



MORNING BRIEFING

November 16, 2020

Biden's Challenges & Choices

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

(1) Another record high. (2) Meet Mr. Gridlock: Joe Manchin, the conservative Democratic senator from West Virginia. (3) No “crazy stuff.” (4) Meet Lael Brainard, the Fed governor who could be the next Treasury secretary. (5) Democrats likely to push Fed to do more if their fiscal agenda is checkmated by Republicans. (6) Fed still has plenty of ammo. (7) Memo to Biden: Trickle-down economics works both ways—spreading pain, not just gain. (8) The rich tend to own S corporations and proprietorships that employ lots of people. (9) Movie review: “The Life Ahead” (-).

Strategy: Another Record High. Is the V-shaped recovery turning into the Nike swoosh? The four-week moving average of gasoline usage through the November 6 week suggests that might be happening, though its only 1.0mbd below usage at the same time a year ago. On the other hand, petroleum usage excluding gasoline continues to recover. (See our [US Petroleum Products Supplied](#).)

The S&P 500 rose to a record high on Friday. The stock market correctly anticipated a V-shaped recovery. Now it may be looking past the resurging pandemic toward a vaccine early next year. Joe and I expect volatile frequent rotation between Work-From-Home and Pandemic-Challenged stocks for a while. Such action might actually feed and broaden the bull market.

US Politics I: Meet Joe Manchin. The latest election results show that the Republicans have 50 Senate seats, while the Democrats have 48. That leaves the two Senate seats from Georgia to determine control of the chamber in a rare double-barreled runoff election on January 5. If Democrats win both seats, they would take control of the Senate starting on January 20, as Vice President-elect Kamala Harris would have the power to break ties in the chamber. They would also get to chair the Senate committees. It is widely believed that the Democrats aren't likely to win both seats, thus leaving Republicans in the majority.

A November 11 [article](#) posted on FiveThirtyEight observed: “It’s an off-cycle election that will no longer share the ballot with the presidential race. Now that Biden is the president-elect, many Democratic voters may feel that their mission has been accomplished and not bother to vote in the runoff. This is exactly what happened in previous Georgia runoffs—whether for Senate or other statewide offices. Since the late 1960s, the state has seen eight runoffs between a Democrat and a Republican for statewide office. ... [I]n seven of the eight runoffs, Republican vote share margins improved, sometimes substantially so, as turnout fell sharply from the general election vote in November.”

On the other hand: “For the next eight weeks, Georgia will be the center of the political universe; expect both parties to spend tens of millions of dollars and dispatch big-name surrogates to get out the vote. That could minimize the drop-off in turnout, which in turn could minimize the drop-off in Democratic support. There’s also never been a Black candidate in a Senate runoff, either, which could help keep turnout high among a key part of the Democratic base.”

The article concludes: “[I]t’s best to treat both a Democratic or Republican victory as a serious possibility.”

If the Democrats pull an upset and get both seats, Joe Manchin could be the most important person in America. He is the Democratic senator from West Virginia. He is viewed as a conservative Democrat and has championed bipartisanship. On Monday, November 9, he was [interviewed](#) by Fox News. He said: “50-50 [control] means that if one senator does not vote on the Democratic side, there is no tie and there is no bill.” He added: “I commit to tonight and I commit to all of your viewers and everyone else that’s watching, I want to allay those fears, I want to rest those fears for you right now because when they talk about, whether it be packing the courts or ending the filibuster, I will not vote to do that.”

He continued saying that the “Green New Deal” and “all this socialism” was “not who we are as a Democratic Party.” He remarked: “We’ve been tagged if you’ve got a D by your name, you must be for all the crazy stuff and I’m not.”

US Politics II: Meet Lael Brainard. While President Donald Trump continues to contest the election results, President-elect Biden is working on picking his cabinet. For the financial markets, his pick to be the next Treasury secretary will be particularly important. Lots of names

have been tossed around, including Larry Fink, Jamie Dimon, Elizabeth Warren, Stephanie Kelton, Janet Yellen, Roger Ferguson, and Lael Brainard.

Melissa and I think that the most logical choice would be Lael Brainard, who has been a Federal Reserve Board governor since June 16, 2014. If gridlock frustrates Biden's plans to increase government spending significantly along with taxes, it would be good for him to have a Treasury secretary who could press the right buttons at the Fed to get more monetary stimulus.

While Biden prides himself on his ability to deal with Republicans, they are likely to block most of his policy initiatives if they keep their majority in the Senate. In recent months, Fed officials have been vocal in calling on Congress for another round of fiscal stimulus. They've implied that the Fed will conduct open-market operations to monetize the resulting debt, as the Fed has done since QE4ever was announced on March 23.

What more could the Fed possibly do? The Fed could lend out \$4 trillion in a loan program that was funded by the Coronavirus Aid, Relief, and Economic Security Act (a.k.a. the CARES Act), on March 27, as we discuss below.

Republicans particularly have resisted calls by Democrats for funds to bail out state and local governments experiencing significant shortfalls in revenues as a result of the pandemic. Biden with Brainard's support could lean on the Fed to loan money to the most distressed state and local governments, many of which are run by Democrats.

Here are highlights from Dr. Brainard's bio, which is posted on the Fed's [website](#): During the Obama administration, Brainard served as undersecretary of the US Department of the Treasury from 2010 to 2013 and counselor to the secretary of the Treasury in 2009. During this time, she was the US representative to the G-20 Finance Deputies and G-7 Deputies and was a member of the Financial Stability Board. From 2001 to 2008, she was vice president and founding director of the Global Economy and Development Program at the Brookings Institution. She served as the deputy national economic adviser, deputy assistant, and personal representative to the G-7/G-8 for President Clinton. From 1990 to 1996, she worked as an associate professor of applied economics at MIT. Previously, Brainard worked in management consulting at McKinsey & Company. She received a BA from Wesleyan University and an MS and a PhD in economics from Harvard University.

The Fed: More Firepower. The lender of last resort hasn't been doing the volume of lending during the pandemic that it had promised. If Dr. Brainard is picked to be Treasury secretary, then it's possible that the Democrats may succeed in leveraging the Fed's lending facilities to achieve some of their goals.

The Fed did respond to the Great Virus Crisis with QE4ever on March 23, purchasing \$2.62 trillion in US Treasuries and mortgage-backed securities since then ([Fig. 1](#)). The Fed also provided several liquidity facilities, which jumped from \$383 billion during the March 11 week to a recent high of \$1.22 trillion during the May 13 week ([Fig. 2](#)). As the financial panic abated, the liquidity facilities' loans fell to \$589 billion during the November 11 week. Meanwhile, other emergency lending facilities have barely been used, mostly because QE4ever calmed the financial markets quickly and dramatically. Consider the following:

(1) *T-Fed's might*. On March 27, President Trump signed the CARES Act, which gave the US Treasury \$450 billion to invest in the Fed's special purpose vehicles, which could be leveraged into as much as \$4.0 trillion in loans, thus effectively converting the Fed into the "Bank of the United States," or "T-Fed," as Melissa and I call it. On April 9, the Fed [announced](#) the establishment of lending facilities to provide for up to \$2.3 trillion in loans (see our April 15 [Morning Briefing](#) for a detailed explanation and breakdown of this lending capacity).

(2) *Tiny utilization*. If you want to see the Fed's actual lending under these facilities, grab a magnifying glass. For some reason, the Fed does not make it easy to see the lending capacity of each facility compared to the current outstanding value cited in its update report. What we found, though, is that the \$2.3 trillion in capacity stated in the updated term sheets compares with less than \$100 billion in outstanding lending value—and is only about half of what the Fed has the power to lend under the CARES Act.

(3) *Corporate facilities*. Included in the \$2.3 trillion are the Fed's Primary and Secondary Corporate Credit Facilities (PMCCF and SMCCF), which are set up to purchase up to \$750 billion combined in corporate debt, including exchange-traded funds. Eligible bonds include investment-grade corporate bonds as well as pandemic-impaired "fallen angels."

Corporate debt purchases have picked up since early May but remain puny compared to the potential size of purchases. As of October 31, the PMCCF was operational but had not yet closed any transactions, according to the Fed's credit facilities [update](#) dated November 6. As

of May 19, the total outstanding amount of the Fed's loans under the SMCCF was \$1.3 billion. It grew to \$13.3 billion as of October 31.

(4) *Other facilities*. The total outstanding loans under the Fed's other facilities as of October 31 was about \$78.0 billion (out of the \$1.55 trillion in lending capacity), including the following (as of October 31 versus lending capacity): the Paycheck Protection Program (PPP) Liquidity Facility (\$62.8 billion versus \$350 billion), Term Asset-Backed Securities Loan Facility, i.e., TALF (\$3.7 billion versus \$100 billion), the Main Street Lending Program, or MSLP (\$4.0 billion versus \$600 billion), and the Municipal Liquidity Facility, or MLF (\$1.7 billion versus \$500 billion).

Of the facilities with trivial lending capacity relative to the total value, the outstanding value as of October 31 was as follows: the Money Market Mutual Fund Liquidity Facility, or MMF (\$5.6 billion) and the Primary Dealer Credit Facility (\$243.0 million). The Commercial Paper Funding Facility did not have any outstanding value as of October 31.

(5) *Up slightly*. On October 30, 2020, the Fed adjusted the terms of the MSLP to better target support to smaller businesses and nonprofit organizations, including to lower the minimum loan size and to update the transaction, loan origination, and loan-servicing fee terms for smaller loans. While the scale of MSLP lending increased by \$1.8 billion from the previous month, the utilization is still nowhere near capacity.

Of note, according to the related transaction spreadsheet, the MLF continued to include loans to just two entities: the State of Illinois and the New York Metropolitan Transportation Authority.

(6) *Dems' critique*. In response to questions from a congressional oversight panel overseeing the \$500 billion in aid set aside for the MLF under the CARES Act, the Treasury department [said](#) on October 16 that it did not see a reason to extend the municipal lending facility beyond its December 31 expiration date and that the low utilization of the facility "reflects a recovered and functioning municipal securities market."

Politico [reported](#): "The [MLF] has faced criticism from Democrats, including oversight commissioners Rep. Donna Shalala (D-Fla.) and Bharat Ramamurti, for not offering generous enough terms for municipal entities. But Sen. Pat Toomey (R-Pa.) and Rep. French Hill (R-Ark.), who also sit on the commission, have said the program has served its purpose and should be wound down."

Memo to Biden: Tax Hikes on the Rich Will Trickle Down. I had an interesting conversation with one of my firm's vendors last week. He was upset about President-elect Biden's plan to raise taxes on anyone earning over \$400,000 a year. Biden has promised that anyone who earns less than that won't have a tax increase. My friend observed that he doesn't earn that much but expects that his customers who do so will have less money to pay him for his services. In other words, my friend clearly understands trickle-down economics: Higher taxes on the rich and on corporations inevitably trickle down to everyone else.

An October 21 Tax Foundation [article](#) observed: "The rich purchase items from others, some not as rich, and from businesses that employ workers across the income spectrum. The corporate tax falls partly on workers in the form of lower pay, acknowledged by the Congressional Budget Office [and] the U.S. Treasury[.] Likewise, the individual income tax that is paid by pass-through businesses falls partly on employees of those businesses."

Many higher-income taxpayers own S corporations, which don't pay a corporate tax. Instead, they pay their owners with dividends that are included in personal income and taxed as such. Proprietorships aren't incorporated, and their owners' incomes are also taxed as personal income. Mali and I have been doing lots of work on the data:

(1) *Corporate profits & S corporations.* On a pre-tax basis, S&P 500 aggregate reported net income has tended to account for 50%-70% of corporate book profits, which is included in the National Income and Product Accounts (NIPA) ([Fig. 3](#) and [Fig. 4](#)). The difference between the NIPA and S&P profits series is mostly attributable to S corporations, and exceeded \$1 trillion for the first time ever during Q2-2020 using the four-quarter sum ([Fig. 5](#)). This conclusion is confirmed by the difference between total corporate dividends paid and dividends paid by the S&P 500 ([Fig. 6](#) and [Fig. 7](#)). Raising income taxes will reduce the after-tax income of owners of S corporations, which is bound to trickle down to the employees and vendors of S corporations, which account for 30%-50% of corporate profits.

(2) *Proprietorships.* During Q2-2020, pre-tax proprietors' income in personal income equaled \$1.5 trillion (saar) ([Fig. 8](#)). That's almost as much as the \$1.8 trillion in total pre-tax corporate profits.

(3) *Bottom line.* In other words, when income taxes are raised on the rich, that burden falls largely on owners of S corporations and proprietorships who collectively earn more than \$2.5

trillion. No wonder Biden would like to tax them given the large pool of income they represent. However, these are mostly small businesses. ADP data show that small companies with 1-49 employees currently account for 31.2 million, or 26.1%, of private-sector payrolls ([Fig. 9](#) and [Fig. 10](#)).

Trickle-down economics works both ways!

Movie. “The Life Ahead” (-) ([link](#)) stars Sophia Loren in the Netflix movie directed by her son Edoardo Ponti about an elderly Italian woman who earns money by taking care of the children of working women (of ill repute). She plays an Italian Holocaust survivor known as Madame Rosa who takes in and eventually bonds with a Senegalese orphan, Momo. The movie is about tolerance and taking life one day at a time. It is slow paced without much drama. The dubbing in English is terrible. Watching it with subtitles might be a better experience.

CALENDARS

US: **Mon:** Empire State Manufacturing Index 13, Daly, Clarida. **Tues:** Retail Sales Headline & Ex Autos 0.5%/0.6%, Headline & Manufacturing Industrial Production 1.0%/0.9%, Capacity Utilization 72.3%, Business Inventories 0.5%, Import & Export Prices 0.3%/0.3%, NAHB Housing Market 85, API Crude Oil Inventories, Williams, Bostic, Daly. (DailyFX estimates)

Global: **Mon:** China FDI (ytd) 2.5% y/y, Bundesbank Monthly Report, RBA Meeting Minutes, Guindos, Lagarde, Maurderer, Mersch, Lowe, Haskel, Kent. **Tues:** Lagarde, Guindos, Balz, Bailey, Ramsden, Lowe, Debelle, Macklem. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 1.8%, adding to its 7.6% gain a week earlier. The index ranked 39th of the 49 global stock markets we follow in a week when 43 of the 49 countries rose in US dollar terms and the AC World ex-US index rose 2.8%. The US MSCI index was out of a correction for a 20th week. Five countries traded at a record high during the week: Ireland, the Netherlands, Sweden, Taiwan, and the US. EMU was the best-performing region last week with a gain of 6.1%, followed by EMEA (5.0%), EM Eastern Europe (4.5), EAFE (3.8), and EM Latin America (3.7). BRIC was the biggest underperformer with a decline of 0.7%, followed by EM Asia (0.5). Turkey was the best-performing country last week, rising 23.5%, followed by Austria (13.9), Spain (13.2), Thailand (11.1), and Belgium (10.0). Among the 16 countries that underperformed the AC

World ex-US MSCI last week, Argentina fared the worst with a decline of 7.1%, followed by China (-2.2), Denmark (-1.6), Israel (-1.4), and South Africa (-0.7). The US MSCI's ytd ranking dropped one spot w/w to 8/49 even as its ytd gain improved to 12.7% from 10.8%. The AC World ex-US rose 2.8ppts w/w to a 0.3% ytd gain. EM Asia is the best regional performer ytd, with a gain of 16.7%, followed by BRIC (9.5). The worst-performing regions ytd: EM Latin America (-28.7), EM Eastern Europe (-26.2), EMEA (-17.9), EAFE (-1.9), and EMU (-1.7). The best country performers ytd: Denmark (30.2), China (25.1), Taiwan (20.5), Korea (17.4), and Sweden (15.1). The worst-performing countries so far in 2020: Colombia (-40.5), Greece (-39.8), Brazil (-34.4), Russia (-27.4), and Peru (-27.0).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose for a second straight week. SmallCap led with a 7.5% gain, its biggest since early June. MidCap rose 4.3%, and LargeCap was 2.2% higher. LargeCap ended the week at a record high for the first time since September 2. MidCap also ended at a record high, but for the first time since February 20. SmallCap's weekly surge finally took it out of a correction as the index improved to 9.5% below its August 29, 2018 record high. Thirty-one of the 33 sectors rose last week and a week earlier, compared to all 33 falling the week before that. Seventeen sectors are out of a correction now, and eight ended the week at a record high. Of the 17 out of a correction, seven are LargeCaps, five are MidCaps, and five are SmallCaps. SmallCap Energy was the best performer last week with a gain of 18.3%, followed by LargeCap Energy (16.5%), MidCap Energy (14.7), SmallCap Real Estate (14.4), and MidCap Real Estate (12.0). LargeCap Consumer Discretionary was the biggest underperformer last week with a decline of 1.1%, followed by LargeCap Tech (-0.4), MidCap Health Care (0.2), and MidCap Tech (0.4). LargeCap leads so far in 2020 with a gain of 11.0%, ahead of MidCap (2.4) and SmallCap (-2.6). Eighteen 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 (26.2), MidCap Health Care (22.8), LargeCap Communication Services (17.4), and MidCap Consumer Discretionary (16.6). The biggest laggards of 2020 to date: SmallCap Energy (-52.3), MidCap Energy (-48.4), LargeCap Energy (-44.2), SmallCap Real Estate (-20.2), and SmallCap Financials (-19.0).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 S&P 500 sectors rose last week, with six outperforming the composite index's 2.2% gain. That compares to a 7.3% gain for the S&P 500 a week earlier, when all 11 sectors rose and five outperformed the index. Energy's 16.5% gain made it the best performer of the week, ahead of Financials (8.3%), Industrials (5.3), Real Estate (5.2), Consumer Staples (3.6), and Utilities (2.8). The worst

performers: Consumer Discretionary (-1.1), Tech (-0.4), Communication Services (0.8), Materials (1.4), and Health Care (1.8). The S&P 500 is now up 11.0% so far in 2020, with just four sectors ahead of the index and eight sectors in positive territory. The leading sectors ytd: Information Technology (32.2), Consumer Discretionary (26.2), Communication Services (17.4), and Materials (12.3). The laggards of 2020 so far: Energy (-44.2), Financials (-12.3), Real Estate (-3.4), Utilities (2.0), Industrials (5.2), Consumer Staples (7.1), and Health Care (9.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 4.3% for its biggest gain in five weeks. Nineteen of the 24 commodities that we follow moved higher. It's now down 18.0% from its recent high on January 6 and still in a severe bear market at 27.5% below its four-year high on October 3, 2018. Brent Crude was the best performer last week with a gain of 8.7%, followed by Crude Oil (8.6%), GasOil (7.7), Natural Gas (7.0), and Heating Oil (6.3). Gold and Silver were the biggest decliners for the week with drops 3.1%, followed by Lean Hogs (-1.1) and Wheat (-0.2). 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 (42.6), Silver (39.0), Gold (24.3), and Soybeans (20.1). The worst performers ytd: GasOil (-43.1), Heating Oil (-39.9), Brent Crude (-34.9), Crude Oil (-33.8), and Unleaded Gasoline (-33.5).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 2.2% last week and was above its short-term, 50-day moving average (50-dma) for a second week and above its 200-dma for a 20th 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 dmases compare relative to one another, the index's 50-dma relative to its 200-dma weakened for a third week after 23 weeks of gains, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 19th 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 edged down to 8.6% above its 200-dma and is down from 9.1% in late October. That 9.1% reading had been the highest since April 2011. In mid-May, the 50-dma had been 9.9% below the 200-dma, which was the most that the former had lagged the latter since May 2009. Turning to the individual dmases, the S&P 500's 50-dma rose for a second week after falling a week earlier for the first time in 24 weeks. The price index improved to a 10-week high of 5.3% above its rising 50-dma from 3.2% above a week earlier. It has been mostly 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 also rose for a second week after falling the before that for the first time in 24 weeks. The price index was above its 200-dma for a 20th week. The price index jumped to 14.3% above its rising 200-dma from 12.2% above its rising 200-dma a week earlier. Last week's 14.3% reading is the highest since it hit 15.9% on September 2, which was then the highest reading since December 2009. Last week's 14.3%-above reading is up from the 26.6% below registered on March 23—the lowest reading since March 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](#)): All 11 S&P 500 sectors traded above their 50-dmas last week, up from nine a week earlier and a big improvement from one sector the week before that. That compares to all 11 sectors above in the three weeks around the start of June. Utilities was above its 50-dma for a seventh straight week. Energy moved solidly back above its 50-dma in the latest week for the first time since late June. 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. Ten sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), also unchanged from a week earlier. Energy is the only sector still in a Death Cross, and has not been in that club for 105 straight weeks. Ten sectors have a rising 50-dma, up from six a week earlier. Energy is the only sector with a falling 50-dma, but is improving fast. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement then from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Seven sectors have rising 200-dmas, unchanged from a week earlier. These four sectors have falling 200-dmas: Energy, Financials, Real Estate, and Utilities. Financials' 200-dma was down for a 36th week despite moving into the Golden Cross club in mid-October. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Consumer Sentiment Index ([link](#)): The election and Covid-19 weighed heavily on consumer expectations in mid-November, pushing the overall Consumer Sentiment Index (CSI) down to 77.0 after a three-month jump of 9.3 points (to 81.8 from 72.5) from July through October. The expectations component of the CSI tumbled 7.9 points in mid-November alone, to 71.3, after a three-month spike of 13.3 points, from 65.9 in July to 79.2 in October. During interviews conducted following the election, the report notes there was a major negative in expectations among Republicans, while the Democrats' expectations held steady—which the report

attributed to the Democrats' fears about a resurgence in Covid offsetting any election-related gains. Here are some percentages from the report: 59% of Democrats commented that their normal life had changed to a great extent due to the coronavirus compared with just 34% among Republicans. The expectations metric for Republicans is at its the lowest since before Trump was elected president, while Democrats have voiced more positive expectations. "In the months ahead, the partisan gap is likely to enlarge," according to the report, "although the gains will be limited until a potential vaccine is approved and widely distributed." Meanwhile, the present situation component of the CSI fell for the second month, to 85.8, after advancing from 82.8 in July to six-month high of 87.8 in September.

Consumer Price Index ([link](#)): The core CPI was unchanged in October after a four-month climb; Covid-19 had caused record declines in apparel and transportation services prices during the three months ending May. Monthly gains in the core CPI have eased steadily from July's 0.6%—which the biggest monthly gain since 1990. The core CPI rose 2.4% (saar) during the three months through October, slowing from August's 5.0%, which was the highest since March 1991. The yearly rate ticked down to 1.6% from 1.7% during both September and August; it was at a nine-year low of 1.2% in June and May. Here's a ranking of the 12-month core rates on an October-over-October basis, from lowest to highest for goods: apparel (-5.5% y/y), medical care commodities (-0.8), new vehicles (1.5), alcoholic beverages (2.3), tobacco & smoking products (4.5), and used cars & trucks (11.5). Yearly rates are accelerating for alcoholic beverages, new vehicles, and used cars and trucks; the latter was in negative territory the first seven months of this year—though skyrocketed 60.3% (saar) over the three months through September. Here's the same drill for the core services rates: airfares (-20.0), motor vehicle insurance (-7.1), physicians' services (1.9), owners' equivalent rent (2.5), motor vehicle maintenance & repair (3.2), rent of primary residence (2.7), and hospital services (2.9). The shelter components remain on sharp decelerating trends, while the rates for both physicians' and hospitals' services have begun easing recently. The headline CPI rate slowed to 1.2% y/y in October after accelerating steadily from 0.1% (lowest since mid-2015) in May to 1.4% in September.

Producer Price Index ([link](#)): The Producer Price Index for final demand rose for the sixth straight month in October, by 0.3% last month and 2.3% over the six months through October after a three-month slide of 2.2%. The yearly rate (0.5% y/y) moved further into positive territory in October, after swinging positive in September (+0.4) for the first time since March. Prices for final demand goods also advanced for the sixth successive month, by 0.5% in October and 3.9% over the period. The yearly rate was unchanged at -1.0% y/y after rising

steadily from -5.2% in April. Prices for final demand services climbed 0.2% last month and 1.5% over the six months through October—pushing the yearly rate up to a seven-month high of 1.2%. In the meantime, there's still deflation in the pipeline on a year-over-year basis, though prices have moved higher in recent months, pushing y/y rates toward zero: Intermediate goods prices fell 1.5% y/y in October, holding at September's pace, after easing steadily from April's -7.6%, which was the lowest since October 2015 (its 18th consecutive negative reading). Crude prices fell 3.3% y/y (its 22nd consecutive negative reading), narrowing from April's -28.7%—which was the steepest decline since September 2009.

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): The bounce back from the Covid-19 lockdown was still going strong in July, though the rebound slowed in August and dipped a bit in September. Output slipped 0.4% in September, following a 0.6% gain in August; production had soared 29.8% during the three months through July—averaging monthly gains of 9.0% over the period. Production is within 5.9% of its pre-pandemic level; production had plummeted 27.6% during the two months through April. Here's a look at how the main industrial groups fared during the five months through September and where they stand relative to their pre-pandemic levels: consumer durable goods (+100.2% & -3.5%), capital goods (+52.2 & -9.7), intermediate goods (+28.3 & -5.5), consumer nondurable goods (+14.5 & -1.9), and energy (+7.9 & -1.8)—with both consumer durable goods (-5.3%) and energy (-1.0) output falling for the first time in five months in September. Here's the same exercise for total production among the top four Eurozone economies: Italy (+66.7 & -5.3), France (+44.9 & -5.2), Spain (+44.9 & -2.7), and Germany (+26.9 & -9.3). Looking ahead, October's IHS Markit M-PMI showed manufacturing activity in the Eurozone was expanded at a 27-month high, climbing from 53.7 in September to 54.8 in October—with M-PMIs in Germany (58.2) and Italy (53.8) both at their highest in 31 months. According to the report, growth expanded across all three market groups during October, though to varying degrees. The fastest expansion was seen in investment goods, where growth was the strongest in over two years, followed by a solid gains in intermediate goods; growth among consumer goods producers increased at a negligible pace.

UK Industrial Production ([link](#)): Output rose for the fifth month in September, though increases have slowed the past two months following explosive growth the prior three months. Headline production expanded 0.4% in September and 0.6% the past two months, after soaring 22.2% during the three months through July to within 5.6% of its pre-pandemic level. Production had contracted a record 23.3% during the two months through April. Manufacturing

production eked out a 0.1% uptick in September, though is up a whopping 30.5% the past five months. Here's the five-month performance by the main industrial groupings, and where they stand relative to their respective pre-Covid-19 highs: capital (44.5% & -13.7%), intermediate (42.0 & -4.4), consumer durable (31.8 & -8.4), and consumer nondurable (7.4 & -4.5) goods. While September saw production expand in capital (by 1.2%), intermediate (1.7), and consumer durable (0.8) goods, nondurable goods production fell for the second months, by a total of 2.9%. Looking ahead, IHS Markit's October survey shows manufacturing activity continued to expand last month, though has lost some momentum the past two months with the M-PMI falling to 53.7; it had climbed steadily from 32.6 in April to a 30-month high of 55.2 in August. The report cautions: "While most companies maintain a positive outlook, with three-fifths of manufacturers expecting output to rise over the coming year, concerns about near-term risks posed by the pandemic, changes to Covid restrictions and related stimulus measures, plus Brexit anxieties, continue to fog the future."

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