MORNING BRIEFING
February 10, 2020

Hysteria vs Hysteresis

See the collection of the individual charts linked below.

(1) Pessimism vs optimism. (2) Timeline of the viral impact on DJIA. (3) A major known unknown. (4) Online dashboard showing rising body count. (5) Monitoring financial markets for clues. (6) Chinese stocks, copper/gold price ratio, and bond yield signaling risk-off. (7) S&P 500 Energy and Materials have been infected. (8) Stay Home again until virus crisis blows over. (9) Homebuilders and video games outperforming cruise lines, casinos, hotels, and air freight. (10) The US labor market is hot, yet wage inflation is not. (11) Powell says there is room to run as long as labor force participation rate continues to rise.

Virology 101: Indicators To Watch. Stock market investors are torn between fear that the coronavirus might continue to spread, weighing on global economic growth, and optimism given that the latest batch of global economic indicators is showing rebounding global growth, which should continue if the virus is contained soon.

Let's review the timeline for the outbreak's impact on the DJIA:

1/17 (Friday): 29348.10. DJIA hits record high.
1/23 (Thursday): 29160.09. DJIA remains near record high the day before outbreak news.
1/24 (Friday): 28989.73. DJIA falls 170.36 after outbreak news hits the tape.
1/27 (Monday): 28535.80. DJIA drops 453.93 on more bad news over the weekend.
1/31 (Friday): 28256.03. DJIA drops 603.41 after brief rally Tuesday-Thursday.
2/6 (Thursday): 29379.77. DJIA makes new record high on vaccine rumors and solid economic news.
1/7 (Friday): 29102.51. DJIA drops 277.26 as virus and quarantines spread.

Hysteria seemed to grip the market at the end of January, when the DJIA fell 603.41 points on news that the virus is spreading and might be harder to contain than previous viral outbreaks such as SARS during 2003-04, MERS during 2012, and Ebola during 2014-16. However, US stock prices have rallied since then on improving global M-PMI releases for January, solid labor market indicators in the US, and news reports that a vaccine might be available sooner rather than later. In addition, the People's Bank of China (PBOC) injected lots of liquidity into China's financial markets last week, and Fed Chair Jerome Powell reiterated that the Fed is in no rush to raise interest rates.

Nevertheless, the coronavirus remains a significant known unknown. So Thursday's record high was followed by some profit taking on Friday as investors feared more bad news over the weekend. Sure enough, the John Hopkins online dashboard, which is monitoring the virus in real time, shows cases and deaths continuing to mount—up to 37,592 confirmed cases of infection and 814 deaths from the virus worldwide by mid-morning Sunday.

Joe and I acknowledged last week that we are not virologists. However, we are monitoring how global financial markets are responding to the latest viral outbreak for early clues to whether it is getting worse or starting to recede:

(1) *Chinese stock prices.* China is facing mounting isolation as other countries introduce travel curbs, airlines suspend flights, and governments evacuate their citizens—risking worsening a slowdown in the world's second-largest economy. US Secretary of Commerce Wilbur Ross said that the virus could force companies to re-evaluate their supply chains, potentially returning some jobs to the US. China's government is facing social unrest following the death on Friday of Li Wenliang, a 34-year-old Chinese doctor who was reprimanded for warning against a "SARS-like" coronavirus before it was officially recognized. That fueled suspicions of censorship and triggered online expressions of anger at the government.

Last Monday, the day China's stock markets reopened after the week-long Lunar New Year holiday, the PBOC responded to the viral outbreak by injecting 1.2 trillion yuan ($174 billion) worth of liquidity into the markets via reverse repo operations. Nevertheless, China's major stock market indexes dropped sharply last week as follows: Shanghai Stock Price A-Share Index (-3.4%), Shanghai-Shenzhen 300 (-2.6), and Hong Kong Hang Seng China Enterprises Index (-3.3). The China MSCI index continued trading through the Lunar New Year holiday, but is down only 1.0% since 1/23 (*Fig. 1* and *Fig. 2*).

(2) *Commodity prices.* The nearby futures prices of copper and Brent crude oil have dropped 8.4% and 17.5% so far this year, to $255.90 per pound and $54.47 per barrel (*Fig. 3*). Also dropping sharply last week was the ratio of the S&P 500 Materials stock price index to the S&P 500 (*Fig. 4*). The CRB raw industrials spot price index is still up 2.0% ytd, but gave up some of

its gain last week. The ratio of the S&P 500 Energy stock price index to the S&P 500 also fell last week (*Fig. 5*).

Another interesting indicator that was flashing orange last week is the ratio of the price of copper to the price of gold (*Fig. 6*). It's a handy-dandy proxy for risk-on versus risk-off attitudes in the financial markets, as evidenced by its very close correlation with the 10-year US Treasury bond yield.

(3) *Currencies.* The JP Morgan trade-weighted dollar edged up slightly last week, while the Emerging Markets MSCI currency ratio edged down slightly (*Fig. 7* and *Fig. 8*).

(4) *Cruise lines, casinos, hotels, and video games.* The Diamond Princess cruise ship, with 3,700 people onboard, has been quarantined since last Monday in the port of Yokohama, and passengers were told to remain in their cabins for a two-week period. The S&P 500 Hotels, Resorts & Cruise Lines stock price index fell 5.9% since 1/23 (*Fig. 9*). The S&P 500 Casinos & Gaming stock price index lost 4.8% since 1/23. Online sales of video games have soared since the coronavirus outbreak. The S&P 500 Interactive Home Entertainment stock price index is down 2.2% since 1/23 but rose 1.5% last week (*Fig. 10*).

(5) *Bond yields, mortgage rates, and housing-related stock prices in US.* On Friday, the Federal Reserve warned that "spillovers" from the coronavirus outbreak pose a fresh "risk" to the US outlook. In its monetary report to Congress, the central bank said: "[P]ossible spillovers from the effects of the coronavirus in China have presented a new risk to the outlook." It added: "The recent emergence of the coronavirus ... could lead to disruptions in China that spill over to the rest of the global economy."

The 12-month forward federal funds rate futures yield fell 21bps ytd to 1.21% on Friday, and the 2-year US Treasury note yield dropped 17bps to 1.41% (*Fig. 11*). The 10-year Treasury bond yield has dropped 33bps to 1.59% so far this year, with the comparable TIPS yield down 22bps to -0.07% (*Fig. 12*). The 30-year mortgage rate fell 17bps to 3.65% over the period (*Fig. 13*).

Joe and I have decided to go back to our cabin (in the US, not on a cruise ship). We reckon it makes more sense to Stay Home than to Go Global during the coronavirus outbreak. Better to suffer from cabin fever than a virus-induced fever. Interestingly, housing-related stock prices rallied last week. For example, the S&P 500 Homebuilding stock price index rose 3.1% last week, and needs to rise only 5.8% more to match its record high during July 2005 (*Fig. 14*). Meanwhile, Air Freight & Logistics, which is very exposed to the global economy, is down 7.2% since 1/23.

(6) *Performance derbies.* On our website, we have a handy app that generates performance derbies for the S&P 500 sectors as well as for the major MSCI stock price indexes. We generated a table for the S&P 500 sectors and 100+ industries from the day before the coronavirus hit the tape (1/23) through Friday (2/7). Here are the results for each sector: Information Technology (1.7%), Consumer Discretionary (1.2), Utilities (0.5), Consumer Staples (0.4), Financials (0.3), S&P 500 (0.1), Materials (-0.2), Industrials (-0.4), Real Estate (-0.4), Communication Services (-0.8), Health Care (-1.2), and Energy (-6.0).

The plunge in the S&P 500 Energy sector reflects concern that the virus will slow the global economy and oil demand. It also reflects that OPEC producers can't seem to agree on how their supply cutbacks should be allocated.

Here is the performance derby in local currencies for the major MSCI stock price indexes from 1/23 through 2/7: EMU (1.5%), Japan (0.4), US (0.1), UK (-0.7), China (-1.0), Australia (-1.1), EM (-1.8), Singapore (-2.3), Hong Kong (-2.3), Turkey (-2.7), and Brazil (-4.4). So far, there really hasn't been much hysteria about the virus reflected in global stock markets. (See *table*.)

(7) *Grim reading list.* I've been posting links to articles on the coronavirus in my daily *What I Am Reading* emails and webpage. Here are a few of the most recent ones:

"Man vs. Microbe" (*Bloomberg Businessweek*)
"Warning: Chinese authoritarianism is hazardous to your health" (*Washington Post*)
"China grows isolated as airlines cancel more than 50,000 flights" (CNBC)
"Coronavirus: The hit to the global economy will be worse than SARS" (CNBC)
"Chinese Doctor Who Warned of Virus Dies, Stoking Outrage Online" (Bloomberg)

US Employment: Some Like It Hot. The good news is that the US labor market remains strong, as evidenced by Friday's employment report from the Bureau of Labor Statistics (BLS) and Wednesday's private payrolls report from ADP. The former showed a gain of 225,000 during January. The latter showed a jump of 291,000, better than the comparable stat (excluding government employment) from the BLS, which showed a 206,000 gain. Initial unemployment claims fell to 202,000 during the 2/1 week, back near recent cyclical lows. The ratio of jobless claims to payroll employment was down to a record low during January (*Fig. 15*).

The unemployment rate edged up to 3.6% during January, but it has been below 4.0% for 12 consecutive months, and 18 of the past 19. It was widely reported on Friday that while the employment market is hot, wage gains have remained remarkably subdued, as evidenced by the 3.1% y/y increase in average hourly earnings for all workers. In fact, wages continue to rise well ahead of price inflation as measured by the PCED, which has been running around 1.6% recently. So inflation-adjusted wages continue to rise to record highs. As Debbie reports below, in current dollars, our Earned Income Proxy for wages and salaries in the private sector rose 0.4% m/m and 4.0% y/y to another new record high during January.

Another encouraging development is that the labor force participation rate rose to 63.4% during January, up from the most recent cyclical low of 62.4% and the best reading since June 2013 (*Fig. 16*). Workers who had dropped out of the labor force as a result of the Great Recession have been dropping back in and finding jobs.

Fed officials are pleased with this development, since it explains why monthly employment gains remain solid despite widespread reports of labor shortages and yet aren't escalating labor-market inflationary pressures. Consider the following:

(1) *Janet Yellen on "hysteresis."* Then-Fed Chair Janet Yellen gave a 10/14/2016 speech at a conference sponsored by the Boston Fed and attended by Fed and academic economists—the topic of discussion: "The Elusive 'Great' Recovery: Causes and Implications for Future Business Cycle Dynamics." Her talk was titled "Macroeconomic Research After the Crisis."

She talked about "hysteresis," the idea that persistent shortfalls in aggregate demand could adversely affect the supply side of the economy. Then she rhetorically asked: "If we assume that hysteresis is in fact present to some degree after deep recessions, the natural next question is to ask whether it might be possible to reverse these adverse supply-side effects by temporarily running a 'high-pressure economy,' with robust aggregate demand and a tight labor market." My 10/17/2016 commentary on her speech was titled "Some Like It Hot." I concluded that Yellen was in no hurry to rush the pace of rate hikes.

(2) *Jerome Powell on "room to run."* In his latest press conference (1/29), Fed Chair Jerome Powell endorsed Yellen's hysteresis hypothesis as follows:

"The unemployment rate has been near half-century lows for well more than a year, and the pace of job gains remains solid. Participation in the labor force by people in their prime working years, ages 25 to 54, is at its highest level in more than a decade. And wages have been rising, particularly for lower-paying jobs. People who live and work in middle-income communities and low-income communities tell us that many who have struggled to find work are now finding new opportunities. Employment gains have been broad based across all racial and ethnic groups and all levels of education. These developments underscore for us the importance of sustaining the expansion so that the strong job market reaches more of those left behind."

He said that in his prepared remarks. During the Q&A, he said, "People are coming into the labor market and providing more labor supply and that is, it's a great thing. That's a very healthy thing." On this subject, he concluded, "So, I think we've learned quite a lot of good things about the labor market, good things suggesting that there's been more room to run."

Ironically, this excerpt sounds like it might have come out of one of President Trump's pep-rally speeches!

CALENDARS

US: **Mon:** Harker, Bowman, Daly. **Tues:** NFIB Small Business Optimism Index 103.3, Job Openings 6.925m, Quarles, Kashkari. (DailyFX estimates)

Global: **Mon:** Eurozone Sentix Investor Confidence 5.9, Canada Housing Starts 205k. **Tues:** UK GDP 0.2%m/m/0.0%q/q/0.8%y/y, UK Industrial Production -0.8%/-1.0% y/y, UK Trade Balance -£350m, Lagarde, Carney, Lane, Schnabel. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 3.2%, for its biggest gain since early June. The US MSCI ranked 11th of the 49 global stock markets we follow in a week when 39/49 countries rose in US dollar terms. That compares to a 2.1% gain for the AC World ex-US index, its best in eight weeks as only one region declined. EM Asia was the best performer with a gain of 3.7%, followed by BRIC (3.0%) and EMU (2.9). EMEA (-0.9) was the sole decliner, followed by EM Eastern Europe (0.0), EM Latin America (0.2), and

EAFE (1.8). Korea was the best-performing country, rising 5.7%, followed by the Philippines (5.1), China (4.5), and Sweden (4.2). Of the 27 countries that underperformed the AC World ex-US MSCI last week, Morocco fared the worst, falling 4.8%, followed by Pakistan (-4.2), Peru (-1.8), Singapore (-1.4), and Greece (-1.0). The US MSCI's ytd ranking rose seven places last week and currently stands at 6/49. The best country performers ytd: Israel (7.8), Egypt (5.6), Denmark (5.2), Portugal (5.0), and Finland (4.3). The worst-performing countries so far in 2019: Brazil (-8.3), Hungary (-8.2), Peru (-7.9), Thailand (-7.7), and South Africa (-6.7).

S&P 1500/500/400/600 Performance (*link*): All three of these market-cap indexes rose last week for the first time in three weeks. LargeCap was up the most since early June, but MidCap and SmallCap rose the most in just three weeks. LargeCap's 3.2% gain was well ahead of the increases recorded by SmallCap (2.3%) and MidCap (2.1). LargeCap returned to a record high on Wednesday for the first time since 1/17, but ended the week 0.5% below its new record high. MidCap remains 2.4% below its record high on 1/16. SmallCap moved out of a correction on Monday, but ended the week 8.8% below its 8/29/18 record. Thirty of the 33 sectors moved higher, up sharply from just 2/33 sectors rising a week earlier. SmallCap Communication Services' 6.5% gain was the biggest in the latest week, followed by LargeCap Information Technology (4.5), LargeCap Materials (4.2), LargeCap Health Care (3.9), and SmallCap Materials (3.5). LargeCap Utilities (-0.6) was the biggest underperformer last week, followed by SmallCap Energy (-0.4), MidCap Energy (-0.3), SmallCap Tech (0.7), and LargeCap Energy (0.8)., On a ytd basis, LargeCap's 3.0% gain is well ahead of the declines recorded by MidCap (-0.7) and SmallCap (-1.9). Eighteen of the 33 sectors are higher so far in 2020, with the gainers led by LargeCap Information Technology (8.5), SmallCap Communication Services (8.0), LargeCap Utilities (5.9), LargeCap Communication Services (4.0), SmallCap Health Care (3.4), and LargeCap Real Estate (3.1). 2020's biggest laggards: SmallCap Energy (-23.4), MidCap Energy (-22.7), LargeCap Energy (-10.5), SmallCap Consumer Staples (-7.5), and MidCap Materials (-5.5).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 sectors rose last week, but just four outperformed the S&P 500's 3.2% rise. That compares to two rising and five outperforming the S&P 500's 2.1% drop a week earlier. Tech was the best-performing sector with a gain of 4.5%, ahead of Materials (4.2), Health Care (3.9), and Communication Services (4.0). Utilities was the sole decliner with a drop of 0.6%, followed by underperforming gains for Energy (0.8), Real Estate (1.7), Consumer Staples (1.8), Consumer Discretionary (2.4), Industrials (3.1), and Financials (3.1). The S&P 500 is now up 3.0% so far in 2020 with 9/11 sectors in the plus column and five beating or matching the index. The leading sectors ytd: Tech (8.5), Utilities (5.9), Communication Services (3.3), Real Estate (3.1), and Consumer Discretionary (3.0). 2020's laggards: Energy (-10.5), Materials (-2.2), Financials (0.2), Health Care (0.9), Consumer Staples (2.0), and Industrials (2.6).

Commodities Performance (*link*): Last week, the S&P GSCI index declined 0.7% as it fell for a fifth straight week. It's now down 13.1% since its recent high on 1/6. It ended the week in a bear market at 23.2% below its cyclical high on 10/3/18. Lean Hogs was the best performer last week with a gain of 7.5%, followed by Cocoa (4.4%), Unleaded Gasoline (3.4), Sugar (1.8), and Kansas Wheat (1.8). Coffee was the biggest decliner with a drop of 3.8%, followed by Brent Crude (-3.7), Lead (-3.6), Zinc (-2.7), and Crude Oil (-2.3). Just three of the 24 commodities that we follow are up so far in 2020: Cocoa (14.2), Sugar (10.8), and Gold (3.3). The worst performers ytd: Coffee (-23.8), Heating Oil (-18.8), GasOil (-17.6), Crude Oil (-17.5), and Brent Crude (-17.4).

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 3.2% last week for its biggest gain since early June, and appears to have successfully tested its 50-dma. It also improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma), rising for a 16th week following nine straight declines. Its 50-dma is now at a 24-month high of 6.9% above its 200-dma and has formed a Golden Cross for 46 weeks after 17 weeks in a Death Cross formation. The S&P 500's 50-dma rose for an 18th week following three down weeks, and at a slightly faster pace as the price index improved to 2.8% above its rising 50-dma from a 22-week low of 0.1% above its rising 50-dma a week earlier. It's still down from a 10-month high of 4.6% above its rising 50-dma in mid-January. It had bottomed 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 35th 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 36th week, and also at a slightly faster pace as it improved to 9.9% above its rising 200-dma from a 10-week low of 6.9% above its rising 200-dma a week earlier. That's still down from a 24-month high of 11.0% above its rising 200-dma in mid-January. 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*): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up sharply from 5/11 a week earlier, which was the lowest count since early October. Energy and Materials are only sectors trading below their 50-dmas. The longer-term picture—i.e., relative to 200-dmas—had all sectors except Energy trading above. That's down from all 11 above during the three weeks surrounding the new year 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 64 straight weeks. Ten sectors have rising 50-dmas now, up from eight a week earlier and all 11 rising in mid-January. Energy is the only sector with a falling 50-dma. 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 24th 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

Employment (*link*): Job gains began the decade blowing past forecasts, and there were upward revisions to prior months. Employment climbed 225,000 (vs 165,000 expected) last month, while revisions show December (to 147,000 from 145,000) and November (261,000 from 256,000) gains were a net 7,000 higher. Also a net 7,000 higher, coincidentally, were private payrolls; they advanced 206,000 during the first month of 2020, following upward revisions to both December (142,000 from 139,000) and November (247,000 from 243,000) readings. Unseasonably warm weather boosted job gains in construction companies, which added 44,000 jobs in January, compared with an average monthly gain of 12,000 during 2019. Leisure & hospitality also got a weather-related lift, climbing 36,000—with the industry adding 288,000 jobs over the past six months. Meanwhile, health care jobs continued to trend higher, rising 36,000 in January and 361,000 the past 12 months. Transportation & warehousing added 28,000 to payrolls in January—their best month in a year—and nearly triple 2019's average monthly gain. Employment in professional & business services remained on an uptrend, boosting payrolls by 21,000 m/m and 390,000 y/y. Manufacturing employment contracted 12,000 in December, its third decline in four months, though did post an impressive 58,000 gain in November—with motor vehicles being the main driver of both the declines and

November's gain. Employment in other major industries—including mining, wholesale trade, retail trade, information, financial activities, and government—changed little over the month. (Note: Benchmark revisions show the y/y change in total nonfarm employment for 2019 was revised from +2,108,000 to +2,096,000, seasonally adjusted. All revised historical establishment survey data are available on the BLS website at https://www.bls.gov/ces/data/home.htm.)

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, continued to set new highs in January, with the pace accelerating. (It hasn't posted a decline since summer 2016.) Our EIP climbed 0.4% last month, the fastest in three months. January's reading was 4.0% above a year ago, holding at December's 17-month low; it was at 5.5% at the start of 2019. Average hourly earnings (AHE), one of the components of our EIP, rose 0.2% last month, after slowing to 0.1% in December, with the yearly rate ticking up to 3.1% y/y after slowing to a 15-month low of 3.0% in December. The rate had peaked at 3.5% last February—which was the highest rate since January 2009. Meanwhile, aggregate weekly hours—the other component of our EIP—advanced 0.2% last month after a 0.1% loss and a 0.1% gain the prior two months; it was up 0.9% y/y for the second month—the first readings below 1.0% since July 2010.

Unemployment (*link*): January's unemployment rate ticked up to 3.6%, little changed from its 50-year low of 3.5% the final two months of 2019, as the labor force continued to expand. During the 12 months through January, household employment was up 2.1 million as 1.5million workers returned to the labor force and 624,000 unemployed workers found jobs. The participation rate climbed to 63.4% last month—the highest since June 2013! Here's a look at how some key unemployment rates began 2020: African American (6.0%, near last August's record low of 5.4%), Hispanic (4.3%, a couple of ticks above last September's record low of 3.9%), White (3.1%, only a tick above its all-time record low of 3.0%), and Asian (3.0%, fluctuating in a volatile flat trend above last June's record low of 2.1%). Here's a snapshot of unemployment rates by education level: less than a high school degree (5.5%, fluctuating above last September's 4.8% record low), high school degree (3.8%, within striking distance of November 1999's record low of 3.2%), some college (2.8%, holding near its 2.4% record low), and a Bachelor's degree & higher (2.0%, just above December's 1.9% cyclical low).

Wages (*link*): Average hourly earnings climbed to a new record high again last month, though the yearly rate remained on a downtrend, edging up to 3.1% y/y—below its recent peak of

3.5% last February. The 12-month wage rate for service-providing industries (3.2% y/y) is down from last February's series high of 3.7%, holding around December's 3.0% rate—which was the weakest rate since July 2018. Meanwhile, the goods-producing rate (3.2) remains on a steep uptrend, matching its highest rates since September 2009. Within goods-producing, the wage rate for manufacturing (3.3) accelerated to more than a three-year high, while construction's (2.9) accelerated a bit after sinking to 2.3% in December—which matched its lowest rate since May 2017. The natural resources' rate (5.0) has eased from October's six-year high of 6.5%. Within service-providing industries, only the rate for professional & business services (3.8) is on an accelerating trend, while the rate for information services (3.1) is on a sharp decelerating trend. Moving up slightly from recent lows were rates for leisure & hospitality (3.4), wholesale trade (3.0), and financial activities (3.7), while the rate for retail trade (4.1) was down from recent highs and health & education services' (1.5) sank to more than a five-year low. The rate for utilities (1.9) continued to bounce around recent lows.

Productivity & Unit Labor Costs (*link*): Nonfarm productivity accelerated during the final quarter of 2019, posting its strongest yearly growth since 2010!. Productivity expanded 1.4% (saar) during Q4 after dipping 0.2% during Q3—which was the first quarterly decline since Q4-2015; it rose 3.5% and 2.5%, respectively, during Q1 and Q2. Output (to 2.5% from 2.3%, saar) rose at a slightly faster pace than Q3, while hours worked (1.1 from 2.5) slowed to less than half Q3's pace. Meanwhile, unit labor costs rose 1.4% (saar), slowing from 2.5% during Q3, as stronger productivity growth offset the acceleration in hourly compensation (2.8 from 2.3) during the quarter. For all of 2019, productivity expanded at a nine-year high of 1.7%, improving steadily from 2016's 0.3%, while unit labor cost gains have hovered in a flat trend around 2.0% since 2011. Hourly comp rose 1.9% last year, its best yearly pace since 2015—and the second highest since 2000!

GLOBAL ECONOMIC INDICATORS

Germany Manufacturing Orders (*link*): Orders ended 2019 at their lowest level since December 2015, led by a plunge in foreign orders from within the Eurozone the last two months of the year. Orders sank 2.1% in December, following November's 0.8% dip—with foreign orders sliding 6.4% over the two-month period as orders from inside the Eurozone plunged 15.9%. Meanwhile, domestic orders climbed 2.7% over the two-month span, while foreign orders from outside the Eurozone were little changed. Among the major industrial groupings, there were only a few plus signs year over year: Consumer durable goods orders from outside the Eurozone skyrocketed 47.2% y/y during December, to a new record high, while consumer durable goods domestic orders jumped 7.6%, as did intermediate goods billings from outside the Eurozone. Otherwise, the report was a sea of red, led by double-digit declines in consumer durable goods orders from inside the Eurozone (-18.6% y/y), capital goods orders from both outside (-14.0) and inside (-11.4) the Eurozone, and consumer nondurable goods billings from within the Eurozone (-13.4).

Germany Industrial Production (*link*): Headline and manufacturing production plunged in December to their lowest levels since August 2014. Germany's headline production—which includes construction—dove 3.5%, more than reversing November's 1.2% rebound, led by a 2.9% slide in factory output, as export-dependent manufacturers continued to struggle. Excluding construction, output fell 2.5% m/m. Industrial production including and excluding construction declined 6.3% and 6.8% y/y, respectively, in December. Of the main industrial groupings, only consumer durable goods (0.6% y/y) production was in the plus column, though barely, while capital goods (-9.5% y/y), intermediate goods (-5.8), consumer nondurable goods (-3.2), and energy output all were in the red.

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