MORNING BRIEFING
December 5, 2022

Don't Stop Thinking About Tomorrow

Check out the accompanying chart collection.

Executive Summary: We'll be glad to put this year behind us—pessimism reigned as inflation raged, the Fed tightened, and investors revalued stocks downward. But the resultant bear market was a mild one as bear markets go. If it ended on October 12, as we believe, the S&P 500 actually was in bear-market territory—down more than 20%—for only 45 days of the 282-day span. … Next year, the economic backdrop should be more bullish as inflation moderates and rising wages outpace rising prices. We expect a soft landing, not a recession. … Longer term, we stand by our "Roaring 2020s" thesis, anticipating that labor shortages and technological advances will unleash a productivity boom.

YRI Monday Webcast. Join Dr. Ed's live Q&A webcast on Mondays at 11 a.m. EST. You will receive an email with the link to join in one hour before showtime. Replays of the Monday webcasts are available *here*.

Strategy I: Thinking About Yesterday. British rock and roll musician Christine McVie died last Wednesday at the age of 79. McVie wrote many hit songs, played the keyboard, and sang as a member of the group Fleetwood Mac. Their 1977 hit *song* "Don't Stop" is a refreshing ode to optimism: "Don't stop thinking about tomorrow / Don't stop, it'll soon be here / It'll be, better than before / Yesterday's gone, yesterday's gone."

During 2022, there certainly has been more pessimism than optimism in the financial markets. Consider the following:

(1) The S&P 500 fell into a bear market from January 3 through October 12. It fell 25.4% over that 282-day span (*Fig. 1*). The drop was led by a 30% drop in the forward P/E of the S&P 500 over that period (*Fig. 2*).

(2) Joe and I did our best to remain relatively optimistic. At the beginning of the year, we expected a correction, not a bear market. In fact, the S&P 500 was in bear-market territory (with a decline of 20% or more) for only 45 of the bear market's 282 calendar days. It was a relatively short bear market (assuming that it ended on October 12, as we do). The average length of the 21 bear markets prior to this one since September 7, 1929, was 344 days; it was 367 days counting just the 12 post-WWII bear markets. (See our *Stock Market Historical Tables: Bull & Bear Markets*.)

(3) Nevertheless, pessimism matched the extremes of the 517-day bear market that slashed the S&P 500 by 56.8% between October 9, 2007 and March 9, 2009. We could see that in Investors Intelligence's Bull/Bear Ratio (BBR). Early in the latest bear market, the BBR fell to 0.60 during the week of June 21. It briefly rebounded during the summer but fell to a new bear-market low of 0.57 during the October 11 week (*Fig. 3*). The BBR bottomed at 0.41 during the bear market of the Great Financial Crisis (GFC) during the week of October 21, 2008. Earlier this year along the way, we observed that BBR readings of 1.00 or less have offered great opportunities for long-term investors (*Fig. 4*).

(4) We did jump the gun a little bit when we declared that the S&P 500 might have bottomed on June 16 at 3666. (We clearly have a hang-up with the DaVinci Code!) But then we did conclude that a retest of that low might be ahead when the S&P 500 failed to rise above its 200-day moving average on August 16 (*Fig. 5*). Fed Chair Jerome Powell's uber-hawkish Jackson Hole speech on August 26 did the trick, sending the stock prices reeling to a new low on the S&P 500 of 3577.03 on October 12. But the S&P 500 was back above 3666 by October 21 and is now up 13.8% from the October 12 low, but still down 15.1% from the January 3 high.

(5) From a more fundamental perspective, the most perceptive mantra for investors to chant earlier this year was: "Don't fight the Fed when the Fed is fighting inflation." It was hard to be bullish when the Fed pivoted from years of ultra-easy monetary policies that started as unconventional ones but turned all too conventional, especially after the pandemic hit. But the dramatic rebound in inflation forced the Fed to reverse course rapidly and implement the most restrictive monetary policy stance since the late 1970s, when inflation was also raging.

Fears of a recession proliferated rapidly. Along the way, Melissa and I argued that the terminal federal funds rate might not soar the way it did during that previous inflationary period. We observed that QT2 and the strong dollar (attributable to the Fed's hawkish pivot) were together equivalent to at least a 100bps increase in the federal funds rate. So we are pleased to see that the 2-year Treasury note yield as well as the inversion of the yield curve both suggest that the terminal federal funds rate is near (*Fig. 6* and *Fig. 7*).

In the past, inverted yield curves accurately predicted that monetary tightening policies would soon cause a financial crisis that would turn into a widespread credit crunch, causing a recession. This time may be different, since the financial system is much sounder now following the GFC. There certainly have been meltdowns in cryptocurrencies, private equity, and the ARK, meme, and SPAC stocks. But none of these developments has turned into a

widespread credit crisis. So this time, the inverted yield curve may be signaling that inflation has likely peaked and will continue to moderate.

(6) Debbie and I predicted that inflation would likely peak during the first half of this year, led by a drop in the inflation rate for durable goods, while the services inflation rate would remain troublesome—but not troublesome enough to stop the headline PCED inflation rate from falling. We've been predicting that it would drop from 6%-7% during the first half of this year to 4%-5% during the second half to 3%-4% next year (*Fig. 8*). So far this year, it fell from a peak of 7.0% y/y in June of this year to 6.0% in October.

(7) Last, but not least, Debbie and I have been in the soft-landing camp since the start of this year. We've observed that consumers still have plenty of excess saving to bolster their purchasing power, which largely has been eroded by inflation over the past year (*Fig. 9*). That excess saving might be gone by the second half of next year, but rising wages should continue to boost consumers' purchasing power. Indeed, September and October data suggest that wages may be starting to outpace prices already (*Fig. 10*).

So far so good, but 2022 is almost gone. It's time to think more about tomorrow.

Strategy II: Thinking About Tomorrow. Earlier this year, when the forward P/E of the S&P 500 was taking a dive from its January 3 high of 20.5, Joe and I predicted that it would probably find support at its historical average of 15.0. It subsequently fell to 15.1 on October 12. On Friday, it was back up to 17.7. We reckoned that 15.0 would hold in a soft-landing scenario. In a hard-landing scenario, the multiple would more likely fall below 10.0 at the same time as analysts scramble to slash their estimates for revenues, profit margins, and earnings.

In fact, all three of these S&P 500 metrics have been eroding in recent weeks, according to their weekly forward series through the November 24 week (*Fig. 11*). Forward revenues peaked at a record during the October 13 week and is down 1.0% since then; forward earnings peaked at a record during the June 23 week and is down 4.1% since then; the forward profit margin is down from a record 13.4% during the June 9 week to 12.7% currently. (FYI: Forward revenues and forward earnings are the time-weighted averages of analysts' consensus revenues and operating earnings estimates for this year and next. We use them to derive the forward P/E and forward profit margin.)

In other words, the rebound in the forward P/E in recent weeks has been partly attributable to a small decline in forward earnings! Of course, the drops in the 2-year Treasury note

yield and the 10-year Treasury bond yield also have boosted the forward P/E (*Fig. 12*).

On a related note, Joe constructed a diffusion index showing the percent of S&P 500 companies with positive three-month percent changes in forward earnings (*Fig. 13*). It plunged from around 80.0% at the start of this year to 49.3% during the December 2 week. The good news is that it tends to bottom near the end of bear markets and should be doing so now if a soft landing is the outlook rather than a hard landing.

Now let's review some of the latest economic indicators that are relevant to thinking more about tomorrow from a macroeconomic perspective:

(1) *Inflation.* There was good news on Thursday of last week, when the Bureau of Economic Analysis reported that October's headline and core PCED inflation rates were 0.3% and 0.2%, slightly less than expected. November's M-PMI prices-received index was off 3.6 points to 43.0%, indicating that inflation is abating in the manufacturing sector (*Fig. 14*).

There was bad wage inflation news on Friday when the Bureau of Labor Statistics reported a higher-than-expected reading of 0.6% m/m for November's average hourly earnings (AHE) for all private payrolls. It was up 5.1% y/y, and the three-month annualized increase was 5.7% (*Fig. 15*).

(2) *Growth.* The Atlanta Fed's *GDPNow* tracking model currently projects that real GDP will rise 2.8% (saar) during Q4, down from 4.0%. November's overall M-PMI reading was 49.0%. That's still in expansion territory but the lowest since May 2020, when lockdowns depressed the economy.

October's personal income jumped 0.7% m/m, and spending rose 0.8%. Both outpaced inflation. Nevertheless, the GDPNow model revised its Q4 forecast for real consumer spending growth down to 3.2% from 4.8%. That is still strong.

The GDPNow estimate for residential construction was cut from -18.5% to -21.3%. Spending on nonresidential structures was slashed from 0.8% to -4.9%.

It all adds up to a soft landing, which on balance remains bullish for bonds and stocks, in our opinion.

(3) *Employment.* November's payroll employment report, released on Friday, also showed another big gain of 263,000 to yet another record high in addition to the solid increase in

AHE. However, the average workweek fell by 0.3% m/m. As a result, our Earned Income Proxy for private wages and salaries in personal income rose 0.4% m/m and 7.7% y/y during November (*Fig. 16*).

The labor market remains tight. The percent of total part-time employment for economic reasons was at 14.1% during November, holding near October's 13.9%, which was the lowest since December 2000 (*Fig. 17*).

By the way, payroll employment is one of the four components of the Index of Coincident Economic Indicators. Also in record territory during November were payroll employment in truck transportation and temporary help services, with the former reaching a new record high (*Fig. 18* and *Fig. 19*). Both are highly correlated with the Index of Leading Economic Indicators.

Strategy III: The Roaring 2020s? Late last year, we spent some time discussing the possibility of a Roaring 2020s scenario, reminiscent of the 1920s boom in the US driven by productivity-enhancing technological innovations that boosted the standard of living. We still believe in this story, though this past year was more like a replay of the Great Inflation of the 1970s on fast-forward.

Clearly, one of the major issues facing the US economy during the current decade is the shortage of labor. This year, it has been a source of inflationary pressures mostly because lots of workers responded by quitting their jobs in large numbers for better pay. As a result, productivity suffered. We see this as a short-term problem that will be resolved with productivity-enhancing technological innovations that boost the standard of living just as happened during the 1920s.

Don't stop thinking about tomorrow. It will be better than before.

Movie. "The Fabelmans" (+) (*link*) is a semi-autobiographical movie loosely based on Steven Spielberg's adolescence and first years as an amateur film director. He produced and directed it. It turns out that I have a lot in common with Spielberg. He makes movies, while I review them. His father moved his family to California to work at IBM in the 1960s. So did my father. On the other hand, my parents didn't have a messy divorce, which is the focus of this movie. In many ways, it is more about Spielberg's mother, played by Michelle Williams, who spent a lot of time playing depressing piano music and weeping about her unhappiness. She adopts a small monkey to cheer her up. She finally finds happiness by running off with her long-time friend played by Seth Rogen. Spielberg goes on to fame and

fortune despite his dysfunctional family history.

Calendars

US: **Mon:** ISM NM-PMI 53.1; S&P Global NM-PMI 46.1; Factory Orders 0.7%. **Tues:** Trade Balance -$79.1b; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: **Mon:** Eurozone, Germany, & France C-PMIs 47.8/46.4/48.7; Eurozone, Germany & France NM-PMIs 48.6/46.4/49.4; France Industrial Production; UK C-PMI & NM-PMI 48.3/48.6; Eurozone Retail Sales -1.7%m/m/-2.6%y/y; Eurozone Sentix Consumer Confidence -27.6; Japan Household Spending 1.5%m/m/1.0%y/y; UK Retail Sales Monitor; RBA Interest Rate Decision 3.10%; Eurogroup Meetings; Wuermeling. **Tues:** Germany Factory Orders -0.2; Canada Trade Balance $1.0b; China Trade Balance ¥79.1bAustralia GDP 0.1%q/q/6.3%y/y; RBA Rate Statement; Jochnick, Nakamura. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.2% w/w to 16.3% below its record high on December 27, 2021. The US MSCI ranked 24th of the 48 global stock markets that we follow in a week when 33 of the 48 countries rose in US dollar terms. The AC World ex-US index rose 1.6% w/w, but ended the week still in a bear market at 20.0% below its June 15, 2021 record high. BIC was the regional best performer with a gain of 6.3%, followed by EM Asia (4.4%) and EM Latin America (3.0). EM Eastern Europe (-1.1) was the worst performing region last week, followed by EMEA (-0.3), EAFE (1.0), and EMU (1.1). China was the best-performing country last week with a gain of 8.7%, followed by Egypt (8.3), Sri Lanka (8.0), and New Zealand (7.4). Among the 26 countries that underperformed the AC World ex-US MSCI last week, the Czech Republic's 4.7% decline was the biggest, followed by those of South Africa (-3.9), Pakistan (-3.4), and Austria (-1.9). The US MSCI's ytd ranking rose one place w/w to 27/49. After lagging for much of year through July, the US MSCI's ytd decline of 15.8% is now less than the AC World ex-US's 16.4% drop. EM Latin America is up 4.5% ytd; it and EAFE (-15.1) are the only regions that have outperformed the AC World ex-US on a ytd basis. The regional laggards: EM Eastern Europe (-83.5), EMEA (-35.4), BIC (-23.8), EM Asia (-21.6), and EMU (-17.8). The best country performers so far in 2022: Turkey (66.7), Jordan (21.0), Chile (20.2), and Argentina (17.1). 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 (-64.4), Pakistan (-41.9), Poland (-33.2), and Hungary (-33.2).

S&P 500/400/600 Performance (*link*): All three of these indexes moved higher w/w. LargeCap rose 1.1% w/w, ahead of the gains for SmallCap (1.0%) and MidCap (0.6). LargeCap finished the week at 15.1% below its record high on January 3; MidCap is 11.6% below its record high on November 16, 2021; and SmallCap is 15.1% below its November 8, 2021 record high. Twenty-four of the 33 sectors moved higher for the week, down from 32 rising a week earlier. LargeCap Communication Services was the best performer, with a gain of 3.3%, followed by SmallCap Health Care (3.0), SmallCap Materials (2.8), MidCap Health Care (2.5), and SmallCap Tech (2.3). MidCap Energy (-4.7) was the biggest decliner for the week, followed by MidCap Utilities (-2.2), LargeCap Energy (-2.0), SmallCap Utilities (-1.8), and SmallCap Energy (-1.4). In terms of 2022's ytd performance, LargeCap's 14.6% decline continues to trail those of MidCap (-9.4) and SmallCap (-11.2). Seven of the 33 sectors are positive so far in 2022, up from six a week earlier. Energy continues to dominate the top performers: LargeCap Energy (62.6), SmallCap Energy (53.9), MidCap Energy (44.9), MidCap Consumer Staples (3.0), SmallCap Materials (3.0), MidCap Materials (1.3), and MidCap Financials (0.2). The biggest ytd laggards: LargeCap Communication Services (-35.1), LargeCap Consumer Discretionary (-29.8), SmallCap Communication Services (-29.2), SmallCap Real Estate (-27.5), and MidCap Real Estate (-25.1).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.1% gain. That compares to a 1.5% gain for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. Communication Services was the best performer with a gain of 3.3%, followed by Consumer Discretionary (2.1%), Health Care (1.9), Materials (1.5), and Tech (1.3). Energy was the worst performer with a decline of 2.0%, followed by Financials (-0.6), Utilities (0.1), Real Estate (0.4), Industrials (1.0), and Consumer Staples (1.1). The S&P 500 is down 14.6% 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 (62.6), Consumer Staples (-0.1), Health Care (-1.1), Utilities (-1.3), Industrials (-3.5), Materials (-7.8), and Financials (-8.4). The ytd laggards: Communication Services (-35.1), Consumer Discretionary (-29.8), Real Estate (-24.9), and Tech (-22.7).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.1% last week and improved relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index was above its 50-dma for a fourth straight week and moved above its 200-dma for the first time in 34 weeks. It had been above its 200-dma for 81 straight weeks through

early February. The S&P 500's 50-dma moved higher for a second straight week as the index improved to a 15-week high of 6.6% above its rising 50-dma from 6.1% above 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 35-week high of 0.9% above its still falling 200-dma, up from 0.4% below 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 31st straight week, but its pace of decline continues to slow from its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): All 11 S&P 500 sectors are trading above their 50-dmas, up from ten sectors a week earlier as Consumer Discretionary moved back above in the latest week. Nine sectors now have a rising 50-dma, up from seven a week earlier as Communication Services and Real Estate turned back up w/w. The two sectors that still have falling 50-dmas: Consumer Discretionary and Utilities. Looking at the more stable longer-term 200-dmas, these six sectors continue to trade above that measure: 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. These five sectors have a rising 200-dma, unchanged from a week earlier: Consumer Staples, Energy, Health Care, Industrials, and Utilities.

US Economic Indicators

Employment (*link*): Payroll employment rose more than forecast again in November, while revisions showed a slight upward revision. Employment rose 263,000 (vs an estimated 200,000) last month following an upwardly revised 284,000 (from 261,000) in October payrolls and a downward revision in September's to 269,000 (from 315,00) for a net gain of 23,000. Total payroll employment has recovered 23.0 million jobs since bottoming in April

2020, moving above its pre-pandemic level by 1.0 million. Jobs gains in private service-providing industries increased 184,000 in November, slowing from October's 201,000, while goods-producing jobs rose 37,000, slowing from October's 47,000 advance. Industries posting the largest gains during October were Leisure & hospitality (88,000), with food services & drinking places (62,000) accounting for 70% of that gain, followed by health care (45,000), government (42,000)—with 32,000 occurring in local governments, other services (24,000), social assistance (23,000), and construction (20,000), while retail trade (-30,000) and transportation & warehousing (-15,000) employment in the red. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.1 million), transportation & warehousing (+698,100), retail trade (+169,600), information services (+162,000), health care (133,300), financial activities (+127,000), construction (+126,000), nondurable goods manufacturing (+106,000), education (+58,700), durable goods manufacturing (+43,000), wholesale trade (+16,500), and social assistance (+16,000). Here's a list of the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-47,000) and leisure & hospitality (980,000).

Wages (*link*): Average hourly earnings for all workers in November increased a larger-than-expected 0.6%, following gains of 0.5% and 0.4% the prior two months, with the yearly rate climbing 5.1% up from 4.9% during October, which was the first reading below 5.0% since the end of last year; it reached a recent peak of 5.6% in March. November's rate was below the October inflation-rate gains of 7.7% and 6.0% in the CPI and PCED measures, respectively. Private industry wages over the three months through November increased 5.7% (saar), above its yearly rate of 5.1%, with the three-month rate for service-providing industries picking up to an 11-month high of 6.1%—surpassing its yearly rate of 5.3%. Meanwhile, the three-month rate for goods-producing industries was 4.3% (saar), a tick below its 4.4% yearly rate. *Service-providing industries showing three-month rates above their yearly rates*: transportation & warehousing (18.9%, saar & 8.8% y/y), information services (9.7 & 8.7), retail trade (7.6 & 5.2), wholesale trade (6.5 & 4.7), professional & business services (6.1 & 5.4), utilities (6.4 & 5.9), and other services (6.1 & 2.8). *Service-providing industries showing three-month rates below their yearly rates*: education & health services (3.5 & 4.4), and leisure & hospitality (4.7 & 6.4). Meanwhile, financial activities showed both rates at 3.7%. *Goods-producing industries*: The three-month rates are below their yearly rates for natural resources (2.6 & 3.4), durable goods manufacturing (3.3 & 3.5), and construction (5.3 & 5.8), while the three-month rate for nondurable goods manufacturing (4.1 & 3.7) surpassed its yearly rate.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 30th increase in the past 31 months—up 0.4%

in October and 32.8% over the period—to yet another new record high. In November, average hourly earnings advanced 0.6%, with aggregate weekly hours down 0.2%. Over the past 12 months, our EIP was up 7.7%—with aggregate weekly hours up 2.6% and average hourly earnings up 5.1%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): November's unemployment rate remained at 3.7% after falling from 3.7% in August to a recent low of 3.5% in September (which matched its lowest rate since 1969); it has fluctuated between 3.5% and 3.7% since March. The participation rate in November remained in a volatile flat trend, averaging 62.3% from January through November—with a low of 62.1% and a high of 62.4%. *By race:* Unemployment rates in November fell for Hispanics (to 3.9% from 4.2%), African Americans (5.7 from 5.9), and Asians (2.7 from 2.9), while the rate for Whites was unchanged at 3.2%—with all near their record lows. *By education*: The rate for those with less than a high school degree sank to 4.4% in November after jumping from 5.6% to 6.3% in October, just a tick above its record low of 4.3% in February. The rate for those with a high school degree held at 3.9% last month, while the rates for those with some college or an associate's degree (3.2 from 3.0) and a college degree and higher (2.0 from 1.9) moved slightly ticked higher. All are not far from their record lows.

Personal Consumption Deflator (*link*): October's PCED rose 0.3%, matching the gains in both September and August, which followed a 0.1% downtick in July; July's reading was the first monthly decline since April 2020; the measure had increased 1.0% in June. Meanwhile, core prices rose 0.2%, slowing from gains of 0.5% and 0.6% the prior two months. The yearly headline rate slowed to 6.0%, down from June's 7.0% peak—which was the highest reading since the end of 1981; it was at 5.2% a year ago. The yearly core rate is stalled around recent highs, easing to 5.0% in October after climbing from 4.7% in July to 5.2% in September; it peaked at 5.4% during February and March. On a *three-month annualized basis*, the core rate rose 4.9% (saar) in October after slowing from 5.0% in August to 4.3% in September. The three-month rate for durable goods slowed to 1.4% (saar) in October, easing for the fourth month since June's 5.1%, while the three-month rate for core nondurable goods prices slowed for the second month to 2.0% from August's 4.9%. Meanwhile, services prices ex energy shot up 6.0% (saar) over the three-month period, from 4.1% in July, posting its fastest three-month pace since December 2001. The three-month annual rates for consumer durable goods (1.4%, saar & 4.0% y/y) and consumer core nondurable goods (2.0 & 4.0) were below their yearly rates, while the three-month gain in consumer core services (6.0 & 5.1) was above its yearly rate. *PCED components for which three-month rates lag yearly rates*: gasoline & other energy products (-40.0% &

20.1%), used motor vehicles (-14.3 & 2.1), household appliances (-10.4 & 0.3), clothing & footwear (-2.9 & 4.4), furniture & home furnishings (0.5 & 8.4), prescription drugs (0.7 & 2.2), hospitals (1.1 & 3.5), recreation services (1.6 & 4.1), professional & other services (2.9 & 5.8), alcoholic beverages purchased for off-premise consumptions (3.0 & 3.9), new motor vehicles (7.5 & 8.3), food & nonalcoholic beverages purchased for off-premise consumption (8.1 from 12.9), motor vehicles & parts (9.7 & 11.5), transportation services (15.3 & 16.1), and airfares (17.9 & 33.7). *PCED components for which three-month rates exceed yearly rates*: lodging away from home (17.3 & 6.4), tenant rent (9.2 & 7.5), personal care products (8.9 & 7.0), owner-occupied rent (8.6 & 6.9), physician services (3.1 & 0.3), sports & recreational vehicles (2.7& 0.4),and video audio & information processing (2.3 & -2.8). Meanwhile, both the three-month and yearly rates matched for tobacco (6.6 & 6.6) and education services (2.2 & 2.2).

Construction Spending (*link*): Construction spending fell in October for the second time since reaching a record high in July, falling 0.3% following a 0.1% gain and a 1.1% loss the previous two months; it was 9.2% above a year ago. Private construction spending hasn't posted a gain in four months, dropping 0.5% in October and 2.3% over the past three months, while public construction spending increased for the fifth month, by 0.6% m/m and 7.8% over the period. Within private construction spending, residential investment contracted for the fifth successive month since reaching a record high in May, slumping 6.1% over the period, after not posting a decline since May 2020. The recent weakness in residential investment was driven by single-family construction spending, which hasn't recorded a gain since April, plunging 14.8% during the six months through October. Meanwhile, multi-family construction rose for the seventh time this year, climbing 2.9% ytd, to within 1.4% of last May's record high. Meanwhile, home improvement spending has posted only one decline since September 2020, soaring 55.1% over the period to within a fraction of a new record high. Private nonresidential spending slipped 0.8% in October, after advancing four of the past five months by a total of 7.6% to a new record high.

Auto Sales (*link*): Auto sales reversed course in November, falling to 14.4mu (saar), after rising four of the prior five months from 12.7mu in May to 15.3mu by October—which matched its high for the year during January. So far this year, sales have averaged 14.0mu per month, after averaging 15.1mu for all of last year—with last year's sales reaching a high of 18.4mu and a low of 12.4mu. Domestic car sales were little changed at 2.4mu (saar) last month, after climbing the prior three months from 1.9mu during July to a 17-month high of 2.5mu during October. Domestic light-truck sales retreated to 8.5mu (saar) after climbing to 9.2mu in October—which was the highest since the 9.5mu reading at the start of this year. Sales of imports fell for the first time in six months, slipping to 3.5mu (saar) after climbing

from 3.0mu in May to a nine-month high of 3.7mu in October.

Global Economic Indicators

Global Manufacturing PMIs (*link*): The downturn in global manufacturing activity intensified in November, with the M-PMI falling to a 29-month low. The JP Morgan *Global M-PMI* was in contractionary territory for the third successive month in November, deteriorating for the sixth month from 52.3 in May to 48.8 last month. The report notes that 23 out of the 31 countries for which data are available contracted last month, including China, the US, Eurozone, and Japan. Rates of decline in China and Japan accelerated, while they eased in the Eurozone. Meanwhile, the US M-PMI fell below 50.0 for the first time since June 2020. Here's how November *M-PMIs ranked by country/region* from highest to lowest: India (55.7), Russia (53.2), Kazakhstan (51.9), Australia (51.3), Thailand (51.1), Mexico (50.6), Indonesia (50.3), Canada (49.6), China (49.4), South Korea (49.0), Japan (49.0), WORLD (48.8), Ireland (48.7), Italy (48.4), Greece (48.4), France (48.3), Malaysia (47.9), US (47.7), Vietnam (47.4), Colombia (47.3), EUROZONE (47.1), Austria (46.6), UK (46.5), Germany (46.2), Netherlands (46.0), Spain (45.7), Turkey (45.7), Myanmar (44.6), Brazil (44.3), Poland (43.4), Taiwan (41.6), and Czech Republic (41.6).

US Manufacturing PMI (*link*): ISM's November M-PMI showed manufacturing activity contracted for the first time since May 2020, while inflationary pressures continued to ease. Since peaking at 63.7 last March, the M-PMI has dropped to 49.0 this November, the lowest since May 2020 during the height of the pandemic. The *new orders* (to 47.2 from 49.2) measure was in contractionary territory for the fifth time in six months, falling back toward September's 47.1—which was also the lowest since May 2020; it had a brief trip into expansionary territory in August (51.3), while the *production* (51.4 from 52.3) gauge continues to hold just above the 50.0 breakeven point. In the meantime, the *employment* (48.4 from 50.0) fell back below 50.0, bouncing around that level for several months. (This index is a poor predictor of BLS manufacturing payrolls data.) *Inventories* (50.9 from 52.5) accumulated at the slowest pace since July 2021(49.1) when it contracted; it was at 57.3 in July. Supply chains are functioning more normally, with the supplier deliveries measure little changed at 47.2 in November, after retreating from last May's 78.8 to 46.8 this October—which was the best since March 2009. The backlog of orders subindex dropped to 40.0 last month from a recent high of 70.6 last May. Meanwhile, ISM's *prices-paid* measure fell further below 50.0, to a 30-month low of 43.0 from a recent high of 87.1 in March; it was at 92.1 in mid-2021—which was the fastest since the summer of 1979. A separate manufacturing survey, conducted by S&P Global, told a similar story—posting its first

contraction since mid-2020.

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