MORNING BRIEFING
December 1, 2022

Powell, Onshoring & Tech

Check out the accompanying chart collection.

Executive Summary: Reassurance from Fed Chair Powell yesterday that the Fed would proceed on its tightening course with "moderation," to avoid setting off a recession, was music to investors' ears—lifting stock prices and lowering bond yields. Today, we look at the words that had such a palliative effect on markets and recap Powell's main points, especially about inflation. … Also: Rising reshoring and FDI trends suggest a revival of US manufacturing, which will benefit supply chains and labor markets. … And: Jackie examines the reasons for tech stocks' recent malaise.

The Fed: 'Moderation' Is the Word. Bond yields fell and stock prices rose in response to Fed Chair Jerome Powell's *speech* on Wednesday at the Brookings Institution. Most importantly, he confirmed that the FOMC is on track to raise the federal funds rate by 50bps rather than 75bps at the December 13-14 meeting of the committee. Here is how he concluded his speech:

"Monetary policy affects the economy and inflation with uncertain lags, and the full effects of our rapid tightening so far are yet to be felt. Thus, it makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down. The time for moderating the pace of rate increases may come as soon as the December meeting. Given our progress in tightening policy, the timing of that moderation is far less significant than the questions of how much further we will need to raise rates to control inflation, and the length of time it will be necessary to hold policy at a restrictive level."

"Moderation" is the key word. The markets seem to believe that the Fed is getting closer to the terminal federal funds rate, which is widely deemed to be around 5.00%, and that the economy can handle that "restrictive" level even if it stays there for a while. Indeed, during the Q&A session following his speech, Powell repeated that he still believes that there is a path to a soft (or "softish") landing for the economy.

Investors have been fearing that the Fed might turn too restrictive, causing a recession. Powell specifically said that the Fed is aware of that risk and does not want that to happen. Of course, Fed officials are also expecting (hoping) that inflation will continue to moderate to validate the Fed's moderation pivot.

Powell spent a good part of his speech talking about inflation:

(1) *Inflation remains high and uncertain.* Powell started his prepared remarks by "acknowledging the reality that inflation remains far too high." He reiterated a frequent theme from his past statements about inflation: "Without price stability, the economy does not work for anyone." He also stated that "[t]he truth is that the path ahead for inflation remains highly uncertain." Then he proceeded to drill down on the outlook for the core PCED inflation rate: "To assess what it will take to get inflation down, it is useful to break core inflation into three component categories: core goods inflation, housing services inflation, and inflation in core services other than housing." (Click "*View speech charts and figures*" below his speech to see charts of the three.)

(2) *Focusing on three major components of inflation.* Powell noted: "Core goods inflation has moved down from very high levels over the course of 2022, while housing services inflation has risen rapidly. Inflation in core services ex housing has fluctuated but shown no clear trend. I will discuss each of these items in turn."

(3) *Core goods inflation heading in the right direction.* He was optimistic about the outlook for core goods inflation: "While 12-month core goods inflation remains elevated at 4.6 percent, it has fallen nearly 3 percentage points from earlier in the year. It is far too early to declare goods inflation vanquished, but if current trends continue, goods prices should begin to exert downward pressure on overall inflation in coming months."

(4) *Housing services inflation should moderate late next year.* Powell observed that housing services inflation, which measures the rise in rent of primary residence and the rental-equivalent cost of owner-occupied housing, "has continued to rise and now stands at 7.1 percent over the past 12 months. Housing inflation tends to lag other prices around inflation turning points, however, because of the slow rate at which the stock of rental leases turns over." He observed that "market rate on new leases is a timelier indicator of where overall housing inflation will go over the next year or so. Measures of 12-month inflation in new leases rose to nearly 20 percent during the pandemic but have been falling sharply since about midyear." (Click "*View speech charts and figures*" below his speech to see his chart showing market rents.)

(5) *Core services other than housing depends on labor costs.* The third category is core services other than housing. It covers a wide range of services from health care and

education to haircuts and hospitality. It is the largest of the three categories, constituting more than half of the core PCE index. Powell observed: "Thus, this may be the most important category for understanding the future evolution of core inflation. Because wages make up the largest cost in delivering these services, the labor market holds the key to understanding inflation in this category."

Powell clearly is concerned that labor shortages may continue to put upward inflationary pressure on core services excluding housing. He noted that "recent research by Fed economists finds that the participation gap is now mostly due to excess retirements—that is, retirements in excess of what would have been expected from population aging alone. These excess retirements might now account for more than 2 million of the 3-1/2 million shortfall in the labor force." He added: "The second factor contributing to the labor supply shortfall is slower growth in the working-age population."

He concluded that demand still well exceeds supply in the labor market. As a result, "[w]age growth, too, shows only tentative signs of returning to balance. Some measures of wage growth have ticked down recently." (Click "*View speech charts and figures*" below his speech to see his charts of wage inflation.)

(6) *Bottom line.* The markets took comfort from Powell's suggestion that the Fed's tightening cycle is pivoting to a more moderate stance of rate increases. However, he concluded: "It is likely that restoring price stability will require holding policy at a restrictive level for some time. History cautions strongly against prematurely loosening policy. We will stay the course until the job is done."

Industrials: More Manufacturing Coming to America. The number of companies opting to build manufacturing plants in the US of A instead of abroad continues to gain steam. Almost 350,000 jobs will be created this year in the US as companies move their manufacturing facilities back to the US or foreign companies decide to start manufacturing operations here, according to a *report* based on H1-2022 trends by the Reshoring Initiative. The jobs created due to reshoring or foreign direct investment have increased to 260,000 in 2021 from 181,037 in 2020 and only 6,000 back in 2010.

Appreciation for domestic manufacturing grew after Covid caused supply chains to collapse and shortages of PPE and hand sanitizer turned us into scavengers. Tariffs on certain Chinese imports, the threat of China attacking Taiwan, and Russia's war in Ukraine have further highlighted the importance of a US manufacturing base. US government funding provided over the past year through the CHIPS Act, the Inflation Reduction Act, and the

Infrastructure Investment and Jobs Act has sweetened the pot for manufacturers breaking ground in the US.

The industries bringing the most jobs to US shores include electric vehicle (EV) battery manufacturers, chemical companies including pharmaceutical manufacturers, and makers of transportation equipment and computer and electronic products including solar panels, robotics, drones, and semiconductors, the Reshoring Initiative report states.

One challenge to onshoring is finding the skilled workforce to fill the new jobs. Companies, trade associations, and states are ramping up training programs, while automation and artificial intelligence (AI) are allowing workers to be more productive, the report notes. But the US onshoring trend may slow in coming years as industrial capabilities in Mexico and Southeast Asian countries improve and those countries increasingly attract companies.

US manufacturing jobs fell sharply in the decade after China joined the World Trade Organization in 2001. But since bottoming in 2009, the number of manufacturing jobs has been increasing, backtracking briefly in 2020 due to the short-lived Covid recession (*Fig. 1*). As technology companies announce massive layoffs, it may be employment in the manufacturing sector that softens the blow to the economy.

We first discussed the onshoring trend in the November 12, 2020 *Morning Briefing*, followed by the February 11, 2021 *Morning Briefing*. Here's our latest look at recent announcements by companies planning to build manufacturing plants in the US:

(1) *Solar industry shines.* Italian utility Enel was the latest company to announce plans to build a solar photovoltaic cell and panel manufacturing plant in the US. The company noted that "tailwinds from the Inflation Reduction Act have served as a catalyst for our solar manufacturing ambitions in the US," a November 17 Reuters *article* reported. The act offers tax credits for US-made solar products. Construction on Enel's plant is expected to begin in H1-2023, though its location hasn't been announced. The factory is expected to create 1,500 jobs by 2025.

Enel's news follows First Solar's announcement in August that it will build a $1 billion solar panel factory in Alabama. It's spending an additional $185 million to expand existing facilities in Ohio. "Some 90% of panels installed in the United States are made overseas, but imports have been constrained by pandemic-related supply chain disruptions, tariff threats and increased border scrutiny to block supplies linked to forced labor," an August 30 Reuters *article* reported. US developers have opted for First Solar's products because they don’t require polysilicon, a raw material primarily made in China. First Solar’s share price is up 85.7% ytd through Tuesday’s close compared to the S&P 500’s 17.0% ytd decline.

(2) *Batteries are electrifying.* Freyr Battery and Koch Strategic Platforms *announced* on October 12 a joint venture to develop 50 gigawatts of battery cell manufacturing capacity for producing batteries for electricity storage and for EVs at a US location that will be announced next year.

New battery plants are popping up all around the country. SK Innovation, which is building two plants in Georgia, is planning to build a third plant near Savannah via a joint venture with Hyundai Motor Group. Panasonic Holdings and LG Chem have also announced plans to build new battery plants in the US. Manufacturing batteries in America became more alluring after the Inflation Reduction Act required automakers to source a certain percentage of critical minerals for their EV batteries from the US or a US free-trade partner to qualify for tax credits, a November 29 Reuters *article* explained.

(3) *More US semiconductor plants.* Micron Technology was among the most recent companies to announce plans to build up to four semiconductor plants in the US. The company will spend up to $100 billion on the plants in Syracuse’s northern suburbs, creating up to 9,000 jobs over the next 20 years. The plant is expected to bring another 40,000 supply-chain and construction jobs to the region, an October 7 Syracuse.com *article* reported.

Micron received state and local incentives worth at least $6 billion over 20 years and presumably will take advantage of funding from the CHIPS Act, which provides $52 billion in incentives for companies to produce semiconductors in the US. Intel, Taiwan Semiconductor Manufacturing, and Samsung also are building new fabs in the US. All this is moderately ironic given the glut of semiconductors that currently exists.

(4) *Cable needed.* Corning announced in August plans to build a new optical cable manufacturing plant in Arizona. That followed news in September 2021 that it plans to build an optical cable plant in North Carolina. The company has invested more than $500 million since 2020 to double its supply capacity. It has a ready buyer in AT&T, which continues to roll out fiber-based broadband to homes, an August 30 Reuters *article* reported.

These efforts are also encouraged by government largess. The $1 trillion Infrastructure Investment and Jobs Act passed in November 2021 includes $42.5 billion of grants to states to expand broadband infrastructure using materials manufactured in the US.

Technology: Coal Today, Diamond Tomorrow? The S&P 500 Technology sector is ending the year on a sour note, down dramatically ytd and failing to rebound as sharply as other sectors from the market's September low. The jump in interest rates and slower spending on tech as the economy cools have packed a punch. But as the calendar turns to 2023, it may also be an area still ripe with opportunities, especially if the high point in interest rates is behind us. Here's a look at where things stand:

(1) *Tough year from all angles.* First, consider the performance derby of the S&P 500 and its 11 sectors ytd through Tuesday's close; Tech comes in third from last: Energy (63.3%), Consumer Staples (-1.8), Utilities (-3.2), Health Care (-3.9), Industrials (-5.6), Financials (-8.8), Materials (-10.9), S&P 500 (-17.0), Real Estate (-26.0), Information Technology (-26.1), Consumer Discretionary (-32.0), and Communication Services (-38.4) (*Fig. 2*).

The Tech sector remains a laggard measured from the S&P 500's recent low on September 30 through Tuesday's close: Energy (25.0%), Industrials (20.6), Materials (18.6), Financials (17.5), Consumer Staples (13.5), Health Care (11.9), S&P 500 (10.4), Information Technology (8.6), Real Estate (6.3), Utilities (5.9), Communication Services (1.7), and Consumer Discretionary (-2.4) (*Table 1*).

Within the Tech sector, the Application Software and Semiconductors industries have fallen the most sharply ytd, by 35.7% and 35.4% respectively. Here's how the other tech industries have fared ytd: Home Entertainment Software (0.3), Communications Equipment (-19.9), IT Consulting & Other Services (-20.4), Technology Hardware, Storage & Peripherals (-20.9), Semiconductor Equipment (-24.5), and Systems Software (-27.9) (*Fig. 3*).

(2) *Negative news flow.* Business in some of the growthiest areas of the Technology sector has slowed, and the Q3 earnings season has been a tough one. CrowdStrike shares fell 14.8% Wednesday after the cybersecurity company forecast Q4 revenue of $628.2 million, missing analysts' average estimate of $634.8 million. Shares of cloud computing company NetApp fell 5.8% Wednesday after the company targeted earnings per share of $5.30-$5.50 for its April-ending fiscal year, below the analysts' consensus of $6.76 a share. Sales from Amazon's cloud business grew 27% last quarter, a deceleration from the 33% growth enjoyed in Q2.

(3) *A look at 2023.* The S&P 500 Technology sector's revenue and earnings are expected to slow sharply next year. Revenue is forecast to increase only 2.5% in 2023, far below the

10.6% revenue growth expected this year and the 17.2% jump in 2021 (*Fig. 4*). Likewise, earnings for the sector is targeted to inch up 1.0% next year, a sharp slowdown from the 9.1% earnings growth forecasted for this year and the 37.0% growth enjoyed in 2021 (*Fig. 5*). Analysts began paring their estimates this summer, and they have yet to slow down (*Fig. 6*).

While earnings growth is slowing, many tech industries are expected to post earnings in 2023 that grow faster than the 3.8% earnings growth forecast for the S&P 500 companies collectively. The Application Software industry is a standout, forecast to grow earnings 13.8% in 2023, a bit above this year's forecast for 11.4% growth and on par with the 12.4% growth produced in 2021 (*Fig. 7*). Meanwhile, the Application Software industry's forward P/E has dropped sharply from a peak of 53.0 in November 2021 to a recent 27.5 (*Fig. 8*).

Here are the other S&P 500 Information Technology industries that are forecast to grow earnings faster than the S&P 500 in 2023: Data Processing & Outsourced Services (11.7%), Internet Services & Infrastructure (10.5), Communications Equipment (7.7), IT Consulting & Other Services (7.0), Technology Distributors (6.4), Electronic Components (5.9), Electronic Equipment & Instruments (5.5), and Systems Software (5.4).

Calendars

US: Thurs: Personal Income & Spending 0.4%/0.8%; Core PCED 0.3%m/m/5.0%y/y; Initial & Continuous Jobless Claims 235k/1.573m; ISM M-PMI & Price Index 49.8/47.5; Construction Spending -0.3%; Natural Gas Storage; Barr; Bowman. **Fri:** Payroll Employment Total, Private, and Manufacturing 200k/200k/20k; Unemployment Rate 3.7%; Average Hourly Earnings 0.3%m/m/4.6%y/y; Average Weekly Hours 34.5; Baker-Hughes Rig Count; Evans. (Bloomberg estimates)

Global: Thurs: Eurozone Unemployment Rate 6.6%; Eurozone, Germany, France, Italy, and Spain M-PMIs 47.3/46.7/49.1/47.0/45.6; Germany Retail Sales -0.6%m/m/-2,8%y/y; UK M-PMI 46.2; UK Nationwide HPI -0.3%m/m/5.8%y/y; Japan Household Confidence 30.3; Enria. **Fri:** Eurozone PPI -2.0%m/m/31.5%y/y; Germany Import Price Index -0.4%m/m/23.3%y/y; Germany Trade Balance 5.2b; Spain Unemployment Change -20.3k; Canada Employment Change & Unemployment Rate 5k/5.3%; Nagel; Lagarde; De Guindos; Kuroda. (Bloomberg estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The Bull-Bear Ratio fell to 1.22 this week after rising the prior two weeks from 0.96 to 1.37—which was the highest since the week of August 23. It was at 0.57 in early October, which was the lowest since March 2009. Bullish sentiment fell to 38.4% this week after rising the prior two weeks from 35.2% to 41.7%—which was the highest since the August 23 week. Meanwhile, bearish sentiment rose to 31.5% after falling the prior six weeks by 13.6ppts (to 30.5% from 44.1%). The correction count increased for the fifth week to 30.1% this week after retreating the prior four weeks by 15.7ppts (24.6% from 40.3%). Turning to the AAII Sentiment Survey, the percentage expecting stocks to fall during the November 24 week was unchanged at 40.2%—after climbing from 32.9% to 47.0% two weeks ago. Meanwhile, the percentage expecting stocks to rise over the next six months fell to 28.9% after rising from 25.1% to 33.5% the prior week.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin remained steady last week at an 18-month low of 12.7%. That's down 0.7ppts from its record high of 13.4% achieved intermittently from March to June. Since the end of April 2020, it has exceeded its prior record high of 12.4% in September 2018. It's now up 2.4pts from 10.3% during April 2020, which was the lowest level since August 2013. Forward revenues rose 0.1% w/w and is now 1.0% below its record high in mid-October. Forward earnings remains near a nine-month low, but improved 0.1% w/w to 4.5% below its record high in mid-June. Both had been steadily making new highs from the beginning of March 2021 to mid-June; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth remained steady w/w at a 27-month low of 3.3%. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. Forward earnings growth was steady w/w at a 31-month low of 4.4%. That's down from its 23.9% reading at the end of April 2021, which was its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. So far this year, analysts' revisions to their forecasts for 2022 revenues have outpaced their revisions for 2022 earnings, so the imputed 2022 profit margin estimate that we calculate from those forecasts has fallen 0.7ppt to 12.5% (unchanged w/w). They expect revenues to rise 11.7% (up 0.1ppt w/w) in 2022 and 2.6% in 2023 (unchanged w/w) compared to the 16.5% gain reported in 2021. They expect earnings gains of 7.9% in 2022 (unchanged w/w) and 3.8% in 2023 (unchanged w/w) compared to an earnings gain of 50.5% in 2021. Analysts expect the profit margin to drop 0.4ppt y/y to 12.5% in 2022 (unchanged w/w) compared to 12.9% in 2021 and to improve 0.2ppt y/y to 12.7% in 2023 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.3pt w/w to a 14-week high of 17.7, up from a 30-month low of 15.3 in mid-October. That's down from a four-month high of 18.2 in mid-August and also compares to 23.1 in early September 2020, which was the highest level since July 2000 and up from a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.04pt w/w to a 14-week high of 2.25, up from a 31-month low of 1.98 in mid-October. That's down from a four-month high of 2.38 in mid-August and also compares to a record high of 2.88 at the end of 2021 and a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): Last week saw consensus forward revenues rise for five of the 11 S&P 500 sectors. Forward earnings rose for four sectors, and the forward profit margin rose for six. Nearly all of the sectors are below recent record highs in their forward revenues, earnings, and profit margins. Consumer Staples is the only sector with forward revenues at a record high this week. Forward earnings for Consumer Staples, Energy, Financials, and Utilities remain close to their recent record highs. Since mid-August, nearly all sectors have forward profit margins below their record highs. Energy's rose to a new record high last week, and those of Industrials and Tech remain close to their post-pandemic highs. Only three sectors posted a higher profit margin y/y during 2020: Consumer Staples, Tech, and Utilities; during 2021, all of the sectors but Utilities posted a y/y improvement. Just three sectors are expected to see margins improve y/y for full-year 2022, followed by six sectors in 2023. Here are 2022's gainers: Energy, Industrials, and Utilities. Here's how they rank based on their current forward profit margin forecasts along with their record highs: Information Technology (24.1%, unchanged w/w at an 18-month low and down from its 25.4% record high in early June), Financials (18.0, unchanged w/w and down from its 19.8 record high in August 2021), Real Estate (16.9, unchanged w/w at a seven-month low and down from its 19.2 record high in 2016), Communication Services (14.1, unchanged w/w at a 22-month low and down from its 17.0 record high in October 2021), Utilities (13.7, unchanged w/w and down from its 14.8 record high in April 2021), Energy (12.8, unchanged w/w at its first record high since August), S&P 500 (12.7, unchanged w/w at a 19-month low and down from its record high of 13.4 achieved intermittently from March to June), Materials (11.5, down 0.1ppt w/w to a 20-month low and from its 13.6 record high in June), Health Care (10.2, unchanged w/w at a 28-month low and down from its 11.5 record high in March), Industrials (10.0, unchanged w/w at a 14-month low and down from its 10.5 record high in December 2019), Consumer Discretionary (7.3, unchanged w/w at a 19-month low and down from its 8.3 record high in 2018), and Consumer Staples (7.2, unchanged w/w at a 54-month low and down from its 7.7 record high in June 2020).

US Economic Indicators

GDP (*link*): Real GDP during Q3 expanded an upwardly revised 2.9% (saar) from the initial 2.6% increase, which followed declines of 0.6% and 1.6% the prior two quarters. *Real consumer spending* increased 1.7% (saar), up from the initial 1.4% gain, as goods consumption was less negative, falling 0.2% (saar) smaller than the 1.2% preliminary loss, while services spending was little changed, with revisions showing a 2.7% increase—a tick below the 2.8% initial gain. Within goods consumption, both durable (to -0.3% from -0.8%) and nondurable (-0.1 from -1.4) goods spending were less negative. Meanwhile, within fixed investment, real nonresidential investment expanded at an upwardly revised 5.1% (from 3.7) as spending on structures fell 6.9% (saar), an 8.4ppts swing from the initial estimate of a 15.3% drop, while the boost from spending on intellectual property products (5.8 from 6.9) was slightly smaller than first reported and equipment's (10.7 from 10.8) strong showing was little changed. Real residential investment contracted 26.8% (saar), virtually matching its initial 26.4% guesstimate. Real inventory investment was more of a drag on real GDP than first reported, with Q3 investment slowing to $49.6 billion (vs $61.9 billion) from Q2's $110.2 billion. Looking at *trade*, real exports (15.3 from 14.4) expanded at a faster pace than first reported, while the decline in real imports (-7.3 from -6.9) was steeper. *Real government spending* expanded 3.0% during Q3, slightly faster than the 2.4% preliminary, reflecting an upward revision to state & local (2.8 from 1.7) government spending.

JOLTS (*link*): Job openings in October fell for the fifth time since reaching a record high in March, though remained at a high level. Openings declined 353,000 m/m and 1.5 million over the period to 10.3 million openings. There were 6.1 million unemployed in October, so there were 1.7 available jobs for each unemployed person that month, down from September's 1.9 and matching August's reading—which was the lowest since the start of the year; it was at 2.0 in July. By industry, the largest declines in openings during October were in professional & business services (-146,000), state & local government, excluding education (-101,000), nondurable goods manufacturing (-95,000), health care & social assistance (-86,000), federal government (-61,000), construction (-52,000), and transportation, warehousing & utilities (-39,000). The biggest increases occurred in other services (76,000), finance & insurance (70,000), and wholesale trade (40,000). Hirings fell for the seventh time in eight months, by 84,000 in October and 820,000 over the period, to a 21-month low of 6.0 million. Meanwhile, the number of quits continued to move lower, dropping 484,000 to 4.0 million in October since reaching a record-high 4.5 million last November.

Pending Home Sales (*link*): "October was a difficult month for home buyers as they faced 20-year-high mortgage rates," noted Lawrence Yun, NAR's chief economist, though he went on to say, "The upcoming months should see a return of buyers, as mortgage rates appear to have already peaked and have been coming down since mid-November." The *Pending Home Sales Index* (which tracks sales when a contract is signed but the transaction has not yet closed) fell for the fifth successive month by 4.6% in October and 22.6% over the period to 77.1—the lowest since April 2020. *Regionally*, pending home sales fell in three of the four regions, on a monthly basis, and all four on a yearly basis; here's the tally: Midwest (3.3% m/m & -32.1% y/y), Northeast (-4.3 & -29.5), South (-6.4 & -38.2), and West (-11.3 & -46.2).

Global Economic Indicators

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for November is expected to slow to 10.0% from October's record high of 10.7%, according to its flash estimate. For perspective, the rate was as low as at -0.3% at the end of 2020. Looking at the main components, once again *energy* is forecast to record the largest gain, at 34.9%, slowing from 41.5% in October and its record high of 44.3% in March. The rate for *food, alcohol & tobacco* is predicted to soar to a record-high 13.6% in November—accelerating steadily from June 2021's 0.5%—while the rate for *non-energy industrial goods* is forecast to hold at its record high of 6.1%. The *services* rate is expected to tick down to 4.2% y/y from 4.3% in both September and October—which was the highest since the start of 1994. Of the *top four Eurozone economies*, rates for Italy (12.5% y/y) and Germany (11.3) are forecast to be above the Eurozone's rate of 10.6%, with both ticking down from their record highs of 12.6% and 11.6%, respectively, during October. Meanwhile, rates in Spain (6.6) and France (7.1) are predicted to be below the Eurozone's expected rate of 10.6%, with Spain's rate continuing to ease from its record high of 10.7% in July and France's unchanged at its 7.1% record high in October.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102