MORNING BRIEFING
October 5, 2020

E Pluribus Unum Shopper

Check out the accompanying chart collection.

(1) Notwithstanding our political differences, we are all shoppers. (2) Shopping releases dopamine. (3) The best cure for cabin fever. (4) GDPNow is tracking big Q3 recovery. (5) Working for a living should offset less government support. (6) Another round of fiscal stimulus would keep V-shaped recovery going through next year. (7) Still some extra bucks in personal saving. (8) Our Earned Income Proxy continues to recover. (9) Housing-related spending leading the "V is for Victory" parade. (10) De-urbanization great for home-related sales, including autos. (11) Services are recovering but remain challenged by social distancing. (12) Doing our part for the war effort. (13) Not much of a recession in tax-payments data.

Best Wishes. President Donald Trump and First Lady Melania Trump were diagnosed with Covid on Friday. We wish them a speedy recovery. This is a head-spinning new development in a head-spinning year. Nevertheless, we are assuming that the President will remain in charge through the end of his first term. We aren't certain how this development might influence the rapidly approaching presidential election. For now, we believe that the economy will continue to recover through the end of this year and into next year no matter who wins.

US Consumer I: Born to Shop. "*E pluribus unum*" certainly doesn't apply to our highly partisan political discourse these days. The phrase is Latin for "Out of many, one." It is a traditional motto of the US, appearing on the Great Seal. Its inclusion on the seal was approved by an Act of Congress in 1782. Another motto is "*Novus ordo seclorum*," which is Latin for "New order of the ages." That doesn't seem to apply these days either given our political and social disorder.

Then again, we all seem to be united when it comes to shopping. While the country remains bitterly divided politically, we are united in our drive to thrive. That certainly helps to explain the remarkable economic recovery in recent months from the two-month lockdown recession during March and April.

American consumers almost never disappoint us. Debbie and I often have said that when Americans are happy, they spend money and when they are depressed, they spend even more money—because shopping releases dopamine in our brains, which makes us feel good. Obviously, the Great Virus Crisis (GVC) is writing a new chapter in the history of consumer behavior. We aren't virologists, but one widespread side effect of the virus is evident: Most consumers have been suffering from cabin fever, which can be depressing, and weren't able to seek relief through shopping during the lockdown recession.

In our May 21 *Morning Briefing*, we predicted that "US consumers will open their wallets and spend once some semblance of normalcy returns." So far, so good. As the lockdown restrictions were gradually lifted during May, consumers rushed to spend lots of the cash they had saved up during the lockdown.

Housing-related spending has been especially strong, as consumers have decided it's time to remodel their cabins if they are going to spend more time working, learning, and entertaining at home. They've also rushed to buy more new and existing cabins in suburban and rural areas in a broad-based wave of de-urbanization triggered by the pandemic. In addition, the pandemic may have convinced many Millennials (who are currently 24 to 39 years old) that now is the time to buy a house rather than to rent an apartment. The Fed is contributing to the resulting housing-related boom by keeping mortgage rates at record-low levels.

All these developments were confirmed last Thursday, when the Bureau of Economic Analysis (BEA) released the August personal income report. Friday's employment report for September released by the Bureau of Labor Statistics (BLS) suggests that consumers continued to gain purchasing power from their participation in the labor market—i.e., working—which should more than offset the decline in purchasing power provided by the government with pandemic-support benefits.

If Washington provides another round of such support anytime soon, that will unleash even more dopamine, adding to the economic "V is for Victory" victory over the pandemic's economic impact. Consider the following:

(1) *Consumer-led V-shaped recovery.* The October 2 update of the Atlanta Fed's GDPNow model showed that Q3's real GDP is tracking at a record jump of 34.6% (at a seasonally adjusted annual rate, or saar) following the record 31.4% drop during Q2. That's certainly a V-shaped recovery so far.

Leading the way up during Q3 is a 36.8% projected rebound in real consumer spending, following the 33.2% drop during Q2. Consumers contributed 24.0 percentage points to the freefall in real GDP during Q2, when lockdown restrictions held them back (*Fig. 1*). They are likely to contribute more to the Q3 upswing. By the way, spending on consumer services was hit hardest by the lockdown during Q2, as evidenced by the -22.0ppt contribution of this component to the drop in real GDP!

In current dollars, personal consumption expenditures has rebounded 18.6% from April through August (*Fig. 2*). It is only 3.4% below its record high during January. Interestingly, consumer spending on goods is up 24.0% over this period to a new record high. Spending on services is up 16.1% since April but still 7.4% below its record high during February. During August, consumer spending totaled $14.4 trillion (saar) with services at $9.5 trillion and goods at $4.8 trillion.

(2) *A pile of savings to spend.* How can it be that consumer spending has rebounded so strongly when millions of workers remain unemployed? During the lockdown recession, personal saving soared from $1.4 trillion (saar) during February to an all-time record of $6.4 trillion in April (*Fig. 3*). It was back down to $2.4 trillion during August.

Consumer spending clearly was boosted by the jump in the government social benefits component of personal income from $3.2 trillion (saar) during February to a record $6.6 trillion during April (*Fig. 4*).

However, government social benefits was down to $4.1 trillion during August. That’s still well above the $3.2 trillion during February. The same pattern is evident in personal saving. So there is still enough “potential” fiscal stimulus left over to provide “kinetic” energy to consumer spending over the next few months, in our opinion.

(3) *Earned income rebounding.* But don’t we need another round of fiscal stimulus to keep the consumer recovery going until a vaccine is available? Not if wages and salaries continue to rebound along with employment. The former is up 7.6% since April through August, while the latter is up 6.5% from April through September (*Fig. 5*).

Our Earned Income Proxy (EIP) Is highly correlated with wages and salaries in the private sector (as reported in the BEA personal income release). The EIP is up 10% from April through September (*Fig. 6*). The EIP is based on the monthly BLS payroll data. It is simply aggregate hours worked by all workers—which is up 12.1% from April through September—multiplied by average hourly earnings. Aggregate hours worked reflects payroll employment—which is up 8.8% from April through September—multiplied by the average length of the workweek. This augurs well for the ongoing V-shaped recovery in both consumers' purchasing power and their spending.

(4) *Housing-related spending leading the way.* The latest personal income release confirms our view that a housing-related spending boom is underway as a result of de-urbanization and record-low mortgage rates. Spending on furniture & furnishings and household appliances soared 38.9% from April through August to new record highs since June of this year (*Fig. 7*).

Construction spending on new homes and home improvements are included in the residential investment component of GDP rather than in personal consumption. The recent jumps in new and existing home sales suggest that both categories of residential construction should be rising to new cyclical highs soon and could be on their way to record highs in coming months (*Fig. 8*). Together, they totaled $589.4 billion (saar) during August, 13.1% below the record high during February 2006.

Altogether, housing-related consumer and construction spending totaled a record-high $906.4 billion (saar) during August, surpassing the previous record high during February 2006 by 1.3% (*Fig. 9*).

(5) *Spending on autos also strong.* Undoubtedly, the pandemic also has boosted the demand for autos along with the demand for houses by people moving out of cities to the suburbs and rural areas. Sure enough, current-dollar spending on new motor vehicles jumped 50.6% from April through August to the highest pace since July 2005 (*Fig. 10*). Spending on used cars is up 94.5% since April.

(6) *Services are on the mend too.* As noted above, the services economy also has been recovering, but has a ways to go to regain all that was lost during the lockdown recession. That's because several important services-providing industries remain challenged by various voluntary and enforced social distancing restrictions.

Initially, the pandemic caused spending on health care services to plunge 34.7% from February through April (*Fig. 11*). Hospitals suspended elective procedures in anticipation of a huge influx of Covid patients. Since April through August, this category is up 43.5%, which is only 6.4% from its record high during February.

Also taking a big hit from the lockdowns was spending on food services, including restaurants. This category plunged 47.5% from February through April but rebounded 69.4% through August (*Fig. 12*). It is still 11.2% below its record high during January. It is likely to struggle to climb higher in coming months as winter weather forces restaurants to halt outdoor dining and do the best they can with significant capacity limits on indoor dining.

Among the services-providing industries, the most challenged have been the following (showing the percentage changes from February through April and from April through August, as well as the percentage below the February pace): Air Transportation (-93%, 888%, -36%), Hotels & Motels (-83, 176, -54), Gambling (-80, 320, -18), Amusement Parks, Campgrounds, & Related Recreation (-90, 240, -67), and Admissions to Specified Spectator Amusements (-97, 423, -82) (*Fig. 13* and *Fig. 14*).

(7) *Yardeni household contributing to economic recovery effort.* I've often compared the pandemic to a world war against the Covid virus. The war isn't over, but some progress has been made on the health, financial, and economic fronts. I did my part for the war effort on the health front by promoting wearing masks back in March. Now, it's up to the doctors to reduce the lethal consequences for those who still get infected using the various treatment protocols that seem to work best. Reportedly, progress is being made in developing vaccines.

On the financial front, the Fed's QE4ever and ZIRP4ever have provided badly needed good news. Pessimists doubt that can last if the economic news doesn't get better. However, our view is that the economic news has been getting better since April and continues to do so through September.

Meanwhile, the Yardeni clan is doing our part for the war effort on the economic front. We aren't letting cabin fever get us down. We are repainting the living room and den and getting new furniture for both rooms. The salesman who sold us a couple of sofas said that his business has been amazing since mid-June. Customers are telling him that instead of spending money on European vacations, they are buying new furniture.

The paint-store manager told us that he's had the best three months since he has been in business. He has a help-wanted sign for part-time and full-time positions on his front door. The painter told us he wasn't sure when he could fit us into his packed schedule. Take a look at the stock price chart of Sherwin-Williams Co. It's up 74% since March 23 through Friday's close. That beats the 65% gain for the FAAMGs (Facebook, Amazon, Apple, Microsoft, and Google) over the same period!

We also managed to purchase a new car, even though several auto salesmen told us that they didn't have too many cars in stock because demand was so strong. The garage attendant in my mother-in-law's apartment building on the Upper East Side of Manhattan told us that he could accommodate us for only 30 minutes because his facility was packed with cars that tenants had just purchased. We aren't buying a boat or camper, but friends who are doing so told us that the pickings are slim.

US Consumer II: More on Government Social Benefits. The personal income release includes a line for government social benefits and four of its components (*Fig. 15*). Here is where they were in February, April, and August in billions of dollars (saar): total ($3,026, $6,411, $3,979), Social Security ($1,067, $1,075, $1,082), Medicare & Medicaid ($1,425, $1,464, $1,549), unemployment insurance ($28, $493, $634), and other ($506, $3,379, $714). That last item was boosted by the one-time pandemic support checks sent to lots of taxpayers.

Our analysis suggests that there is still enough fiscal stimulus in government social benefits and accumulated in personal saving to boost consumer spending, possibly through year-end. In addition, monetary policy remains very stimulative, especially for housing-related industries. Washington is discussing providing another round of fiscal stimulus before the end of this year, which certainly would keep the V-shaped recovery V-shaped through early next year.

US Consumer III: Paying Taxes. Last Thursday, we marveled at the resilience of the US Treasury's receipts of income and payroll taxes based on the 12-month sums of the data through August. Now we can compare both data series to the comparable ones in the monthly personal income release from the BEA, which are shown seasonally adjusted at an annual rate through August (*Fig. 16* and *Fig. 17*). The BEA data series exceeds the comparable Treasury series because the former includes taxes paid to state and local governments.

More specifically, personal income includes an item for "personal current taxes." These payments are made by persons to government agencies and consist primarily of taxes on income, including realized capital gains, and on personal property. They do not include personal contributions for government social insurance. The series is highly correlated with the

Treasury's income tax receipts series. Both have rebounded since April through August. That reflects the upturn in wages and salaries discussed above. It might also reflect taxes on the pandemic support payments, including unemployment insurance.

Personal income also includes an item for "contributions to social insurance programs," a.k.a. payroll taxes. This series includes employer contributions for government social insurance (which is also included as an offsetting supplement to wages and salaries) and payments by employees, the self-employed, and other individuals who participate in the following government programs: old-age, survivors, and disability insurance (Social Security); hospital insurance, supplementary medical insurance; unemployment insurance; railroad retirement; veterans life insurance, and temporary disability insurance.

This personal income series is highly correlated with the Treasury's series for payroll taxes too. The former has rebounded 6.1% from April through August, while the latter has been making new highs since the start of this year because it is a 12-month moving average and the recession was so short that it doesn't show up in this series. That's truly amazing!

CALENDARS

US: Mon: IHS Markit C-PMI 54.4, ISM & IHS Markit NM-PMIs 56.3/54.6, Barkin, Bostic, Evans. **Tues:** Merchandise Trade Balance -$66.2b, JOLTS Report, API Crude Oil Inventories, Powell, Harker, Kaplan. (DailyFX estimates)

Global: Mon: Eurozone Retail Sales 2.4%m/m/2.2%y/y, Eurozone, Germany, and France C-PMIs 50.1/53.7/48.5, Eurozone, Germany, and France NM-PMIs 47.6/49.1/47.5, UK C-PMI & NM-PMI 55.6/55.1, RBA Interest Rate Decision 0.25%, Weidmann. **Tues:** Germany Factory Orders 2.6%, EU-Ukraine Summit, EU EcoFin Video Conference, Lagarde, Lane. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index rise 1.6% for its first gain in five weeks. The index ranked 29th of the 49 global stock markets we follow in a week when 35 of the 49 countries rose in US dollar terms, and the AC World ex-US index also rose 1.6%. The US MSCI index was out of a correction for a 14th week after slipping back the week before that for the first time in five weeks; it's now 6.3% below its record high on September 2. EMU was the best-performing region last week with a gain of 2.9%, followed by

EM Asia (2.5%) and BRIC (1.9). EM Latin America (-1.8) was the biggest underperformer, followed by EM Eastern Europe (-0.7), EMEA (0.0), and EAFE (1.3). Hungary was the best-performing country last week, gaining 8.6%, followed by South Africa (7.4), Sweden (4.2), and the Netherlands (4.0). Among the 20 countries that underperformed the AC World ex-US MSCI last week, Brazil fared the worst with a decline of 4.2%, followed by Russia (-2.1) and Colombia (-1.6). In September, the US MSCI dropped 3.9% for its first decline in six months. The US MSCI ranked 25/49 in September as the AC World ex-US index outperformed despite a drop of 2.7%. Just eight of the 49 countries moved higher in September as all regions moved lower. Korea was the best performer, with a gain of 2.9%, followed by Jordan (1.9), Taiwan (1.8), Denmark (1.2), and Mexico (1.0). The worst-performing countries in September: Indonesia (-13.0), Poland (-10.7), Hungary (-10.3), Colombia (-9.7), and the Czech Republic (-9.7). EM Asia dropped 1.3% in September, but was the only region to outperform the AC World ex-US. EM Eastern Europe was September's worst-performing region, with a decline of 8.2%, followed by EM Latin America (-5.5), EMU (-3.8), EMEA (-3.4), BRIC (-3.0), and EAFE (-2.9). The US MSCI's ytd ranking remained steady w/w at 6/49 as its ytd gain improved to 5.4% from 3.7% a week earlier. It had been losing ground recently to the AC World ex-US, which rose 1.4ppts w/w to a 7.2% ytd decline. EM Asia is the best regional performer ytd, with a gain of 6.3%, followed by BRIC (0.1). The worst-performing regions ytd: EM Latin America (-37.7), EM Eastern Europe (-31.4), EMEA (-22.4), EMU (-9.6), and EAFE (-8.9). The best country performers ytd: Denmark (25.3), China (14.0), Taiwan (11.6), Sweden (7.4), and Finland (7.0). The worst-performing countries so far in 2020: Colombia (-48.1), Brazil (-42.5), Greece (-40.0), Austria (-35.1), and Hungary (-34.0).

S&P 1500/500/400/600 Performance (*link*): LargeCap rose last week for the first time in five weeks as the SMidCaps moved higher for the second time in three weeks. LargeCap's 1.5% gain was well below the increases for SmallCap (5.0%) and MidCap (4.7). LargeCap improved to 6.5% below its record high on September 2 and has been out of a bear market for 25 weeks and out of a correction for 14 straight weeks. MidCap was out of a correction for the first time in four weeks, improving to 9.7% below its record high on February 20. SmallCap was in a bear market for a fourth week after being out for five weeks, but barely so as it improved to 20.2% below its August 29, 2018 record high. Thirty-one of the 33 sectors rose last week, up sharply from just four sectors rising a week earlier. Thirteen sectors are out of a correction now, of which six are LargeCaps, five are MidCaps, and two are SmallCaps. SmallCap Financials was the best performer last week, with a gain of 8.4%, ahead of SmallCap Real Estate (7.2), SmallCap Consumer Discretionary (7.0), MidCap Real Estate (6.6), and

SmallCap Materials (6.0). LargeCap Energy was the biggest underperformer last week, with a drop of 2.9%, followed by MidCap Energy (-1.6). During September, all of the indexes fell for the first time in six months. SmallCap's 4.8% decline was the worst, followed by LargeCap (-3.9) and MidCap (-3.4). Just three of the 33 sectors rose in September, compared to 25 rising in August. September's best performers: LargeCap Materials (1.1), LargeCap Utilities (0.8), MidCap Consumer Discretionary (0.8), SmallCap Health Care (-0.4), and LargeCap Industrials (-0.8). September's biggest laggards: MidCap Energy (-19.1), LargeCap Energy (-14.6), SmallCap Energy (-13.7), SmallCap Communication Services (-9.7), and SmallCap Utilities (-6.9). LargeCap is the only index that's risen for the year so far, with a gain of 3.6%, ahead of MidCap (-7.8) and SmallCap (-14.2). Twelve of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (25.5), LargeCap Consumer Discretionary (23.0), MidCap Health Care (10.1), MidCap Consumer Discretionary (9.8), and MidCap Consumer Staples (9.7). The biggest laggards of 2020 to date: SmallCap Energy (-59.2), MidCap Energy (-54.6), LargeCap Energy (-51.2), SmallCap Financials (-29.9), and SmallCap Real Estate (-25.7).

S&P 500 Sectors and Industries Performance (*link*): Ten of the 11 S&P 500 sectors rose last week, with five outperforming the composite index's 1.5% gain. That compares to a 0.6% decline for the S&P 500 a week earlier, when three sectors rose and five outperformed the index. Real Estate's 4.9% gain made it the best performer for the week, ahead of Utilities (3.3%), Financials (3.3), Consumer Discretionary (2.5), and Consumer Staples (1.6). Energy was the week's biggest underperformer, with a decline of 2.9%, followed by Tech (0.8), Communication Services (0.9), Health Care (1.0), Materials (1.2), and Industrials (1.4). The S&P 500 fell 3.9% in September for its first decline in six months. Just two of the 11 sectors moved higher in September, but eight beat the broader index. That compares to eight rising in August, when four beat the S&P 500's 7.0% gain. The leading sectors in September: Materials (1.1), Utilities (0.8), Industrials (-0.8), Consumer Staples (-1.8), Health Care (-2.3), Real Estate (-2.5), Financials (-3.7), and Consumer Discretionary (-3.7). September's laggards: Energy (-14.6), Communication Services (-6.5), and Tech (-5.4). The S&P 500 is now up 3.6% so far in 2020, with just three sectors ahead of the index and six sectors in positive territory. The leading sectors ytd: Information Technology (25.5), Consumer Discretionary (23.0), and Communication Services (6.9). The laggards of 2020 so far: Energy (-51.2), Financials (-21.0), Utilities (-6.1), Real Estate (-6.0), Industrials (-4.6), Consumer Staples (1.8), Health Care (2.2), and Materials (3.1).

Commodities Performance (*link*): Last week, the S&P GSCI index fell 3.1% for its fourth decline in the past five weeks. It's now down 24.1% from its recent high on January 6 and still in a severe bear market at 32.8% below its four-year high on October 3, 2018. Kansas Wheat was the best performer last week, with a gain of 7.2%, followed by Wheat (5.3%), Silver (4.1), and Corn (4.0). Natural Gas was the biggest decliner for the week, with a drop of 13.1%, followed by Crude Oil (-8.0), Brent Crude (-7.4), and Unleaded Gasoline (-5.6). September saw 10 of the 24 commodities climb as the S&P GSCI Commodities index fell 2.2% for its first decline in six months. That compares to 20 rising in August, when the S&P GSCI Commodities index rose 5.5%. September's best performers were Lean Hogs (17.7), Soybeans (7.3), Kansas Wheat (7.3), Sugar (6.7), and Live Cattle (6.7). September's laggards: Silver (-17.8), Coffee (-14.0), GasOil (-9.4), Lead (-7.5), and Brent Crude (-6.6). Ten of the 24 commodities that we follow are higher so far in 2020, up from nine a week earlier. The best ytd performers: Silver (34.1), Gold (25.2), Natural Gas (11.4), Soybeans (6.8), and Copper (6.3). The worst performers ytd: GasOil (-48.1), Heating Oil (-46.4), Brent Crude (-40.5), Crude Oil (-39.3), and Unleaded Gasoline (-33.5).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.5% last week and improved relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). The index was below its 50-dma for a third week after 22 weeks above, but managed to remain above its 200-dma—for the 18th time in 19 weeks. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. Turning to how the dmas compare relative to one another, the index's 50-dma relative to its 200-dma improved for a 20th week after 12 declines, putting the index in a Golden Cross (with 50-dmas higher than 200-dmas) for a 13th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March 2019. The index's 50-dma improved last week to 8.2% above its 200-dma from 8.0% above in the prior week. That's the most that the former has exceeded the latter since May 2012, when the 50-dma peaked at 8.8% above its 200-dma. The 50-dma had been 9.9% below the 200-dma in mid-May, which was the most that the former had lagged the latter since May 2009. During late February, the 50-dma had been 7.6% above the index's 200-dma. Turning to the individual dmas, the S&P 500's 50-dma rose for a 20th week after declining for 12 straight weeks. The price index improved to 0.5% below its rising 50-dma from 1.7% below a week earlier, but is down from an 11-week high of 7.6% at the end of August. It had been trading above its 50-dma since late April and peaked in early June at 11.7% above the index's 50-dma, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7%

below on Black Monday, October 19, 1987. The 200-dma rose for a 20th week as well, but barely so. It had been rising for 39 weeks through early March. The index was above its 200-dma for a 14th week after falling below the week before that for the first time in five weeks. It ended the week 7.7% above its rising 200-dma, up from 6.2% a week earlier and 13.7% at the end of August, which was the highest reading since February 2011. Last week's 7.7%-above reading is up from the 26.6% below registered on March 23—the lowest reading since March 2009 and down from a two-year high of 11.2% in mid-February. For perspective, the current 200-dma reading compares to a seven-year high of 13.5% above the index's (rising) 200-dma during January 2018 and 14.5% below on December 24, 2018 (then the lowest since April 2009). At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Six of the 11 S&P 500 sectors traded above their 50-dmas last week, up from just one a week earlier. That compares to all 11 sectors above in the three weeks around the start of June. These five sectors are still below their 50-dmas: Communication Services, Energy, Financials, Health Care, and Tech. Nine sectors traded above their 200-dmas, up from seven a week earlier. Energy and Financials are the only sectors trading below their 200-dmas. That compares to just one sector (Health Care) above its 200-dma in early April. Eight sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. The three sectors still in a Death Cross: Energy, Financials, and Utilities. At the prior low during February 2019, just two sectors (Real Estate and Utilities) were in the club. Energy has not been in a Golden Cross for 100 straight weeks, and its 50-dma fell for a tenth week after briefly rising the week before that. Nine sectors have a rising 50-dma, up from six a week earlier. Energy and Health Care are the only sectors with a falling 50-dma. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Six sectors have rising 200-dmas, up from five a week earlier as Consumer Staples turned higher. Sectors with falling 200-dmas: Energy, Financials, Industrials, Real Estate, and Utilities. Financials' 200-dma was down for a 31st week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Personal Income & Consumption (*link*): Personal income in August fell for the third time since April, driven lower by a sharp drop in spending on government social payments, while wages & salaries rose for the fourth consecutive month to within 3.9% of February's record high. Personal income sank 7.5% during the four months ending August after spiking a record 12.3% during April, with government social benefits to persons causing these wide swings. These benefits plummeted 37.1% from April through August after skyrocketing a record 101.9% in April. Meanwhile, wages & salaries increased 7.6% during the four months through August—the best four-month performance on record—after plummeting a record 10.7% during the two months ending April. Personal consumption expenditures in August climbed for the fourth month, though the pace has slowed dramatically, rising 1.0% and 1.5% during August and July, respectively, after soaring a record 14.8% during the two months through June. Real personal consumption expenditures rose 17.1% the past four months, suggesting real consumer spending will still give a big boost to Q3 GDP, despite the recent slowing. Real personal consumption expenditures rebounded 32.0% (saar) during the three months through August, based on the three-month average, led by a surge in durable goods (91.0%, saar) consumption, though services (26.5) and nondurable goods (20.8) spending are also posting impressive advances. The rebound in consumer spending has lowered personal saving from April's record $6.4 trillion to $2.4 trillion in August—still $1.0 trillion above its pre-coronavirus level.

Employment (*link*): Payroll employment rose for the fifth month in September, by a smaller-than-expected 661,000, though there was a sizable upward revision to both August (to 1.489 million from 1.371 million) and July (1.761 million from 1.734 million) payrolls, for a net gain of 145,000. Meanwhile, private payrolls advanced 877,000 last month (128,000 higher than ADP's gain of 749,000) following a slight downward revision to August (1.022 million from 1.027 million) payrolls and an upward one to July's (1.526 million from 1.481 million)—for a net gain of 40,000. Both total and private payroll employment advanced 11.4 million, respectively, during the five months ending September, after plunging 22.2 million and 21.1 million during the two months through April—with both recovering roughly half of the jobs lost from February through April. Services-providing jobs have rebounded 10.0 million during the five months ending September, still 8.7 million below February's record high of 108.5 billion, while goods-producing jobs have climbed 1.4 million to within 1.1 million of their February peak of 21.2 million—though these industries weren't as hard hit by the pandemic as the service sector. Here's a tally of industry performances from strongest to weakest during the five months through September, and where they stand relative to February's pre-pandemic levels: Leisure & hospitality (4.48 million & -3.84 million), retail trade (1.90 million & -483,000), health care (910,000 & -667,600), professional & business services (910,000 & -1.39 million)—led by temporary-help services (426,800 & -465,100), manufacturing (716,000 & -647,000), construction (+689,000 & -394,000), social assistance (317,200 & -375,200), transportation & warehousing (265,400 & -304,300),education (156,100 & -354,800), financial activities (117,000 & -162,000), wholesale trade (85,500 & -311,700), and information services (9,000 & -276,000). Mining added to payrolls for only the second time in nine months in September, down 118,400 over the period.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed 1.1% in September and 10.0% during the five months ending September; this followed a 12.4% decline during the two months through April to its lowest reading since spring 2017. The average hourly earnings component of the EIP increased for the third month, by 0.1% in September and 0.5% over the period—after falling 2.4% during the two months ending June; however, the recent declines in hourly earnings were more than offset by a rebound in aggregate weekly hours—the EIP's other component. Aggregate weekly hours advanced for the fifth month, by 1.1% in September and 12.1% over the period, after plunging 15.2% in April. Compared to a year ago, the EIP contracted 1.7% y/y—narrowing from April's 8.9% drop—as the y/y decline in aggregate weekly hours slowed to 6.4% from 15.7% in April, while average hourly earnings rose 4.7% y/y, down from 8.0% in April.

Unemployment (*link*): The unemployment rate fell for the fifth consecutive month, to 7.9%, in September; this followed a huge jump in prior months—from a 50-year low of 3.5% in February and 4.4% in March up to an unprecedented monthly rate of 14.7% in April. The number of unemployed fell by 10.5 million during the five months ending September to 12.6 million; prior to that, the number had soared by 17.3 million over the two months through April to a record-high 23.1 million, which well exceeded the previous record high of 15.4 million recorded in October 2009. The number of unemployed persons on temporary layoff fell to 4.6 million last month from 6.2 million in August and 18.1 million in April—a sign that businesses are bringing back workers, though some may be shifting to longer-term unemployment. Unemployment rates for both Whites (to 7.0% from 14.2% in April) and Hispanics (10.3 from 18.9) continued to fall in September from April's record highs. In the meantime, the rate for Asians (8.9% from 15.0% in May) was down from May's record high, while the rate for African Americans (12.1% from 16.8%) was down from May's cyclical high. These rates were at 3.1%, 4.4%, 2.5%, and 5.8%, respectively, in February. Here's a snapshot of August's unemployment rates by education level, all of which dropped from April record highs: less than a high school degree (to 10.6% from 21.2%), high school degree (9.0 from 17.3), some college (8.1 from 15.0), and a Bachelor's degree & higher (4.8 from 8.4). These rates had been at 5.7%, 3.6%, 3.0%, and 1.9%, respectively, in February, prior to pandemic lockdown effects. The participation rate slipped to 61.4% last month after rising from 61.4% to 61.7% in August; it's up from 60.2% in April, though 2.0ppts below February's 63.4%.

Wages (*link*): Average hourly earnings edged up 0.1% in August after gains of 0.3% and 0.1% the prior two months; earnings had dropped 2.4% during the two months ending June (reflecting lower-paid workers, on temporary leave, returning to work). Their absence from the job market had pushed hourly earnings up 4.7% during April alone. The yearly rate ticked up to 4.7% y/y in September after easing significantly from April's record high of 8.0% to 4.6% during July and August. The yearly wage rate for services-providing industries (to 5.0% from 8.7% y/y in April) stopped falling last month after easing steadily to 4.8% in August from April's record high, while the goods-producing (3.2% from 5.0%) wage rate is hovering around recent lows. Within services-providing, wage rates for retail trade (8.4% y/y) and financial activities (5.9) reached new record highs last month, while the rate for utilities (5.4%) remains on an upswing. Trending lower are rates for professional & business services (3.9% y/y) and wholesale trade (3.2). The rate for education & health services (3.2% y/y) is fluctuating around recent highs, while rates for information services (3.5), transportation & warehousing (2.3), and leisure & hospitality (2.1) are stuck around recent lows. As for goods-producing industries, construction (3.1% y/y) is holding around 3.0% the past four months, while the natural resources (1.7) rate sank to an 18-month low; the wage rate for the manufacturing (3.5) sector is bouncing around recent lows, roughly half its record high of 6.7% in April.

Consumer Sentiment Index (*link*): Confidence improved for the second month, according to the September survey, with the headline, present situation, and expectations indexes all climbing to six-month highs, and all higher than their mid-month readings. The Consumer Sentiment Index (CSI) rose to 80.4 this month from 74.1 in August and 72.5 in July; the reading is 8.6 points above its April low, though still 20.6 points below its pre-pandemic high. The present situation component advanced for the second month in September, to 87.8, after falling from 87.1 to 82.8 in July, while the expectations component also advanced for the second month, following a July dip, climbing 9.7 points (to 75.6 from 65.9). The mid-month readings for the total, present situation, and expectations measures were 78.9, 87.5, and 73.3—with the biggest upward revision occurring in expectations (2.3 points). The report notes that the gains are encouraging, though the gains largely reflected upper-income households, with lower-income households facing continued income and job losses compared with the modest gains expected by upper income households. Richard Curtin, chief economist of the survey, cautioned: “Two non-economic issues still represent the primary source of uncertainty and could cause volatile shifts in consumer confidence: when and how the election is decided, and delays in obtaining a vaccine and its widespread availability. Although the survey was completed before the presidential debate, it is likely that the chaotic debate has already added to these uncertainties.”

Construction Spending (*link*): Construction expenditures climbed for the third month in August to within 2.0% of February’s record highs, with private construction spending only 2.5% below its February record high and public construction spending 2.5% below its record reading in March. Total spending rebounded 3.2% during the three months ending August after a three-month fall of 5.0%, with private construction rising 5.0% and falling 7.2% over the comparable periods; public construction spending ticked up 0.1% in August after a two-month decline of 2.2%. Within private construction, residential construction rose for the third month, by a total of 9.3%—to within 0.6% of February’s cyclical high—after a three-month fall of 9.0%; nonresidential construction spending fell for the sixth time in seven months, by a total of 5.1%. The rebound within residential construction was widespread: Home-improvement (11.4%) and single-family (8.1%) construction posted big upswings during the three months through August, with the former climbing to within 0.3% of a new record high; multi-family construction took a breather, ticking down 0.1% in August, but not before surging 10.4% the prior three months to a new cyclical high.

Auto Sales (*link*): Motor vehicle sales in September remained on its upward trajectory since hitting bottom in April—driven by domestic light truck sales. Total sales rebounded 7.6mu during the five months ending September, to 16.4mu (saar), after plummeting 8.3mu during the two months ending April to a record-low 8.7mu. Domestic light truck sales jumped to 9.9mu (saar) last month, up from April’s cyclical low of 5.3mu and just a tick below its peak rate of 10.0mu at the start of the year. Meanwhile, domestic car sales remained in a rut, climbing to 2.8mu in September—only 1.3mu above April’s record low of 1.5mu. Sales of imports in August rebounded to 3.7mu (saar) after tumbling from a recent peak of 3.9mu in February to 2.0mu in April—its weakest performance since September 1998.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate (*link*): September’s CPI headline rate is expected to be negative for the second month, after moving into negative territory in August (-0.2% y/y) for the first time since May 2016, slipping to -0.3% y/y last month; the rate was at 1.4% in January.

The core rate is predicted to drop from a recent high of 1.2% in July to a record low of 0.2% y/y in September. Looking the main components, i) food, alcohol & tobacco once again is expected to post the highest rate, at 1.8% y/y—a slight uptick after easing the prior four months from April's peak rate of 3.6% (which was the highest since November 2009) to 1.7% in August; ii) the services rate is forecast to slow for the fourth consecutive month from 1.3% in May to a record-low 0.5% y/y in September; iii) once again, energy is predicted to have the lowest rate, at -8.2% y/y, the eighth consecutive negative reading; it has eased for the fourth straight month from May's -11.9% (was the steepest since July 2009); and iv) the rate for non-energy industrial goods is expected to dip to -0.3% y/y from -0.1% in August, which was the first negative reading since March 2015 and down from July's 1.6%.

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