



MORNING BRIEFING

October 19, 2020

Stocks & the Economy: Still Connected So Far

Check out the accompanying [chart collection](#).

(1) The V-versus-K debate. (2) Fed's survey of consumer wealth shows progress was made in the right direction between 2016 and 2019. (3) 82 million Americans own homes. (4) Home prices along with owners' equity in homes at record high. (5) Education is the major divider between the Haves and Have Nots. (6) A record 37% of Americans have a college degree. (7) NY and Philly business surveys remained strong in October. (8) Still pumping gas. (9) September's survey of small business owners showed rebounding demand for workers. (10) September retail sales boosted once again by de-urbanization. (11) Industrial production disappointed in September, but should remain on uptrend. (12) Movie review: "Godfather of Harlem" (+ + +).

US Economy I: Haves & Have Nots. Progressive pundits have been obsessed with the disconnect between the stock market and the economy. How can the S&P 500 be back up in record-high territory when the pandemic continues to weigh on the economy, with millions of people still unemployed? The implication is that Wall Street is cold-hearted and tone-deaf to the suffering that the pandemic has inflicted on so many people. The narrative is that the Fed's QE4ever response to the financial calamity unleashed by the virus saved the day for the rich, while everyone else continues to suffer miserably. The recovery isn't V-shaped, say the progressive skeptics, but rather K-shaped, with the rich getting richer and the poor getting poorer.

In many ways, that's an accurate picture of the current situation. The rich have gotten richer as their stock portfolios have regained all that was lost from February 19 through March 23, and then some. However, lots of average Americans also have benefited as their pension plans (including 401Ks) rebounded. The Fed's latest [Survey of Consumer Finance](#) reported the following relevant statistics about wealth in America:

(1) *Net worth.* "Families at the top of the income and wealth distributions experienced very little, if any, growth in median and mean net worth between 2016 and 2019 after experiencing large gains between 2013 and 2016. Families near the bottom of the income and wealth

distributions generally continued to experience substantial gains in median and mean net worth between 2016 and 2019.”

No one knows how the pandemic of 2020 has upended these recent happy developments. But the Fed’s survey showed that progress in the right direction was being made before the pandemic hit. Once it is over, there’s no reason to believe that the more egalitarian trend of 2016-19 wealth distribution can’t resume.

(2) *Retirement plans and stocks.* “Nearly two-thirds of working-age families participated in retirement plans in 2019, down slightly from 2016. Participation continued to be uneven across the income distribution. Less than 40 percent of families in the bottom half of the income distribution were in a retirement plan, compared with more than 80 percent of upper-middle-income families and more than 90 percent of families in the top decile of income.

“Ownership rates of corporate equities increased between 2016 and 2019, driven by families in the lower half of the income distribution. Still, less than one-third of lower income families in 2019 were participating in the stock market, compared with about 70 percent of upper-middle-income families and more than 90 percent of families in the top decile of the income distribution.”

That doesn’t sound as bad as the progressive notion that only the “One Percent” own stock and have been getting richer.

(3) *Homes.* “The homeownership rate increased between 2016 and 2019 to 64.9 percent, a reversal of the declining trend between 2004 and 2016. For families that own a home, the median net housing value (the value of a home minus home-secured debt) rose to about \$120,000 from about \$106,000 in 2016.”

Home prices have been rising in record-high territory since March 2016 ([Fig. 1](#)). Americans collectively hold a record \$30.8 trillion in household real estate, with a record \$20.2 trillion in owners’ equity. According to the Census Bureau, 81.9 million households owned their own homes, while 42.6 million were renters as of mid-2020 ([Fig. 2](#)).

(4) *Education.* The Fed’s survey shows that among the biggest dividers between the Haves and Have Nots is education: “Wealth continued to increase among families with either a high school diploma or some college. However, families without a high school diploma, which saw

the largest proportional gains in median and mean net worth between 2013 and 2016, saw the largest drops between 2016 and 2019.”

No surprise there, since unemployment rates have always been lowest to highest among workers with a Bachelor’s degree, some college, a high school degree, and less than a high school degree ([Fig. 3](#)). The proportion of the labor force with a college degree rose from 21.7% during 1992 to 37.4% during September 2020 ([Fig. 4](#)).

(5) *K-shaped recoveries*. In some ways, recoveries are always K-shaped. Workers with high levels of educational attainment tend to be re-employed faster than those who’ve obtained lower levels of education.

US Economy II: A Few V-Shaped Indicators for October, So Far. The V-shaped rebound in the stock market has in fact been consistent with the V-shaped economic recovery so far. The October 16 update of the Atlanta Fed’s [GDPNow](#) tracking model estimated that real GDP soared 35.2% (saar) during Q3 after plunging 31.4% during Q2 and 5.0% during Q1. That would certainly be a V-shaped recovery—and consistent with the unprecedented rebound from the unprecedented two-month lockdown recession during March and April.

But that doesn’t rule out the prospect of the recovery’s shape-shifting in subsequent quarters into a U, W, or a Nike swoosh. Debbie and I are forecasting 30% for Q3 and 10% for Q4. If Q3 turns out to be more like 35%, we will probably trim back our expectations for Q4. We are in the V-camp for the second half of this year and expect more of a swoosh next year, with real GDP back at its 2019 record high at the end of 2021.

In any event, we now have the first indications that October’s major economic indicators may continue to confirm that the recovery remains V-shaped so far, as it has since most of the indicators bottomed during April. Consider the following:

(1) *Regional business surveys*. This month’s regional business surveys from the Federal Reserve Banks of New York and Philadelphia were strong ([Fig. 5](#)). The average of their composite businesses indexes was 21.4, the highest since February (24.8). The average of their new orders indexes rose to 27.5, also the highest since February (27.9). The employment component averaged 10.0, only slightly below its reading of 10.3 in July and above its 8.2 reading during February before the virus hit the fan. This augurs well for the three other October regional business surveys conducted by the Federal Reserve Banks of Richmond,

Kansas City, and Dallas. It also augurs well for October's M-PMI, which is highly correlated with the general business indexes of the regional surveys.

(2) *Pumping up*. Weekly gasoline usage is yet another upbeat economic indicator, which started the month with a better-than-seasonal uptick following a seasonal slide during September ([Fig. 6](#)). Gasoline usage during the October 9 week was just 7.7% below last year at this time. The Federal Reserve Bank's Weekly Economic indicator continued to trend higher during late April through the October 10 week ([Fig. 7](#)).

Economy III: More V-Shaped Indicators for September. On Friday, September's retail sales report was stronger than expected, while September's industrial production release was weaker than expected. Before we have a closer look at these indicators, let's review September's surprisingly strong survey of small business owners conducted by the National Federation of Independent Business (NFIB) and released last Tuesday:

(1) *Small business survey*. Small businesses have been particularly hard hit by the pandemic. Yet September's survey of small business owners also showed lots of V-shaped indexes of their activities. The overall Small Business Optimism Index rebounded from a low of 90.9 during April to 104.0 during September ([Fig. 8](#)). Worth noting is that the recent bottom was still well above the 81.6 reading during March 2009, and the latest reading was just slightly below this year's February reading.

The NFIB's employment indicators also have recovered remarkably well ([Fig. 9](#)). The net percentage of small business owners planning to increase hiring over the next three months rebounded from 1% during April to 23% during September, the highest reading since December 2018! Over this same five-month period, the percentage with job openings jumped from 24% to 36%, while the percentage with few or no qualified applicants for job openings rose from 41% to 50%.

(2) *Retail sales*. Leading the ongoing rebound in retail sales have been housing-related goods and autos. Arguably, both reflect the wave of de-urbanization triggered by the pandemic and rising urban crime. The sum of retail sales of building materials & garden equipment, furniture & home furnishings, and electronics & appliances rose to a record \$671 billion (saar) during September ([Fig. 10](#)). This series is up 37.6% since April and up 8.5% since February.

Retail sales of motor vehicles and parts is up 67.7% since April to a record \$1,378 billion (saar) during September ([Fig. 11](#)). It is up 9.1% since February.

Also rebounding impressively since their April lows are retail sales of clothing & accessory stores (546.5%), sporting goods, hobby, book & music stores (110.3), and health & personal care stores (16.6) ([Fig. 12](#)).

(3) *Industrial production*. Given the record-setting strength in retail sales from April through September, it was puzzling to see the 0.6% m/m downtick in industrial production during September ([Fig. 13](#)). It remains 7.1% below its February reading. The weakness was evident in auto assemblies, which doesn't jibe with the strength in auto retail sales ([Fig. 14](#)). The same can be said about the downtick in production of appliances, furniture, and carpeting in the face of booming housing-related sales.

We expect that the uptrend in production will resume to meet strong demand over the rest of this year. Making more sense are the industrial production indexes for communications equipment, computers & peripheral equipment, and semiconductors. Industrial production indexes for communications equipment and semiconductors rose to new record highs in September, while the index for computers & peripheral equipment reached a new cyclical high ([Fig. 15](#)).

Movie. "Godfather of Harlem" (+ + +) ([link](#)) is a television drama series based on the tumultuous life and times of crime boss Bumpy Johnson. In the early 1960s, he returned from 10 years in Alcatraz to his home in Harlem, which was run by the Italian mob. There, Bumpy took on the Genovese crime family to regain control. The resulting battle is epic, and so is the acting and directing. Notable personalities with important roles in the saga are Malcolm X, Adam Clayton Powell, Muhammad Ali, Frank Costello, and Joseph Bonanno.

CALENDARS

US: **Mon:** NAHB Housing Market Index 83, Powell, Williams, Clarida, Harker, Bostic. **Tues:** Housing Starts & Building Permits 1.45mu/1.51mu, API Crude Oil Inventories, Quarles, Evans. (DailyFX estimates)

Global: **Mon:** Lagarde, Mersch, Weidmann Lane, Cunliffe. **Tues:** Balz, Vlieghe. (DailyFX)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.3% for its third straight weekly gain. The index ranked ninth of the 49 global stock markets we follow in a week when ten of the 49 countries rose in US dollar terms and the AC World ex-US index fell 1.0%. The US MSCI index was out of a correction for a 16th week; it's now 2.4% below its record high on September 2. BRIC was the best-performing region last week, with a gain of 1.0%, followed by EM Asia (0.4%). EM Eastern Europe was the biggest underperformer with a decline of 3.5%, followed by EAFE (-1.5), EMU (-1.4), EM Latin America (-1.3), and EMEA (-1.1). China was the best-performing country last week, gaining 2.1%, followed by Portugal (1.2), Morocco (1.1), and Indonesia (1.0). Among the 28 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, with a decline of 6.7%, followed by Poland (-6.2), Hungary (-4.3), Belgium (-4.3), and Thailand (-3.5). The US MSCI's ytd ranking improved one place w/w to 5/49 as its ytd gain improved to 9.8% from 9.6% a week earlier. It has pulled ahead of the AC World ex-US again after losing ground during September. The AC World ex-US fell 0.9ppts w/w to a 5.1% ytd decline. EM Asia is the best regional performer ytd, with a gain of 10.9%, followed by BRIC (5.1). The worst-performing regions ytd: EM Latin America (-35.0), EM Eastern Europe (-32.5), EMEA (-22.0), EAFE (-7.6), and EMU (-7.6). The best country performers ytd: Denmark (30.5), China (21.0), Taiwan (14.9), Finland (10.0), and the US (9.8). The worst-performing countries so far in 2020: Colombia (-47.0), Greece (-42.0), Brazil (-39.7), Hungary (-35.6), and Russia (-33.4).

S&P 1500/500/400/600 Performance ([link](#)): The LargeCap and MidCap indexes rose for a third straight week, but barely so. LargeCap's 0.2% gain was a tad ahead of the less than 0.1% gain for MidCap and the 0.3% decline for SmallCap. LargeCap improved to 2.7% below its record high on September 2; it now has been out of a bear market for 27 weeks and out of a correction for 16 straight weeks. Having moved nearly imperceptibly last week, MidCap remained out of a correction (for a third week) and at a steady 5.2% below its record high on February 20. SmallCap stayed out of a bear market for a second week, but edged down to 15.9% below its August 29, 2018 record high. Eighteen of the 33 sectors rose last week, down from all 33 rising a week earlier. Sixteen sectors are out of a correction now, of which seven are LargeCaps, five are MidCaps, and four are SmallCaps. Among these 16, nine are less than 2% from their record highs. MidCap Materials was the best performer last week, with a gain of 1.7%, ahead of MidCap Consumer Staples (1.3%), LargeCap Industrials (1.1), and MidCap Consumer Discretionary (1.0). SmallCap Energy was the biggest underperformer last

week with a decline of 4.5%, followed by MidCap Real Estate (-4.0), SmallCap Real Estate (-3.5), LargeCap Real Estate (-2.3), and MidCap Energy (-2.3). LargeCap is the only index that's risen for the year so far, with a gain of 7.8%, ahead of MidCap (-3.2) and SmallCap (-9.5). Fourteen of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (32.2), LargeCap Consumer Discretionary (27.5), MidCap Health Care (17.8), MidCap Consumer Staples (15.0), and MidCap Consumer Discretionary (13.6). The biggest laggards of 2020 to date: SmallCap Energy (-57.0), MidCap Energy (-52.3), LargeCap Energy (-49.9), SmallCap Real Estate (-28.0), and MidCap Real Estate (-27.2).

S&P 500 Sectors and Industries Performance ([link](#)): Five of the 11 S&P 500 sectors rose last week, with five outperforming the composite index's 0.2% gain. That compares to a 3.8% gain for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. Industrials' 1.1% gain made it the best performer for the week, ahead of Communication Services (0.9%), Utilities (0.8), Tech (0.8), and Consumer Staples (0.7). Real Estate was the week's biggest underperformer, with a decline of 2.3%, followed by Energy (-2.1), Financials (-0.9), Health Care (-0.5), Materials (-0.4), and Consumer Discretionary (-0.2). The S&P 500 is now up 7.8% so far in 2020, with just four sectors ahead of the index and seven sectors in positive territory. The leading sectors ytd: Information Technology (32.2), Consumer Discretionary (27.5), Communication Services (10.3), and Materials (7.9). The laggards of 2020 so far: Energy (-49.9), Financials (-18.8), Real Estate (-6.9), Utilities (-0.9), Industrials (0.3), Consumer Staples (5.3), and Health Care (5.8).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 0.6%, paced by increases for 12 of the 24 commodities that we follow. It's now down 18.4% from its recent high on January 6 and still in a severe bear market at 27.8% below its four-year high on October 3, 2018. Natural Gas was the best performer last week, with a gain of 8.4%, followed by Wheat (5.3%), Kansas Wheat (4.3), and Lean Hogs (4.0). Feeder Cattle and Coffee were the biggest decliners for the week, with drops of 3.9%, followed by Live Cattle (-3.5) and Lead (-3.0). Thirteen of the 24 commodities that we follow are higher so far in 2020, up from 12 a week earlier. The best ytd performers: Natural Gas (49.4), Silver (36.2), Gold (25.2), Kansas Wheat (15.0), and Wheat (11.9). The worst performers ytd: GasOil (-43.5), Heating Oil (-41.4), Brent Crude (-34.4), Crude Oil (-32.7), and Unleaded Gasoline (-31.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 0.2% last week, remaining above both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). The index was above its 50-dma for a second week after three weeks

below and was above its 200-dma for a 16th week. 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 22nd week after 12 declines, putting the index in a Golden Cross (with 50-dmas higher than 200-dmas) for a 15th 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 9.0% above its 200-dma from 8.6% above in the prior week. That's the highest reading since April 2011, and just surpassed its prior peak during 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 22nd week after declining for 12 straight weeks. However, the price index dropped to 2.4% above its rising 50-dma from 2.8% above a week earlier, and 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 22nd week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a 16th week after falling below the week before that for the first time in five weeks. It ended the week 11.6% above its rising 200-dma, unchanged from a week earlier and compares to 13.7% above at the end of August, which was the highest reading since February 2011. Last week's 11.6%-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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier and just one in the last week of September. That compares to all 11 sectors above in the three weeks around the start of June. Energy is the only sector still below its 50-dma. Ten sectors traded above their 200-dmas, unchanged from a week earlier. Energy is the only sector trading below its 200-dma. That

compares to just one sector (Health Care) above its 200-dma in early April. Nine sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), up from eight a week earlier as Financials joined the club for the first time since mid-March. The two sectors still in a Death Cross: Energy and Utilities. Energy has not been in a Golden Cross for 102 straight weeks while Utilities has been out since early April. Nine sectors have a rising 50-dma, down from ten a week earlier as Real Estate fell below in the latest week. Energy is the only other sector 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, unchanged from a week earlier. Sectors with falling 200-dmas: Energy, Financials, Industrials, Real Estate, and Utilities. Financials' 200-dma was down for a 32nd week despite moving into the Golden Cross club during the latest week. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Regional M-PMI ([link](#)): Two Fed districts now have reported on manufacturing activity for October (New York and Philadelphia) and show the manufacturing sector expanded at its fastest pace since February, thanks to a sharp acceleration in the Philadelphia region. The composite index climbed to 21.4 this month from 16.0 last month; it was at a record low -67.3 in April. Activity in the Philadelphia (to 32.3 from 15.0) region accelerated at its fastest pace in eight months, while New York's (10.5 from 17.0) slowed, though remained at a respectable pace. (The New York and Philadelphia measures were at record lows of -78.2 and -56.6, respectively, in April.) Meanwhile, new orders (to 27.5 from 16.3) accelerated at a fast clip in October and has tripled from August's (8.7) pace. Once again, Philadelphia (to 42.6 from 25.5) led the gain, with billings posting the fastest growth since the 1970s, while New York (12.3 from 7.1) showed a slight pickup in billings. (The Philadelphia and New York measures were at record lows of -70.9 and -66.3, respectively, in April.) In the meantime, factories added to payrolls at roughly the same pace as last month, ticking up to 10.0 from 9.2 in September. Philadelphia (to 12.7 from 15.7) manufacturers hired at a slightly slower pace than last month, while New York's (7.2 from 2.6) hired at a slightly faster pace—though was south of Philadelphia gains. (The Philadelphia and New York measures were at record lows of -46.7 and -55.3, respectively, in April.)

Retail Sales ([link](#)): Both headline and core retail sales continued to set new record highs in September and were 3.7% and 8.2%, respectively, above their record highs posted before the pandemic hit. Headline sales rose 1.9% last month and 33.1% over the five months ending

September, while core retail sales (which excludes autos, gasoline, building materials, and food services) were up 1.4% and 19.7%, respectively, over the comparable periods. Adjusted for inflation, we estimate real retail sales accelerated 45.2% (saar) during Q3 after contracting 21.2% during Q2, while core retail sales showed a 26.6% gain and a 1.7% decline over the same periods. Last month, 11 of the 13 nominal retail sales categories were in the plus column, while electronic & appliance store sales (-1.6%) fell and sales at food & beverage stores were unchanged. Here's a snapshot of each categories' performance since their April lows and where they stand relative to their pre-Covid levels: i) clothing & accessory stores (546.5% & -13.4%); ii) furniture stores (158.0 & 2.6); iii) sporting goods & hobby stores (110.3 & 14.8); iv) electronics & appliance stores (103.6 & -6.2); v) auto dealers (67.7 & 8.7); vi) food services & drinking places (85.1 & -15.2); vii) miscellaneous store retailers (55.8 & -1.3); viii) gasoline service stations (37.9 & -15.6); ix) health & personal care stores (16.6 & 4.7); x) building materials & gardening equipment (15.3 & 11.5); xi) general merchandise stores (10.6 & 3.5); xii) nonstore retailers (5.9 & 21.6); and xiii) food & beverage stores (-0.5 & 10.0).

Consumer Sentiment Index ([link](#)): "Slowing employment growth, the resurgence in covid-19 infections, and the absence of additional federal relief payments prompted consumers to become more concerned about the current economic conditions. Those concerns were largely offset by continued small gains in economic prospects for the year ahead," according to Richard Curtin, chief economist of the survey. The Consumer Sentiment Index (CSI) rose to a seven-month high of 81.2 in mid-October from 80.4 in September; it now stands at 9.4 points above its April low, though still 19.8 points below its pre-pandemic high. The expectations component advanced for the third month, following a July dip, climbing 12.9 points (to 78.8 from 65.9 in July) over the period, while the present situation component fell to 84.9 in mid-October after rising from 82.8 in July to 87.8 in September. The expectations component and present situation components are 13.3 points and 29.9 points, respectively, below their February levels of 92.1 and 114.8. Regarding the election, consumers were asked who they thought would win (not who they were voting for), and Biden's advantage in early October grew to 7ppts from 1ppt in the July to September surveys.

Business Sales & Inventories ([link](#)): Nominal business sales continued to recover in August from Covid-related declines, rising to within 1.1% of January's record high, while real sales—reported with a lag—rebounded to a new record high in July. The increase in business sales slowed to 0.6% in August after average monthly gains of 6.8% the prior three months; rebounding 22.6% during the four months through August. Real sales advanced 2.0% in July and 17.8% from its April bottom. Real sales of retailers has more than recouped all of its

pandemic-related decline; the August level was 5.2% above its pre-pandemic level. It stalled in July at around June's record high. Meanwhile, real wholesale and manufacturing sales rebounded 15.3% and 15.1%, respectively, in August—leaving them 1.4% and 1.8% below February levels. August's nominal inventories-to-sales ratio sank to 1.32 after shooting up from 1.38 in February to 1.67 in April; the real inventories-to-sales ratio for July dropped to 1.37 after soaring to a record high of 1.66 in April from 1.43 in February.

Industrial Production ([link](#)): Industrial output took a step back during September following a four-month comeback, as output of utilities dropped a weather-related 5.6% and manufacturing production dipped slightly; mining production increased 1.7% during the month. Production slipped 0.6% last month after a four-month surge of 11.9%; output is 7.1% below its pre-pandemic reading. Manufacturing production ticked down 0.3% last month after soaring 17.4% during the four months through August; it's within 6.3% of its pre-Covid level. Output by market group fell in most categories during September, though all retained most of their recent upswing. Here's a snapshot of each category's (and components') performances since their April lows and where they stand relative to their February levels: Business equipment (29.0% & -8.8%), led by transportation equipment (253.8 & -10.7), followed by industrial equipment (15.4 & -11.1), and information procession equipment (3.5 & -2.3)—with the latter showing little volatility during the pandemic shutdown, though did drop 5.7% in September. The same exercise shows the rebound in consumer goods production (16.9% & -3.1%) was driven by durable goods (94.1 & -4.4)—mostly automotive products (335.7 & -3.5); the gain in consumer nondurable goods (4.6 & -2.7) production paled in comparison.

Capacity Utilization ([link](#)): The headline capacity utilization rate dipped to 71.5% last month after increasing from 64.2% in April to 72.0% in August; it was at a cyclical high of 79.6% during November 2018. September's rate was 8.3ppts below its long-run (1972-2019) average but 7.3ppts above April's low. Manufacturing's capacity utilization rate slipped to 70.5% after rebounding from 60.1% in April to 70.7% in August; it's 10.4ppts higher than its trough in April but still 7.7ppts below its long-run average. The operating rate for mining moved up to 77.6% in September, while the rate for utilities fell to 70.4%. They were at 81.9% and 72.2%, respectively, during April.

Import Prices ([link](#)): Import prices continued to rebound in September, though the pace slowed as petroleum prices fell for the first time in five months. Import prices rose 0.3% last month and 4.6% during the five months through September, with the drop in the yearly rate easing for the fifth month to -1.1% y/y from -6.8% during April. Petroleum prices dropped 4.2%

in September following a four-month spike of 67.9%, with the drop in its yearly rate widening to -28.1% y/y; it had narrowed from -58.5% in April to -24.2% by August. Meanwhile, nonpetroleum import prices rose for the fifth month in September, climbing 0.7% m/m and 2.1% over the period and pushing the yearly rate up to a 28-month high of 1.8%; that was its third positive y/y reading in as many months, after 18 months in negative territory. The rate for capital goods imports (0.6% y/y) was in positive territory in September for only the second month since August 2018, this August being the first. Meanwhile, the rate for industrial supplies & materials (-6.8% y/y) narrowed steadily from April's -26.5%—which was the lowest reading since November 2015. Rates for consumer goods ex autos (0.1% y/y) remained around zero, while the rate for autos (1.3) was the highest since February 2013. Food prices were 1.4% above a year ago, the first positive year-over-year reading since February. There are signs of import prices showing signs of picking up among some of our trading partners, with import prices for goods from the EU at a 22-month high of 1.7% y/y, and China's flat y/y after 22 months below zero. The rate for the NICs (-2.0% y/y) remains negative, though has narrowed from -4.0% in April, while the rate for Japan (0.2% y/y) remains around zero—though on the north side.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): September EU passenger car registrations (a proxy for sales) recorded its first y/y increase of 2020, up 3.1%, after declining 18.9% in August. The results of the four major markets were mixed last month, with Italy (9.5% y/y) and Germany (8.4) posting increases and Spain (-13.5) and France (-3.0) decreases. Over the first nine months of this year, car sales contracted 28.8% y/y over the comparable period, with COVID-19 weighing heavily on the cumulative performance. Among the major markets, Spain (-38.3% y/y) posted the biggest decline, followed by Italy (-34.2), France (-28.9), and Germany (-25.5).

Eurozone CPI ([link](#)): September's CPI headline rate was negative for the second month, after moving into negative territory in August for the first time since May 2016. Specifically, the rate eased to -0.3% y/y, after rising from 0.1% in May (which at the time was the lowest rate since June 2016) to 0.4% in July. The rate was as high as 1.4% y/y back in January. The core rate dropped from a recent high of 1.2% in July to a record low of 0.2% y/y in September. Looking at the main components, food, alcohol & tobacco once again posted 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. The services' rate slowed for the fourth month from 1.3% in May to a record-low 0.5% y/y in September. Meanwhile, once again

Energy had the lowest rate, at -8.2% y/y (the eighth consecutive negative reading)—widening slightly from August's -7.8% after easing steadily from May's -11.9%—which was the steepest since July 2009. The rate for non-energy industrial goods dipped 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%. Of the top four Eurozone economies, only the CPI rate for France (0.0% y/y) was above the Eurozone's headline rate of -0.3%, while Germany's (-0.4), Spain's (-0.6), and Italy's (-1.0) all were below.

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