



MORNING BRIEFING

November 25, 2019

Thanksgiving

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

(1) Thanksgiving and Mr. Rogers. (2) Counting blessings. (3) A great year for stocks and bonds. (4) Lots of full-time jobs. (5) Real wages at record high. (6) Mixed capital spending. (7) No boom, no bust. (8) Clunkers: Exports, imports, railcar loadings, and leading indicators. (9) The Fed's latest financial stability report. (10) Nothing to fear but lots of corporate debt. (11) Movie review: "A Beautiful Day in the Neighborhood" (+ +).

US Economy I: Counting Our Blessings. Thanksgiving is my favorite holiday. It's great getting together with family and friends. We always take turns—going around the dinner table—sharing what we are most thankful for. The comments tend to focus on health and supportive family members.

Uniquely devoted to counting blessings and setting troubles aside, Thanksgiving is the "Mr. Rogers" of the holidays. Mr. Rogers always accentuated the positives and used them to overcome the negatives. (See my movie review below.) So let's count our economic and financial blessings:

(1) *Stocks and bonds.* It's been a very good year for stocks and bonds so far, particularly in the US. Here is the performance derby for the major MSCI indexes ytd through Friday's close, in dollars: US (24.4%), AC World (19.2), EMU (16.3), Japan (15.1), UK (8.6), and Emerging Markets (8.6) ([Fig. 1](#)).

With the exception of Energy, the S&P 500 sectors have had double-digit gains so far this year through Friday's close, as follows: Information Technology (39.4%), Communication Services (27.5), Industrials (26.7), Financials (25.2), Real Estate (22.3), Consumer Discretionary (20.8), Consumer Staples (20.3), Utilities (18.6), Materials (17.5), Health Care (13.5), and Energy (3.3) ([Fig. 2](#)).

It's also been a good year for the bond market so far. The 10-year US Treasury bond yield is down from 2.69% at the end of 2018 to 1.77% on Friday. So investors earned their coupons and enjoyed another year of capital gains, despite the recent uptick in yields ([Fig. 3](#)).

(2) *S&P 500 revenues.* There's no sign of a recession in S&P 500 revenues. Q3 data, released last week, show that revenues in aggregate and per-share rose 2.2% y/y and 3.9% ([Fig. 4](#)). Joe and I expect a modest rebound in revenues per share growth to 4%-5% in 2020 and 2021. We are impressed that revenues per share rose to yet another record high during Q3. We aren't surprised, though, because our weekly proxy for revenues per share, i.e., forward revenues per share, continues to make new highs ([Fig. 5](#)).

(3) *Misery Index and jobs.* As Joe and I observed last week, the Misery Index—which is the sum of the unemployment rate and the inflation rate—was down to only 5.4% during October ([Fig. 6](#)). It's down from the current expansion's peak of 12.9% during September 2011. The S&P 500 forward P/E is highly inversely correlated with the Misery Index. The current low readings of the index are supporting relatively high valuation multiples in the stock market.

The unemployment rate was down to only 3.6% during October ([Fig. 7](#)). Here are the latest unemployment rates for teenagers (12.3%, among the lowest readings since 1969), African Americans (5.4%, record low), Latinos (4.1%, near September's 3.9% record low), college educated (2.1%, bouncing around its lowest readings since 2008), and high-school educated (3.7%, around its lowest rate since 2000).

The number of full-time jobs (based on the household survey) rose 1.6 million during the first 10 months of this year to an all-time high of 131.5 million ([Fig. 8](#)). Full-time employment increased 21.0 million since it bottomed at the end of 2009. Over the same period, part-time employment was virtually flat at around 27 million.

(4) *Real pay and confidence.* Another blessing for workers is that real wages are at a record high. Average hourly earnings for production and nonsupervisory employees divided by the nonfarm business price deflator has been rising at a 1.4% compounded annual rate since Q4-1994 through Q3-2019 ([Fig. 9](#)). That could not have happened if real wages weren't supported by productivity gains. Sure enough, nonfarm business productivity is up at a 2.0% compounded annual rate over the same period. All this belies the urban legend that real wages have been stagnating for the past two to four decades!

No wonder that the Consumer Optimism Index—which is the average of the Consumer Confidence Index and the Consumer Sentiment Index—remains at a cyclical high, with the present situation component near its record highs during the late 1990s ([Fig. 10](#)).

(5) *Capital spending.* Let's continue to accentuate the positives, turning now to business capital spending in real GDP. It rose just 1.3% y/y during Q3. But as we reviewed in our 11/4 [Morning Briefing](#), most of the weakness was in structures (down 8.1% y/y) and transportation equipment (-1.2). Meanwhile, the following components of real capital spending rose to new record highs during Q3: software (up 9.8% y/y), R&D (7.7), and industrial equipment (2.8), with information processing equipment (1.5) just below Q2's record high. Intellectual property products in real capital spending rose 8.1% y/y, also to a record high during Q3.

(6) *Government spending.* State and local government spending in real GDP is also in record-high territory, with a gain of 1.5% y/y during Q3 ([Fig. 11](#)). Federal government spending in real GDP was up 3.7% y/y during Q3.

US Economy II: Missing Vitality. Meanwhile, the latest Atlanta Fed's [GDPNow](#) shows Q4 real GDP tracking at just 0.4%. But don't let that spoil your Thanksgiving holiday. At YRI, we've been thankful that the US economy continues to grow without booming. Booms lead to busts. The current economic expansion is the longest on record, having lasted 125 months through November—confirming our mantra: "No boom, no bust." We expect that real GDP growth will be close to 2.0% during Q4. Nevertheless, we are continuing to monitor the economy's weakest links:

(1) *Exports and imports.* Trump's trade wars have weighed on both US exports and imports in real GDP, with both basically flat y/y ([Fig. 12](#)).

(2) *Railcar loadings.* The y/y growth rate in real GDP of goods is highly correlated with the y/y growth in railcar loadings (using the 26-week average) ([Fig. 13](#)). However, they've diverged significantly recently, with the former up 4.7% through Q3 and the latter down 6.4% through the 11/16 week.

(3) *Manufacturing.* As Debbie reports below, the three available regional business surveys conducted by the Federal Reserve Banks of New York, Philadelphia, and Kansas City for November are

lackluster. The average composite index (up from 2.2 to 3.4) showed very little growth again in November, while the average new orders index (down from 5.6 to 3.6) expanded at the weakest pace since June; the average employment index (down from 11.5 to 7.6) showed hirings increasing at half the pace of December 2018.

(4) *Leading indicators.* The Index of Leading Economic Indicators (LEI) has declined for the past three months through October, while the Index of Coincident Indicators flattened out at a record high during the month ([Fig. 14](#)). The LEI is down only 0.4% over the past three months, and still up 0.3% y/y.

Financial Stability: Worrying About the Zombie Apocalypse. Last week, I visited some of our accounts in the Mid-Atlantic states. My basic message during my meetings was that inflation is dead. It's been killed by the 4Ds, the four forces of deflation: Détente, Disruption, Demography, and Debt. The major central bankers are likely to continue to provide ultra-easy monetary conditions in their futile efforts to boost inflation to their 2.0% targets, I opined. By doing so, they are contributing to deflation by keeping zombie companies alive, thanks to the easy credit conditions resulting from the reach-for-yield behavior of lenders.

In my meetings, I detected concern that the proliferation of zombies could worsen the next recession. The risk is that something will cause lenders to panic over all the low-quality credit they accrued on their balance sheets as they reached for yield. That could trigger a credit crunch, which would cause a recession. I share this concern. However, the Fed still has 163bps between the federal funds rate and zero. Furthermore, the new shock absorbers in the credit markets are distressed asset funds.

The Fed issued its third [Financial Stability Report](#), dated November 2019, last week. The first one was released a year ago, and the second one in May of this year. It boggles the mind to know that it took the Fed 10 years since the Great Financial Crisis to formally start monitoring financial stability. Better late than never, I suppose. All three reports were relatively sanguine, but all three flagged warnings about the potential for financial instability attributable to the mounting debts of nonfinancial corporations.

The latest report raised several warning flags:

(1) *Risky business.* "Business debt levels are high compared with either business assets or GDP, with the riskiest firms accounting for most of the increase in debt in recent years."

(2) *On the verge of turning into junk.* The report observed: "In addition, about half of investment-grade debt outstanding is currently rated in the lowest category of the investment-grade range (triple-B)—near an all-time high. The volume of debt downgraded from investment grade to speculative grade in 2019 has been close to the average over the past five years. However, in an economic downturn, widespread downgrades of bonds to speculative-grade ratings could lead investors to sell the downgraded bonds rapidly, increasing market illiquidity and downward price pressures in a segment of the corporate bond market known already to exhibit relatively low liquidity."

(3) *Strong demand for weak credits.* Demand for leverage loans remained strong, according to the report, while "credit standards have remained weak. ... However, the credit performance of leveraged loans has been solid so far, with low default rates."

(4) *Reaching for yield.* The Fed's report acknowledged that historically low interest rates could cause financial instability: "If interest rates were to remain low for a prolonged period, the profitability of banks, insurers, and other financial intermediaries could come under stress and spur reach-for-yield behavior, thereby increasing the vulnerability of the financial sector to subsequent shocks."

(5) *Distorting the price mechanism*. “Low interest rates may also increase risk-taking among some financial institutions. In addition to the pressures on banks and insurance companies, low interest rates could affect pension funds and other institutional investors pre-specified returns for policyholders that are significantly higher than the general level of interest rates. In order to meet the specified yield, these asset managers may hold riskier investment portfolios, which are expected to generate higher returns. Furthermore, this decision could artificially increase the price of risky assets.”

(6) *Don't worry, be happy*. So what does the Fed intend to do about the potential for financial instability? Nada! Not a thing beyond monitoring the situation: “While vulnerabilities related to low interest rates have the potential to grow, thus calling for caution and continued monitoring, so far, the financial system appears resilient.”

Movie. “A Beautiful Day in the Neighborhood” (+ +) ([link](#)) stars Tom Hanks as Fred Rogers. The film is also about Tom Junod, a journalist who wrote an *Esquire* [profile](#) of the television celebrity. Junod said Rogers changed his perspective on life. Hanks was born to play Rogers, who was born to help kids feel better about themselves and manage their fears. He was also a big promoter of kindness. He had an amazingly calming demeanor about him, reflecting his own inner peace, which he shared with others. He taught that everyone is special. His critics claim that his popular TV show for kids turned Baby Boomers into self-centered brats, perversely setting the stage for today's widespread incivility. We have only ourselves to blame for today's bitter partisan divide. Mr. Rogers did all he could to promote kindness. Perhaps, we all need to sit down and watch the reruns.

CALENDARS

US. Mon: Dallas Fed Manufacturing Index -3.8, Chicago Fed National Activity Index -0.2, Powell. **Tues:** Consumer Confidence 127.0, Advance Merchandise Trade Balance -\$71.0b, Wholesale Inventories 0.1%, Richmond Fed Manufacturing Index 5.0, New Home Sales 708k, S&P Case-Shiller Home Price Index 3.3% y/y, Brainard. (DailyFX estimates)

Global. Mon: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 95.0/97.9/92.5, Lane, Mersch, Debele. **Tues:** Germany GfK Consumer Confidence 9.6, China Industrial Profits, Lowe, Coeure. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 0.2% for its first decline in seven weeks as the index dropped to 0.3% below its record high on Monday. The AC World ex-US fell 0.5% for the week, and remains in a correction at 11.6% below its record high, hit in January 2018. The US MSCI's weekly performance ranked 20th among the 49 global stock markets, of which 15 rose in US dollar terms. Nearly all regions fell w/w, but the following outperformed the AC World ex-US: EM Latin America (0.8%), BRIC (0.8), EMEA (-0.1), and EM Asia (-0.2). The regions underperforming the AC World ex-US last week: EMU (-0.9), EM Eastern Europe (-0.6), and EAFE (-0.6). Argentina was the best-performing country, with a gain of 4.5%, followed by New Zealand (2.5), Hungary (2.1), Brazil (2.0), and Morocco (2.0). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Chile fared the worst, with a drop of 5.4%. Also underperforming were Korea (-3.9), Egypt (-3.3), Poland (-2.7), and Denmark (-2.4). The US MSCI's ytd ranking improved one place last week to 5/49, with its 24.4% ytd gain 11.2ppts ahead of the AC World ex-US's (13.2). 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 (21.1), EMU (16.3), and EAFE (14.2). EM Latin America (5.7) is the biggest laggard ytd, followed by EM Asia (9.4), EMEA (9.8), and

BRIC (11.4). The best country performers ytd: Greece (34.6), Russia (33.8), Egypt (33.5), Ireland (25.7), and the United States (24.4). The worst-performing countries so far in 2019: Argentina (-33.8), Chile (-22.5), Poland (-8.9), Malaysia (-6.7), and Jordan (-6.5).

S&P 1500/500/400/600 Performance ([link](#)): The LargeCap and MidCap indexes fell for the first time in seven weeks and SmallCap's was down for a second week. LargeCap's 0.3% decline last week was smaller than the drops for MidCap (-0.7%) and SmallCap (-1.1). LargeCap ended the week 0.4% below Monday's record high of 3122.03. MidCap was down 0.8% from Tuesday's three-month high to 3.1% below its record high on 8/29/18. SmallCap had briefly exited its correction in early November for the first time in 12 months, but ended the latest week a bit deeper into a correction at 11.5% below its 8/29/18 record. Nine of the 33 sectors moved higher last week, compared to 18 rising a week earlier. Last week's best performers: SmallCap Health Care (2.4), MidCap Communication Services (1.3), MidCap Health Care (1.3), LargeCap Health Care (0.8), SmallCap Utilities (0.5), and LargeCap Financials (0.5). SmallCap Energy (-4.7) was the biggest underperformer, followed by MidCap Energy (-4.3), SmallCap Tech (-2.6), SmallCap Consumer Discretionary (-2.1), and MidCap Consumer Staples (-2.1). In terms of 2019's ytd performance, all three indexes have logged double-digit gains. LargeCap leads with a gain of 24.1% ytd, 4.8ppts ahead of MidCap (19.4) and 9.0ppts ahead of SmallCap (15.1). Thirty of the 33 sectors are positive ytd, with Tech sweeping the top performers: LargeCap Tech (39.4), MidCap Tech (33.7), SmallCap Tech (32.2), MidCap Industrials (29.0), and LargeCap Communication Services (27.5). SmallCap Energy (-29.7) is the biggest decliner so far in 2019, followed by these underperformers: MidCap Energy (-29.0), SmallCap Communication Services (-2.1), LargeCap Energy (3.3), and SmallCap Consumer Staples (5.6).

S&P 500 Sectors and Industries Performance ([link](#)): Three of the 11 S&P 500 sectors rose last week as four outperformed the S&P 500's 0.3% decline (versus eight rising and five outperforming the S&P 500's 0.9% gain the week before). Health Care was the best-performing sector with a gain of 0.8%, ahead of Financials (0.5%), Utilities (0.2), and Consumer Staples (-0.2). Last week's underperformers: Materials (-1.7), Real Estate (-1.2), Tech (-0.8), Industrials (-0.8), Consumer Discretionary (-0.8), Energy (-0.5), and Communication Services (-0.4). 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 ytd rankings were relatively unchanged last week, and just four are still ahead of the S&P 500's 24.1% rise: Information Technology (39.4), Communication Services (27.5), Industrials (26.7), and Financials (25.2). The ytd laggards: Energy (3.3), Health Care (13.5), Materials (17.5), Utilities (18.6), Consumer Staples (20.3), Consumer Discretionary (20.8), and Real Estate (22.3).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.4% as seven of the 24 commodities moved higher. That compares to a 0.3% gain a week earlier when 13 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, as it dropped to 16.6% below its 10/3/18 high. Coffee was the strongest performer last week, rising 5.5%, ahead of Wheat (2.5%), Unleaded Gasoline (2.4), Kansas Wheat (1.8), and Sugar (0.8). Lean Hogs was the biggest decliner, with a drop of 6.0%, followed by Feeder Cattle (-3.5), Zinc (-2.9), and Cotton (-2.8). The S&P GSCI commodities index is up 11.9% ytd following a decline of 12.0%, in 2018. The top-performing commodities so far in 2019: Nickel (37.3), Unleaded Gasoline (28.2), Crude Oil (27.2), Brent Crude (15.9), Heating Oil (14.8), and Gold (14.8). The biggest laggards in 2019: Kansas Wheat (-11.4), Cotton (-10.2), Natural Gas (-7.8), Zinc (-6.3), and Aluminum (-5.7).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index fell 0.3% last week, and weakened 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 fifth 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 35th week after 16 weeks in a Death Cross formation. The index had been in a Golden Cross for 137 weeks through November 2018, 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 an eight-week high of 3.3% from 3.2%. 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 seventh week following three down weeks, but the price index dropped to 3.1% above its rising 50-dma from an 18-week high of 3.8% 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 24th 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 25th week, but fell to 6.4% above its rising 200-dma from a 16-week high of 7.1% above its rising 200-dma a week earlier. That compares to a 17-month high of 8.8% above its 200-dma at the end of July and 14.5% below on 12/24, which was the lowest since April 2009; the index remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Eight of the 11 S&P 500 sectors traded above their 50-dmas last week, down from nine a week earlier and down from all 11 the last week in October. Consumer Discretionary moved back below after being above for six weeks. However, Utilities remained below for a third week for the first time since the beginning of June, and Real Estate was below for a fourth week and just the sixth time in 45 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 a 19th 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 54 straight weeks. Eight sectors have rising 50-dmas now, down from all 11 in early November and up from just three in early October. Energy's 50-dma turned down w/w after rising for four weeks for the first time since early May. Real Estate's 50-dma fell for a third week and for the first time since January. Consumer Discretionary was down for a second week 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 13th week in their successful attempts 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

Leading Indicators ([link](#)): Leading indicators edged lower in October for the third month since reaching a record high in July. The Leading Economic Index (LEI) slipped 0.1% last month and 0.4% over the three-month period, pushing the yearly rate down to 0.3% y/y; it has slowed steadily from last September's peak rate of 6.6%. Five of the 10 components contributed negatively to October's LEI and five positively; the major difference from previous months was the softening of the labor market. The new orders diffusion index (-0.14ppt) was once again the main drag on the LEI last month—and shows no signs of improvement—with the average workweek (-0.07ppt) and jobless claims (-0.04) finishing two and three. However, it's worth noting that claims are so low that it's hard to see them moving lower. Building permits (0.14ppt) was the biggest positive contributor to the LEI in October, soaring to its highest level since May 2007; contributions from the leading credit index (0.04) and real core capital

goods orders (0.03) rounded out the top three.

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) in October held at September's record high. October saw no change in the CEI after rising 0.7% during the five months through September. The yearly rate eased to 1.4%, a percentage point lower than the 2.4% rate at the start of the year. Three of the four components rose in October, with industrial production once again the outlier: 1) Real personal income—excluding transfer payments—was the biggest contributor to October's gain, climbing for the eighth time this year, by 0.3% m/m and 2.1% ytd. 2) Job gains in October blew past forecasts, climbing 128,000—and would have been closer to 200,000 if not for the GM strike and the end of temporary Census jobs. In addition, there were upward revisions to the prior two months, for a net gain of 95,000. 3) Real manufacturing & trade sales climbed for the fourth time in five months, by 1.9%, to a new record high. 4) Industrial production dropped 0.8% last month—double the expected loss—driven by a big drop in manufacturing output due to the GM strike. October's decline was the sixth this year, for a 1.7% ytd loss.

Consumer Sentiment ([link](#)): The Consumer Sentiment Index (CSI) in mid-November rose for the third month, from 89.8 to 96.8 over the period. This month's reading is nearly identical to the average 97.0 level recorded since the start of 2017. The report noted that in 30 of the past 35 months the CSI was "95.0 or higher, a level of optimism second only to when the index was above 100.0 for 34 out of the 36 months from January 1998 to December 2000, averaging 106.0." The recent improvement has been centered in the expectations component, which jumped from 79.9 in August to 87.3 this month. The present situation component dipped to 111.6 this month after climbing from 105.3 to a seven-month high of 113.2 the prior two months. The report noted that while consumers don't anticipate continued declines in inflation, unemployment, and interest rates, neither do many of them anticipate sizeable increases in these indicators anytime soon. The start of the impeachment hearings was a big yawn, with just 2% of respondents making spontaneous references to impeachment.

Regional M-PMIs ([link](#)): The three Fed districts that have reported on manufacturing activity for November so far—Philadelphia, New York, and Kansas City—show activity remained dormant. The composite (to 3.4 from 2.2) index was little changed this month and considerably below the 16.8 reading a year ago. Philadelphia's composite (10.4 from 5.6) index showed manufacturing activity in that region expanded at roughly double October's pace, while growth in New York's (2.9 from 4.0) was at a near standstill and Kansas City's (unchanged at -3.0) contracted for the fifth straight month. New orders (3.6 from 5.6) posted its weakest performance in five months—growing at only a quarter the pace of last November. Billings in the Philadelphia (8.4 from 26.2) region slowed considerably after recording its strongest gain since May 2018 in October, while Kansas City's (-3.0 from -13.0) fell for the fifth month, yet at a much slower pace than last month; New York (5.5 from 3.5) orders continued to expand at an anemic pace. Employment (7.6 from 11.5) advanced at a slower pace this month, as Philadelphia (21.5 from 32.9) factories continued to hire at a robust pace—though below October's record rate—while New York's (10.4 from 7.6) stepped up its pace; Kansas City (-9.0 from -6.0) manufacturers, meanwhile, reduced payrolls for the fifth consecutive month.

Existing Home Sales ([link](#)): Home sales are on a volatile uptrend, rising for the fifth time this year in October. Existing home sales—tabulated when a purchase closes—rose 1.9% in October and 9.2% ytd, to 5.46mu (saar). Regionally, two of the four regions recorded monthly gains, while three were above year-ago levels. Here's a tally: South (4.4% m/m & 7.8% y/y), Midwest (1.6 & 2.4), West (-0.9 & 3.7), and the Northeast (-1.4 & 0.0). Single-family sales recovered 2.1% in October to 4.87mu (saar) after dipping 2.9% in September, climbing 5.4% y/y—the best yearly growth rate since February 2017. Multi-family sales were flat at August's reading of 5.90mu (saar) for the second month—and were 1.7% below a year ago. The number of single-family homes available for sale at the end of October fell for the fourth month from 1.70mu in June to a seven-month low of 1.56mu last month. The months' supply

was at 3.8, down from 4.3 in June. A shortage of properties for sale, along with lower mortgage rates, have home prices accelerating at their fastest pace in more than two years. Lawrence Yun, NAR's chief economist, noted: "The issuance of more housing permits is a very positive sign and a good step toward more inventory. In order to better counter and even slow the increase in housing prices, home builders will have to bring additional homes on the market."

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): November's PMI report was encouraging. Business activity accelerated slightly in November for the third month, according to flash estimates, after slowing to a 3.5-year low in August. November's C-PMI (to 51.9 from 50.7 in August) climbed to a four-month high, as both the M-PMI (52.2 from 50.2) and NM-PMI (51.6 from 50.6) improved over the three-month period—the former to a seven-month high and the latter to a four-month high. Manufacturers reported sharper and solid expansions in both production and new orders—with the former reaching a 10-month high; factories registered the first increase in backlogs since June—with firms responding by increasing employment at the best pace since March. As for the service sector, there was a pickup in client demand, though it was historically weak and well below the rates of growth recorded at the start of this year. Still, companies added jobs for the first time since August. Overall expectations are up in both sectors from summer lows, but remain below levels seen earlier this year.

Eurozone PMI Flash Estimates ([link](#)): "Eurozone near-stalled for third month running in November" is the headline of this month's IHS Markit's flash estimate report. The C-PMI slipped from 50.6 to 50.3 this month, the second-smallest expansion of output across manufacturing and services since the current upturn began in July 2013. November's flash estimate is pointing to "GDP growing at a quarterly rate of just 0.1%, down from 0.2% in the third quarter," according to Chris Williamson, chief business economist at IHS Markit. November's M-PMI (to 46.6 from 45.9) contracted for the 10th consecutive month, though at a slightly slower pace, while the NM-PMI (51.5 from 52.2) fell to a 10-month low. Looking at the top two Eurozone economies, France once again outperformed Germany, with its C-PMI (52.7 from 52.6) edging up to a three-month high as its M-PMI (51.6 from 50.7) climbed to a five-month high; the NM-PMI was unchanged at 52.9. Meanwhile, Germany's C-PMI (49.2 to 48.9) was below the breakeven point of 50.0 for the third month, though improved slightly this month as the M-PMI (43.8 from 42.1) rose to a five-month high—though held below 50.0 for the 10th time this year. The NM-PMI (51.3 from 51.6) sank to a 38-month low; it was at 55.8 five months ago. While Germany and France saw some signs of improvement, the rest of the Eurozone saw output fall, though only marginally, for the first time since July 2013. An increased rate of decline of manufacturing output was accompanied by a near-stalling of service-sector growth, according to the report.

Japan PMI Flash Estimates ([link](#)): Japan's flash estimate shows its economy was broadly stagnant in November. October's PMI data were negatively impacted by the sales tax and typhoon, so was difficult to interpret. According to the report, November's PMI data show "a strong possibility of Japan's economy contracting in the fourth quarter"; the report noted that "we have seen little rebound following these temporary factors, especially in the service sector where the impact of the tax rise and poor weather was most important." Japan's C-PMI (to 49.9 from 49.1) fell below the breakeven point of 50.0 in October for the first time since October 2016, though was just a tick below 50.0 this month. The NM-PMI (50.4 from 49.7) is back above 50.0 after temporary factors pushed it below for the first time in three years last month; the M-PMI (48.6 from 48.4) contracted for the seventh straight month.

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