



MORNING BRIEFING

December 2, 2019

What's the Matter with Profits, Again?

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

(1) Oddities in profits data. (2) The bears love NIPA profits because they are in a coma (ambiguity intended: Read either way). (3) Stock prices diverging from NIPA profits. (4) S&P 500 earnings diverging from NIPA profits. (5) Tale of two profit margins: S&P 500 at record high, while NIPA on downward trend. (6) Market discounting that earnings growth will rebound next year from this year's growth recession. (7) Another earnings season, another earnings hook. (8) NIPA profits measure is a fruit cocktail. (9) S corporations distorting NIPA profits and National Income shares.

Profits I: Big Divergence Between S&P 500 & NIPA Profits. Something is very wrong with the profits data. Consider the following oddities:

(1) *NIPA profits flatlining since 2012.* Last week, we learned that after-tax book corporate profits (as reported to the IRS) edged down 0.6% q/q and 0.5% y/y during Q3 to \$1.85 trillion (saar). Remarkably, it's been stalled around this level since Q1-2012 ([Fig. 1](#)). This measure of profits is reported along with GDP in the National Income & Product Accounts (NIPA).

The bears love this measure of profits because it confirms their view that the bull market is, well, full of bull. How can the S&P 500 be up 123% over the same period that profits have been stalled? The divergence can only be explained as a sugar high provided by the ultra-easy policies of the central banks, they figure, so it must be a stock market bubble that is bound to burst.

(2) *S&P 500 profits still on uptrend.* However, another interesting divergence is between NIPA profits and S&P 500 after-tax aggregate reported net income, using GAAP data. While the former has stalled since Q1-2012, the latter is up 38%. That's an odd divergence given that S&P 500 net income tends to account for about 50% of NIPA profits, and over 60% since Q3-2018 ([Fig. 2](#)).

Something in the NIPA profits measure must be negatively offsetting the uptrend in S&P 500 earnings.

(3) *Diverging profit margins.* Joe and I often compare the S&P 500 reported profit margin to the one we derive from the NIPA data, dividing NIPA after-tax book profits by nominal GDP ([Fig. 3](#)). The latter peaked at a record high of 11.7% during Q1-2012 and was down to 8.6% during Q3 of this year. Over the same period, the S&P 500 margin rose from 8.6% to 9.8%.

That's mighty peculiar. A similar though starker divergence is apparent when we compare the S&P 500 profit margin based on operating earnings and the NIPA margin ([Fig. 4](#)). The former is up from 9.6% during Q1-2012 to 12.0% during Q3-2019. It has been fluctuating around 12% since early last year, when the Trump corporate tax cut boosted the profit margins of S&P 500 corporations. However, there is absolutely no sign of the tax cut in either NIPA aggregate profits or the derived NIPA profit margin. Mighty peculiar, don't you think?

(4) *Reverting to the mean, or not?* Joe and I believe the story being told by the S&P 500 margin data rather than the comparable but diverging NIPA data. However, the former starts during Q1-1992—which is why we constructed the NIPA margin: It starts during Q1-1947. The more historical data series shows that the margin has tended to peak during booms and to revert to its mean, and fall below it, during recessions. The booms forced the Fed to tighten credit conditions, which caused recessions. Margins start dropping when businesses' outlays on labor and capacity start to rise faster than their revenues during booms prior to busts.

Our thesis since 2009 has been that the Great Recession and the Great Financial Crisis caused corporate managers to focus primarily on boosting and maintaining high profit margins. They've resisted the spending excesses that typically occurred several years after the previous recessions were forgotten. So as a result of the Trauma of 2008, we figured margins would stay high because there was no boom in business spending, which reduced the odds of a bust. So far, so good.

However, while the S&P 500 profit margin completely supports our thesis, the NIPA margin does not. Once again, we advise you: Pay no attention to any data that don't support our story. Actually, we can explain why the NIPA profits data are very misleading. Before we go there, let's review the latest S&P 500 data that came out late last week for Q3 and continues to support our story.

Profits II: S&P 500 Earnings Outlook Looking Good. S&P 500 earnings growth slowed dramatically this year because revenues growth slowed significantly, and the profit margin edged down following the boost it got from Trump's tax cut at the start of 2018. Last year was a hard one to beat in terms of earnings, resulting in an earnings growth recession this year. The stock market, which tends to discount the future, fell 6.2% last year based on the S&P 500 stock price index. But it is up 25.3% ytd, suggesting that investors expect better earnings growth next year.

Let's review the latest data and its implications for the 2020 outlook:

(1) *Last year.* From Q2-2017 through Q2-2018, S&P 500 revenues rose 11.2% on a per-share basis ([Fig. 5](#)). Operating earnings per share rose 26.7% over the same period. Most of that 15.5ppt spread between earnings and revenues growth must have been attributable to the tax cut.

The S&P 500 operating profit margin rose to a record high of 10.9% during Q4-2017, just before the tax cut. In 2018, after the tax cut, it peaked at 12.5% during Q3-2018. Since then, it has remained around 12.0%, with a reading of 11.9% during Q3-2019 ([Fig. 6](#)).

(2) *This year.* On a y/y basis, S&P 500 revenues rose 3.9% and 2.2% in aggregate and per share, respectively, during Q3-2019. That's a significant slowdown from last year, with some of it attributable to the Energy sector subtracting from this year's overall revenues growth, while adding to revenues growth last year ([Fig. 7](#)).

S&P 500 operating earnings growth per share fell 0.7% y/y during Q3 of this year, a significant drop from the Q3-2018 growth rate of 27.5% ([Fig. 8](#)).

(3) *Next two years.* As of the 11/21 week, industry analysts were projecting earnings growth of 1.1% in 2019, 9.1% in 2020, and 10.7% in 2021 ([Fig. 9](#)).

Joe and I believe that the analysts are too optimistic about earnings growth over the next two years. However, we think their numbers for revenues growth are realistic at 3.9% this year, 5.0% in 2020, and 4.7% in 2021 ([Fig. 10](#)). Earnings should grow in line with revenues, assuming, as we do, that the profit margin will remain around 12.0% through 2021.

(4) *The rest of this year.* Once again, there has been a significant earnings hook during the just completed earnings season ([Fig. 11](#) and [Fig. 12](#)). S&P 500 operating earnings per share for Q3 turned out to be 2.6% better than expected by industry analysts at the start of the latest earnings season. They may be setting up the Q4 earnings season for yet another earnings hook. Their estimate for earnings growth during the final quarter of this year is -0.4%, a big drop from plus 3.5% when the Q3 season just started and an even bigger drop from plus 11.7% at the beginning of this year.

Profits III: NIPA Profits Looking Bad. Debbie and I addressed the misleading nature of NIPA profits in our 8/12 [Morning Briefing](#), “What’s the Matter With Profits?” We were inspired to do so by several requests from our accounts to explain the significant downward revision in NIPA profits from mid-2016 through Q1-2019. That revision accentuated the puzzling flattening of NIPA profits in recent years. Here is a brief review of our analysis:

(1) *S corporations distorting the profits picture.* “According to the [NIPA Handbook](#), corporate profits includes all US public, private, and ‘S’ corporations. It also includes other organizations that do not file federal corporate tax returns—such as certain mutual financial institutions and cooperatives, nonprofits that primarily serve business, Federal Reserve banks, and federally sponsored credit agencies.”

“Most of the difference between the NIPA measure of profits and the S&P measure is attributable to sub-chapter S corporations and private corporations. So most of the downward revision in NIPA profits must have been attributable to them.”

(2) *Ignore NIPA profits. Go with S&P 500 earnings.* “The conclusion is that comparing NIPA profits and S&P 500 earnings is like comparing apples and oranges. Actually, the NIPA measure is more like a fruit cocktail with lots of different fruit juices. That makes it hard to explain the latest NIPA revisions, especially since the S corp data are only available through 2015. For those of us in the stock market, what matters—and remains bullish—is the trend in the S&P 500 earnings.”

(3) *NIPA profits should come with warning label.* “The key takeaway is that NIPA data are complicated and can be misleading if not properly understood and interpreted. The revisions in the data can occasionally paint a significantly different picture of the economy than the preliminary data. The NIPAs should come with a warning label: ‘The following data are prone to misinterpretation if not carefully analyzed, and may be revised significantly from time to time.’”

Profits IV: National Income Shares Distorted Too. Our analysis suggests that S corporations have also had a significant impact on distorting the National Income shares of profits and labor compensation. Consider the following:

(1) *Definition.* On its website, the IRS [explains](#) the difference between C and S corporations: “A C corporation is taxed on its earnings, and then the shareholder is taxed when earnings are distributed as dividends. S corporations elect to pass corporate income, losses, deductions and credits through to their shareholders for federal tax purposes. Shareholders of S corporations report the pass-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid double taxation on the corporate income.”

(2) *Lots of them.* The IRS estimates that there were 4.6 million S corporation owners in the US in 2014—over twice the number of C corporations. The IRS data on S corporation dividends and the BEA data on pre-tax corporate profits show that the ratio of the two has increased from 8%-9% during 1992 to about 20% from 2000-2015 ([Fig. 13](#)).

(3) *Are S corp dividends labor income?* The National Income shares of labor compensation and profits are measured on a pre-tax and pre-dividends basis. The latter includes the Inventory Valuation Adjustment (IVA) and the Capital Consumption Adjustment (CCAdj), which restate the historical-cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current-cost measures used in GDP.

Debbie and I think that S corp dividends (distributed from their profits) are more like labor compensation than profits. Excluding these dividends from profits and adding them to labor compensation shows that the latter has done much better than widely recognized, especially by income-inequality zealots ([Fig. 14](#), [Fig. 15](#), and [Fig. 16](#)).

CALENDARS

US. Mon: Auto Sales 16.9mu, Construction Spending 0.4%, ISM & IHS Markit M-PMIs 49.5/52.2, ISM Prices Paid Index 47.7. **Tues:** None. (DailyFX estimates)

Global. Mon: Eurozone M-PMIs, UK M-PMI, RBA Cash Rate Target 0.75%, Lagarde. **Tues:** Australia GDP, Japan C-PMI & NM-PMI, China C-PMI & NM-PMI. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.0% for its seventh gain in eight weeks, but it ended the week 0.4% below its record high on Wednesday. The AC World ex-US edged up 0.1% for the week and remains in a correction at 11.5% below its record high, hit in January 2018. The US MSCI's weekly performance ranked 13th among the 49 global stock markets, of which 25 rose in US dollar terms. Two MSCI indexes outperformed the AC World ex-US last week, EAFE (0.5%) and EMU (0.4), while the following regions underperformed it: EM Latin America (-2.0), EMEA (-1.7), EM Eastern Europe (-1.5), EM Asia (-0.2), and BRIC (0.0). New Zealand was the best-performing country, with a gain of 4.2%, followed by Argentina (3.3), Sri Lanka (3.3), Pakistan (3.3), and Ireland (2.9). Of the 25 countries that underperformed the AC World ex-US MSCI last week, Chile fared the worst—dropping 5.1%—followed by South Africa (-4.4), Colombia (-4.2), Mexico (-2.4), and Norway (-2.3). In November, the US MSCI rose 3.5%, ranking 9/49 as the AC World ex-US index gained 0.8% and most of the EM regions fell. That compares to October's 2.1% gain for the US MSCI (which ranked 32/49) and 3.4% gain for the AC World ex-US in a month when all regions moved higher. The best-performing regions in November: EMU (1.4) and EAFE (1.0). EM Latin America was November's worst-performing region with a drop of 4.3%, followed by EM Eastern Europe (-1.3), EMEA (-0.1), BRIC (0.2), and EM Asia (0.5). The US MSCI's ytd ranking dropped one place last week to 6/49, with its 25.6% ytd gain 12.4ppts ahead of the AC World ex-US's (13.4). All regions and 38/49 countries are in positive territory ytd. The regions that are outperforming the AC World ex-US ytd: EM Eastern Europe (19.3), EMU (16.8), and EAFE (14.8). EM Latin America (3.5) is the biggest laggard ytd, followed by EMEA (7.9), EM Asia (9.1), and BRIC (11.4). The best country performers ytd: Greece (36.1), Egypt (32.3), Russia (31.9), Ireland (29.3), and New Zealand (28.3). The worst-performing countries so far in 2019: Argentina (-31.7), Chile (-26.5), Poland (-10.6), Malaysia (-8.7), and Jordan (-6.4).

S&P 1500/500/400/600 Performance ([link](#)): Over the past eight weeks, the LargeCap and MidCap indexes have risen seven times and SmallCap was up six times. LargeCap's 1.0% gain last week was smaller than the increases for MidCap (1.2%) and SmallCap (2.2). LargeCap ended the week 0.4% below last Wednesday's record high of 3153.63. MidCap was down 1.0% from Wednesday's 13-month high to 2.0% below its record high on 8/29/18. SmallCap ended the week out of a correction for the first time in 13 months, but remained 9.5% below its 8/29/18 record. Twenty-nine of the 33 sectors moved

higher last week, compared to nine rising a week earlier. Last week's best performers: SmallCap Health Care (5.9), SmallCap Real Estate (2.7), SmallCap Materials (2.5), SmallCap Consumer Discretionary (2.2), and MidCap Tech (2.0). MidCap Energy (-2.3) was the biggest underperformer, followed by LargeCap Energy (-1.5) and SmallCap Energy (-1.0). During November, all three market-cap indexes rose for the ninth month this year. LargeCap's 3.4% gain was its best since June and ahead of SmallCap (2.9) and MidCap (2.8). Twenty-five of the 33 sectors advanced in November, compared to 23 rising in October. LargeCap Real Estate and LargeCap Utilities both fell for a second straight month, and MidCap Real Estate was down for the first time in six months. November's best performers: SmallCap Health Care (10.3), MidCap Health Care (8.5), LargeCap Tech (5.2), LargeCap Health Care (4.8), and LargeCap Financials (4.8). November's biggest laggards: MidCap Energy (-7.5), MidCap Utilities (-4.4), SmallCap Utilities (-4.0), SmallCap Communication Services (-3.8), and LargeCap Utilities (-2.3). In terms of 2019's ytd performance, all three indexes have logged double-digit gains, and both LargeCap and MidCap are on track for their best performance since 2013. LargeCap leads with a gain of 25.3% ytd, 4.4ppts ahead of MidCap (20.9) and 7.7ppts ahead of SmallCap (17.6). Thirty of the 33 sectors are positive ytd, with Tech sweeping the top performers: LargeCap Tech (41.8), MidCap Tech (36.4), SmallCap Tech (34.6), MidCap Industrials (30.1), and LargeCap Communication Services (28.4). MidCap Energy (-30.6) is the biggest decliner so far in 2019, followed by these underperformers: SmallCap Energy (-30.4), SmallCap Communication Services (-1.8), LargeCap Energy (1.7), and MidCap Utilities (7.0).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 S&P 500 sectors rose last week as five outperformed or matched the S&P 500's 1.0% gain (versus three rising and four outperforming the S&P 500's 0.3% decline the week before). Consumer Discretionary was the best-performing sector with a gain of 1.8%, ahead of Tech (1.7%), Real Estate (1.4), Health Care (1.1), and Consumer Staples (1.0). Last week's underperformers: Energy (-1.5), Utilities (0.0), Industrials (0.3), Financials (0.7), Communication Services (0.7), and Materials (0.9). The S&P 500 rose 3.4% in November as 9/11 sectors moved higher and five beat the index. That compares to six rising and four beating the S&P 500's 2.0% rise in October. The leading sectors in November: Tech (5.2), Health Care (4.8), Financials (4.8), Industrials (4.1), and Communication Services (3.7). November's laggards: Utilities (-2.3), Real Estate (-2.0), Consumer Staples (1.1), Energy (1.1), Consumer Discretionary (1.1), and Materials (2.9). 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 unchanged last week, and just four sectors are still ahead of the S&P 500's 25.3% rise: Information Technology (41.8), Communication Services (28.4), Industrials (27.0), and Financials (26.0). The ytd laggards: Energy (1.7), Health Care (14.7), Materials (18.5), Utilities (18.5), Consumer Staples (21.5), Consumer Discretionary (22.9), and Real Estate (23.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 2.3% for its worst drop in eight weeks as 12 of the 24 commodities moved higher. That compares to a 0.4% decline a week earlier when seven 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 18.6% below its 10/3/18 high. Wheat was the strongest performer last week, rising 4.4%, ahead of Kansas Wheat (3.2%), Coffee (2.9), Feeder Cattle (2.2), and Live Cattle (1.9). Natural Gas was the biggest decliner, with a drop of 15.8%, followed by Nickel (-6.7), Unleaded Gasoline (-4.7), and Crude Oil (-4.5). November saw 13 of the 24 commodities climb as the S&P GSCI Commodities index rose 0.4%. That compares to 18 rising in October when the S&P GSCI Commodities index rose 1.0%. November's best performers were Coffee (16.8), Live Cattle (7.7), Cocoa (6.9), Kansas Wheat (6.5), and Wheat (6.5). November's laggards: Nickel (-18.2), Natural Gas (-13.4), Lead (-10.5), Zinc (-8.9), and Soybeans (-6.0). The S&P GSCI commodities index is up 9.3% ytd following a decline of 12.0%, in 2018. The top-performing commodities so far in 2019: Nickel (28.1), Unleaded Gasoline (22.2), Crude Oil (21.5), Coffee (16.9), and Gold (14.9). The biggest laggards in

2019: Natural Gas (-22.4), Cotton (-9.5), Kansas Wheat (-8.5), Zinc (-7.7), and Lead (-4.4).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 1.0% 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 sixth 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 36th 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 a nine-week high of 3.4% from 3.3%. 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 an eighth week following three down weeks, as the price index improved to an 18-week high of 3.6% above its rising 50-dma from 3.1% 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 25th 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 26th week, and improved to an 18-week high of 7.1% above its rising 200-dma from 6.4% 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, unchanged from a week earlier and down from all 11 the last week in October. Consumer Discretionary moved back above its 50-dma in the latest week, but Energy moved back below. Utilities remained below for a fourth week for the first time since the beginning of June, and Real Estate was below for a fifth week and just the seventh time in 46 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 20th week after being above—just for a week in early July—for the first time since October 2018. 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 55 straight weeks. Eight sectors have rising 50-dmas now, down from all 11 in early November and up from just three in early October. Utilities' 50-dma fell for just the second time since June, but Consumer Discretionary turned up after falling for two weeks. Energy's 50-dma was down for a second week after rising for four weeks for the first time since early May. Real Estate's 50-dma fell for a fourth week and for the first time since January. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since October 2018. Materials and Financials moved higher for a 14th 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

Personal Income & Consumption ([link](#)): Both nominal and real consumer spending in October increased for the ninth time this year to new record highs. The trend is likely to continue, as both incomes and savings are at high levels and inflation is subdued. Nominal spending advanced 0.3% in October and 4.2% ytd, while real consumer spending expanded 0.1% and 3.0%, respectively, over the

same periods. So far this year, real spending on goods (5.5% ytd) is up sharply, with both durable (7.5) and nondurable (4.5) goods contributing, though durable goods spending took a step back in October, slipping 0.8%. Services consumption hasn't posted a decline this year, up 0.2% m/m and 1.8% ytd. Real wages & salaries advanced for the seventh time this year, by 3.1% ytd, to a new record high, and personal savings, based on the 12-month sum, shot up to a record high \$1.31 trillion. As for inflation, October data show that the headline inflation was only 1.3% y/y, while the core rate—the Fed's preferred measure—eased slightly to 1.6%, remaining below its 2.0% target.

Consumer Confidence ([link](#)): Confidence in November fell for the fourth consecutive month, to 125.5 from 135.8 in July; it has fluctuated in a volatile flat range from 121.7 to 136.4 since reaching a cyclical high in October 2018 (137.9). The expectations (to 97.9 from 94.5) component improved for the first time since jumping 14.8 points in July (to 112.4), while the present situation (166.9 from 173.5) component dipped last month after increasing 2.9 points in October—remaining in a volatile flat trend around August's (176.0) cyclical high. Lynn Franco, senior director of economic indicators at The Conference Board, noted: "The decline in the Present Situation Index suggests that economic growth in the final quarter of 2019 will remain weak. However, consumers' short-term expectations improved modestly, and growth in early 2020 is likely to remain at around 2 percent. Overall, confidence levels are still high and should support solid spending during this holiday season." Consumers' appraisal of business conditions was mixed last month, with the percentage of respondents saying business conditions are good (to 40.2% from 39.7%) continuing to climb—remaining at a relatively high level—though the percentage saying conditions were bad (13.8 from 11.0) jumped to a 30-month high. Still, the latter is at a relatively low level. Those expecting conditions to be better (17.2 from 18.7) six months from now isn't that far from those expecting conditions to worsen (12.1 from 11.5)—with 71% expecting conditions to stay the same. The consumers' assessment of the current job market deteriorated, with the percentage saying jobs are plentiful (to 44.8% from 47.7%) moving lower and those saying jobs are hard to get (12.7 from 11.6) moving higher. The job outlook improved slightly but was a mixed bag. The percentage of respondents expecting more jobs (15.7 from 16.9) once again outpaced those expecting fewer jobs (13.2 from 18.0) after flipping in October—though the former continued to head lower from its recent peak of 19.9% three months ago.

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders and shipments both increased in October after dipping slightly in prior months. Nondefense capital goods orders ex aircraft (a proxy for future business investment) rebounded 1.2%, after falling 1.3% during the two months through September, to within 0.9% of July 2018's record high. Meanwhile, core capital goods shipments (used in calculating GDP) posted its first increase in five months, up 0.8% last month, after falling 1.6% during the three months ending September. These shipments had increased 1.6% the first five months of this year to a new record high. Overall durable goods orders increased for the fourth time in five months, by 0.6% m/m and 3.2% over the period. Excluding transportation, billings recovered 0.6% in October after a three-month decline of 0.8%.

New Home Sales ([link](#)): New home sales are on a tear despite October's slight 0.7% pullback to 733,000 units (saar). September sales were revised substantially higher (to 738,000 units from 701,000)—with ytd sales up a whopping 30.0%. This is the first time since 2007 that single-family home sales remained above 700,000 for three consecutive months. Regionally, sales rose in two regions and fell in two regions in October—though three regions posted double-digit ytd gains—led by the West. Here's a look: West (7.1% m/m & 61.2% y/y), Midwest (4.2 & 15.4), South (-3.3 & 24.2), and Northeast (-18.2 & 0.0). The supply of new homes on the market rose to 322,000 units after falling steadily from 336,000 units in May to 321,000 in September. The months' supply was little changed at 5.3, down from a recent peak of 7.4 months' in December. Roughly two-thirds of the houses sold in October were either under construction or yet to be built. The National Association of Home Builders Housing Market Index (HMI) for November shows homebuilders' confidence (to 70 from 71) was little changed at

October's 20-month high—up from 56 at the end of last year. “Single-family builders are currently reporting ongoing positive conditions, spurred in part by low mortgage rates and continued job growth,” said NAHB Chairman Greg Ugalde. “In a further sign of solid demand, this is the fourth consecutive month where at least half of all builders surveyed have reported positive buyer traffic conditions.”

Pending Home Sales ([link](#)): Pending home sales retreated in October, though Lawrence Yun, NAR's chief economist, notes there is no shortage of buyers but rather a lack of available units. The economic landscape remains favorable, according to Yun, with mortgage rates below 4% and employment growth strong. He warns that what needs to be addressed is the inadequate levels of inventory across the country. The Pending Home Sales Index (PHSI)—measuring sales contracts for existing-home purchases—took a slight step back, slipping 1.7% to 106.7 in October, but sales were up 4.4% y/y, the strongest yearly growth since December 2015. Regionally, sales fell in all regions but the Northeast in October, though all four regions continued to be above year-ago levels. Here's a tally: Northeast (1.9% m/m & 3.0% y/y), South (-1.7 & 5.1), Midwest (-2.7 & 1.8), and West (-3.4 & 7.5).

GLOBAL ECONOMIC INDICATORS

Economic Sentiment Indicators ([link](#)): The Economic Sentiment Indexes (ESI) for both the Eurozone (0.5 point to 101.3) and the EU (0.9 to 100.0) moved higher in November after falling in October to their lowest readings since January 2015 and October 2013, respectively. Among the Eurozone's largest economies, ESIs in Spain (+0.7 to 101.9), France (+0.4 to 103.9), and Germany (0.4 to +0.4 to 99.6) all improved, while Italy's (-0.1 to 99.9) was little changed; the Netherlands' (-1.0 to 100.8) ESI sank to its lowest reading since September 2014. At the sector level, only construction (-1.3 to 3.1) confidence deteriorated last month “due to managers' more pessimistic employment expectations and worsened assessments of the level of order books,” according to the report. Meanwhile, retail trade (+0.7 to -0.2), consumer (+0.4 to -7.2), services (+0.3 to 9.3), and industry (+0.3 to -9.2), confidence all improved.

Eurozone CPI Flash Estimate ([link](#)): November's CPI headline rate is expected to move back up to 1.0%, according to flash estimates, after falling from 1.0% in July/August to 0.7% in October (which was the lowest since November 2016). It would be the 13th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate is forecast to move further above 1.0%, from 0.9% during July/August to a seven-month high of 1.3% in November—back up at April's two-year high. Looking at the main components, food, alcohol & tobacco (to 2.0% from 1.5%), and services (1.9 from 1.5) are expected to post the highest rates—with both accelerating from October. The rate for non-energy industrial goods (0.4 from 0.3) is expected to edge higher for the second month, continuing to fluctuate just above zero. Meanwhile, the rate for energy (-3.2 from -3.1) is expected to fall further below zero, easing steadily from March/April's rate of 5.3%.

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

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