



MORNING BRIEFING

November 4, 2019

'In a Good Place'

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

(1) Warm, fuzzy, cozy, safe & sound? (2) Looking for trouble, but not finding much. (3) Doing well despite all the commotion in the nation's Capitol building. (4) Is Trump impeachable? (5) Will Trump strike out in 2020? (6) Is the Fed postponing the zombie apocalypse? (7) Consumers carrying the ball. (8) Capital spending isn't weak across-the-board. (9) Powell ties rate hikes to inflation. (10) Inflation remains mostly MIA. (11) Gains in real wages augur well for productivity. (12) Movie review: "Parasite" (-).

US Economy I: Warm & Fuzzy. One of Fed Chair Jerome Powell's favorite expressions is "in a good place," as in: "We believe that monetary policy is in a good place." He said that in his [press conference](#) last Wednesday, along with: "We believe that monetary policy is in a good place to achieve these outcomes [i.e., moderate economic growth, a strong labor market, and inflation near our symmetric 2 percent objective]," and "the household sector's in a very good place."

Debbie and I agree, but our contrary instincts go on full alert anytime that a key policymaker says something to the effect of "mission accomplished." So we are paying extra close attention for any signs of economic weakness that might turn into a recession, any signs that inflation is heating up (which could force the Fed to raise interest rates and trigger a recession), and any signs of stress in the debt markets that might lead to a credit crunch. We are also trying to assess whether President Trump will be re-elected for a second term during the November 2020 presidential election.

The latest GDP and employment numbers suggest that the economy is in no imminent danger of stalling and falling into a recession. The latest inflation indicators remain subdued. Credit quality remains relatively high at this point in the business cycle, with the notable exception of nonfinancial corporate debt. However, the Fed's three rate cuts and the drop in bond yields this year allow lots of junky companies to refinance their debts, many with investment-grade ratings albeit BBB, the lowest such rating.

In other words, aside from some credit market excesses building, the US is in a good place economically. Politically, not so much. Consider the following:

(1) *Lock him up?* During Game 5 of the World Series, an eerily familiar chant arose from the chorus of boos that erupted when President Trump was shown on a giant screen at Nationals Park in Washington: "Lock him up! Lock him up!" The *Washington Post* [observed](#): "The phrase was no doubt delivered with some irony, as a largely elite crowd in the heart of a heavily liberal city offered its own spin on the anti-Hillary Clinton slogan that has become a staple of Trump's raucous rallies."

Washington's Democrats want to impeach Trump because they believe he committed an impeachable offense during his phone call with Ukrainian President Volodymyr Zelensky on 7/25. In response to allegations by an anonymous whistle-blower, Trump released the [transcript](#) of that call on 9/4. One important issue is whether significant portions of the conversations were deleted. Administration

officials said the ellipses in the transcript represent words that trailed off or were inaudible. The 11/2 [WSJ reported](#): “It was mostly accurate, but with caveats.”

If the transcript is the whole story, then it's up to all the members of the House and the Senate to read it and decide whether an impeachable offense was committed. Witnesses who testify that they heard the conversation as it appears in the transcript and believe that a crime was committed are expressing their own opinion. It's that simple, unless the transcript is not the whole story.

According to the transcript, Trump did ask for a favor as follows: “I would like you to do us a favor though because our country has been through a lot and Ukraine knows a lot about it. I would like you to find out what happened with this whole situation with Ukraine, they say CrowdStrike.”

According to a 9/25 [NYT article](#), “In asking Mr. Zelensky for a ‘favor’ in the July 25 call, Mr. Trump appeared to be referencing an unfounded conspiracy theory that Ukrainians, not Russians, were behind the D.N.C. [Democratic National Committee] hacking, and the Ukrainians framed the Russian government to make it look like that country was working with Mr. Trump’s presidential campaign. Rudolph W. Giuliani, Mr. Trump’s personal attorney, has been among those pushing this theory.”

Zelensky responded as follows: “I guarantee as the President of Ukraine that all the investigations will be done openly and candidly. That I can assure you.” Then Trump followed up with: “The other thing, there’s a lot of talk about Biden’s son, that Biden stopped the prosecution and a lot of people want to find out about that so whatever you can do with the Attorney General would be great. Biden went around bragging that he stopped the prosecution so if you can look into it. ... It sounds horrible to me.”

I’m not convinced the transcript contains enough to impeach Trump.

The Democrats, who have a majority in the House, may have enough votes to pass articles of impeachment (i.e., the formal list of allegations) against Trump because it requires only a majority vote in the House. But the Senate, where the Republicans have a majority, probably won’t have the votes of two-thirds of the members required to remove him from office.

Will Trump strike out before 11/3/20, or will he remain in the game and hit a home run on that date? Given what I know today, my hunch is that he will win another term.

(2) *Zombie apocalypse*. Perhaps the greatest threat to the longest expansion on record is the amount of debt building up, with more of it of low quality. Furthermore, most of the dodgy credits are priced for perfection, or at least a continuation of the expansion with no recession for as far as the eye can see. That typically happens as memories of the previous recession recede, causing borrowers and lenders to downplay the mounting risks of the next widespread economic downturn.

Powell was asked at his presser about the International Monetary Fund’s recently released [Global Financial Stability Report](#), which Melissa and I reviewed in the 10/30 [Morning Briefing](#), the day before Halloween. It was quite spooky. After stating that everything is mostly hunky-dory, Powell stated: “That leaves businesses which is where the issue has been. Leverage among corporations and other forms of business, private businesses, is historically high. We’ve been monitoring it carefully and taking appropriate steps.”

Was that Powell’s trick or treat? He didn’t say what steps have been taken, unless he means the three cuts in the federal funds rate this year, which are stoking a reach-for-yield frenzy by investors. This means that zombie companies can continue to borrow and to refinance at attractive rates. So the Fed is extending their lives and increasing their numbers, postponing the zombie apocalypse rather than

taking any steps to keep it from happening.

In the 11/1 *Barron's*, Randy Forsyth [reviewed](#) the latest development the “attack of the killer BBBs.” Randy soothingly observed:

“The swarm of corporate bonds with the lowest investment-grade rating supposedly were on the precipice of a descent into the high-yield level—the polite term for junk—as soon as the inevitable economic slowdown hit. In that event, these erstwhile members of the respectable investment-grade world would be punished with a major decline in their securities prices and a concomitant rise in their yields.

“But that was so last year. What’s happened in 2019 has been a big rally in BBB corporates, resulting in falling yields and strong total returns. Indeed, BBB bonds comprise the biggest portion of the corporate bond market, accounting for 58.2% of the \$4 trillion of investment-grade debt outstanding as of Sept. 30, according to a report from Fitch Ratings. That’s actually down a touch from its peak of 58.8% in 2018.

“The dire forecasts of chaos in this sector of the corporate bond market haven’t been borne out.”

US Economy II: GDP Growth Slow, But Steady. The US economy continues to grow at a slow but steady pace, notwithstanding the Circus Maximus in Washington. Consumer spending continues to be the main driver of growth, especially over the past two quarters, when capital spending was weak. However, the weakness in capital spending was not across the board. There have been important pockets of strength in capital spending. More uniform weakness is visible in US exports and imports. Trump’s escalating trade wars have been blamed for the soft patches in both US business spending and exports. That makes sense, but a closer inspection of the data suggests that other factors have also weighed on business spending and exports. Consider the following:

(1) *Stall speed: NOT!* Prior to the current economic expansion and since 1948, the economy always fell into a recession soon after real GDP growth fell to 2.0% y/y ([Fig. 1](#)). It did so during each of the 11 recessions over this period. Real GDP rose 2.0% y/y during Q3, and it has been hovering around this growth rate since 2010 without falling into a recession.

(2) *Consumers consuming: as usual.* Consumer spending accounts for 68.0% of nominal GDP ([Fig. 2](#)). Interestingly, consumer spending on just health care alone has grown from 3.5% during 1960 to 14.5% currently.

Meanwhile, the nominal GDP share of consumer spending on motor vehicles plus residential fixed investment was only 6.2% during Q3, down from a record high of 12.4% during Q3-1950 and a more recent peak of 9.9% during Q3-2005 ([Fig. 3](#)). As the Baby Boomers age and Millennials postpone having babies, the increasingly geriatric demographic profile of the US suggests that health care’s share of nominal GDP will continue to rise while the shares of autos and housing fall.

(3) *Capital spending: weak structures.* Much of the recent weakness in capital spending in real GDP has been in structures. This category is down 8.1% y/y to \$502 billion (saar) ([Fig. 4](#)). Over this same period, real spending on capital equipment and intellectual property rose 1.0% (to \$1.3 trillion) and 8.1% (to \$980 billion).

The recent weakness in real spending on structures is broad based, with y/y declines in commercial and health care (-7.5%), manufacturing (-2.1), power and communications (-6.1), mining and wells (-15.0), and other structures (-6.6) ([Fig. 5](#)).

(4) *Capital spending on industrial & transportation equipment: up & down.* Real spending on capital equipment shows some recent weakness in transportation equipment (-1.2% during Q3 to \$273 billion), while industrial equipment rose 2.8% during Q3 to a record high of \$246 billion ([Fig. 6](#)).

(5) *Capital spending on technology hardware and software: in the cloud.* Information processing equipment was down -7.3% (saar) during Q3, but up 1.5% y/y to \$514 billion ([Fig. 7](#)). Software is included in the intellectual property category of capital spending. In real terms, it remains strong, rising 9.8% y/y to a record high of \$458 billion.

Within information processing equipment, spending on computers and peripherals (-1.4% y/y) seems to be slowing down faster than on other information processing equipment (2.6% y/y).

The cloud is really part of the so-called “gig economy,” allowing users to rent both hardware computing power and software. Debbie and I surmise that it may be weighing on business spending on hardware but boosting business spending on software.

Also included in the intellectual property category of business capital spending is R&D outlays. In real terms, it rose 7.7% y/y to \$441 billion during Q3, which was yet another record high. (See our [Capital Spending in Real GDP](#).)

(6) *Trade: a world of woes.* The slowdown in overseas economic growth is apparent in the weakness in real US exports of goods and services (0.1% y/y during Q3) ([Fig. 8](#)). Some of the slowdown can be blamed on Trump’s trade wars, but homegrown problems are also weighing on the various economies around the world, as we’ve frequently discussed. Meanwhile, US imports growth is also relatively weak at 0.8% y/y.

US Economy III: Inflation Remains MIA. In his press conference last Wednesday, Fed Chair Jerome Powell said that the Fed isn’t likely to raise interest rates until inflation makes a comeback.

The latest price and wage data show that inflationary pressures remain subdued despite rising tariff costs, a tight labor market, and lots of liquidity provided by the Fed and the other major central banks. Here’s a quick rundown of the latest developments on the inflation front:

(1) *PCED.* Powell must have been referring to the core personal consumption expenditures deflator (PCED) inflation rate. On a y/y basis, it dipped to 1.7% during September after rising to 1.8% during August ([Fig. 9](#)). The headline PCED inflation rate has been hovering around 1.3% all year right through September.

By the way, through thick and thin, since 1997, the core PCED inflation rate has hovered between 0.9% and 2.6% ([Fig. 10](#)).

(2) *CPI.* There is a wide discrepancy between the core CPI inflation rate at 2.4% during September and the core PCED inflation rate at 1.7% ([Fig. 11](#)). It is a fairly widespread divergence among many of the major components of the CPI and PCED as follows, in no particular order: used cars (2.6%, -1.6%), furniture & bedding (2.3, 1.8), airfares (1.9, 0.9), medical care services (4.4, 2.1), and wireless telephone services (-2.9, -7.4).

One of the major sources of the discrepancy is that rent-of-shelter inflation, at 3.5% for both the CPI and PCED, exceeds the overall inflation rate measured with either measure and has a much higher weight in the core CPI (at 42% currently) than in the core PCED (at 18%).

(3) *Hourly wages.* Average hourly earnings (AHE) for all workers rose 3.0% y/y during October, as Debbie discusses below ([Fig. 12](#)). They were up 3.5% for production and nonsupervisory workers (P&NSW), who accounted for 70% of employment during October. Both increases well exceed the 1.3% increase in the headline PCED through September.

(4) *A really 'good place.'* As a result, the inflation-adjusted AHE of P&NSW rose 2.1% y/y through September to yet another record high ([Fig. 13](#)). It is up 32.2% since September 1995, or 1.3% per year on average over those 24 years.

Now get this: The bottom line is that real wages should be driven by productivity, in theory. In practice, this relationship broke down during the 1970s as a result of the two oil price shocks and during the 1980s as a result of deindustrialization ([Fig. 14](#)). The relationship has been making a comeback since the mid-1990s as a result of the High-Tech Revolution, which I started to write about in the early 1990s. The relationship has gotten tighter during the current economic expansion as both growth rates have been moving higher together, particularly since 2015.

Movie. "Parasite" (-) ([link](#)) got very good reviews for no good reason, in my opinion. It's a Korean movie about a family of four grifters that takes advantage of a family of four that's well off. It's certainly offbeat. Like Quentin Tarantino movies, it's a dark comedy mixing slapstick and violence. Unlike Tarantino movies, there are no likable characters. I suppose that in some ways it might be a commentary on income inequality and the social divide between the rich and the poor. If so, it might get lost in the translation between the English subtitles and the Korean dialogue on the screen. My hunch is that the movie's producer picked the title to make the audience question who the real parasites are. The answer might very well be "all of the above" after watching this pointless film. Then again, this film may be yet another sign of our uncivil times.

CALENDARS

US. Mon: Factory Orders -0.5%, Daly. **Tues:** Job Openings 7.075m, Trade Balance -\$52.5b, ISM NM-PMI 51.1, Kashkari, Kaplan. (DailyFX estimates)

Global. Mon: Eurozone, Germany, France, and Italy M-PMIs 45.7/41.9/50.5/47.7, UK M-PMI 44.1, China Caixin NM-PMI 51.5, RBA Cash Target Rate 0.75%. **Tues:** UK C-PMI & NM-PMI 49.4/49.7, BOJ Minutes of September Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.5% as it reached a record high for the first time in three months. The AC World ex-US rose 1.1% for the week, but remains in a correction at 11.67% below its record high, in January 2018. The US MSCI's weekly performance ranked 23rd among the 49 global stock markets of which 41 rose in US dollar terms. All regions rose w/w, but the following outperformed the AC World ex-US: EM Eastern Europe (2.3%), BRIC (1.9), EM Asia (1.7), and EAFE (1.2). The regions underperforming the AC World ex-US last week, albeit with gains: EMEA (0.5), EM Latin America (1.0), and EMU (1.1). Peru was the best-performing country, with a gain of 3.5%, followed by Denmark (3.3), Hong Kong (3.3), India (3.2), and Colombia (3.2). Of the 19 countries that underperformed the AC World ex-US MSCI last week, Chile fared the worst with a drop of 5.3%. Also underperforming were South Africa (-1.9), Argentina (-1.4), Spain (-1.1), and Turkey (-0.9). In October, the US MSCI rose 2.1%, ranking 32/49 as the AC World ex-US index gained 3.4% and all regions moved higher. That compares to the US MSCI's 1.6% gain in September, which ranked 28/49 as the AC World ex-US rose 2.3%, in a month when all regions moved

higher. The best-performing regions in October: EM Eastern Europe (7.5), BRIC (4.6), EM Asia (4.4), EM Latin America (4.1), EAFE (3.5), and EMU (3.5). EMEA was October's worst-performing regions, albeit with a gain of 2.2%. The US MSCI's ytd ranking remained steady last week at 7/49, with its 22.5% ytd gain 9.3ppts ahead of the AC World ex-US (13.2). 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 (22.9), EMU (16.2), and EAFE (14.4). EMEA (9.1) is the biggest laggard ytd, followed by EM Asia (9.2), EM Latin America (10.0), and BRIC (12.2). The best country performers ytd: Egypt (37.3), Russia (35.8), Greece (34.4), Ireland (23.8), and Switzerland (22.9). The worst-performing countries so far in 2019: Argentina (-35.9), Chile (-16.8), Pakistan (-12.0), Malaysia (-6.6), and Poland (-6.2).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for a fourth week following declines in seven of the prior 10 weeks. LargeCap's 1.5% gain last week was slightly ahead of both SmallCap (1.3%) and MidCap (1.2). LargeCap ended the week at a record high of 3066.91, and MidCap improved to a three-month high, which was 3.3% below its record high on 8/29/18. SmallCap has been in a correction for over 12 months and remains 10.7% below its 8/29/18 record, but improved to a six-month high on Friday. Twenty-five of the 33 sectors moved higher last week, compared to 28 rising a week earlier. Last week's best performers: SmallCap Tech (3.5), MidCap Consumer Staples (3.4), MidCap Energy (3.1), LargeCap Health Care (3.0), and MidCap Health Care (3.0). SmallCap Energy (-3.8) was biggest underperformer, followed by MidCap Communication Services (-3.4), MidCap Consumer Discretionary (-1.5), LargeCap Real Estate (-0.7), and SmallCap Consumer Discretionary (-0.7). During October, all three market-cap indexes rose for the eighth month this year after falling in August for the first time since May. LargeCap's 2.0% gain was barely ahead of SmallCap's (1.9), but both of those indexes easily outperformed MidCap (1.0). Twenty-three of the 33 sectors advanced in October, compared to 27 rising in September. LargeCap Real Estate fell for the first time in six months, but MidCap Real Estate was up for a fifth straight month. October's best performers: SmallCap Tech (5.6), LargeCap Health Care (5.0), LargeCap Tech (3.8), SmallCap Real Estate (3.7), and SmallCap Health Care (3.5). October's biggest laggards: SmallCap Energy (-11.8), LargeCap Energy (-2.4), MidCap Utilities (-2.3), SmallCap Consumer Staples (-1.9), and MidCap Energy (-1.6). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 22.3% ytd, 3.0ppts ahead of MidCap (19.3) and 6.3ppts ahead of SmallCap (16.0). Thirty-one of the 33 sectors are positive ytd, with the cyclicals leading the top performers: LargeCap Tech (36.5), SmallCap Tech (33.6), MidCap Tech (32.1), MidCap Industrials (27.7), and LargeCap Real Estate (26.1). SmallCap Energy (-26.8) is the biggest decliner so far in 2019, followed by these underperformers: MidCap Energy (-21.7), SmallCap Communication Services (2.1), and LargeCap Energy (3.1).

S&P 500 Sectors and Industries Performance ([link](#)): Seven of the 11 S&P 500 sectors rose last week as five outperformed or matched the S&P 500's 1.5% gain (versus nine rising and four outperforming the S&P 500's 1.2% gain the week before). Health Care was the best-performing sector with a gain of 3.0%, ahead of Tech (2.1%), Industrials (2.0), Financials (1.5), and Communication Services (1.5). Last week's underperformers: Real Estate (-0.7), Energy (-0.3), Utilities (-0.1), Consumer Staples (0.0), Consumer Discretionary (0.6), and Materials (1.3). The S&P 500 rose 2.0% in October as 6/11 sectors moved higher and four beat the index. That compares to ten rising and five beating the S&P 500's 1.7% rise in September. The leading sectors in October: Health Care (5.0), Tech (3.8), Communication Services (2.7), and Financials (2.2). October's laggards: Energy (-2.4), Utilities (-0.8), Consumer Staples (-0.3), Real Estate (-0.2), Materials (0.0), Consumer Discretionary (0.3), and Industrials (1.0). 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 22.3% rise ytd: Information Technology (36.5), Real Estate (26.1), Communication Services (24.8), Industrials (24.7), and Consumer Discretionary (22.4). The ytd laggards: Energy (3.1), Health Care (9.6), Materials (16.9), Consumer Staples (20.2), Utilities (21.1), and Financials (21.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.2% as 15 of the 24 commodities moved higher. That compares to a 2.3% gain a week earlier when 15 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, but improved to 17.0% below its 10/3/18 high. Natural Gas was the strongest performer last week, rising 10.4%, ahead of Coffee (4.6%), Aluminum (3.5), Feeder Cattle (3.1), and Live Cattle (3.0). GasOil and Lead were the biggest decliners, with drops of 3.0%, followed by Heating Oil (-1.9), Copper (-1.4), and Cotton (-1.0). October saw 18 of the 24 commodities climb as the S&P GSCI Commodities index rose 1.0%. That compares to 18 rising in September when the S&P GSCI Commodities index rose 1.6%. October's best performers were Natural Gas (13.0), Silver (6.3), Live Cattle (6.3), Cotton (5.9), and Zinc (4.0). October's laggards: Lean Hogs (-9.1), GasOil (-3.9), Nickel (-2.5), Cocoa (-1.6), and Sugar (-1.3). The S&P GSCI commodities index is up 11.4% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (57.8), Unleaded Gasoline (27.2), Crude Oil (23.8), Gold (18.0), and Silver (16.2). The biggest laggards in 2019: Kansas Wheat (-12.8), Cotton (-11.0), Natural Gas (-7.7), Live Cattle (-3.5), and Copper (-2.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.5% 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 rose for a second week following nine straight declines. It's down from a 17-month high of 5.4% in mid-August, but formed a Golden Cross for a 32nd 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 to a four-week high of 2.7% from 2.6%. That compares to a 26-week low of 2.5% the week before that and -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 fourth week following three down weeks as the price index improved to a 14-week high of 3.2% above its rising 50-dma from 2.2% 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 21st 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 22nd week, and improved to a seven-week high of 6.0% above its rising 200-dma from 4.8% 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, down from all 11 a week earlier. Real Estate was below for the first time in 14 weeks and just the third time in 42 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 in early July—for the first time since early October. Ten sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), up from nine a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Health Care moved back in after being out for three weeks, and Energy has not been in a Golden Cross for 51 straight weeks. All 11 sectors have rising 50-dmas now, unchanged from a week earlier and up from just three in early October. 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 tenth 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

Employment ([link](#)): Job gains in October blew past forecasts, and there were big upward revisions to both September and August payrolls. Payroll employment climbed 128,000, while both September (to 180,000 from 136,000) and August (219,000 from 168,000) payrolls were considerably higher than previously reported, for a net gain of 95,000. (Note: October job growth would likely have been closer to 200,000 if not for the GM strike and the end of temporary Census jobs last month.) Job growth has averaged 174,200 per month the past five months, up from 159,800 the first five months of this year. Private payrolls rose 131,000 (6,000 higher than ADP's 125,000) last month, after a revised net gain of 94,000 the prior two months—with revisions showing both September (167,000 from 114,000) and August (163,000 from 122,000) gains considerably higher. Food services and drinking places (48,000) led jobs gains last month, averaging monthly gains of 38,000 the past three months—double the average monthly increase of 16,000 the first seven months of this year. Employment in professional & business services continued to trend higher, boosting payrolls by 22,000 m/m and 402,000 y/y. Social assistance jobs climbed 20,000 in October and 139,000 the past 12 months—improving steadily from March's 92,400 y/y gain—while health care added 15,000 and 402,000, respectively, over the comparable periods. Financial activities companies (16,000) hired at double the pace of September, posting one of its best performances this year. Meanwhile, the GM strike reduced manufacturing payrolls by 36,000—with motor vehicles & parts down 42,000—while federal government (-17,000) employment fell as 20,000 temporary workers hired for the 2020 Census completed their work. Employment in other major industries—including mining, construction, wholesale trade, retail trade, transportation & warehousing, and information services—showed little change over the month.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in October, though the pace has slowed. (It hasn't posted a decline since February 2016.) Our EIP climbed 0.3% last month, triple September's 0.1% increase, though below August's 0.8% (which was the best this year); October's reading was 4.3% above a year ago, down from its recent peak of 5.7% y/y at the start of the year. Average hourly earnings (AHE), one of the components of our EIP, rose 0.2% after showing no change in September; the yearly rate remained at 3.0%, not far from February's 3.4% y/y—which was the highest since April 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—ticked up 0.1% for the second month in October, slowing from August's 0.5%; it was up 1.3% y/y, roughly half the 2.4% rate at the start of this year.

Unemployment ([link](#)): October's unemployment rate was little changed from September's 50-year low, even as nearly 2.0 million workers entered the labor force the past six months—with virtually all finding jobs! The unemployment rate edged up to 3.6% after sinking to 3.5% in September—which was the lowest rate since December 1969. Meanwhile, the participation rate continues to climb, reaching 63.3% last month—the highest rate since August 2013. The adult unemployment rate remained at its cyclical low of 3.2%—which was the lowest since January 1970—while the college-grad (2.1%) rate edged up from its cyclical low of 2.0%. In the meantime, the volatile teenage rate (12.3) has moved back down toward its cyclical low of 12.0% posted during October and November of last year—after hovering around 13.0% the first seven months of this year. The number of workers working part-time for economic reasons (a.k.a. “involuntary part-time workers”) increased 88,000 to 4.44 million (2.7% of the civilian labor force), after falling four of the prior five months by 304,000. The sum of the underemployment and jobless rates rose to 6.3%, though remained near July's 6.1%—which was the lowest since October 2000. The U6 rate, which includes marginally attached workers, ticked up to 7.0%

from September's 6.9%—which was the lowest rate since December 2000.

Wages ([link](#)): Average hourly earnings climbed to a new record high last month, though the yearly rate remained at 3.0% y/y, down from February's 3.4% peak. The past 12 months' wage rate for service-providing industries (3.0% y/y) is down from its series high of 3.6% recorded in February, while the goods-producing rate (3.0%) accelerated to a three-year high. Within goods-producing, both the manufacturing (2.9) and natural resources (7.1) rates are on steep accelerating trends. The rate for construction (2.4) workers is on a steep decelerating trend—holding near its lowest wage rate since January 2016. Within service-providing industries, the rate for retail trade (4.8) remains stalled around its series high, while the information services rate dropped sharply, to 3.8% in October, from 6.4% in August—which was near its series high of 6.6% posted in January. Meanwhile, rates for leisure & hospitality (3.4) and professional & business services (3.4) are moving sideways around recent highs, while rates for both wholesale trade (3.1) and transportation & warehousing (2.3) are looking topky after accelerating most of this year. The rate for financial activities (3.1) and education & health services (1.7) are bouncing around recent lows, while the rate for utilities (2.0) dropped to a 21-month low last month.

Employment Cost Index ([link](#)): Labor costs in the private sector picked up a bit last quarter, though remained relatively tame on a y/y basis. Total compensation costs for private industry climbed 0.8% during Q3, up from 0.5% during Q2 and the largest quarterly increase since Q3-2018. The yearly rate ticked up to 2.7% y/y after easing from 3.0% at the end of last year to a six-quarter low of 2.6% during Q2. The rate for wages & salaries rose 0.9% last quarter, faster than Q2's 0.6%; yet the yearly rate was at 3.0% for the third straight quarter, holding close to the 3.1% y/y rate during the final two quarters of 2018—which was the highest since mid-2008. As for benefits inflation, it increased 0.5%, an uptick from Q2's 0.4%, while it accelerated to 2.0% y/y from 1.8% during Q2, though was nearly a percentage point below its recent peak during Q2-2018.

Personal Income & Consumption ([link](#)): Both nominal and real consumer spending in September increased for the eighth time this year to new record highs, and will likely continue to set new highs with incomes and savings up and inflation subdued. Nominal spending advanced 0.2% in September and 3.9% ytd, while real consumer spending expanded 0.2% and 2.8%, respectively, over the same periods. So far this year, real spending on goods (5.6% ytd) is up sharply, with both durable (7.7) and nondurable (4.6) goods contributing; services (1.6) consumption is more subdued, though on an accelerating trend. Meanwhile, real wages & salaries reached a new record high in September, climbing 3.9% y/y. Personal savings in September, based on the 12-month sum, shot up to a record-high \$1.32 trillion. As for inflation, September data show headline inflation was only 1.3% y/y, while the core rate—the Fed's preferred measure—eased slightly to 1.7%, remaining below its target rate of 2.0%.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate ([link](#)): October's CPI rate was below 2.0% for the 12th consecutive month, according to the flash estimate, and below 1.0% for only the second time since November 2016—September being the first; the core rate is forecast to accelerate back above 1.0%. The headline rate is forecast to slip to 0.7% y/y, which would be the lowest rate since November 2016; it was at a recent peak of 2.3% last October. Looking at the main components, services (to 1.6% from 1.5% y/y) and food, alcohol & tobacco (unchanged at 0.6) are expected to have the highest rate—with the former accelerating for the second month. The rate for non-energy industrial goods (0.3 from 0.2) is also expected to move up, though continues to fluctuate just above zero. Meanwhile, the rate for energy (-3.2 from -1.8) is forecast to fall further below zero, after slipping below in August for the first time since November 2016; it's been steadily heading lower from March/April's rate of 5.3%. The core rate—which

excludes energy, food, alcohol, and tobacco—is expected to tick up for the second month to 1.1% y/y from 1.0% and 0.9% the previous two months; it has fluctuated between 0.8% and 1.1% the past six months.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).