



MORNING BRIEFING

October 28, 2019

Good News & Bad News

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

(1) Californians rushing to Texas. (2) Signs of life in Fed district business surveys. (3) Regional orders and employment indexes rose during October. (4) Upticks in flash PMIs for US. (5) GM strike and Boeing 737 MAX woes contributed to weakening durable goods orders and shipments. (6) Phase One trade agreement between US and China should provide some relief for economies of both countries. (7) Ugly outlook for federal deficit. (8) No recession in federal tax receipts. (9) Federal outlays on redistributing income at record high. (10) Movie review: "The Current War" (+ + +).

US Economy I: Good News. First, the good news. Last week, I visited our accounts in Ft Worth, Dallas, and Austin. I could see that the economy is booming in Texas. That was most evident in Austin, where new construction is occurring literally everywhere. The taxi driver who took me from the city's airport to my hotel downtown told me that people are pouring into Austin from California. Given the widespread wildfires, rolling blackouts, high taxes, and the homelessness epidemic in California, Texas could get overrun by Californians.

The bad news is that Austin may not have the water supply needed to support a much bigger population. Austin is also starting to have a problem with homeless people camping out on the streets, and traffic is getting really bad. Texans may have to build a wall to keep Californians out.

Here is more good news for the rest of the country: There are signs of life in the Fed's regional surveys of business activity. Four of the five surveys conducted by the Fed's district banks are available for October: New York, Philly, Richmond, and Kansas City. The Dallas Fed district survey will be available this morning. Here is the good news from the four available surveys:

(1) *Regional business composite.* The average of the four composite business indexes edged up from 0.8 during September to 3.7 during October ([Fig. 1](#)). The most recent low was -1.6 during June.

(2) *Regional orders and employment composites.* Similarly, the average of the four new orders indexes rose from a recent low of -0.7 during July to 5.9 during October. Really good news is that the average employment index jumped from a recent low of -2.8 during August to 11.9 during October, the best reading since March.

(3) *Regional composite and national PMIs.* The Fed's regional business surveys seem to be heavily weighted toward manufacturing, as evidenced by the closer correlation of the average regional composite business index with the national manufacturing PMI (M-PMI) than the national non-manufacturing PMI (NM-PMI) ([Fig. 2](#)). So the recent rebound in the average business index suggests that October's M-PMI should be up from September's 47.8 reading, which was the lowest since June 2009.

(4) *Regional and national orders indexes.* The regional average of new orders for the four surveys suggests that the new orders component of M-PMI should improve soon ([Fig. 3](#)). The same can be said for the growth rate of total factory orders, which were down 1.8% y/y through August, the weakest reading since August 2016 ([Fig. 4](#)).

(5) *Regional and average employment indexes.* The most striking development among the four regional surveys is the rebound in the September and October employment indexes, especially in the New York, Philly, and Richmond districts ([Fig. 5](#)). That augurs well for the employment indexes of both the M-PMI and NM-PMI ([Fig. 6](#) and [Fig. 7](#)).

(6) *Flash PMIs.* Also showing signs of life are Markit's flash M-PMI and NM-PMI ([Fig. 8](#)). Both bottomed during August, with the M-PMI rising from 50.3 back then to 51.5 this month and the NM-PMI edging up from 50.7 to 51.0 over this two-month period. Admittedly, those are lackluster readings, but they are up and are above 50.0.

US Economy II: Bad News. The bad news last week was that durable goods orders fell 5.4% y/y through September ([Fig. 9](#)). That makes the recent uptick in the regional average for the four available new orders indexes all the more encouraging. Now consider the following related bad news, some of which has been offset by mitigating good news:

(1) *Auto strike.* Some of the recent weakness in durable goods orders may be attributable to the strike by the United Auto Workers union against GM. It started on 9/16. Union and company negotiators reached a deal on 10/16, but strikers remained on the picket lines until it was ratified. The rank-and-file members voted 57% in favor of the deal, according to the union. They will be returning to work on Monday. This strike, by nearly 50,000 GM workers, was the longest auto industry work stoppage in more than 20 years and the longest nationwide auto strike in 50 years.

According to a 10/25 CNN Business [article](#), the new contract will pay the hourly workers an \$11,000 signing bonus. Wages for most veteran workers will rise by 6% during the four-year life of the contract to \$32.32 an hour. The union also won a way for many temporary workers to be hired as permanent employees as well as a quicker end to the two-tier wage system instituted after the 2009 bankruptcy than was in the previous contract language. The union also got the company to drop its demand that workers pay a larger percentage of their own healthcare costs. But the union failed in its efforts to save three plants—an assembly line in Lordstown, Ohio and transmission plants in Warren, Michigan and Baltimore, Maryland, where GM halted operations earlier this year.

Factory orders and shipments of motor vehicles and parts rose just 0.1% and 0.9% y/y, respectively, through September ([Fig. 10](#)). The growth rate should move higher now that the GM strike is over.

(2) *Boeing's woes.* Nondefense aircraft & parts shipments edged up 1.8% last month after a two-month plunge of 17.1%; they were down 35.5% y/y through September ([Fig. 11](#)). After two fatal crashes of Boeing 737 MAX 8 aircraft in October 2018 and March 2019, regulatory authorities around the world grounded the 737 MAX series until further notice.

According to a 10/23 USA Today [article](#), "Boeing reiterated its hope Wednesday that the 737 Max jetliner, grounded after two crashes, will be back in the air by the end of the year. But Boeing was less definitive than three months ago, when it told analysts it hoped the plane would be recertified as soon as this month. That would have made it available to airlines during the holiday travel period, a time critical to profits."

(3) *Trade war and peace.* The weakness in the growth rate of nondefense capital goods orders excluding aircraft started toward the end of 2017, when it peaked at 13.2% y/y; the rate fell to -0.8% y/y during September ([Fig. 12](#)). So it coincided with the escalation of Trump's trade wars. That's the bad news.

The good news is that the US and China may be de-escalating their conflict over trade issues. A 10/25 CNBC [article](#) reported: "The U.S. and China have made progress in trade discussions and have come close to finalizing parts of a phase one deal, the Office of the U.S. Trade Representative said Friday. ... Earlier this month, Trump announced the sides reached a 'very substantial phase one deal' to be finalized over three weeks. He said the agreement would address issues such as intellectual property and financial services and include a pledge for China to buy \$40 billion to \$50 billion in American agricultural products. Trump called it a 'tremendous deal for the farmers' as he tries to contain damage from Beijing's retaliatory tariffs on U.S. crops.

"The Trump administration also ditched a planned tariff hike on \$250 billion in Chinese goods that was set to take effect Oct. 15. Reports suggested Beijing also wanted the U.S. to abandon another tariff increase set for December."

Melissa and I have been arguing since last year that both President Trump and China's President Xi need a deal. Trump needs to de-escalate the trade war with China so that it won't weigh on the US economy as he focuses on the 2020 presidential election. Xi needs to do the same so that China's economy won't be harmed by more and higher US tariffs. Apparently, they've agreed on a partial "Phase One" deal, which should reduce trade tensions for a while.

US Economy III: Trillion-Dollar Government Deficits. Nobody seems to care about the US federal budget deficit. So there wasn't much (if any) reaction from either the bond market or the stock market to Friday's news that the US Treasury said that the federal deficit for fiscal 2019 was \$984 billion, a 26% increase from 2018 but still short of the \$1 trillion mark previously forecast by the administration.

Now let's play the good-bad-and-ugly game with the latest federal budget data news:

(1) *Ugly: HUGE deficit.* The gap between revenues and spending was the widest it's been in seven years, as expenditures on defense, Medicare, and interest payments on the national debt ballooned the shortfall.

The jump in the deficit over last year's level is a harbinger of things to come, according to the Congressional Budget Office (CBO). In August, the CBO estimated that the budget deal reached between Trump and Congress would help push the shortfall over \$1 trillion in fiscal 2020. The deficit will exceed \$1 trillion each year over the subsequent decade, the agency projected ([Fig. 13](#)). Federal debt held by the public is projected to rise to \$29.3 trillion, or 95.1% of nominal GDP, by 2029 ([Fig. 14](#)).

(2) *Good: tax receipts.* The 12-month sum of tax receipts rose 4.0% during fiscal 2019 to a record high of \$3.5 trillion through September ([Fig. 15](#)). Also at record highs were individual tax receipts at \$1.7 trillion (and up 2.0%) and payroll tax receipts at \$1.2 trillion (up 6.2%) ([Fig. 16](#)). Even corporate income tax receipts rose 12.5% to \$230 billion. In other words, there was no recession in the tax receipts data.

(3) *Bad: net interest paid.* The 12-month sum of net interest paid soared 15.7% y/y to \$376 billion through September ([Fig. 17](#)). The \$51 billion increase last year accounted for 33% of the increase in the fiscal 2019 budget deficit.

(4) *Bad: outlays on income redistribution.* The 12-month sum of federal outlays on redistributing income

rose 5.0% y/y to a record \$2.9 trillion through June ([Fig. 18](#)).

Movie. “The Current War” (+ + +) ([link](#)) is a docudrama about the AC/DC war during the late 1800s between Nikola Tesla and George Westinghouse—who championed alternating current (AC)—and Thomas Edison and JP Morgan, who pushed for direct current (DC). AC electricity won because it was more reliable and much cheaper to produce and distribute. The movie should be required in every school to demonstrate how capitalism benefits us all by providing the capital to fund great innovations that improve everyone’s lives at the lowest cost. Progressives long have impugned the achievements of the great capitalists of the so-called “Gilded Age” by calling them “Robber Barons.” They’ve failed to appreciate that these capitalists financed the invention and widespread use of kerosene and gasoline (Rockefeller), steel (Carnegie), and electric power and lights (Westinghouse and JP Morgan).

CALENDARS

US. Mon: Advance Merchandise Trade Balance -\$73.5b, Dallas Fed Manufacturing Index 1.0, Chicago Fed National Activity Index 0.05, Wholesale Inventories 0.3%. **Tues:** Consumer Confidence 127.5, Pending Home Sales 0.2%, S&P/Case-Shiller Composite 20-City Home Price Index 2.0% y/y. (DailyFX estimates)

Global. Mon: Draghi, Tenreiro. **Tues:** UK Nationwide House Price Index 0.3% y/y, UK Mortgage Approvals 65k, Japan Retail Trade 6.1% y/y, Australia CPI 1.7% y/y, Lowe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index post its biggest gain in seven weeks, rising 1.3% to 0.3% below its 7/27 record high. The AC World ex-US rose 1.2% for the week but remains in a correction at 12.6% below its record high in January 2018. The US MSCI’s weekly performance ranked 22nd among the 49 global stock markets—of which 35 markets rose in US dollar terms. All regions rose w/w for a third straight week, but the following outperformed the AC World ex-US: EM Eastern Europe (3.8%), EMEA (3.0), EM Latin America (3.0), BRIC (1.3), and EAFE (1.3). The regions underperforming the AC World ex-US last week, albeit with gains: EM Asia (0.7) and EMU (0.7). Brazil was the best-performing country, with a gain of 5.4%, followed by Hungary (4.9), Russia (4.8), Austria (4.3), and Colombia (4.2). Of the 27 countries that underperformed the AC World ex-US MSCI last week, Chile fared the worst with a drop of 7.2%. Also underperforming were Belgium (-5.4), Finland (-3.1), Argentina (-2.8), and New Zealand (-2.8). The US MSCI’s ytd ranking remained steady last week at 7/49, with its 20.7% ytd gain nearly double that of the AC World ex-US (11.9) and ahead of all the MSCI regions. All regions and 39/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (20.1), EMU (14.9), and EAFE (13.0). EM Asia (7.4) is the biggest laggard ytd, followed by EMEA (8.6), EM Latin America (8.9), and BRIC (10.1). The best country performers ytd: Egypt (34.6), Russia (32.4), Greece (30.3), Ireland (21.7), and the Netherlands (21.6). The worst-performing countries so far in 2019: Argentina (-35.0), Pakistan (-13.0), Chile (-12.2), Malaysia (-8.3), and Poland (-8.3).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for a third week following declines in seven of the prior 10 weeks. SmallCap’s 1.9% gain last week was easily ahead of both MidCap (1.2%) and LargeCap (1.2). LargeCap ended the week just 0.1% below its 7/26 record high of 3025.86, and MidCap improved to 4.4% below its record high on 8/29/18. SmallCap remained in a correction for a 12th month, as it improved to 11.9% below its 8/29/18 record. Twenty-eight of the 33 sectors moved higher last week, compared to 22 rising a week earlier. Last week’s best performers: SmallCap Energy (6.1), MidCap Energy (5.4), LargeCap Energy (4.3), MidCap Materials (3.0), and

SmallCap Industrials (2.8). LargeCap Real Estate (-1.1) was biggest underperformer, followed by LargeCap Consumer Discretionary (-0.8), MidCap Health Care (-0.7), MidCap Utilities (-0.4), and SmallCap Utilities (-0.2). In terms of 2019's ytd performance, all three indexes have logged healthy double-digit gains. LargeCap leads with a gain of 20.6% ytd, 2.8ppts ahead of MidCap (17.8) and 6.0ppts ahead of SmallCap (14.6). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (33.7), SmallCap Tech (29.1), MidCap Tech (28.6), LargeCap Real Estate (27.0), and MidCap Industrials (25.6). MidCap Energy (-24.1) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-23.9), SmallCap Communication Services (1.8), LargeCap Energy (3.5), and SmallCap Consumer Staples (3.6).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 1.2% gain (versus seven rising and five outperforming the S&P 500's 0.5% gain the week before). Energy was the best-performing sector with a gain of 4.3%, ahead of Tech (2.5%), Industrials (2.2), Financials (2.0), and Materials (1.3). Last week's underperformers: Real Estate (-1.1), Consumer Discretionary (-0.8), Communication Services (0.1), Health Care (0.3), Utilities (0.5), and Consumer Staples (0.6). 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 six sectors have outperformed the S&P 500's 20.6% rise ytd: Information Technology (33.7), Real Estate (27.0), Communication Services (23.0), Industrials (22.2), Consumer Discretionary (21.7), and Utilities (21.2). The ytd laggards: Energy (3.5), Health Care (6.4), Materials (15.4), Financials (20.1), and Consumer Staples (20.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.3% as 15 of the 24 commodities moved higher. That compares to a 0.7% drop a week earlier when 12 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 at 17.2% below its 10/3/18 high. Crude Oil was the strongest performer last week, rising 5.2%, ahead of Brent Crude (4.5%), Coffee (3.9), Unleaded Gasoline (3.7), and Nickel (3.3). Lean Hogs was the biggest decliner, with a drop of 4.5%, followed by Wheat (-2.7), Kansas Wheat (-2.5), Natural Gas (-2.3), and Cocoa (-2.1). The S&P GSCI commodities index is up 11.2% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (57.6), Unleaded Gasoline (25.6), Crude Oil (24.8), Gold (17.5), and Heating Oil (17.3). The biggest laggards in 2019: Natural Gas (-16.4), Kansas Wheat (-13.5), Cotton (-10.1), Live Cattle (-6.3), and Aluminum (-5.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.2% 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 rose for the first time in 10 weeks but is down from a 17-month high of 5.4% in mid-August. The index 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 improved 2.6% from a 26-week low of 2.5%. That 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 third week following three down weeks as the price index improved to a 13-week high of 2.2% above its rising 50-dma from 1.4% 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 20th 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 21st week, and improved to a five-week high of 4.8% above its rising 200-dma

from 3.9% 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](#)): All 11 S&P 500 sectors traded above their 50-dmas last week, up from 10 a week earlier as Energy moved back above for the first time in four weeks. The longer-term picture—i.e., relative to 200-dmas—remained steady w/w at 10 sectors trading above. That's up from just six at the end of August, which was the lowest count since early June. Energy was below for a 16th 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 third week, and Energy has not been in a Golden Cross for 49 straight weeks. All 11 sectors have rising 50-dmas now, up from nine a week earlier and from just three at the beginning of October. Energy turned up w/w but has had mostly declining 50-dmas since late spring. Materials flipped back up again but has been mostly declining 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 a ninth 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

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders and shipments in September remained near record levels, though have headed south in recent months. Nondefense capital goods orders ex aircraft (a proxy for future business investment) fell 1.1% during the two months through September after rising 2.2% the first seven months of this year. Meanwhile, core capital goods shipments (used in calculating GDP) haven't posted a gain in five months, down 1.4% during the three months through September after a six-month advance of 1.6%. Overall durable goods orders sank 1.1% last month after a three-month increase of 4.2%. Excluding transportation, billings edged down 0.3% in September after a 0.3% gain and a 0.5% loss the prior two months; it's relatively flat ytd.

Regional M-PMIs ([link](#)): Four Fed districts have now reported on manufacturing activity for October—Philadelphia, New York, Richmond, and Kansas City—and show activity remained subdued. The composite (to 3.7 from 0.8) index picked up slightly last month, though was considerably below the 16.7 reading a year ago. Richmond's composite (8.0 from -9.0) index showed manufacturing in its area moved from contraction to expansion, increasing at its best pace in six months. Meanwhile, 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; manufacturing activity in the Kansas City (-3.0 from -2.0) region contracted for the fourth consecutive month. New orders (5.9 from 2.8) growth accelerated at its best rate since May, as the Philadelphia (26.2 from 24.8) region recorded its strongest gain since May 2018, while Richmond's (7.0 from -14.0) orders began expanding again; New York's index was unchanged at 3.5. Meanwhile, Kansas City's (-13.0 from -3.0) billings contracted at their second fastest rate since the beginning of 2016. Employment (11.9 from 3.9) expanded at its best pace in seven months, with Philadelphia (32.9 from 15.8) factories hiring at a record pace, while New York (7.6 from 9.7) and Richmond (13.0 from 3.0) manufacturers are hiring again after cutting payrolls in prior months. In the meantime, factories in the Kansas City (-6.0 from -13.0) region cut payrolls for the fourth straight month, though the pace slowed in October.

Consumer Sentiment ([link](#)): Consumer sentiment improved in October and was little changed from its mid-month reading. The report notes that overall consumer confidence "has remained quite favorable and largely unchanged during the past few years." The University of Michigan's Consumer Sentiment

Index (CSI) climbed for the second month to a three-month high of 96.0 in October—nearly identical to the 2019 average (95.6) and only a few index points below its 97.0 average since the start of 2017. The present situation component climbed from 105.3 to 113.2 over the two-month period—nearly matching its high for this year—while the expectations' measure advanced from 79.9 to 84.2 over the period. Richard Curtin, the survey's chief economist, observed that most of the consumers' focus has been on income and jobs growth, while largely ignoring other news. October's survey shows consumers are less worried about China tariffs (to 27% from 36%) and appear to have little concern about a Trump impeachment (2%).

New Home Sales ([link](#)): New home sales in September remained in a very volatile flat trend around June's cyclical high as low supply continues to weigh on sales. New home sales slipped 0.7% last month, to 701,000 units (saar), after a big gain in August (6.2%) and a big loss in July (-8.8)—which followed a 21.9% surge in June; sales are up 24.3% ytd. Regionally, sales were mostly lower last month, while ytd sales posted double-digit gains in three of the four regions: West (-3.8% m/m & 44.6% y/y), Northeast (-2.8 & 29.6), South (-0.2 & 20.8), and the Midwest (6.3 & 3.1). The supply of new homes on the market fell for the fourth month, to 321,000 units, the fewest since August 2018 and down 7.2% since the end of last year. The months' supply held at 5.5, down from a recent peak of 7.4 months in December. Roughly two-thirds of the houses sold in September were either under construction or yet to be built. The National Association of Home Builders Housing Market Index (HMI) for October shows homebuilders' confidence continued to trend higher, climbing to a 20-month high since bottoming at the end of last year. The overall index climbed to 71 from 56 in December on widespread strength, though special attention should be focused on expected sales (to 76 from 61 in December), which jumped to 76 in September after hovering around 70 for six months. Both current sales (to 78 from 61 in December) and buyer traffic (54 from 43) have moved higher steadily through the first 10 months of this year.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): October's PMI report was encouraging. Business activity accelerated slightly for the second month, according to flash estimates, after slowing to a 3.5-year low in August. October's C-PMI (to 51.2 from 50.7 in August) climbed to a three-month high, as both the M-PMI (51.5 from 50.3) and NM-PMI (51.0 from 50.7) improved over the two-month period—the former to a six-month high. Manufacturers reported an acceleration in output, new orders, and employment this month—and saw the first increase in export sales in four months. Business confidence in the manufacturing sector picked up for the second month running, to its highest reading since June. Several firms cited hopes of a recovery in global trade conditions, though comments from auto manufacturers were an exception—with respondents concerned about the outlook for both domestic and foreign demand. Meanwhile, the report notes that service providers indicated that new business intakes stagnated in October, which ended a ten-year period of sustained expansion. Anecdotal evidence pointed to subdued demand conditions and weaker business investment spending.

Eurozone PMI Flash Estimates ([link](#)): IHS Markit's flash estimates for October show the Eurozone is near stagnation at the start of Q4. The C-PMI inched up from 50.1 to 50.2 in October, signaling the second-smallest expansion of output across manufacturing and services since the current upturn began in July 2013. October's flash estimate is "pointing to a quarterly GDP growth rate of just under 0.1%," according to Chris Williamson, chief business economist at IHS Markit. Estimates show the M-PMI was unchanged at 45.7—the ninth consecutive reading below the breakeven point of 50.0—while the NM-PMI (51.8 from 51.6) inched slightly higher. The top two Eurozone economies, France and Germany, saved the overall Eurozone from contraction this month, specifically faster growth in France and a mild easing of Germany's decline. France's C-PMI (to 52.6 from 50.8) rose to a two-month high, with both the NM-PMI (52.9 from 51.1) and M-PMI (50.5 from 50.1) improving this month. Germany's C-PMI

(48.6 from 48.5) also climbed to a two-month high, reflecting a slower rate of decline in the M-PMI (41.9 from 41.7); growth in the NM-PMI (51.2 from 51.4) eased to a three-year low. The rest of the Eurozone region slowed closer to stagnation, according to the flash estimate.

Japan PMI Flash Estimates ([link](#)): Japan's flash estimate shows the first contraction in activity since Q3-2016 this month, as a one-two punch from a tax hike and a typhoon depressed growth. Jibun Bank's flash C-PMI (in conjunction with IHS Markit) fell to 49.8 this month from 51.5 in September and 51.7 in August. According to the report, it's hard to tell the extent that the sales tax increase (that took effect during the month) had on economic activity because of the accompanying typhoon-related disruptions—particularly in the service sector. Japan's NM-PMI (to 50.3 from 52.8) sank to a 13-month low, while the M-PMI (48.5 from 48.9) dropped to its lowest reading since June 2016, amid the sharpest contraction in new orders since December 2012. Firms indicated that weak global trade conditions and weaker growth at key exports markets hampered demand.

Germany Ifo Business Climate Index ([link](#)): "The German economy is stabilizing," Ifo President Clemens Fuest said in a recent statement. German business morale held steady this month, and Ifo expects the German economy to expand slightly during Q4 after contracting earlier this year. Sentiment held at 94.6 in October after climbing in September for the first time in six months; the index had dropped steadily from 99.9 in March to 94.3 in August—which was the lowest reading since November 2012. The index was at a cyclical high of 105.2 at the start of 2018. The expectations (to 91.5 from 90.9) component rose for the first time since August 2018 in October and only the second time since November 2017, while the present situation (97.8 from 98.6) component looks to have found a bottom in August (97.4) but has lacked momentum in subsequent months. Manufacturers (to -5.5 from -6.4) remain the most pessimistic, though there was a glimmer of hope this month as the index improved rather than deteriorated, though was still around the lowest readings since the crisis year of 2009. Sentiment was at a record high of 34.2 during November 2017. Sentiment in the service sector (16.6 from 16.7) may have hit bottom in August (13.1); it was at 32.7 last August. Meanwhile, the business climate index for trade (-3.3 from -3.7) is hovering around six-year lows, just below zero the past few months—after bouncing in a volatile flat trend the first half of this year around 6.5. Sentiment in the construction (21.3 from 22.1) industry continues to fluctuate just above its recent low of 18.4 in February; it peaked at 32.2 last October.

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