MORNING BRIEFING
January 9, 2023

Good Start

Check out the accompanying chart collection.

Executive Summary: We still see greater odds that the economy will glide to a soft landing (60%) than plummet to a hard one (40%), which nearly everyone else expects. What might a soft landing look like? The happiest—and most contrary—of scenarios would be a return of the "Old Normal," which actually wouldn't entail a landing at all: real GDP growth of at least 2.0%, moderating inflation, and not much more monetary tightening. … We expect this week's market-moving news to be mostly reassuring, with a subdued CPI release and earnings reports that don't disappoint. … Recent news has cut both ways—a concerning NM-PMI but auspicious capital-spending signs. ... Movie review: "Tár" (+).

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Strategy I: Contrary Scenario. The consensus scenario among economists seems to be that the US economy is heading into a recession this year. The consensus scenario among investment strategists seems to be that stock prices will fall during the first half of this year, possibly to a new bear-market low by mid-year, setting the stage for a strong bull-market rally during the second half of this year. But the stock market won't be up much, if at all, for the year as a whole. Those are plausible scenarios, which is why they are the consensus.

Among the most contrary scenarios is that the economy won't experience either a hard landing or a soft landing. Instead, it might follow the Old Normal business-cycle script, which was interrupted by the New Normal one from the Great Financial Crisis through the Great Virus Crisis from 2008 through 2021. During the New Normal period, central bankers feared deflation and struggled to achieve their 2% inflation targets. As a result, they implemented ultra-easy monetary policies, which set the stage for the surprising surge in inflation during 2022.

Consider the following overview of what a return of the Old Normal would look like:

(1) There will be no landing for the economy this year. Instead, real GDP will grow by 2.0% or more. Inflation will moderate without a recession down to 3%-4% based on the PCED

measure of consumer prices. By the end of this year, it will be closer to the bottom end of this range.

(2) In this scenario, the terminal rate for the federal funds rate might be only 75bps higher than the rate is now, i.e., 5.25% before mid-year. Instead of then falling, it might remain there through year-end. Yet the economy will remain resilient and continue to grow. The 10-year government bond yield will remain range bound around 3.50% plus or minus 50bps. The S&P 500 will move higher during the first half of the year, rising to 4500 and then stall there until a year-end rally drives it up to a new record high of 4800 in anticipation of higher earnings in 2024.

(3) Europe won't fall into a recession this year after all. The region has managed to find alternative sources of energy to replace Russian imports of natural gas and crude oil. As an added bonus, the winter weather in Europe has been remarkably mild so far. China's economy may continue to weaken because of the rapidly spreading Covid pandemic. But this wave should crest by mid-year thanks to herd immunity. The global economy should be in better shape by the second half of the year and in 2024. That would boost commodity prices, after they continue to weaken during the first half of this year.

Almost no one is giving this happy scenario any credence. Last October, the IMF cut its forecast for global growth next year to 2.7%, from the 2.9% projected in July and 3.8% in January, adding that it sees a 25% probability that growth will slow to less than 2%. The US economy was projected to grow only 1.0% in 2023, down from 1.6% in 2022. (See the IMF's *World Economic Outlook*, October 2022.)

We are still assigning a subjective probability of 60% to a soft landing and 40% to a hard landing. What about the no-landing Old Normal scenario? It falls under the soft-landing umbrella; we consider it to be the happiest of the soft-landing outcomes.

Strategy II: Another Earnings Season & Another CPI. Of course, in our business, we update our views on a day-by-day basis depending on the news flow and market reaction. Last week was the first week of the new year, and it started out with data that on balance support the soft-landing scenario. We refer to Friday's employment and purchasing managers reports, which caused the S&P 500 to jump 2.3% that day and 1.4% for the week (*Fig. 1*). The index rebounded back to its 50-day moving average. It was 1.9% below its 200-day moving average, which was 3972 on Friday (*Fig. 2*).

We still have 51 weeks before the end of 2023, and lots can happen. Here is what's coming

up this week:

(1) *Earnings season.* This week starts the Q4 earnings reporting season. During the final week of last year, industry analysts were estimating that S&P 500/400/600 operating earnings per share fell 0.1%, 1.5%, and 10.7% on a y/y basis for the quarter (*Fig. 3*). The major money center banks report at the start of earnings seasons. Loans and leases on the books of all commercial banks rose to a record $12.0 trillion, up 11.3% y/y through the end of last year (*Fig. 4*). Their allowance for loan losses rose by only $2.6 billion last year to $169.1 billion at the end of 2022 (*Fig. 5*). The banks' results are likely to be in line with expectations.

Here are the latest proforma y/y earnings growth rate estimates of industry analysts for the 11 sectors of the S&P 500 during the week of January 5: S&P 500 (-2.2), Communication Services (-21.4), Consumer Discretionary (-15.1), Consumer Staples (-2.7), Energy (64.7), Financials (-8.7), Health Care (-6.4), Industrials (42.7), Information Technology (-8.7), Materials (-22.4), Real Estate (6.9), and Utilities (3.4).

In our analytical framework, the fourth quarter of each year itself is totally irrelevant to the stock market's outlook unless it significantly changes consensus expectations for the four quarters of the new year. That's because we focus on 12-month forward earnings. Since the start of the Q4 earnings season is at the beginning of the new year, it no longer gets any weight in the calculation of forward earnings, which is the time-weighted average of analysts' earnings expectations for the current year and the coming year. As such, forward earnings is the best approximation of the earnings that investors, always forward looking, are basing decisions upon.

The Q3-2022 earnings season during October of last year certainly had a significant negative impact on the earnings estimates for Q4-2022 and each of the four quarters of 2023 (*Fig. 6*). We doubt that the Q4 earnings results will be worse than currently expected since industry analysts generally tend to be too pessimistic just before the results are released.

However, the forward guidance provided during management conference calls could cause the analysts to lower their estimates for Q2-Q4 of this year if the conference calls reinforce widespread concerns about a recession this year. On the other hand, analysts are likely to remain optimistic about 2024, which will get more weight in calculating forward earnings as the current year proceeds.

Joe and I have been informed by a few of our accounts that we are just about the only strategists expecting earnings to be up this year for the S&P 500. That must be because we are among the few who don't expect a recession this year. We are currently expecting S&P 500 operating earnings to be $225 per share this year, up 4.7% from $215 last year. For 2024, we are projecting $250, up 11.1% from 2023 (*Fig. 7*). As of the last week of December, industry analysts were at $220 for last year, $229 for this year, and $253 for next year.

(2) *December's CPI.* The start of the earnings season next week may not be as important as December's CPI report, which will be released on Thursday. A few recent indicators—detailed below—suggest that the result could be a relatively small increase or decrease, which could give another lift to both stock and bond prices.

The national gasoline pump price fell 13.7% to $3.28 per gallon over the four weeks through the January 2 week from $3.80 during the last four weeks of November (*Fig. 8*). The nearby price of natural gas has plunged from a 2022 peak of $9.68 mmbtu on August 22 to $3.71 mmbtu on January 6 (*Fig. 9*). By the way, the price of natural gas also plunged in Europe during the second half of last year (*Fig. 10*).

The Manheim Index for the wholesale price of used cars fell 14.2% y/y during December, the lowest on record (*Fig. 11*).

Both the Zillow and ApartmentList inflation rates of new rental leases continued to fall through November, suggesting that the peak in CPI rent inflation is nearing (*Fig. 12*).

The M-PMI's prices-paid index, which has been under 50.0 for the past three months, leads the CPI goods inflation rate by about three months (*Fig. 13*). The NM-PMI prices-paid index leads the CPI services inflation rate by about 12 months and suggests that the latter should peak during H1-2023 (*Fig. 14*).

US Labor Market: Some Moderation. December's private payroll employment gain of 220,000, reported on Friday by the Bureau of Labor Statistics (BLS), was stronger than expected, just about matching the month's increase of 235,000 in private payrolls reported by ADP the day before, when stock prices dropped on the news. They rose on Friday partly because there were more signs of moderation in the labor market. Consider the following:

(1) *Workweek and wages.* Average weekly hours worked fell 0.3% m/m in December, more than offsetting the 0.2% increase in payrolls (*Fig. 15*). This series actually peaked during

January 2021 at 35.0 hours and is now down 2.0% since then, suggesting that new hiring since then has reduced the long hours of employees who were able to work during the pandemic.

Furthermore, in December, wage inflation, as measured by average hourly earnings (AHE) for all workers, eased to 0.3% m/m, resulting in a y/y increase of 4.6%, down from last year's peak of 5.6% during March (*Fig. 16*). November's AHE gain was revised down from 0.6% to 0.4%.

(2) *Earned Income Proxy.* Our Earned Income Proxy for wages and salaries in the private sector rose just 0.2% m/m during December, reflecting the drop in the average workweek and the slower pace of wage gains (*Fig. 17*). Nevertheless, after stagnating for the past couple of years, AHE divided by the PCED has been moving higher since June through November (*Fig. 18*). We are expecting that wages will rise faster than prices this year, boosting the purchasing power of consumers.

(3) *Production.* The index of aggregate weekly hours in manufacturing fell 0.1% m/m during December, following November's 0.2% decline. This series is highly correlated with manufacturing production, suggesting that November's small decline was followed by another small decline during December (*Fig. 19*).

US Economy I: Purchasing Managers Seeing Hard Landing? What about the NM-PMI's drop below 50.0, to 49.6, during December (*Fig. 20*)? In a soft landing, strength in the services sector of the economy should be offsetting the weakness in the goods sector. Keep in mind that the NM-PMI includes the construction industry, which has been very weak. Nevertheless, the drop in the NM-PMI's new orders index to 45.2 is worrisome.

US Economy II: Capital Spending's Upside Surprise. Back to this past week's good news: Tuesday's construction expenditures report for November remained stalled near its recent record high (*Fig. 21*). The weakness in single-family private residential construction spending has been partly offset by strength in the multi-family sector (*Fig. 22*).

Private nonresidential construction spending rose to a new record high during November (*Fig. 23*). Leading the way higher last year was spending on commercial, health care, manufacturing, and transportation projects (*Fig. 24*). All this augurs well for capital spending on nonresidential structures in the GDP accounts.

Movie. "Tár" (+) (*link*) is a biopic about a famous but fictional orchestra conductor played by

Cate Blanchett. She is at the top of her career and about to record an album with the Berlin Philharmonic. However, her life quickly spins out of control as her current and past misdeeds are revealed. Blanchett's performance is Oscar-worthy. The movie is a bit long, but the insights into Western classic music are interesting.

Calendars

US: Mon: Consumer Credit $24.0b; Mann. **Tues:** NFIB Small Business Optimism Index; Wholesale Inventories; API Weekly Crude Oil Inventories; Powell. (Bloomberg estimates)

Global: Mon: Eurozone Unemployment Rate 6.5%; Eurozone Sentix Investor Confidence Index -18.0; Germany Industrial Production 0.1%; Italy Unemployment Rate 7.8%; Canada Building Permits 3.9%; Japan Household Spending 0.5%; Pill; Mann. **Tues:** France Industrial Production; China New Loans; China M2; Buch; Macklem; Kuroda; Schnabel. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.4% w/w, but remained in a bear market at 20.1% below its record high on December 27, 2021. The US MSCI ranked 33rd of the 48 global stock markets that we follow in a week when 38 of the 48 countries rose in US dollar terms. The AC World ex-US index outperformed with a gain of 2.9% w/w, and closed Friday out of a bear market at 19.6% below its June 15, 2021 record high. All regions rose w/w, but EMU was the best regional performer with a gain of 5.1%, followed by BIC (4.3%) and EM Asia (3.8). EMEA was the worst performing region last week, albeit with a gain of 0.5%, followed by EM Latin America (2.5), EAFE (2.7), and EM Eastern Europe (2.8). Peru was the best-performing country last week, with a gain of 9.0%, followed by Mexico (8.7), China (7.6), Ireland (6.7), and the Netherlands (6.5). Among the 30 countries that underperformed the AC World ex-US MSCI last week, Morocco's 8.5% decline was the biggest, followed by those of Turkey (-3.6), Indonesia (-3.0), Norway (-2.7), and India (-1.3). Looking back at 2022's performance, the US MSCI fell 20.8% and ranked 33/49, down from 4/49 in 2021 when the index rose 25.2%. The AC World ex-US fell 18.3% in 2022 as all regions fell and only two outperformed that index. EM Latin America was the best performer, albeit with a decline of 0.1%, followed by EAFE (-16.8). The regional laggards in 2022: EM Eastern Europe (-82.9), EMEA (-37.0), BIC (-23.4), EM Asia (-22.8),

and EMU (-19.8). The best country performers in 2022: Turkey (83.9), Argentina (32.2), Jordan (19.2), Chile (15.1), and Peru (5.6). Apart from Russia—in which investors lost 100.0% of their investment as its MSCI index stopped pricing—here are the worst-performing countries for the year: Sri Lanka (-66.0), Pakistan (-40.9), Morocco (-34.1), Hungary (-33.7), and Taiwan (-32.2).

S&P 500/400/600 Performance (*link*): All three of these indexes moved high last week and simultaneously emerged from bear markets on Friday for the first time since December 14. LargeCap rose 1.4% w/w, less than the 2.5% and 2.4% gains recorded for MidCap and SmallCap. LargeCap finished the week at 18.8% below its record high on January 3, 2022; MidCap is 14.5% below its record high on November 16, 2021; and SmallCap was 19.1% below its November 8, 2021 record high. Thirty of the 33 LargeCap and SMidCap sectors moved higher for the week, up from nine rising a week earlier. MidCap Communication Services was the best performer, with an increase of 6.8%, followed by SmallCap Consumer Discretionary (5.8%), SmallCap Communication Services (5.0), MidCap Consumer Discretionary (4.2), SmallCap Materials (4.0), and MidCap Materials (4.0). Among the worst performers for the week, SmallCap Energy fell 4.0%, followed by MidCap Energy (-2.3), LargeCap Health Care (-0.2), LargeCap Energy (0.0), and LargeCap Tech (0.2). Looking back at 2022's performance, LargeCap's 19.4% decline trailed those of MidCap (-14.5) and SmallCap (-17.4) as just three of the 33 sectors rose for the year. The top sector performers in 2022: LargeCap Energy (59.0), SmallCap Energy (45.3), MidCap Energy (33.7), LargeCap Utilities (-1.4), and MidCap Consumer Staples (-1.5). Here are 2022's biggest laggards: LargeCap Communication Services (-40.4), LargeCap Consumer Discretionary (-37.6), SmallCap Communication Services (-35.5), SmallCap Real Estate (-32.4), and MidCap Real Estate (-29.4).

S&P 500 Sectors and Industries Performance (*link*): Nine S&P 500 sectors rose last week, and seven outperformed the composite index's 1.4% gain. That compares to a 0.1% decline for the S&P 500 a week earlier, when two sectors rose and three outperformed the index. Communication Services was the best performer, with a gain of 3.7%, followed by Materials (3.5%), Financials (3.3), Industrials (2.7), Real Estate (2.5), Consumer Discretionary (2.2), and Consumer Staples (1.7). Health Care was the worst performer, with a decline of 0.2%, followed by Energy (0.0), Tech (0.2), and Utilities (0.7). Looking back to 2022, the S&P 500 fell 19.4% in 2022 for its worst performance in 14 years as seven sectors outperformed the index and just one rose for the year. The best performers in 2022: Energy (59.0), Utilities (-1.4), Consumer Staples (-3.2), Health Care (-3.6), Industrials (-7.1), Financials (-12.4), and Materials (-14.1). These are 2022's worst performers: Communication Services (-40.4), Consumer Discretionary (-37.6), Tech (-28.9), and Real

Estate (-28.4).

S&P 500 Technical Indicators (*link*): The S&P 500 improved last week relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). The index was below its 50-dma for a fourth straight week and below its 200-dma for a fifth week after moving above the week before that 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 lower for the first time in seven weeks even as the index improved to 0.3% below its falling 50-dma from 1.7% below its rising 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 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 1.9% below its falling 200-dma, up from 3.8% below a week. 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 35th straight week, but its pace of decline has generally slowed since October, when it was falling at its fastest rate since July 2009.

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

US Economic Indicators

Employment (*link*): Payroll employment gains slowed for the fifth consecutive month since July's 537,000 jump, posting a 223,000 gain in December—higher than the 202,000 expected. For all of 2022, 4.5 million jobs were added, the second highest tally behind 2021's 6.7 million, as it recovered from the record job losses recorded during the height of the pandemic. December's advance followed downwardly revised gains in both November (to 256,000 from 263,000) and October (263,000 from 284,000) for a net loss of 28,000. Total payroll employment has recovered 23.2 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 1.2 million. Jobs gains in private service-providing industries increased 180,000 in December, accelerating slightly for the second month from October's 170,000, while goods-producing jobs rose 40,000, picking up from November's 27,000 gain. Heath care & social assistance (74,400) posted the largest increase in December, with leisure & hospitality—the industry hardest hit during the pandemic—a close second, up 67,000; rounding out the top five were health care (55,000), construction (28,000), and durable goods manufacturing (24,000). Employment showed little change in other major industries, including wholesale trade, information services, and financial activities. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.0 million), transportation & warehousing (+692,100), health care (197,200), retail trade (+192,000), information services (+158,000), construction (+153,000), financial activities (+127,000), nondurable goods manufacturing (+83,000), durable goods manufacturing (+66,000), education (+63,700), wholesale trade (+32,600), and social assistance (+31,000). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-42,000) and leisure & hospitality (-932,000).

Wages (*link*): Average hourly earnings for all workers in December rose 0.3%, while November's 0.6% gain was revised down to 0.4%, with the yearly rate slowing to 4.6%, down from a recent high of 5.6% during March 2022. December's rate was below the November inflation-rate gains of 7.1% and 5.5% in the CPI and PCED measures, respectively. Private industry wages over the three months through December increased 4.1% (saar), below its yearly rate of 4.6%, with the three-month rate for service-providing industries showing identical rates to the headline measure. Meanwhile, the three-month rate for goods-producing industries was 4.8% (saar), a few ticks above its 4.4% yearly rate. *Service-providing industries showing three-month rates above their yearly rates*: wholesale trade (7.1%, saar & 4.4% y/y), retail trade (5.1 & 4.1), and professional & business services (5.1 & 4.9). S*ervice-providing industries showing three-month rates below their yearly rates*:

transportation & warehousing (-3.2 & 3.7), information services (0.9 & 6.3), utilities (1.8 & 4.5), education & health services (3.6 & 4.1), and financial activities (3.7 & 4.4)—with other services (1.8 & 1.9) and leisure & hospitality (6.3 & 6.4) showing nearly identical rates over the two periods. *Goods-producing industries*: The three-month rates are above their yearly rates for both the natural resources (7.2 & 4.6) and nondurable goods manufacturing (6.9 & 4.1) industries, and below for durable goods manufacturing (2.0 & 3.2); construction was at 5.8% for both periods.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 31st increase in the past 32 months—up 0.2% in December and 32.6% over the period—to yet another new record high. In December, average hourly earnings advanced 0.3%, with aggregate weekly hours down 0.1%, as the average workweek fell by 0.3%. Over the past 12 months, our EIP was up 6.5%—with aggregate weekly hours up 1.9% and average hourly earnings up 4.6%—slowing from February's 11.0% rate, which was the fastest since mid-2021.

Unemployment (*link*): The unemployment rate dropped for the second month in December, from 3.7% in October to 3.5%, even as 439,000 entered the labor force last month, with household employment shooting up 717,000 during the month and the number of unemployed falling 278,000. December's rate was back at August's recent low of 3.5%—which matched its lowest rate since 1969; it fluctuated between 3.5% and 3.7% over the last nine months of 2022. The participation rate in December remained in a volatile flat trend, averaging 62.2% for all of 2022—with a low of 62.1% and a high of 62.4%. *By race*: Unemployment rates in December fell for Whites (to 3.0% from 3.3%) and Asians (2.4 from 2.6), while the rate for Hispanics (4.1 to 4.0) ticked up and the rate for African Americans held steady at 5.7%. The rate for Whites was back down at its record low—with the remaining three measures holding near their record lows. *By education*: The December rate for those with less than a high school climbed to 5.0% after falling 6.2% to 4.4% in November. Meanwhile, the rates for both those with a with a high school degree (3.6 from 3.9) and some college (2.9 from 3.2) slipped 0.3ppt last month, while the rate for those with a bachelors degree and higher ticked down from 2.0% to 1.9%. All measures are hovering around record lows.

Auto Sales (*link*): Auto sales fell for the second month after reaching a nine-month high in October, falling 11.4% the last two months of the year to 13.6mu (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. For all of 2022, sales averaged 13.9mu per month versus 15.1mu for all 2021—with sales that year reaching a high of 18.4mu and a low of 12.4mu. Domestic

car sales dropped for the second month to 2.2 mu (saar) 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 for the second month to 8.0mu (saar) after climbing to 9.2mu in October—which was the highest since the 9.5mu reading at the start of 2022. Sales of imports also declined for the second month, sliding 6.8% over the period to 3.4mu (saar) after climbing from 3.0mu in May to a nine-month high of 3.7mu in October.

Global Economic Indicators

Eurozone CPI Flash Estimates (*link*): The headline CPI rate for December is expected to slow for the second month to 9.2% y/y, according to the flash estimate, after accelerating to a record high 10.6% in October. 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, though is forecast to slow again in December to 25.7% from 34.9% and 41.5% the prior two months; it was at a record high of 44.3% in March. The rate for *food, alcohol & tobacco* is predicted to soar to a record-high 13.8% in December—accelerating steadily from June 2021's 0.5%—while the rate for *non-energy industrial goods* is forecast to reach a new record high of 6.4%. The *services* rate is expected to pick up to 4.4% y/y—the highest since the end of 1993. Of the *top four Eurozone economie*s, rates for Italy (12.3% y/y) and Germany (9.6) are forecast to be above the Eurozone's rate of 9.2%, with the former down from its record high of 12.6% during both October and November and the latter down from its record high of 11.6% during October. Meanwhile, rates in Spain (5.6) and France (6.7) are predicted to be below the Eurozone's expected rate of 9.2%, down from their recent record highs of 10.7% and 7.1%, respectively.

Eurozone Economic Sentiment Indicators (*link*): The Economic Sentiment Indexes (ESIs) for both the EU and the Eurozone increased for the second month in December, after a string of declines. The EU measure climbed to 94.2 last month, after sinking from 116.7 during October 2021 to a 23-month low of 91.6 by October 2022. The Eurozone's gauge followed suit, rising to 95.8 last month after dropping from 118.2 during October 2021 to 93.0 by October 2022, the lowest since November 2020. *ESIs among the six largest EU economies* saw only sentiment in France continuing to fall, rising only two months since peaking at 116.1 in November 2021—plunging to a 25-month low of 93.3 at the end of last year. Turning to the other countries, over the latest two-month period, Italy's (to 100.3 from 95.3 in October) ESI posted the biggest gain, followed by Germany (94.6 from 91.4), the Netherlands (93.4 from 90.6), Poland (90.2 from 88.9), and Spain (98.4 from 98.2). By *sector*, EU service confidence improved for the second month in December, climbing from

3.3 to 6.2, while retail trade confidence improved to -3.9, its best reading in six months. Industry confidence picked up for the first time since February, driven by an improvement in managers' production expectations, which partly offset the further deterioration in managers' assessments of the current level of orders. Meanwhile, construction confidence improved steadily, from -0.3 in September to 0.9 by December.

Eurozone Retail Sales (*link*): Eurozone retail sales, which excludes motor vehicles & motorcycles, rose a larger-than-expected 0.8% in November following October's 1.5% decline—which was the largest since the end of 2021. Since peaking in November 2021, these sales contracted 2.8% through the 12 months ending November 2022. Spending on *food, drinks & tobacco* fell for the third time in four months, dropping 0.9% m/m and 2.3% over the period, though November's 0.9% decline was more than offset by rebounds in both *non-food product excluding fuel* and *automotive fuels* during the month. The former rebounded 1.6% in November from October's 1.9% decline, while automotive fuels jumped 1.0%, more than reversing declines in October and September. Over the 12 months through November, only automotive fuels (4.4% y/y) was in the plus column—foods drinks & tobacco (-4.6) and non-food products ex fuel (-2.3) were in the red. November data are available for three of the four of the Eurozone's *largest economies*, with Spain advancing for the fourth month, by 3.6% m/m and 5.0% over the period, while Germany rose 1.1% after a 2.8% loss and 1.4% loss the prior two months. Meanwhile, sales in France contracted 2.3% during the two months through November. Compared to a year ago, sales in Germany contracted 5.7%, while sales in France (-0.6%) and Spain (-0.7) were basically flat.

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