis points above the Fed's target range. That's a problem: Since the federal funds rate is the Fed's primary monetary policy lever, it needs to be controllable. So the Fed was forced to [intervene](#) with emergency repo operations.

(3) *The solution.* To provide an "ample" supply of reserves without regular interventions in the short-term markets, the Fed will buy T-bills that mature in one year or less. Holding a portfolio of shorter-term assets should not create any monetary stimulus, officials maintain, but rather is a technical necessity to properly control short-term rates. Under QE, in contrast, the Fed aimed to lower long-term rates to stimulate the purchase of riskier assets, sending those asset prices higher.

(4) *The warning.* Market participants chided the Fed for not averting the September disfunction. But FRB-NY President John Williams [defended](#) the Fed's actions as appropriate in terms of both preparation and response. Recall that Powell had warned about possible funding issues in a 3/8 [speech](#): "In January, the Committee stated its intention to continue [to hold] our main policy rate, the federal funds rate or possibly some successor ... within its target range by the interest rates we set on reserves and on the overnight reverse repo facility. In this system, active management of the supply of reserves is not required."

Powell continued: "Thus, the supply of reserves must be 'ample' ... to satisfy reserve demands even in the face of volatility in factors affecting the reserve market. Put another way, the quantity of reserves will equal the typical reserve demands of depositories plus a buffer to allow for reserve market fluctuations. ... The precise level of reserves that will prove ample is uncertain."

CALENDARS

US. **Mon:** None. **Tues:** Existing Home Sales 5.45mu, Richmond Fed Manufacturing Index - 7. (DailyFX estimates)

Global. **Mon:** Bundesbank Published Monthly Report, Guindos. **Tues:** ECB Publishes Bank Lending Survey, Canada Retail Sales 0.5%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.5% to 1.6% below its 7/27 record high. The AC World ex-US rose 1.2% for the week, but remains in a correction at

13.7% below its record high, in January 2018. The US MSCI's weekly performance ranked 33rd among the 49 global stock markets of which 42 of the 49 countries rose in US dollar terms. All regions rose w/w, but the following outperformed the AC World ex-US: EM Eastern Europe (1.8%), EM Asia (1.4), EMU (1.3), and EAFE (1.2). The regions underperforming the AC World ex-US last week, albeit with gains: EM Latin America (0.3), BRIC (0.9), and EMEA (1.1). The Czech Republic was the best-performing country, with a gain of 4.8%, followed by Sweden (4.2), Taiwan (3.9), New Zealand (3.1), and India (3.1). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst with a drop of 4.1%. Also underperforming were Pakistan (-3.2), Egypt (-1.3), and Norway (-0.9). The US MSCI's ytd ranking remained steady last week at 7/49, with its 19.2% ytd gain nearly double that of the AC World ex-US (10.6). All regions and 37/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (15.8), EMU (14.1), and EAFE (11.6). EMEA (5.4) is the biggest laggard ytd, followed by EM Latin America (5.7), EM Asia (6.6), and BRIC (8.7). 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 a second week following declines in seven of the prior 10 weeks. SmallCap's 1.6% gain last week was easily ahead of both MidCap (1.1%) and LargeCap (0.5). LargeCap ended the week 1.3% below its 7/26 record high of 3025.86, and MidCap improved to 5.5% below its record high on 8/29/18. SmallCap remained in a correction for a 12th month, as it improved to 13.5% below its 8/29/18 record. Twenty-two of the 33 sectors moved higher last week, compared to 22 rising a week earlier. Last week's best performers: SmallCap Health Care (3.5), SmallCap Financials (2.6), MidCap Industrials (2.2), SmallCap Communication Services (2.2), and SmallCap Consumer Discretionary (2.1). SmallCap Energy (-6.1) was biggest underperformer, followed by MidCap Energy (-2.3), LargeCap Energy (-1.7), LargeCap Information Technology (-0.9), and MidCap Materials (-0.7). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 19.1% ytd, 2.6ppts ahead of MidCap (16.5) and 6.6ppts ahead of SmallCap (12.5). Thirty of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (30.5), LargeCap Real Estate (28.4), MidCap Tech (26.9), SmallCap Tech (26.2), and MidCap Industrials (23.1). SmallCap Energy (-28.3) is the biggest decliner so far in 2019, followed by these underperformers: MidCap Energy (-28.0), LargeCap Energy (-0.8), and SmallCap Communication Services (0.7).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 0.5% gain (versus seven rising and seven outperforming the S&P 500's 0.6% gain the week before). Health Care was the best-performing sector with a gain of 2.0%, ahead of Real Estate (1.8%), Financials (1.6), Communication Services (1.3), and Consumer Discretionary (1.3). Last week's underperformers: Energy (-1.7), Information Technology (-0.9), Consumer Staples (-0.2), Utilities (-0.1), Industrials (0.1), and Materials (0.3). Ten of the 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 19.1% rise ytd: Information Technology (30.5), Real Estate (28.4), Communication Services (22.8), Consumer Discretionary (22.7), Utilities (20.6), Industrials (19.6), and Consumer Staples (19.5). The ytd laggards: Energy (-0.8), Health Care (6.0), Materials (12.9), and Financials (17.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.7% as 12 of the 24 commodities moved higher. That compares to a 2.5% gain a week earlier when 18 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 remained close to a bear market in the latest week, weakening to 19.1% below its 10/3/18 high. Wheat was the strongest performers last week, rising 4.8%, ahead of

Kansas Wheat (3.4%), Natural Gas (2.4), Coffee (2.1), and Cotton (2.0). Nickel was the biggest decliner, with a drop of 7.5%, followed by Lean Hogs (-2.4), Brent Crude (-1.7), Corn (-1.7), and Crude Oil (-1.7). The S&P GSCI commodities index is up 8.6% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (52.6), Unleaded Gasoline (21.2), Crude Oil (18.6), Gold (16.6), and Heating Oil (14.9). The biggest laggards in 2019: Natural Gas (-14.4), Kansas Wheat (-11.3), Cotton (-9.8), Live Cattle (-8.3), and Coffee (-6.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.5% 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 a ninth straight week and is down from a 17-month high of 5.4% in mid-August, but formed a Golden Cross for a 30th 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 26-week low of 2.5% 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 a second week following three down weeks as the price index improved to 1.4% above its rising 50-dma from 1.2% above its rising 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 a 19th 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 20th week, and improved to 3.9% above its rising 200-dma from 3.7% 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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier. Energy was below for a third week as Health Care moved above for the first time in four weeks. The longer-term picture—i.e., relative to 200-dmas—improved w/w to 10 sectors trading above compared to nine a week earlier. That's up from just six at the end of August, which was the lowest count since early June. Health Care was moved back above its 200-dma for the first time in four weeks, but Energy was below for a 15th 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), unchanged from a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Health Care was out for a second week and Energy has not been in a Golden Cross for 48 straight weeks. Nine sectors have rising 50-dmas now, unchanged from a week earlier and up from three the week before that. Among the laggards, Energy has had mostly declining 50-dmas since late spring and Materials flipped back down again w/w where it has mostly been since mid-August. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since last October. Materials and Financials moved higher for an eighth 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

Leading Indicators ([link](#)): "The LEI reflects uncertainty in the outlook and falling business expectations, brought on by the downturn in the industrial sector and trade disputes. Looking ahead, the LEI is consistent with an economy that is still growing, albeit more slowly, through the end of the

year and into 2020,” according to September’s report. Leading indicators fell for the second consecutive month since reaching a new record high in July. The Leading Economic Index (LEI) slipped 0.1% last month after a 0.2% downtick in August. The LEI was up only 0.4% y/y, slowing steadily since peaking at 6.6% a year ago. Last month, five components of the LEI contributed positively, four negatively, with the average workweek unchanged. The ISM new orders index (-0.17ppt) recorded the biggest negative contribution, followed by building permits (-0.08), the interest rate spread (-0.04), and consumer expectations (-0.01). Stock prices (0.11), the leading credit index (0.09) and jobless claims (0.06) were the biggest positive contributors.

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) last month held at August’s record high. September saw no change in the CEI after rising 0.7% during the four months through August. The yearly rate eased to 1.5% from 2.4% at the start of the year. Three of the four components of the CEI rose in September, with industrial production the outlier: 1) Job gains in September were weaker than expected, but there were upward revisions to prior months. Payroll employment climbed 136,000 (vs 160,000 estimate) last month, while both August (to 168,000 from 130,000) and July (166,000 from 159,000) payrolls were revised higher, for a net gain of 45,000. Job growth has averaged 160,800 per month so far this year, below 2018’s average monthly gain of 223,250. 2) Real personal income—excluding transfer payments—rose for the 10th time in 12months, by 0.2% m/m and 2.9% y/y. 3) Real manufacturing & trade sales climbed 1.4% during the four months through to a new record high. 4) Headline production contracted 0.4% in September, reversing half of August’s 0.8% gain; it was the fifth decline this year, with output down 1.0% since reaching a new record high at the end of last year.

Industrial Production ([link](#)): Output declined in September, reflecting a drop in manufacturing output due to the GM strike, and a dip in mining output due to lower global oil prices. Headline production fell 0.4% last month, reversing half the 0.8% gain posted in August; it was the fifth decline this year, pushing production 1.0% below its record high recorded at the end of 2018. Manufacturing production sank 0.5% last month, after a 0.6% gain in August and a 0.4% loss in July, as motor vehicle production fell 4.2% last month. Excluding motor vehicles, factory output was still down 0.2% in September. Meanwhile, mining output fell 1.3% last month, while utilities output rose 1.4%. By market group, output of business equipment declined 0.7% last month, led by declines in both industrial (-1.4%) and transit (-1.0) equipment production, while output of information processing (1.1) equipment continued to soar to new record highs—up 6.5% y/y. Both transit (-4.9% y/y) and industrial (-2.0) equipment output were below year-ago levels. The GM strike led to a 0.2% drop in consumer goods production last month, pushing consumer durable goods output down 1.9%; consumer nondurable goods production rose 0.3% last month. Consumer goods production fell 1.0% y/y, driven by a 3.1% drop in durable goods production, while nondurable goods production was virtually flat with a year ago, down 0.4%.

Capacity Utilization ([link](#)): The headline capacity utilization rate dropped to 77.5% in September, after rising for the first time this year in August (to 77.9% from 77.4%) from July’s 21-month low. The rate has been in a relatively flat trend, just above 77.0% since May; it was at a cyclical high of 79.6% last November. September’s rate was 2.3ppts below its long-run (1972–2018) average. Manufacturing’s capacity utilization fell from 75.7% in August to a two-year low of 75.3% last month as the capacity utilization rate in motor vehicles & parts (to 75.4% from 78.7%) dropped sharply. September’s manufacturing rate was 3.0ppts below its long-run average; the rate peaked at 77.3% at the end of last year. The utilization rate for mining fell from 90.5% to 88.9% last month, yet was still almost 2.0ppts higher than its long-run average. Unseasonably warm weather boosted the capacity utilization rate for utilities (to 77.7% from 76.8%), which remained well below its long-run average.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for October so far—Philadelphia and New York—show activity remained subdued, though the Philadelphia region saw a sharp acceleration in both new orders and employment. The composite (to 4.8 from 7.0) index was

the slowest since February, other than June (-4.2) when it dipped into negative territory for the first time since May 2016. Philadelphia's composite (5.6 from 12.0) showed activity expanded at half September's pace, while New York's (4.0 from 2.0) grew at double September's pace—though was still at a near a standstill. New orders (14.9 from 14.2) growth remained robust, thanks to the Philadelphia (26.2 from 24.8) region, which recorded its strongest gain in billings since May 2018, while New York's (unchanged 3.5) held at September's meager pace. Employment (20.3 from 12.8) expanded at its best pace since June 2018, with Philadelphia (32.9 from 15.8) factories hiring at a record pace, while New York (7.6 from 9.7) manufacturers are hiring again after cutting payrolls from March through May.

Housing Starts & Building Permits ([link](#)): A sharp drop in volatile multi-family starts pushed housing starts lower last month, while single-family units rose for the fourth straight month—and the seventh time this year. Housing starts sank 9.4% to 1.256mu (saar) last month, after jumping an upwardly revised 15.1% (from 12.3%) in August—with August's level revised up from 1.364mu to 1.386mu, which was the highest level since June 2007. Single-family starts rose 0.3% last month, and 12.8% during the four months through September, to 918,000 units (saar). Meanwhile, multi-family starts plunged 28.2% in September to 338,000 units (saar), after a 41.4% surge in August and a 9.8% drop in July. The story for building permits is similar. Building permits fell 2.7% last month to 1.387mu (saar), while the gain in August permits (to 8.2% from 7.7%) was revised higher—with single-family permits continuing to climb, while multi-family permits plunged. Single-family permits advanced for the fifth straight month, by 0.8% in September and 12.2% over the period, to 882,000 units (saar), while multi-family permits sank 8.2% in September to 505,000 units (saar) after a two-month surge of 34.5%. Meanwhile, home builders haven't been this optimistic since February 2018, according to October's survey. The National Association of Home Builders Housing Market Index (HMI) shows home builders' confidence continued to trend higher in October, climbing to a 20-month high since bottoming at the end of last year. The overall index increased to 71 this month from 56 at the end of last year on widespread strength, though special attention should be focused on the expected sales (to 76 from 61 in December) component, which jumped to 76 this month, after hovering around 70 for six months. Both the current sales (to 78 from 61 in December) and buyer traffic (54 from 43) components have moved higher steadily through the first 10 months of this year.

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