



MORNING BRIEFING

November 18, 2019

Revisiting Earnings & Valuation

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

(1) The life of Brian. (2) Despite Brexit, London is booming. (3) Hillary and me. (4) No trade deal yet with China. (5) What if Chinese troops repress Hong Kong? (6) Mixed signals from stock market indicators. (7) Only 400 points to go from 3100 to 3500. (8) Doing the math again. (9) Forecasting forward earnings. (10) Growth recession in business sales. (11) Melt-up risk. (12) Valuation models factoring inflation show market isn't overvalued, though not cheap. (13) Movie review: "Ford v Ferrari" (+).

Strategy I: Back Home with a Worry List. I'm back in the USA after spending a week visiting our accounts in London, which is a wonderful city with lots of history, shopping, and great restaurants. It's truly multicultural and probably the most cosmopolitan and globalized city in the world.

My usual taxi driver, Brian, drove me from meeting to meeting. Getting around London's streets is a big challenge since many of them are very narrow, partly because of the many bike lanes around town. There aren't too many bikes in the bike lanes, which really annoys Brian. So does all the road and building construction. Brian is all for Brexit. He wants out of the EU. Of course, the long, drawn-out Brexit melodrama is still playing out and creating a great deal of anxiety and uncertainty among Brits and lots of other people around the world. Still, you would never guess it by the number of cranes at numerous office-building construction sites all over London.

During my meetings, I did ask for some feedback on the likely course of Brexit. Most of the conversations about it were short because I could tell that these Londoners are thoroughly sick of the whole mess. They are also sick over the bitter partisan divide between the Tories and the Labour Party, which is very similar to what we are seeing between the Republicans and the Democrats in the US.

When I got back to my hotel room on Wednesday evening, I turned on the television, and there was Hillary Clinton being interviewed on the BBC. She must have timed her visit to London to coincide with mine. She remains obsessed by certain things: It is "inexplicable and shameful" that the UK government has not yet published a report on alleged Russian interference in British politics, she said during her interview. The former Democratic presidential nominee didn't rule out entering the 2020 race, telling the BBC: "Never say 'never.'" She said she thinks "all the time" about what kind of president she would have been had she beaten Trump in 2016.

In my meetings, it seemed that everyone is happy about the bull market in stocks, but nervous about how much longer it might last. Valuations are high, especially in the US. They are lower in Europe, Japan, and emerging market economies. But based on my meetings, London's investors aren't jumping to reduce their US stock allocations to move funds elsewhere.

Of course, last week came news that the "Phase 1" trade deal between the US and China isn't a done deal. The Chinese want Trump to phase out his tariffs on their goods sold in the US, while he wants to keep the pressure on so they will move on to the next phase of talks. It is in Trump's interest to de-

escalate his trade war as the 2020 election approaches. But he insists he won't do any deal that's not a good one for the US.

Also last week, the clash between pro-democracy protestors and the local police in Hong Kong escalated. The mainland government is warning that it will send troops to quash the demonstrations. If Chinese President Xi decides to send in his troops, resulting in many more casualties among the protestors, thousands of cell phones will be filming it and countless more around the world live-streaming it. Trump then might have no choice but to suspend trade talks with China and impose a bigger and across-the-board tariff on Chinese imports.

In other words, just because the stock market is at a record high doesn't mean there's nothing to worry about. From a contrarian perspective, new highs can be associated with too much complacency. Consider the following:

(1) *Bull-bear ratio*. Investor Intelligence's bull-to-bear ratio (BBR) has been above 3.0 for the past three weeks through the 11/12 week ([Fig. 1](#)). That's up from a recent low of 0.86 during the 1/1 week. The BBR historically has provided a very good buy signal whenever it has fallen to 1.00 or less, as Debbie and I discussed in our 1/14 [Morning Briefing](#) ([Fig. 2](#)). However, readings of 3.00 or higher aren't as good sell signals ([Fig. 3](#)).

(2) *Margin debt*. Somewhat more unsettling is the divergence between the S&P 500 and margin debt. In the past, the two were very highly correlated. They've diverged significantly recently, with margin debt down 17% from a record \$669 billion during May 2018 to \$556 billion during September ([Fig. 4](#)). Over the same period, the S&P 500 is up 10%. Margin debt took a dive at the end of last year along with the stock market, but never recovered.

Then again, maybe that's bullish, if the stock market can advance without more leverage!

(3) *Boom-Bust Barometer*. Another possibly worrisome divergence is the one between the S&P 500 and our Boom-Bust Barometer (BBB), which has been trending down since it rose to a record high during the 4/13 week ([Fig. 5](#)). The BBB is the ratio of the CRB raw industrials spot price index and jobless claims.

The BBB may be losing its ability to rise much because jobless claims can't fall much from their recent historical lows. That's confirmed by the close fit in the past between the BBB and S&P 500 forward earnings, which have continued to crank out new highs this year ([Fig. 6](#)).

(4) *Dividend yield*. Again from a contrarian perspective, the new mantra for the bullish camp is that "stocks are the new bonds." Then again, the bulls (including yours truly) have chanted "TINA" ("there is no alternative") and "FOMO" ("fear of missing out") during our pep rallies. Joe and I added "FONIR" ("fear of negative interest rates") to the mix of bullish acronyms.

The fact is that the S&P 500's dividend yield, at 1.9% during Q3, about matches the 10-year Treasury bond yield ([Fig. 7](#)). As long as there is no recession, there's probably more upside in dividend-yielding stocks than in bonds.

Strategy II: Updating Our Earnings Outlook. Joe and I are updating our outlook for S&P 500 operating earnings per share. We now expect earnings will edge up just 0.7% this year to \$163 per share, then rise 5.5% in 2020 to \$172 and rise 5.2% in 2021 to \$181 per share ([Fig. 8](#)). (See Table 1 in [YRI S&P 500 Earnings Forecast](#).)

During the 10/31 week, industry analysts were forecasting \$163, \$179, and \$198, or gains of 0.5%, 10.2%, and 10.3% ([Fig. 9](#)). Industry analysts tend to be overly optimistic about earnings in the distant future, so they end up revising their estimates downward over the course of most years as the corresponding reporting seasons approach ([Fig. 10](#)).

To offset this bias, we use forward earnings, which is the time-weighted average of consensus earnings-per-share estimates for the current year and the coming year ([Fig. 11](#)). It rose to \$177.20 during the 11/7 week. We reckon that it could rise to \$190 by the end of next year, which will be the same as the consensus estimate for 2021 and down from the current estimate of \$198.

Now that our year-end target of 3100 for 2019 has been achieved, we feel more confident in our 3500 target for the end of next year. We derive it by multiplying our forecast of forward earnings at the end of next year (\$190) by a forward P/E of 18.4.

Strategy III: The Outlook for Revenues. Actual earnings growth over the coming two years will be determined by revenues growth, since we expect that the S&P 500 profit margin will remain flat near its record high around 12.0% through 2021 ([Fig. 12](#)). The growth rate in S&P 500 revenues is highly correlated with the growth rate in business sales, which was up only 0.5% y/y through September ([Fig. 13](#)).

That's not much, and a long way from the 5% annual growth rates we need to boost earnings by the same amount over the next two years. But we think that a pickup in the global economy will be sufficient to revive revenues and earnings growth back into the mid-single digits.

Strategy IV: Valuation & Beauty Contests. As noted above, we see some issues that could trip up the bull market. However, our biggest concern right now is the market itself—i.e., if it gets to 3500 well ahead of our schedule. Such a melt-up could push the forward P/E of the S&P 500 up toward 20.0 from 17.5 currently ([Fig. 14](#)). It's easy to justify such a high multiple by observing that inflation remains subdued and interest rates are historically low. But then again, it is human nature to find justification for high multiples at the top of bull markets.

If the market moves higher on advances by some of the cheaper S&P 500 sectors—such as Energy, Financials, and Health Care—we would be more relaxed about its elevation. Here are the latest S&P 500 sector forward P/Es as of the 10/31 week, from lowest to highest: Financials (12.6), Health Care (15.0), Energy (16.1), Industrials (16.5), Materials (17.5), Communication Services (17.9), Utilities (19.8), Consumer Staples (19.8), Information Technology (20.1), and Consumer Discretionary (21.8).

In my book [Predicting the Markets](#) (2018), I introduced a review of various valuation models that stock investors follow by recalling what an elusive, subjective thing valuation really is: “Judging valuation in the stock market is akin to judging a beauty contest. ... Not only is beauty subjective, Hollywood tells us—it can be dangerous. At the end of the original version of the movie King Kong (1933), the big ape's death is blamed by his handler on Ann Darrow, Kong's blonde love interest, played by Fay Wray: ‘It was beauty that killed the beast.’ Valuation is in the eye of the beholder too. And buying stocks when they are most loved and very highly valued can also be deadly.”

Here's an update of three of the valuation models that I reviewed:

(1) *Buffett ratio*. Warren Buffett has said he favors the ratio of the value of all stocks traded in the US to nominal GNP, which is nominal GDP plus net income receipts from the rest of the world ([Fig. 15](#)). The data for the numerator are included in the Fed's quarterly [Financial Accounts of the United States](#) and lag the GNP report, which is available on a preliminary basis a few weeks after the end of a quarter.

Needless to say, they aren't exactly timely data. However, the forward price-to-sales ratio of the S&P 500, which is available weekly, has been tracking Buffett's ratio very closely. The quarterly series is back at the 1.90 peak just before the bear market of 2000-2002. The weekly series was 2.07 at the end of October. Buffett has remained bullish, observing that historically low inflation and interest rates justify these high ratios.

(2) *Rule of 20*. The "Rule of 20" was devised by Jim Moltz, my mentor at CJ Lawrence. It simply compares the S&P 500 forward P/E to the difference between 20 and the inflation rate, using the y/y percent change in the CPI. When the sum of the forward P/E and the inflation rate is above (below) 20, stocks are deemed to be overvalued (undervalued) ([Fig. 16](#)). It was slightly below 20.0 during October. This rule of thumb has had a few hits and misses, as have more sophisticated models.

(3) *Real earnings yield*. The earnings yield of the S&P 500, which is simply the reciprocal of the P/E based on reported earnings, is highly correlated with the CPI inflation rate on a y/y basis. The real earnings yield (REY) of the S&P 500 is the difference between the nominal yield and the inflation rate ([Fig. 17](#)). The result is a mean-reversion valuation model that logically includes inflation.

The average of the real yield since 1952 through Q3-2019 is 3.19%. The model tends to anticipate bear markets when the yield falls close to zero. Our friend John Apruzzese, the Chief Investment Officer of Evercore Wealth Management, examined this model in a November 2017 [paper](#) titled "A Reality Check for Stock Valuations." Based on the REY model, he found that "stocks appear more reasonably priced than the conventional P/E ratio suggests during periods of low inflation and rising markets, and more expensive during periods of high inflation and falling markets when they otherwise might seem cheap."

According to the model, stocks remained reasonably priced during Q3, with the REY at 2.92%.

Movie. "Ford v Ferrari" (+) ([link](#)) is a film about American car designer Carroll Shelby and driver Ken Miles, who build a race car for Ford and challenged Ferrari at the 24 Hours of Le Mans race in 1966. It's about American ingenuity that triumphs despite the obstacles imposed by corporate honchos at Ford. Matt Damon plays Shelby, and Christian Bale plays Miles. Both performances are solid. Breaking land speed records can be fatal. In late August, Jessi Combs died attempting to do that in the Alvord Desert when the front wheel of her jet-powered car malfunctioned after hitting something, causing the front-wheel assembly to collapse. The crash happened at speeds near 550 mph.

CALENDARS

US. Mon: NAHB Housing Market Index 71, Treasury International Capital Flows, Mester. **Tues:** Housing Starts & Building Permits 1.318mu/1.381mu, Williams. (DailyFX estimates)

Global. Mon: Bundesbank Publishes Monthly Report, RBA Minutes of November Policy Meeting, Guindos, Lane, Kent. **Tues:** European Car Sales, Japan Trade Balance ¥301b, China 1-Year & 5-Year Loan Prime Rates 4.2%/4.9%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.9% as it continued to set new record highs for the first time since late July. The AC World ex-US fell 0.3% for the week, and remains in a correction at 11.2% below its record high, hit in January 2018. The US MSCI's weekly performance ranked 11th among the 49 global stock markets of which 21 rose in US dollar terms. Nearly all regions fell w/w, but the following outperformed the AC World ex-US: EMU (0.5%), EAFE (0.0), and EMEA (-0.2). The regions underperforming the AC World ex-US last week: BRIC (-

2.7), EM Latin America (-1.8), EM Asia (-1.7), and EM Eastern Europe (-1.6). Greece was the best-performing country, with a gain of 3.7%, followed by Sri Lanka (2.6), Ireland (2.5), Pakistan (2.3), and Turkey (1.8). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Hong Kong fared the worst, with a drop of 5.6%. Also underperforming were China (-3.3), Colombia (-2.9), Argentina (-2.7), and Brazil (-2.3). The US MSCI's ytd ranking improved one place last week to 6/49, with its 24.7% ytd gain 10.9ppts ahead of the AC World ex-US's (13.8). All regions and 40/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (21.9), EMU (17.3), and EAFE (14.9). EM Latin America (4.8) is the biggest laggard ytd, followed by EM Asia (9.7), EMEA (9.8), and BRIC (10.5). The best country performers ytd: Egypt (38.0), Russia (34.4), Greece (33.8), Ireland (27.1), and the Netherlands (24.8). The worst-performing countries so far in 2019: Argentina (-36.7), Chile (-18.1), Poland (-6.3), and Malaysia (-6.2).

S&P 1500/500/400/600 Performance ([link](#)): The LargeCap and MidCap indexes rose for a sixth straight week following declines in seven of the prior 10 weeks, but SmallCap's fell for the first time in seven weeks. LargeCap's 0.9% gain last week easily beat those of both MidCap (0.1%) and SmallCap (-0.6). LargeCap ended the week at a record high of 3120.46, and MidCap was near a three-month high, which was 2.4% below its record high on 8/29/18. SmallCap had exited its correction a week earlier for the first time in 12 months, but ended the latest week back in a correction at 10.5% below its 8/29/18 record. Eighteen of the 33 sectors moved higher last week, compared to 21 rising a week earlier. Last week's best performers: LargeCap Health Care (2.4), MidCap Health Care (1.9), LargeCap Real Estate (1.9), LargeCap Utilities (1.5), and SmallCap Health Care (1.4). MidCap Energy (-5.9) was the biggest underperformer, followed by SmallCap Energy (-4.1), SmallCap Materials (-3.7), SmallCap Communication Services (-2.5), and SmallCap Industrials (-1.5). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 24.5% ytd, 4.2ppts ahead of MidCap (20.3) and 8.2ppts ahead of SmallCap (16.3). Thirty of the 33 sectors are positive ytd, with Tech sweeping the top performers: LargeCap Tech (40.5), SmallCap Tech (35.8), MidCap Tech (35.4), MidCap Industrials (30.1), and LargeCap Communication Services (28.0). SmallCap Energy (-26.2) is the biggest decliner so far in 2019, followed by these underperformers: MidCap Energy (-25.8), SmallCap Communication Services (-1.4), LargeCap Energy (3.9), and SmallCap Consumer Staples (5.3).

S&P 500 Sectors and Industries Performance ([link](#)): Eight of the 11 S&P 500 sectors rose last week as five outperformed the S&P 500's 0.9% gain (versus seven rising and six outperforming the S&P 500's 0.9% gain the week before). Health Care was the best-performing sector with a gain of 2.4%, ahead of Real Estate (1.9%), Utilities (1.5), Communication Services (1.3), and Tech (1.3). Last week's underperformers: Energy (-1.3), Financials (-0.3), Consumer Discretionary (-0.2), Materials (0.2), Industrials (0.6), and Consumer Staples (0.8). 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%. The second- and third-best ytd sector performers switched places last week, but just four are still ahead of the S&P 500's 24.5% rise ytd: Information Technology (40.5), Communication Services (28.0), Industrials (27.7), and Financials (24.6). The ytd laggards: Energy (3.9), Health Care (12.5), Utilities (18.3), Materials (19.5), Consumer Staples (20.6), Consumer Discretionary (21.8), and Real Estate (23.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.3% as 13 of the 24 commodities moved higher. That compares to a 0.5% gain a week earlier when 11 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 16.3% below its 10/3/18 high. Cocoa was the strongest performer last week, rising 7.2%, ahead of Lean Hogs (5.8%), Live Cattle (2.8), GasOil (2.3), and Cotton (1.9). Nickel was the biggest decliner, with a drop of 7.5%, followed by Lead (-5.2), Zinc (-4.5), Aluminum (-3.6), and Natural Gas (-2.6). The

S&P GSCI commodities index is up 12.3% ytd following a decline of exactly that magnitude, 12.0%, in 2018. The top-performing commodities so far in 2019: Nickel (40.6), Crude Oil (27.4), Unleaded Gasoline (25.2), Lean Hogs (18.1), and Brent Crude (16.0). The biggest laggards in 2019: Kansas Wheat (-12.9), Cotton (-7.6), Natural Gas (-6.5), Aluminum (-4.7), and Zinc (-3.5).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.9% 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 fourth week following nine straight declines. It's down from a 17-month high of 5.4% in mid-August, but has formed a Golden Cross for a 34th 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 seven-week high of 3.2% from 3.0%. That compares to a 26-week low of 2.5% in mid-October 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 sixth week following three down weeks as the price index improved to an 18-week high of 3.8% above its rising 50-dma from 3.4% 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 23rd 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 24th week, and improved to a 16-week high of 7.1% above its rising 200-dma from 6.5% a week earlier. That compares to a 17-month high of 8.8% above its 200-dma at the end of July and 14.5% below on 12/24, which was the lowest since April 2009; the index remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up from eight a week earlier and down from all 11 the last week in October. Consumer Staples moved back above after being below a week earlier for just the second time since early February. However, Utilities remained below for a second week for the first time since the beginning of June, and Real Estate was below for a third week and just the fifth time in 44 weeks. However, 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 an 18th 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), unchanged from a week earlier. That compares to just two sectors in the club during February and all 11 in January 2018. Energy has not been in a Golden Cross for 53 straight weeks. Nine sectors have rising 50-dmas now, down from all 11 in early November and up from just three in early October. Utilities rose after falling for two weeks for the first time since January. Real Estate's 50-dma fell for a second week and for the first time since January. Consumer Discretionary turned down w/w and has been going back and forth since late 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 12th week in what appears to be a successful attempt at new uptrends for the first time since September 2018. 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

Retail Sales ([link](#)): Both headline and core retail sales resumed their ascent in October, increasing for the eighth time this year, with the latter reaching a new record high and the former within 0.1% of

August's record high. Total sales advanced 0.3% in October and 5.3% ytd, while core sales—which excludes autos, gasoline, building materials, and food services—rose 0.3% and 6.7% over the comparable periods. We estimate both real retail sales and real core sales dipped 0.2% in October—which was only the second decline for both this year—they are up a robust 4.3% and 5.7%, respectively, ytd. (BEA uses the core retail sales measure to estimate personal consumption expenditures each month.) In October, sales were mixed, with five of the major 13 categories increasing and seven decreasing, while spending on health & personal care products was flat. Pushing retail sales up last month were gains at gasoline (1.1%), nonstore (0.9), motor vehicle (0.5), food & beverage (0.5), and general merchandise (0.4) retailers. Meanwhile, partially offsetting these gains were declines in sales of big-ticket household items and clothing, such as clothing & accessories (-1.0), furniture (-0.9), miscellaneous retailers (-0.6), building materials (-0.5), and electronics & appliance (-0.4) stores.

Business Sales & Inventories ([link](#)): Nominal business sales remained stalled around record highs in September, while real business sales continued to reach new record highs in August. Nominal manufacturing & trade sales dipped 0.2% in September after no change in August and a 0.2% uptick in July. Meanwhile, real business sales hasn't posted a decline since April, up 1.4% during the three months through August. Retailers' real sales ascended to yet another record high in August while wholesalers' have accelerated again—climbing to within 0.6% of January's record high. In the meantime, manufacturers' sales remain stalled just below January's cyclical high. August's nominal inventories-to-sales ratio (1.40) held at its recent high again in September, up from its recent low of 1.34 last June. Meanwhile, the real inventories-to-sales ratio (1.45) is holding around its recent high of 1.46; it was at a low of 1.41 at the end of 2017.

Industrial Production ([link](#)): Output declined again in October, driven by a big drop in manufacturing output due to the GM strike. Now that GM factories are back up and running, industrial production during the last two months of 2019 will likely get a boost as the auto manufacturer plays catchup. Headline production dropped 0.8% last month—double the expected loss—while September's decline was revised to -0.3% (from -0.4%). Manufacturing production sank 1.1% during the two months through October as motor vehicle output tumbled 12.2% over the period; excluding autos, manufacturing output slipped 0.3% over the two-month span. The remaining industry groups show mining output fell 0.7% in October after a 0.8% drop in September, partly reflecting lower oil prices, while utilities output declined 2.6% last month after a 1.9% rebound in September. By market group, output of business equipment fell 1.8% during the two months through October, led by a 6.2% plunge in transit equipment over the period, while production of information processing equipment dipped 0.6% last month after a four-month jump of 3.5% to a new record high. Industrial equipment production continues to bounce around recent lows, rising 0.4% in October following a 1.4% loss and a 1.6% gain the prior two months. Consumer durable goods production plummeted 6.5% during the two months ending October—with motor vehicle production plunging 11.8%. Over the same two-month period, consumer nondurable goods production climbed 0.9%.

Capacity Utilization ([link](#)): The headline capacity utilization rate dropped to a 25-month low of 76.7% in October, after rising for the first time this year in August (to 77.9% from 77.4%). The rate had been in a relatively flat trend, just above 77.0% since May, until October's sharp decline. The rate was at a cyclical high of 79.6% last November. October's rate was 3.1ppts below its long-run (1972–2018) average. Manufacturing's capacity utilization sank to 74.7%—also a 25-month low—as the capacity utilization rate in motor vehicles & parts fell sharply for the second month, to 68.8% last month (lowest since July 2013), from 74.1% in September and 78.5% in August. October's manufacturing rate was 3.6ppts below its long-run average; the rate peaked at 77.3% at the end of last year. The utilization rate for mining fell to 88.8% last month yet was still 1.7ppts higher than its long-run average, while the rate for utilities declined 2.1ppts to 75.4%, remaining well below its long-run average.

Regional M-PMI ([link](#)): The New York Fed—the first district to report on manufacturing activity for November—showed activity remained subdued at a fairly steady pace the past few months. The composite index edged down to 2.9 this month after climbing from 2.0 to 4.0 last month—averaging 3.6 since moving from contraction to expansion in July. New orders (to 5.5 from 3.5) expanded at a slightly faster pace than October, while shipments (8.8 from 13.0) grew at a slightly slower pace, though outpaced orders; the unfilled orders (-8.2 from -12.5) index was negative for the sixth month. Delivery times (-5.5 from -2.5) were somewhat shorter this month, and inventories (-6.2 from -0.6) declined for the second month. Employment (10.4 from 7.6) in the region expanded for the third month—and at its fastest pace in seven months—while the average workweek (2.3 from 8.3) was slightly longer. Input price (20.5 from 23.1) increases continued to ease, down from its recent peak of 54.0 last May, while selling prices (6.2 from 6.3) rose at roughly a quarter of the pace of its recent peak of 22.9 just nine months ago. Optimism about the six-month outlook remained subdued, while capital-spending plans picked up markedly again this month.

Producer Price Index ([link](#)): The Producer Price Index for final demand climbed 0.4% in October, reversing September's 0.3% loss, which matched the other two declines posted this year during June and January. The yearly rate eased to 1.1% (the lowest since October 2016) from a recent peak of 3.4% during July 2018. Prices for final demand goods rebounded 0.7% last month, after falling four of the prior five months by a total of 1.2%; the yearly rate fell 0.6% y/y, slipping below zero in August for the first time since September 2016. Roughly half of October's advance in the index for final demand goods can be traced to a 7.3% jump in gasoline prices, which had dragged the index lower in prior months. Final demand services rose for the seventh time this year, by 0.3% m/m and 1.9% y/y—which is the lowest yearly rate since July 2017. Meanwhile, there's deflation in the pipeline: Intermediate goods prices fell 3.7% y/y in October, a 40-month low; the crude price rate was 12.0% below a year ago, its fourth month of double-digit declines in five months.

Import Prices ([link](#)): Import prices in October fell for the third time in five months, as both petroleum and nonpetroleum prices moved lower. Total import prices fell 0.5% last month and 2.0% during the five months through October. Compared to a year ago, total import prices were down 3.0% y/y—the steepest decline since July 2016—with both petroleum (-14.7% y/y) and nonpetroleum (-1.5) rates falling further below zero. The latter has been below a year ago every month this year, with the rate turning negative in January for the first time since November 2016. The rate for capital goods imports (-1.6% y/y) was in negative territory in October for the 13th consecutive month, while the rate for industrial materials & supplies was negative for the eighth month this year—both posting their steepest declines since summer 2016. Meanwhile, prices for consumer goods ex autos (-0.4) remained just below year-ago levels, while the yearly change in auto prices was fractionally below zero for the 10th time this year. The rate for food prices (-3.9% y/y) was below zero for the second month, after being above the previous three months, recording its steepest decline since March 2016. Looking at our Asian trading partners, we're importing deflation, with import prices for goods from China (-1.6% y/y) and the NICs (-2.5) falling and those from Japan remaining basically flat y/y. Meanwhile, there's no sign of inflation in EU (-0.3% y/y) import prices, which decelerated sharply from last May's 4.1%, while import prices for goods from Latin America (-6.3) were negative for the 11th month in a row.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI ([link](#)): October's CPI rate was below 2.0% for the 12th consecutive month and below 1.0% for the second time since November 2016, September being the first time; the core rate moved back above 1.0% last month. The headline rate slipped to 0.7% last month, the lowest rate since November 2016; it was at a recent peak of 2.3% a year ago. Looking at the main components, services (unchanged at 1.5% y/y) and food, alcohol & tobacco (to 1.5% from 1.6%) had the highest rates—with

the latter slowing for the second month. The rate for non-energy industrial goods (0.3 from 0.2) moved slightly higher, though continues to fluctuate just above zero. Meanwhile, the rate for energy (-3.1 from -1.8) dropped 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—ticked 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. Of the top four Eurozone economies, only Germany (0.9% y/y) and France (0.9) posted rates above the Eurozone's 0.7% headline rate; Italy's (0.2) and Spain's (0.2) were below. Meanwhile, the Netherlands (2.8) recorded the highest rate among the Eurozone members, while the lowest yearly rates were registered in Cyprus (-0.5), Greece (-0.3), and Portugal (-0.1).

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