MORNING BRIEFING
November 28, 2022

2023 Is Coming!

Check out the accompanying chart collection.

Executive Summary: The consensus is now bracing for a 2023 recession that tempers inflation and ends the Fed's reign of tightening but also depresses corporate earnings, suggesting more downside for stocks' valuation multiples. We're more optimistic, expecting no broad-based recession but a rolling one, no continued bear market in stocks but sluggish earnings limiting their upside. … Both scenarios hinge on inflation: If it remains persistently high despite having peaked, expect a broad-based recession and all that entails. If not, the 2023 outlook will be brighter. … Also: A look at data supporting both soft- and hard-landing scenarios. … And: What the Fed might do next.

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US Economy I: The Consensus Forecast & Ours. What is the consensus economic and financial outlook for 2023? The most widely anticipated recession of all times didn't occur in 2022, as was widely feared. So now it is widely expected to occur in 2023—if not during the first half of the year, then certainly by the second half. If so, the economic downturn should help to moderate inflation next year.

In this scenario, the Fed should be done tightening early next year, as anticipated by the inversion of the yield curve since this past summer, which also implies that the 10-year Treasury bond yield might have peaked at 4.25% on October 24 (*Fig. 1*). When the yield on the 2-year Treasury note equals or exceeds the 10-year Treasury bond yield, both tend to be close to their cyclical peaks (*Fig. 2*). Also anticipating the nearing of the end of the Fed's monetary policy tightening cycle is the trade-weighted dollar, which peaked on October 19 (*Fig. 3*).

This is a bittersweet scenario for the stock market. There should be less downward pressure on valuation multiples attributable to rising inflation and interest rates as both move lower in the 2023 consensus forecast. But a recession next year would continue to depress corporate earnings, which have been weighed down by narrowing profit margins since the summer of this year, while revenues rose to record highs, boosted by inflation. In a recession, margins would continue to shrink as revenues fall too. In other words, the bear market in the S&P 500 may not have ended on October 12 of this year if there is still more downside in store for forward earnings and forward valuation multiples (*Fig. 4*).

Our outlook for 2023 is sweeter than the consensus. It coincides with all the major "talking points" of the consensus with one important exception: Debbie, Joe, and I aren't expecting a recession. We continue to anticipate a soft landing rather than a hard landing. We see recessionary forces attributable to the tightening of Fed policy rolling through various sectors of the economy in a way that doesn't add up to a broad-based recession. We've also described this phenomenon as a "growth recession" and as a "mid-cycle slowdown."

That's consistent with our view that the bear market in stocks ended on October 12, but it doesn't imply a rip-roaring bull market in 2023. That's because the bear market has been mostly about the downward rerating of the stock market's overall valuation multiple from overvalued territory to fairly valued rather than undervalued territory. In addition, there may be more downside in forward earnings during a rolling recession and not much likelihood of a V-shaped rebound in earnings, especially since profit margins remain near record highs.

US Economy II: Inflation Will Make or Break 2023. In our opinion, inflation is the one key variable that clearly will determine the economic and financial outcome in 2023. If it moderates without a hard landing of the economy, as we expect, then 2023 will be a better year all around than 2022. If it has peaked but remains persistently high, the Fed will have no choice but to continue tightening until a broad-based recession ensues.

Consider these most recent relevant developments:

(1) *National supply-chain index.* Supply-chain disruptions contributed to the surge in goods inflation during the second half of 2021 and the first half of 2022. But these problems have been mostly fixed. Slowing demand for goods has also helped to moderate goods inflation significantly in recent months.

The Global Supply Chain Pressure Index (GSCPI) *compiled* by the Federal Reserve Bank of New York (FRB-NY) peaked at 4.30 during December 2021 (*Fig. 5*). It was down to 1.00 during October. The latest FRB-NY analysis of that data concluded: "The GSCPI's year-to-date movements suggest that global supply chain pressures are falling back in line with historical levels."

(2) *Regional supply chains*.We now have November supply-chain indicators for regional business surveys conducted by four of the five Federal Reserve district banks (*Fig. 6*). New

York delivery times was the only positive reading, at 2.9, while Richmond's backlog of orders was -25.0, Kansas City's backlog of orders was -25.0, and Philly's unfilled orders was -22.9. Collectively, those four readings for November confirm the FRB-NY's conclusion for the October reading of their series. In fact, they strongly suggest that supply-chain pressures have fallen well below normal historical levels!

We also have eight of the 10 prices-paid and prices-received indexes from four of the five regional business surveys through November. Five of the available eight ticked up but remained on downward trends (*Fig. 7*).

(3) *Goods inflation.* The CPI for goods peaked at 14.2% y/y in March before falling to 8.6% in October (*Fig. 8*). That drop was led by a plunge in the CPI durable goods inflation rate from a peak of 18.7% in February to 4.8% in October. We think that this inflation rate could turn slightly negative in 2023 since durable goods prices were mostly deflating, rather than inflating, from the mid-1990s until the end of 2020.

The CPI nondurable goods inflation rate is mostly determined by food and energy commodity prices. Both peaked during the summer but have stabilized in recent weeks. Weakness in the global economy should weigh on these prices over the next few months.

(4) *Services inflation.* There is no compelling sign of a peak yet in the CPI services inflation rate (*Fig. 9*). That's mostly because rent inflation continues to move higher in the CPI, with rent of primary residence up 7.5% during October (*Fig. 10*). Meanwhile, the Zillow Rent Index peaked at 17.1% y/y in February before falling to 9.6% in October, suggesting that rent inflation in the CPI might start to moderate during the spring of next year.

US Economy III: The Great Landing Debate. Now let's consider some of the recent developments in the great debate between soft-landing prognosticators and their hard-landing opponents:

(1) *GDP.* Some pessimistically inclined forecasters declared victory because they deemed that the economy fell into a technical recession during the first half of this year, when real GDP edged down 1.6% and 0.6% (saar) during Q1 and Q2. However, it then rebounded by 2.6% during Q3, and the Atlanta Fed's *GDPNow* tracking model showed a prospective Q4 increase of 4.3% as of November 23.

Consumer spending in real GDP increased during the first three quarters of 2022 (by 1.3%, 2.0%, and 1.4%) and is currently on track to increase 4.8% during Q4, according to the

GDPNow model.

(2) *Coincident vs Leading Economic Indicators.* While we are all debating whether the economic landing will be hard or soft, the overall economy as measured by GDP is showing no signs of landing; it is still flying! Indeed, the Index of Coincident Economic Indicators rose 1.9% ytd to a record high through October, led by a 4.1 million increase in payroll employment to a record high of 153.3 million.

Then again, supporting the hard-landing camp is the Index of Leading Economic Indicators (LEI). It peaked during February and has fallen every month through October, signaling a recession next spring. We hate to fight the LEI, but that's not our forecast.

By the way, in my 2018 book *Predicting the Markets*, I observed: "When the models fail to work (as most do sooner or later), they are sent back to the garage for a tune-up, if not a major overhaul. A good example of this is the 'comprehensive revision' of the Index of Leading Economic Indicators (LEI) during January 2012. The redesign replaced a few old components with new ones to keep the index working as advertised, i.e., as a leading indicator of economic activity."

(3) *Purchasing managers.* Supporting the pessimistic outlook of the LEI, November's flash estimates for the M-PMI and NM-PMI both were relatively weak, falling to 47.6 and 46.1 (*Fig. 11* and *Fig. 12*). The former suggests that the ISM's "official" M-PMI dropped below 50.0 for the first time since May 2020. That's consistent with November's readings of the four available regional business surveys.

However, unlike its M-PMI counterparts, the flash NM-PMI hasn't been a reliable indicator of the official NM-PMI, which likely remained above 50.0 during November.

The weakness of the official M-PMI relative to the official NM-PMI is consistent with the pivot by consumers to spending more on services than on goods, as evident in consumption of goods in real GDP (down 0.4% y/y through Q3) versus services (up 3.2%) (*Fig. 13*). It is also consistent with our soft-landing scenario.

(4) *Housing market.* There's no doubt that a recession is rolling through the single-family housing market. However, it has been partially offset by strength in the multi-family housing market, as we discussed in last Monday's *Morning Briefing*.

But what about the unexpected 7.5% m/m increase in new home sales in October after they had plunged 11.0% in September? The series is based on contract signing, which may have been boosted by builder incentives and a low supply of previously owned homes for sale.

Apparently, many new homebuyers are having second thoughts. According to the homebuilder *survey* by John Burns Real Estate Consulting—with a sample size of roughly 20% of all new home sales—the cancellation rate spiked to 25.6% in October, up from 7.9% in October 2021 and from 10.9% in October 2019.

The traffic of prospective home buyers index compiled by the National Association of Home Builders dropped to 20 in November, down from 69 in January and the lowest since April 2020, when this activity was hit hard by lockdown restrictions (*Fig. 14*).

(5) *Rail strike.* About 30% of the nation's freight, when measured by weight and distance traveled, moves by rail, and there just isn't enough capacity on trucks or other modes to move those goods if the trains grind to a halt. That's a possibility after rank-and-file members of four rail unions rejected an earlier tentative deal, which included a solid pay increase but didn't meet workers' demands for better working conditions. A strike could totally upend supply chains, boost inflation, and send the economy hurtling into a recession.

We expect a last-minute deal before the strike deadline on November 28, December 5, or December 9 depending on three scenarios for rail strike preparations. Some industry groups have urged Congress, which has authority under the Railway Labor Act, to act to prevent a strike. (See November 17 CNBC *article* "STATE OF FREIGHT: With U.S. economy at risk, here's how a national rail strike could start in December.")

US Economy IV: Will the Fed Stop Slamming the Brakes? The S&P 500 is up 4.4% from its Tuesday, November 1 close. That's impressive considering that it dropped 3.5% on the following Wednesday and Thursday mostly because of the very hawkish tone of Fed Chair Jerome Powell's press conference on Wednesday afternoon.

Perhaps that's because Powell's hawkishness was offset by the somewhat more dovish tone of the FOMC statement. Melissa and I discussed this divergence in our November 7 *Morning Briefing* titled "Powell Is From Mars, Brainard Is From Venus."

The minutes of the November 1-2 FOMC *minutes* were released on Wednesday, November 23. They confirmed that the committee on balance was more from Venus (i.e., more dovish than Powell) than from Mars (i.e., hawkish like Powell). The minutes stated that "a substantial majority of participants judged that a slowing in the pace" of federal funds rate hikes "would likely soon be appropriate."

Traders now are pricing in more than a 75% chance that the Fed will raise rates by 50bps at its December 14 meeting rather than by 75bps, according to *futures contracts* on the CME. While most economists are expecting a recession next year, Wall Street is growing more confident (as we have been) that the Fed might be able to pull off a soft landing after all.

The S&P 500, DJIA, and Nasdaq rose 12.6%, 17.6%, and 7.8% from October 12 through Friday's close. Since the January 3 record high in the S&P 500, they are down 16.1%, 6.1%, and 29.1%.

By the way, November's CPI will be released on December 13, the same day that the FOMC starts its two-day meeting. On December 2, November's employment report will be released, which might also influence the committee's 50bps-vs-75bps debate. And a crippling nationwide railroad strike might start before the FOMC meets. In addition, Congress is unlikely to raise the federal debt ceiling during the lame-duck session, increasing the risk of a highly partisan, market-rattling fiscal confrontation next year. The Santa Claus rally may face more turbulence than usual this year. However, we are still targeting 4305 as the year-end level for the S&P 500.

Calendars

US: Mon: Dallas Fed Manufacturing Index; Williams; Bullard. **Tues:** Consumer Confidence 100.0; S&P Case-Shiller HPI 20-City Index -0.7%m/m/14.4%y/y. (Bloomberg estimates)

Global: Mon: Japan Unemployment Rate & Jobs/Applications Ration 2.5%/1.35; Japan Retail Sales 5.0% y/y; Lagarde; Nagel; McCaul. **Tues:** Eurozone Business & Consumer Survey 93.5; Consumer, Services, and Industrial Sentiment -23.9/2.0/-0.2; Germany CPI 0.1%m/m/11.3%y/y; Spain CPI; Canada GDP 1.5%; Japan Industrial Production -1.5%; China M-PMI & NM-PMI Flash Estimates 50.0/48.0; De Guindos; Schnabel; Bailey; Schlegel; Mann; Kearns. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.5% w/w to 17.3% below its record high on December 27. The US MSCI ranked 30th of the 48 global stock markets that we follow in a week when 41 of the 48 countries rose in US dollar terms. The AC World ex-US index also rose 1.5% w/w, but ended the week still in a bear market at 21.3% below its June 15, 2021 record high as most EM regions edged lower. EM Eastern Europe was the best performer with a gain of 2.6%, followed by EAFE (2.1%) and EMU (1.5). BIC (-1.8) was the worst performing region last week, followed by EM Latin America (-0.7), EMEA (-0.2), and EM Asia (-0.2). Turkey was the best-performing country last week with a gain of 9.2%, followed by Sri Lanka (9.1), Norway (6.7), and Argentina (5.9). Among the 18 countries that underperformed the AC World ex-US MSCI last week, China's 3.2% decline was the biggest, followed by those of Brazil (-2.1), Hong Kong (-1.9), and Singapore (-1.8). The US MSCI's ytd ranking fell two places w/w to 28/49. After lagging for much of year through July, the US MSCI's ytd decline of 16.8% is now less than the AC World ex-US's 17.7% drop. EM Latin America is up 1.4% ytd; it and EAFE (-16.0) are the only regions that have outperformed the AC World ex-US on a ytd basis. The laggards: EM Eastern Europe (-83.4), EMEA (-35.2), BIC (-28.3), EM Asia (-24.9), and EMU (-18.7). The best country performers so far in 2022: Turkey (67.5), Jordan (18.4), Chile (14.5), and Peru (13.8). Apart from Russia—in which investors have lost 100.0% of their investment this year, as its MSCI index stopped pricing—here are the worst-performing countries ytd: Sri Lanka (-67.1), Pakistan (-39.9), Morocco (-34.0), and Hungary (-33.7).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes moved higher w/w. MidCap rose 1.9% w/w, ahead of the gains for LargeCap (1.5%) and SmallCap (1.2). LargeCap finished the week at 16.1% below its record high on January 3; MidCap ended up 12.1% below its record high on November 16, 2021; and SmallCap finished at 15.9% below its November 8, 2021 record high. Thirty-two of the 33 sectors moved higher for the week, up from nine rising a week earlier. MidCap Utilities was the best performer with a gain of 3.1%, followed by LargeCap Utilities (3.0), LargeCap Materials (2.9), MidCap Materials (2.7), and MidCap Financials (2.5). SmallCap Energy (-1.4) was the sole decliner for the week, followed by these underperformers with small gains: LargeCap Energy (0.3), SmallCap Health Care (0.5), SmallCap Tech (0.7), and SmallCap Consumer Staples (0.7). In terms of 2022's ytd performance, LargeCap's 15.5% decline continues to trail those of MidCap (-9.9) and SmallCap (-12.1). Six of the 33 sectors are positive so far in 2022, up from four a week earlier. Energy continues to dominate the top performers: LargeCap Energy (65.8), SmallCap Energy (56.0), MidCap Energy (52.0), MidCap Consumer Staples

(3.2), MidCap Financials (0.6), and SmallCap Materials (0.2). The biggest ytd laggards: LargeCap Communication Services (-37.2), LargeCap Consumer Discretionary (-31.3), SmallCap Communication Services (-29.5), SmallCap Real Estate (-28.3), and MidCap Real Estate (-25.2).

S&P 500 Sectors and Industries Performance (*link*): All 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 1.5% gain. That compares to a 0.7% decline for the S&P 500 a week earlier, when three sectors rose and five outperformed the index. Utilities was the best performer with a gain of 3.0%, followed by Materials (2.9%), Financials (2.2), Consumer Staples (2.1), Real Estate (2.0), Health Care (1.9), and Industrials (1.9). Energy was the worst performer, albeit with a gain of 0.3%, followed by Tech (1.0), Communication Services (1.0), and Consumer Discretionary (1.1). The S&P 500 is down 15.5% so far in 2022, with seven sectors ahead of the index and just one in positive territory. The best performers in 2022 to date: Energy (65.8), Consumer Staples (-1.2), Utilities (-1.4), Health Care (-2.9), Industrials (-4.5), Financials (-7.8), and Materials (-9.2). The ytd laggards: Communication Services (-37.2), Consumer Discretionary (-31.3), Real Estate (-25.2), and Tech (-23.7).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.5% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index remained above its 50-dma for a third week, but has been below in eight of the last 13 weeks. However, it closed below its 200-dma for the 40th time in 43 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved higher w/w/ for just the second time in nine weeks. The index improved to a 14-week high of 6.1% above its now-rising 50-dma from 4.5% below its falling 50-dma a week earlier. That compares to a recent 15-week low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma the week in early August, and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at a 15-week high of 0.4% below its falling 200-dma, up 2.2% below its falling 200-dma a week earlier. That's well above its 26-month low of 17.1% below its falling 200-dma in mid-June and down sharply from 10.8% above its rising 200-dma in November 2021. That also compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—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. The 200-dma fell for a 30th straight week, but its pace of decline is slowing from its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Ten of the 11 S&P 500 sectors are trading above their 50-dmas, up from nine sectors a week earlier. Communication Services moved back above in the latest week, leaving Consumer Discretionary as the only sector still below their 50-dma. Seven sectors now have a rising 50-dma, up from six a week earlier as Tech turned back up w/w. The four sectors that still have a falling 50-dma: Communication Services, Consumer Discretionary, Real Estate, and Utilities. Looking at the more stable longer-term 200-dmas, these six sectors remain in that club: Consumer Staples, Energy, Financials, Health Care, Industrials, and Materials. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. The 200-dma turned up w/w for Consumer Staples and Industrials, joining Energy, Health Care, and Utilities as the only sectors with a rising 200-dma.

US Economic Indicators

Durable Goods Orders & Shipments (*link*): Durable goods orders in October posted a larger-than-expected gain, climbing to its highest level since July 2014. Meanwhile, core capital goods shipments reached another new record high last month, following September's brief dip, while core capital goods orders rebounded back to within 0.1% of August's record high. *Nondefense capital goods shipments excluding aircraft* (used in calculating GDP) has increased all but two months since its April 2020 bottom, climbing 1.3% in October and by a total of 36.5% over the period. Meanwhile, core *capital goods orders* (a proxy for future business investment) rose 0.7% and 35.6% over the comparable periods, falling only five months since its April 2020 bottom. *Total durable goods orders* are on a steep accelerating trend, climbing 1.0% in October and 10.7% y/y to its highest level since July 2014. October's increase in billings was led by a 2.1% jump in transportation orders, with new orders for motor vehicles reaching a new record. Also climbing to a new record high was machinery orders, with orders for electrical equipment and fabricated metals both stalled near record highs. Primary metals orders have slumped 5.1% from its recent peak in May.

New Home Sales (*link*): New home sales (counted at the signing of a contract) were a surprise on the upside in October, though these sales can be volatile from month to month. Sales jumped 7.5% last month to 632,000 units (saar) after an 11.0% loss and a 21.7% gain the prior two months. So far this year, these sales are down 24.7%. Of the 632,000 *homes* *sold* in October, only 185,000 were completed, while 184,000 were not yet started and 263,000 units were under construction. Meanwhile, there were 470,000 *units for sale* last month (the most since winter 2008), with only 61,000 units completed and 111,000 not yet started; 298,000 were under construction. At the current sales pace, it would take 8.9 months to run through the supply of new homes, down from 9.4 months in September; it was at 10.1 months in July—which was the highest since April 2009. The *median price* of a new home rose 8.2% (to $493,000 from $455,700) in October, with the yearly rate accelerating 15.4%, up from 10.3% and 9.2% the previous two months but below its recent peak of 21.7% in April.

Consumer Sentiment Index (*link*): Consumer sentiment fell 3.1 points in November to 56.8 (above the mid-month reading of 54.7), after climbing steadily from June's record low of 50.0 to 59.9 in October. November's decline reversed about one-third of the gain posted since June's record low. The report noted: "Along with the ongoing impact of inflation, consumer attitudes have also been weighed down by rising borrowing costs, declining asset values, and weakening labor market expectations." In addition, the recent improvement in buying conditions for durables reversed course, falling sharply in November. The *present situation component* plunged 6.8 points this month to 58.8 after rebounding 11.8 points the prior four months, from 53.8 in June to 65.6 in October, while the *expectations component* fell 2.4 points the past two months to 55.6; it had jumped 10.7 points in August after a three-month slide of 15.2 points. (The mid-month readings of the present situation and expectations components were 57.8 and 52.7, respectively.) The *one-year expected inflation rate* was 4.9% in November, down slightly from October's 5.0%, while the *five-year expected inflation rate* climbed for the second month, back up to 3.0%, remaining in the narrow, though elevated, range of 2.9%-3.1% for 15 of the last 16 months. Joanne Hsu, director of the survey, warned: "[U]ncertainty over these expectations remained at an elevated level, indicating that the general stability of these expectations may not necessarily endure."

Global Economic Indicators

Germany Ifo Business Climate Index (*link*): "The recession could prove less severe than many expected," noted Clemens Fuest, president of Ifo Institute, after the release of Ifo's business survey. He had some encouraging words a few days prior to the survey's release, commenting that the unexpected monthly decline in producer prices and easing supply-chain disruptions were promising signs, but "the most important point is that the gas supply situation has brightened considerably." The overall index increased 1.8 points this month, after a 0.2-point uptick in October—which followed a four-month slide of 8.9 points to 84.3, which was the lowest reading since May 2020. It was as high as 101.4 in June 2021. The *expectations* component climbed for the second month, by a total of 4.8 points to 80.0, after plunging 23.4 points—from 98.6 in February to 75.2 in September—which was the lowest since April 2020; it was at 102.9 last June. Meanwhile, *current conditions*, which had been fluctuating in a volatile flat trend earlier this year, has dropped 6.8 points the past six months to a 21-month low of 93.1. There were some signs of hope in all four sectors of the German economy: The *manufacturing sector* saw its business climate index improve a bit from a 28-month low of -15.4 to -11.7 as companies were less pessimistic about the future (to -31.3 from 40.0), though assessed their current situation (10.1 from 13.0) as slightly worse. The *service sector* followed a similar pattern, with its business climate index moving up from -8.5 to -5.4 as its expectations (-25.7 from -34.4) measure was less negative and businesses were slightly less satisfied with their current conditions (17.3 from 21.4). Sentiment in the *trade sector* (-26.9 from -31.9) was less negative, as expectations (-49.3 from -57.1) moved away from historical lows, and current conditions (to -1.1 from -2.2) moved back toward positive territory after posting the first back-to-back negative readings since the start of 2021. The *construction sector* remained entrenched in negative territory, though improved a bit to -26.9, as expectations (-45.9 from -47.2) were slightly less negative, while businesses were more satisfied with their current conditions (6.6 from 2.6).

US PMI Flash Estimates (*link*): Flash PMIs showed a contraction in business activity across the US private sector, posting its second fastest decline since May 2020 as "inflation, rising borrowing costs and economic uncertainty weighed on demand." The *C-PMI* fell for the seventh time in eight months, sinking from 57.7 in March to 46.3 this month, as the *M-PMI* fell from 58.8 in March to a 30-month low of 47.6—which was the first reading below 50.0 since mid-2020. The decline reflected a renewed fall in output and a shaper decline in new orders, while new export orders declined at a faster pace. The *NM-PMI* recorded its fifth month in contractionary territory, falling for the second month this month from 49.3 in September to 46.1—though that was above August's 27-month low of 43.7. Depressing demand, according to the panelists, was the impact that inflation and interest rates had on customers' disposable income. More encouragingly, inflationary pressures eased further this month, with *input cost* inflation slowing for the sixth successive month and rising at the slowest pace since December 2020. Falling this month were lumber, steel, and plastic prices, as well as freight costs. Given the lower input costs, firms raised their *selling prices* at the slowest rate in just over two years, as concessions and discounts were used to attract customers to place orders in this weak demand environment.

Eurozone PMI Flash Estimates (*link*): "Eurozone economic contraction eases in

November, price pressures cool" is the headline of this month's Eurozone PMI report. The Eurozone's *C-PMI* rose for the first time in seven months, climbing to 47.8 this month, after falling from 55.8 in April to a 23-month low of 47.3 in October. The *M-PMI* edged up to a two-month high of 47.3 this month after falling steadily from 58.7 at the start of this year to a 29-month low of 46.4 in October, while the *NM-PMI* was unchanged at October's 20-month low of 48.6; it was at 57.7 in April. Looking at the two largest Eurozone economies, *Germany's C-PMI* was in contractionary territory for the fifth month this month, though did tick up to a three-month high of 46.4 after falling steadily from 55.6 in February to a 29-month low of 45.1 in October. *Germany's NM-PMI* declined for the sixth time in seven months, sliding from 57.6 to 46.4 over the period, while *Germany's M-PMI* ticked up to a two-month high of 46.7 after falling from 54.8 in May to 29-month low of 45.1 in October. Meanwhile, *France's C-PMI* fell for the sixth time in seven months, from a recent high of 57.6 in April to 48.8 in November—its first reading below 50.0 since February 2021. *France's M-PMI* rose to 49.1 after falling five of the prior six months, from 55.7 to 47.2—the lowest since May 2020—while *France's NM-PMI* fell below the breakeven point of 50.0 for the first time since March 2021, down from a recent peak of 58.9 in April. *Elsewhere across the region*, the report noted that output fell for the third consecutive month, though November's decline was the smallest seen over the period. There was a marginal return to growth in the service sector, while the manufacturing sector showed its steepest decline in manufacturing output since March 2013, barring the pandemic lockdown months.

Japan PMI Flash Estimates (*link*): Activity in Japan's private sector contracted for the first time in three months, according to flash estimates, dragged lower by a weak manufacturing sector. Japan's *C-PMI* fell to 48.9 this month after climbing from 49.4 in August to 51.8 in October as the *M-PMI* sank for the eighth month, from 54.1 in March to 49.4 this month—the first contractionary reading since January 2021. Japan's manufacturing sector was hampered by weak demand and sharp inflationary pressures, which drastically reduced output and new orders and pushed business sentiment lower. Meanwhile, the *NM-PMI* fell to the breakeven-point of 50.0 after rising from 49.5 in August to 53.2 in October. Still, inflows of new business rose for the third successive month as firms continued to benefit from a boost to tourism volumes following the roll-out of the National Travel Discount Program in early October, which is due to end in December.

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