



MORNING BRIEFING

January 21, 2020

Love Songs for Investors

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

(1) To the moon. (2) Sinatra's stock market. (3) Powell gets blame for Q4-2018 meltdown and credit for meltup since then. (4) Fed giving more weight to inflation indicators; so should investors. (5) Fed is back in patient mode as inflation remains subdued. (6) The CPI has an upward bias relative to PCED. (7) Trump is the stock market's rainmaker. (8) Trump morphing global multilateral trade system into bilateral one. (9) GDP growth: more of the same. (10) Wage gains aren't inflationary if driven by productivity. (11) Real wages suggesting faster productivity growth. (12) Movie review: "Bombshell" (+).

Strategy I: Moon Shot. If today's stock market had a theme song, it would be "[Fly Me to the Moon](#)." It was written in 1954 by Bart Howard and recorded by lots of top singers. Frank Sinatra and the Count Basie Orchestra recorded a version of the song arranged by Quincy Jones in 1964. "Fly me to the moon / Let me play among the stars": Those lyrics could as easily be about an investor frolicking in today's stock market as a fellow smitten by love. Investors love the stock market these days! It has aroused their animal spirits. They are sending it to the moon, and going right along with it.

What's not to love about the S&P 500, which is up 3.1% so far this year? It is up 41.6% since the Xmas Eve bottom on 12/24/18, 55.6% since Trump was elected president, and 392.2% since the start of the current bull market ([Fig. 1](#), [Fig. 2](#), and [Fig. 3](#)). The S&P 400 and S&P 600 are up 417.9% and 471.7% since the start of the bull market.

Joe and I reckon that the most recent meltup started last year on 10/2 ([Fig. 4](#)). That coincided with widespread expectations that the Fed would lower the federal funds rate for the third time in 2019 to a range of 1.50%-1.75% at the 10/29-30 meeting of the Federal Open Market Committee (FOMC), which is exactly what happened. Immediately after that meeting, Fed Chair Jerome Powell really aroused investors' love for stocks when he said during his post-meeting [press conference](#), "So I think we would need to see a really significant move up in inflation that's persistent before we would consider raising rates to address inflation concerns."

Those words were music to investors' ears. Inflation has remained persistently below 2.0% since that became the Fed's official target for the personal consumption expenditures deflator (PCED) measure of inflation during January 2012 ([Fig. 5](#)). Apparently, Powell's soothing words convinced many investors that the federal funds rate could remain unchanged through the end of the current decade, or at least until the next inflation number confirmed that the Fed could remain "patient," to use Powell's lingo.

In his press conference, Powell said, "We entered the year [2019] expecting some further rate increases, we went to 'patient,' now we've done three rate cuts. It's a very substantial shift, and the effects of it will be felt over time. So we feel like those shifts are appropriate to support exactly the outcomes you're talking about, which are a continuing strong labor market, continued strong job creation."

So the Fed is back to patient with the federal funds rate range at 1.50%-1.75%, down from 2.25%-2.50% at the start of 2019. What Powell didn't say was that his renewed patience after the Fed lowered the federal funds rate three times has been wildly bullish for stocks, as evidenced by the meltup since Powell said what he said last October.

That's only fitting. Recall that it was only a year before, on 10/3/18, that Powell triggered a meltdown in the stock market by saying, "Interest rates are still accommodative, but we're gradually moving to a place where they'll be neutral." He added: "We may go past neutral. But we're a long way from neutral at this point, probably." The S&P 500 crashed nearly 20% as a result.

Strategy II: Greasing the Bull Market. The refrain in the love song "[Grease](#)," from the musical of the same name, is "Grease is the word." For the stock market, the word is "inflation." As long as it remains persistently below 2.0%, the Fed will remain on hold. So we need to watch the inflation indicators very closely and give them more weight in our thinking about the outlook for stocks. Low inflation should continue to grease the bull market. Now let's review a few of the latest key inflation numbers:

(1) *CPI*. Last year, the core Consumer Price Index (CPI) rose 2.3% y/y through December. That's above the Fed's 2% target, but that target is for the PCED rather than for the CPI. In any event, the headline and core CPI inflation rates were up only 0.2% m/m and 0.1% during

December. Over the past three months through December, the core CPI was up 2.0% (saar) ([Fig. 6](#)).

(2) *PCED*. The PCED inflation rate is available through November of last year, and its headline and core rates rose 1.5% and 1.6%, respectively. Over the past three months through November, the core rate is up just 1.3% (saar). If you are looking for more inflation, you'll find it in the services component of the PCED, which was up 2.2% y/y through November ([Fig. 7](#)). If you are looking for deflation, you'll find a bit of it in the goods component of the PCED, which was down 0.3% y/y through November.

By the way, a footnote in the FOMC's February 2000 [Monetary Policy Report](#) to Congress explained why the committee decided to switch to the inflation rate based on the PCED:

"The chain-type price index for PCE draws extensively on data from the consumer price index but, while not entirely free of measurement problems, has several advantages relative to the CPI. The PCE chain-type index is constructed from a formula that reflects the changing composition of spending and thereby avoids some of the upward bias associated with the fixed-weight nature of the CPI. In addition, the weights are based on a more comprehensive measure of expenditures. Finally, historical data used in the PCE price index can be revised to account for newly available information and for improvements in measurement techniques, including those that affect source data from the CPI; the result is a more consistent series over time."

The CPI continues to have an upward bias, as demonstrated by the ratio of this price index to the PCED ([Fig. 8](#)).

(3) *PPI*. Despite rising tariffs last year, the US import price index excluding petroleum was down 1.5% y/y through December, matching its slowest pace since June 2016 ([Fig. 9](#)). That helped to keep a lid on the finished goods Producer Price Index (PPI) excluding food and energy, which rose only 1.5%, the lowest since September 2016.

(4) *AHE*. Wage inflation, as measured by average hourly earnings (AHE) for production and nonsupervisory workers on a y/y basis, seemed to be making a big comeback last year when it rose to 3.6% during October, the fastest since February 2009 ([Fig. 10](#)). But it fell back to 3.0% during December.

Debbie and I don't view wage gains as inherently inflationary. On the contrary, we believe that wages tend to rise faster than prices, and don't exert upward pressure on prices, when productivity growth is improving. That may very well be happening now. Inflation-adjusted AHE growth has been tracking a 1.2% per year trend since December 1994 ([Fig. 11](#)). Real AHE rose 1.9% y/y through November.

(5) *Fed target*. During the aforementioned press conference, Powell was asked by the *WSJ*'s ace Fed watcher Nick Timiraos how soon the Fed's review of its inflation-targeting procedure would be announced to the public. Powell answered: "So we're in the middle—we're really quite in the middle of it now, and my thinking is still that it will run into the middle of next year. These are—you know, these changes to monetary policy frameworks happen—they don't happen really quickly, let's say. Inflation targeting took many years to evolve. I don't think we'll take many years here. I think we'll wrap it up around the middle of next year, would be my guess. I have some confidence in that." Odds are that not much will change.

Strategy III: Rainmakers. Now that Trump has been impeached, he seems to be boasting about his successes more frequently and redundantly, especially regarding the stock market and the economy. He has been harping on the new highs the stock market has made as though he can't get them off his mind. I'll give Trump some credit for the recent highs, but "Powell's Pivot" likewise deserves credit, in my opinion. Consider the following:

(1) *Trade*. The market obviously loves that Trump is succeeding in replacing the multilateral order of world trade with a more bilateral one. He justly has promoted the idea that free trade also needs to be fair trade. Last week's record highs in the stock market were driven by news of Trump's successes in negotiating better trade deals with China, Mexico, and Canada. I've believed all along that Trump wouldn't destroy global free trade but would make it more bilateral to the benefit of the US.

(2) *Labor market*. Trump can take credit for the boom in the labor market thanks to his tax cuts and executive actions to reduce regulations on business. However, he hasn't been the only rainmaker. The Fed has also been focused on providing easy money to grease the wheels in the labor market.

(3) *GDP*. Trump's boasts about economic growth, however, have yet to pan out, at least

according to the official numbers on GDP. On a y/y basis, real GDP growth continues to hover around 2.0% as it did under President Barack Obama ([Fig. 12](#)).

As of 1/17, the Atlanta Fed's [GDPNow](#) tracking model showed real GDP rising 1.8% during Q4, unchanged from the 1/16 forecast but down from the 1/10 estimate of 2.3%. The release of retail sales data last Thursday lowered the nowcast Q4 forecast for real personal consumption expenditures from 2.3% to 1.6%, which was revised down further (to 1.4%) by the 1/17 update. According to the 1/17 forecast: "After this morning's housing starts report from the U.S. Census Bureau and industrial production release from the Federal Reserve Board of Governors, a decrease in the nowcast of fourth-quarter real personal consumption expenditures growth from 1.6 percent to 1.4 percent was partly offset by an increase in the nowcast of real residential investment growth from 4.3 percent to 5.5 percent."

Debbie and I are open to the possibility that real GDP and productivity are growing faster than the government's official numbers show. We would not be surprised by upward revisions in both, as happened during the second half of the 1990s. The growth in real AHE on a y/y basis has been a relatively good leading indicator of productivity growth in recent years ([Fig. 13](#)).

(4) *Business sales*. Also on the disappointing side so far for both GDP and S&P 500 revenues growth is that manufacturing and trade sales edged up just 1.0% y/y through November ([Fig. 14](#)).

Movie. "Bombshell" (+) ([link](#)) is a docudrama based on the accounts of several women at Fox News who exposed CEO Roger Ailes for sexual harassment. The movie stars include Charlize Theron, Nicole Kidman, and Margot Robbie playing reporters Megyn Kelly, Gretchen Carlson, and Kayla Pospisil. John Lithgow plays Ailes, who was a creative genius and a slime ball. A far better account of this sordid affair along with a fascinating examination of Ailes' career at Fox News is Showtime's seven-part series, "The Loudest Voice." Russell Crowe is amazingly good at portraying Ailes. The series is based on Gabriel Sherman's 2014 book, *The Loudest Voice in the Room*, and depicts the pivotal years in the rise and fall of Ailes. It covers when media mogul Rupert Murdoch hired him to launch the Fox News Channel and when Ailes took charge on the morning of 9/11 and promoted Bush's post-9/11 policies. Also covered in detail is the sexual harassment case brought against Ailes by Gretchen Carlson (played by Naomi Watts), who filed a lawsuit that led to his downfall.

CALENDARS

US: **Tues:** None. **Wed:** Existing Home Sales 5.43mu, MBA Mortgage Applications, Chicago Fed National Activity Index 0.15. (DailyFX estimates)

Global: **Tues:** Germany ZEW Economic Sentiment Survey Current Situation & Expectations - 13.5/15.0, UK Employment Change & Unemployment Rate 109k3m/3m & 3.8%3m, Carney. **Wed:** Canada CPI 0.0%/m/m/2.3%/y/y, Japan Trade Balance -¥170.0b, Australia Employment Change & Unemployment Rate 11k/5.2%, BOC Rate Decision 1.75%, Poloz. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 2.0%, for its 13th gain in 15 weeks and its biggest since late August. The US MSCI ranked 11th of the 49 global stock markets we follow in a week when 37/49 countries rose in US dollar terms. That compares to a 1.0% gain for the AC World ex-US index. EM Asia was the best performer with a gain of 1.4%, ahead of BRIC (1.2%) and EMEA (1.0). EM Latin America rose 0.2%, but was the worst performer, followed by EMU (0.6), EM Eastern Europe (0.7), and EAFE (0.8), Denmark was the best-performing country, rising 3.1%, followed by Mexico (2.9), Finland (2.7), Switzerland (2.6), and Korea (2.4). Of the 25 countries that underperformed the AC World ex-US MSCI last week, Hungary fared the worst, falling 4.2%, followed by Chile (-2.4), Austria (-2.1), Ireland (-1.1), and the Philippines (-1.0). During 2019, the US MSCI ranked an impressive 8/49 for the year, with its 29.1% gain well ahead that of the AC World ex-US (18.1). The US MSCI ranks 12/49 with a gain of 3.2% so far in 2020. Among regions, these are outperforming the AC World ex-US's 1.6% ytd gain: EM Eastern Europe (3.9), BRIC (3.9), EM Asia (3.6), and EMEA (2.7). The ytd laggards: EM Latin America (0.2), EMU (0.9), and EAFE (1.0). The best country performers ytd: Pakistan (7.7), Turkey (6.9), Mexico (6.4), Russia (5.7), Hong Kong (5.5), and China (5.2). The worst-performing countries so far in 2020: Hungary (-7.8), Sri Lanka (-3.4), Ireland (-2.3), Austria (-2.2), and Brazil (-1.8).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week for the first time in four weeks. SmallCap surged 2.8% higher for the week, ahead of the similarly strong gains for MidCap (2.2%) and LargeCap (2.0). LargeCap ended the week at a record high, but MidCap was down 0.2% from its record high on Thursday. SmallCap remains 5.4% below its 8/29/18 record. Thirty of the 33 sectors moved higher, the highest count in four

weeks and up from 11/33 sectors rising a week earlier. SmallCap Communication Services' 6.3% gain was the biggest in the latest week, followed by SmallCap Health Care (4.7), MidCap Communication Services (4.1), SmallCap Consumer Discretionary (3.8), and LargeCap Utilities (3.8). SmallCap Energy (-5.1) was the biggest decliner last week, followed by MidCap Energy (-3.3) and LargeCap Energy (-1.1). Regarding 2019 performance, all three indexes ended the year with healthy double-digit gains: LargeCap was up by 28.9%, followed by MidCap's 24.1% rise and SmallCap's 20.9% gain. All three of these indexes are now up so far in 2020: LargeCap leads with a gain of 3.1%, ahead of SmallCap (1.8) and MidCap (1.6).

S&P 500 Sectors and Industries Performance ([link](#)): Ten of the 11 sectors rose last week, and six outperformed the S&P 500's 2.0% gain. That compares to seven rising and three outperforming the S&P 500's 0.9% gain a week earlier. Utilities was the best-performing sector with a gain of 3.8%, ahead of Tech (3.0%), Materials (2.7), Real Estate (2.5), Communication Services (2.4), and Industrials (2.0). Energy was the solo decliner with a drop of 1.1%, followed by the also-underperforming Consumer Discretionary (1.1), Financials (1.1), Health Care (1.6), and Consumer Staples (1.9). During 2019, the S&P 500 soared 28.9% for its best gain since 2013 as all 11 sectors rose for the first time since 2010. The S&P 500 is up 3.1% so far in 2020, with nine sectors posting gains and just four ahead of the index. The 2020 ytd leaders: Tech (5.9), Communication Services (5.2), Industrials (3.5), and Utilities (3.3). The 2020 ytd laggards: Energy (-1.7), Materials (-0.5), Financials (0.8), Consumer Staples (1.5), Consumer Discretionary (2.0), Real Estate (2.2), and Health Care (2.5).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.7% for its second straight weekly decline. The index nearly exited a correction a week earlier, but was down 15.1% on Friday from its cyclical high on 10/3/18. Cocoa was the best performer last week with a gain of 8.0%, followed by Lean Hogs (3.8%), Sugar (2.7), Lead (2.5), and Zinc (2.4). Natural Gas was the biggest decliner with a drop of 9.0%, followed by Coffee (-5.7), GasOil (-4.0), and Heating Oil (-3.4). The S&P GSCI commodities index is down 2.1% so far in 2020 after ending 2019 with a gain of 16.5%. The top-performing commodities so far in 2020: Cocoa (10.1), Sugar (7.7), Zinc (7.0), Lean Hogs (3.7), and Cotton (3.2). The biggest laggards in 2020: Coffee (-13.5), Natural Gas (-9.3), Heating Oil (-7.9), GasOil (-7.1), and Crude Oil (-4.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 2.0% last week for its biggest gain in 20 weeks, 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 13th week following nine straight declines. Its 50-dma is now at a 22-month

high of 6.2% above its 200-dma and has formed a Golden Cross for 43 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma rose for a 15th week following three down weeks, as the price index rose to a 10-month high of 4.6% above its rising 50-dma from 3.3% a week earlier. It bottomed recently, in late August, at 3.5% below its 50-dma, which was down from 6.6% above during February 2019—its highest level since October 2011. The 200-dma rose for a 32nd week. It had been rising for 16 weeks through mid-May after falling from October 2018 to February 2019 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 33rd week and improved to a 24-month high of 11.0% above its rising 200-dma from 9.2%. It had peaked at a seven-year high of 13.5% above its rising 200-dma during January 2018. That compares to 14.5% below on 12/24/18, which was the lowest since April 2009.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors traded above their 50-dmas last week, up from 10 a week earlier, as Materials moved above after being below for two weeks for the first time since early October. Energy was above its 50-dma for a seventh week in another effort to break out of its long downtrend. The longer-term picture—i.e., relative to 200-dmas—had all sectors except Energy trading above. That's down from all 11 above in the prior three weeks when Energy was above for the first time since October 2018. That's still up from six at the end of August, which was the lowest count since early June. 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 62 straight weeks. All 11 sectors have rising 50-dmas now, up from 10 a week earlier as Real Estate turned up for the first time since early November. That's up from just three in early October. Ten sectors have rising 200-dmas, unchanged from a week ago. The sole laggard, Energy, has been mostly falling since October 2018. Materials and Financials moved higher for a 21st 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 January 2019, in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Import Prices ([link](#)): Import prices in December rose 0.3%, pushing the yearly rate (0.5% y/y) above zero for the first time since November 2018. Petroleum prices jumped at a seven-month high of 2.1% during the month, while nonpetroleum prices climbed 0.2%, after a 0.1% uptick in November—the first back-to-back gain in a year. Petroleum prices (22.3% y/y) posted its

biggest yearly gain since October 2018, while the nonpetroleum (-1.5) rate remained in negative territory for the 12th straight month. The rate for capital goods imports (-1.7) was in negative territory for the 15th consecutive month, while the rate for industrial supplies & materials (5.9) turned positive for the first time since April. Meanwhile, rates for consumer goods ex autos (-0.6) and auto prices (-0.6) continued to fluctuate in a narrow band just below zero. The rate for food prices (-1.6) was below zero for the fourth consecutive month, after being above the prior three months. The US is importing deflation from its Asian trading partners, with import prices for goods from China (-1.8) and the NICs (-2.1) falling and those from Japan remaining basically flat y/y. Meanwhile, there's no sign of inflation in EU (0.4) import prices, which decelerated sharply from May 2018's 4.1%, while import prices for goods from Latin America (-2.0) were negative for the 13th month in a row.

Retail Sales ([link](#)): Both headline and core retail sales continued to climb in December; adjusted for inflation, however, headline sales were at a standstill during the final months of 2019, while real core sales contracted two of the final three months. (BEA uses the core retail sales measure to estimate personal consumption expenditures each month.) Real retail sales expanded only 0.8% (saar) during Q4—its weakest quarterly rate since Q1-2018—while real core retail sales contracted 1.6% (saar), the first quarterly decline since Q4-2016 and the steepest since Q2-2011. Nominal retail sales increased 0.3% during each of the three months of Q4—to a new record high—while core sales remained stalled at record highs. In December, only one of the 13 sales categories—autos (-1.3%)—declined. The biggest sales gains occurred for gasoline (2.8), clothing (1.6), building materials (1.4), sporting goods (0.9), electronics & appliance (0.6), and general merchandise (0.6) retailers; the remaining six categories posted gains ranging from 0.1% to 0.4%.

Consumer Sentiment Index ([link](#)): Consumer sentiment barely budged in mid-January, with both the present situation and expectations components holding steady. The Consumer Sentiment Index (CSI) was little changed, at 99.1, after climbing from a recent bottom of 89.8 last August to 99.3 in December—remaining at the upper end of the range it has trekked since the start of 2017. The present situation component (to 115.8 from 115.5) climbed to a 13-month high this month, while the expectations component (88.3 from 88.9) held near December's five-month high. Impeachment was mentioned by just 1% of consumers—having little impact on mid-January's CSI. Inflation expectations increased for both the one- (to 2.5% from 2.3%) and five-year (2.5 from 2.2) time spans—with the latter up from December's record low.

Business Sales & Inventories ([link](#)): Nominal business sales expanded to a new record high in November, while real business sales in October remained stalled south of its record high. Nominal manufacturing & trade sales rebounded 0.7% in November—its biggest gain since March—more than reversing the 0.5% decline during the two months ending October. Real sales dipped 0.5% during December after no growth in September and a 0.6% gain in August. Nominal sales rose 1.0% y/y, down from a recent peak of 8.3% during May 2018, while real sales advanced 1.9% y/y in October, down from 3.0% at the start of 2019. Real sales of retailers were stalled at record highs in October, while wholesalers' sales were below their record high and manufacturers' below last January's cyclical high. November's nominal inventories-to-sales ratio (1.39) held near its recent high of 1.40, up from its recent low of 1.34 during June 2018. In the meantime, the real inventories-to-sales ratio was back up at its recent high of 1.46 in October; it was at a low of 1.41 at the end of 2017.

Industrial Production ([link](#)): Industrial production fell 0.3% in December as mild weather triggered a 5.6% drop in utilities output, while mining output jumped 1.3% and manufacturing production posted its first back-to-back gain this year. Factory output climbed 0.2% following November's 1.0% rebound from October's strike-related drop during the GM strike. Last year was a disappointing year for manufacturers, with output contracting 1.1% during the 12 months through December. By market group, output of business equipment sank 1.8% y/y in December, as declines in transit equipment (-9.4% y/y) and industrial equipment (-1.9) more than offset a robust increase in information processing equipment (6.7) to a new record high. Consumer durable goods production was 3.6% below a year ago, while consumer nondurable goods output was 1.1% lower. The final ISM Manufacturing Survey for 2019 saw the ISM M-PMI sink to 47.2—its weakest performance since the Great Recession of 2008.

Capacity Utilization ([link](#)): The headline capacity utilization rate slipped to 77.0% in December after rising from a 25-month low of 76.9% in October to 77.4% in November. The rate was at a cyclical high of 79.6% during November 2018. December's rate was 2.8ppts below its long-run (1972-2018) average. Manufacturing's capacity utilization rate climbed for the second month, to 75.2%, after dropping to a 25-month low of 74.5% in October—which was depressed by the GM strike. December's manufacturing rate was 3.1ppts below its long-run average; the rate peaked at 77.3% at the end of 2018. The utilization rate for mining increased to 89.6%, holding above its long-run average of 87.1%, while unseasonably warm weather pushed the operating rate for utilities down to 73.5%, about 12ppts below its long-run average.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for January so far—Philadelphia and New York—show growth accelerated this month, thanks to a sharp acceleration in the Philly Fed region. The composite (to 10.9 from 2.9) index posted its best performance since last May, as the Philadelphia (17.0 from 2.4) region recorded its strongest growth in eight months, while New York's (4.8 from 3.3) has been stalled at a steady pace since July. The new orders index (12.4 from 6.4) show billings in January expanded at double the rate of December, with orders accelerating in both the Philly (18.2 from 11.1) and New York (6.6 from 1.7) regions. Employment (14.2 from 13.6) data show manufacturers have hired at a similar pace the past five months, with Philadelphia (19.3 from 16.8) factories hiring at double the pace of New York's (9.0 from 10.4).

Housing Starts & Building Permits ([link](#)): The US housing market is hot, with housing starts soaring to a 13-year high in December, on widespread strength. Housing starts jumped 16.9% at the close of last year, to 1.608mu (saar)—the highest reading since December 2006—though unseasonably mild weather likely inflated December's gain. Still, the market is on a tear, with starts up 14.2% during the four months through November, even before December's surge. Single-family starts advanced for the sixth time in seven months, by 11.2% m/m and 29.6% over the period, to 1.055mu (saar)—its first reading above 1.0mu since July 2007; volatile multi-family starts soared 29.8% in December to 553,000 units (saar)—its highest since 1986. Building permits slipped 3.9% in December to 1.416mu (saar) after rising four of the prior five months, by a total of 19.6% to a new cyclical high. Both single- (-0.5% to 916,000 units, saar) and multi-family (-9.6 to 500,000) permits contracted in December, though remained at high levels, the former just below November's cyclical high. "Low interest rates and a healthy labor market combined with a need for additional inventory are setting the stage for further home building gains in 2020," said NAHB Chairman Greg Ugalde. NAHB's Housing Market Index (HMI) was at 75 in January—barely budging from December's reading of 76—which was the highest since June 1999; it was at 56 at the end of 2018. All three measures of the HMI are up big from December 2018: current sales (to 81 from 61), expected sales (79 from 61), and buyer traffic (58 from 43), with only current sales moving lower this month.

JOLTS ([link](#)): Job openings in November sank 561,000 (biggest monthly decline since August 2015) to 6.800 million, to its lowest level since February 2018. It was 826,000 below its record high of 7.626 million recorded during November 2018. Still, November's ratio of unemployed workers per job opening was below 1.00 for the 21st straight month, at 0.85, with job openings exceeding unemployed workers by nearly 1.0 million. Hirings increased 39,000 to 5.821 million, after a 169,000 decrease and a 67,000 increase the previous two months. Separations

fell for the third time in four months, by a total of 162,000 to 5.648 million. The latest hiring and separations data yielded an employment advance of 173,000 in November, 83,000 below November's payroll gain of 256,000—understating the increase for the fourth consecutive month. Those quitting jobs rose 65,000 during the two months through November to 3.536 million. The quit rate remained at 2.3% in November, just below its cyclical high of 2.4% during July and August, while the hires rate held at 3.8%, down from 3.9% the prior three months; it has been fluctuating in a range from 3.8% to 4.0% for over a year. November's job openings rate fell to a 21-month low of 4.3%, down from its record high of 4.8% at the start 2019.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): EU passenger car registrations (a proxy for sales) rose 21.7% y/y in December—the highest December total on record to date. Some of the strength is a result of a low base comparison with December 2018—when sales contracted 8.4% y/y. However, the report notes there was a surge in car sales in France (27.7% y/y) and Sweden (109.3) as both these countries “announced significant changes to the bonus-malus component of CO2-based taxation for 2020.” Meanwhile, sales in the Netherlands (113.9) got a boost from its decision to increase taxation of electric company cars from 4% to 8% as of January 2020. Sales in both Germany (19.5) and Italy (12.5) posted double-digit gains in December, while Spain (6.6) and the UK (3.4) were in single digits. During 2019 overall, sales increased 1.2% across the European Union and 0.7% across the Eurozone, with the former reaching 15.0mu and the latter 13.8mu, marking the sixth consecutive year of growth. The lasting impact of the introduction of the WLTP test in September 2018 depressed sales during early 2019, yet the final quarter, particularly December, was strong. Looking at the five major EU markets, Germany (5.0) posted the largest gain in 2019, followed by France (1.9), and Italy (0.3), while sales in both Spain (-4.8) and the UK (-2.4) saw sales contract last year.

Eurozone CPI ([link](#)): December's CPI headline rate accelerated for the second month, to 1.3% y/y, after falling to 0.7% in October (which was the lowest since November 2016). It's the 14th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate also remained at 1.3%, matching April's two-year high and up from 0.9% during July and August. Looking at the main components, food, alcohol & tobacco (to 2.0% from 1.9% y/y) recorded the highest rate, followed by services (1.8 from 1.9)—with the former accelerating and the latter decelerating. The rate for non-energy industrial goods accelerated for the third month to 0.5% y/y from 0.2% in September. As for energy (0.2 from -3.2), the yearly rate was positive for the first time in five months. Of the top four Eurozone economies, only rates in France (1.6) and

Germany (1.5) were above the Eurozone's headline rate of 1.3%; rates in Spain (0.8) and Italy (0.5) were below. In fact, Italy posted the second-lowest rate among Eurozone members, just above Portugal's 0.4%.

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

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

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