Yardeni Research

**MORNING BRIEFING**
**October 9, 2023**

## Consumers: Hotter For Longer

*Check out the accompanying chart collection.*

**Executive Summary:** Today, we challenge another aspect of the hard landers' narrative: the notion that consumers will retrench, leading the broad economy into a recession. True, many consumers must resume paying the student-debt piper soon, and many have depleted their excess pandemic saving. … But bigger forces are supporting consumer spending: Consumers simply don't halt the spending they love to do when their incomes are secure and growing, as now, with wages rising and plenty of jobs to go around. And it's retired Baby Boomers' time to kick back and spend their ample nest eggs. … Also: Dr. Ed reviews "The Sixth Commandment" (+ +).

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

**US Consumers I: The Quick Employment Theory.** On Friday, after September's employment report was released, CNBC's ace anchor Becky Quick suggested that the unexpected surge in payrolls might indicate that more people are going back to work because they are running out of the excess saving they accumulated during the pandemic. That's a refreshingly optimistic insight.

The widely held pessimistic view has been that once consumers run out of their excess saving, they will have to retrench. The resumption of student loan payments will cause consumers to cut back, according to this glum view. And of course, tighter lending conditions will force consumers to buy less on credit, as evidenced by rising consumer credit delinquencies. In other words, a consumer-led recession is coming and probably sooner rather than later. JP Morgan Chase Chairman and CEO Jamie Dimon has been an especially vocal proponent of this scenario since May 2022.

Debbie and I have been among the optimists on the outlook for consumer spending. We've observed that it's hard to have a consumer-led recession when employment is rising and real wages are trending higher. We've countered the excess saving story with our own story about the massive retirement saving accumulated by the Baby Boomers.

We are members of this cohort. While we are still working, many of our friends are retiring and starting to spend their nest eggs. They are spending less on goods and more on services like restaurants, airlines, hotels, and health care providers. All of these are labor-intensive service-providing industries that have been scrambling to add workers to accommodate the booming demand for their services, especially from Baby Boomers.

That's how we've explained the resilience of the consumer. If the trend in real disposable incomes remains upward, consumer-led growth should continue to fuel gains in GDP.

What should the Fed do, considering the resilience of payroll employment? Nothing! Wage inflation continued to moderate during September despite the strength in employment and the low unemployment rate. Meanwhile, the 10-year bond yield has jumped by 43bps since the FOMC met on September 19-20. The bond market has tightened for the Fed. Any more tightening by the Fed risks causing a credit crunch and a recession, which clearly isn't necessary to bring inflation down. That's because inflation is turning out to be a transitory pandemic-related phenomenon after all, as we have been suggesting.

By the way, Sunday's *WSJ* features an *article* titled "The U.S. Economy's Secret Weapon: Seniors With Money to Spend." It is subtitled: "Americans 65 and older account for record share of spending and are less susceptible to interest rates." Debbie, Melissa, and I have been making the same points since the summer. See for example, our June 26 *Morning Briefing* titled "Baby Boomers Retiring On $75 Trillion In Net Worth."

**US Consumers II: Born To Shop.** We've often observed that Americans go shopping when they feel good. When they feel bad, they go shopping too because it releases dopamine in their brains, which makes them feel better. They always feel bad during recessions, but not as many have the income to shop away their troubles, especially if they have lost their jobs. In the current situation, consumers feel relatively bad, but the labor market is running hot. So they have jobs and can go shopping to make themselves feel better, if not great.

From this perspective, let's review that latest batch of relevant consumer indicators:

(1) *Confidence.* Debbie and I track the Consumer Optimism Index, which we construct by averaging the Consumer Sentiment Index and the Consumer Confidence Index (COI) (*Fig. 1*). The overall index was 85.6 in September. That's up from last year's low of 73.4 during July. But it is still around the low readings that preceded past recessions. Similar observations apply to the current conditions and expectations components of the COI.

Consumers should be less miserable than they were last year because the Misery Index is down from a peak of 12.7 during June 2022 to 7.5 in August (Fig. 2). The index is the sum of the unemployment rate and the headline CPI inflation rate on a y/y basis (Fig. 3).

(2) *Earned income proxy.* Our Earned Income Proxy for private industry wages and salaries in personal income rose 0.4% m/m to another record high in September (Fig. 4). Aggregate hours worked and average hourly earnings each edged up 0.2% (Fig. 5).

The increase in aggregate hours worked was attributable to the 0.2% increase in payroll employment, while the average workweek was unchanged (Fig. 6). Payroll employment was revised higher in both July and August by a total of 119,000 (Fig. 7). Over the past three months, payroll employment is up 799,000, or 266,300 per month on average.

(3) *Real income & spending.* Inflation-adjusted consumer spending tends to grow at a relatively steady pace during economic expansions (Fig. 8). It naturally follows the upward trend of real disposable personal income (DPI), which is somewhat more volatile. During H2-2021 and H1-2022, the two diverged as real DPI fell while real consumer spending rose. The former was depressed by rapidly rising prices, while the latter was boosted by the spending of the saving accumulated during the pandemic.

Since mid-2022, real DPI has been trending higher, while consumption has continued to grow. The strength of the labor market should continue to support consumer spending.

**US Consumer III: Disinflating Wages.** Average hourly earnings (AHE) for all private industry workers fell to 4.2% y/y in September, down from last year's peak of 5.9% and the lowest since June 2021 (Fig. 9). The three-month change was down to 3.3% (saar) through September, the lowest since March 2021. Fed Chair Jerome Powell frequently has said that wage inflation closer to 3.0% would be consistent with price inflation falling to the Fed's target of 2.0%.

Here is the performance derby of major industries' AHE in September on a y/y change basis compared with their peak rates in 2021, 2022, or 2023: natural resources (5.6, 7.1), construction (5.1, 5.9), leisure & hospitality (4.7, 14.0), utilities (4.6, 6.6), transportation & warehousing (4.4, 7.0), professional & business services (4.3, 7.1), retail trade (4.2, 6.7), education & health service (3.2, 7.3), and information services (0.9, 7.7) (Fig. 10).

The biggest declines in inflation from industries' most recent peaks have occurred in leisure

& hospitality (-9.3ppts), information services (-6.8), and education & health services (-4.1), professional & business services (-2.8), and transportation & warehousing (-2.6).

**US Consumers IV: Lots of Jobs.** The *Godot* recession is still MIA. Payroll employment is one of the four components of the Index of Coincident Economic Indicators. It rose to a record high in September. There's no sign of a recession in the payrolls of the major industries. The following rose to record highs in September: wholesale trade, hospitals, ambulatory health care services, social assistance, construction, financial activities, and food services & drinking places, and educational services.

**Movie.** "The Sixth Commandment" (+ +) (*link*) is a British docudrama series based on the murders of Peter Farquhar and Ann Moore-Martin by Ben Field. Field was a fiend who preyed on two lonely elderly people by pretending to be in love with them. His motive was to get them to rewrite their wills to his benefit. He pretended to be a religious and caring young poet but was actually a cold-blooded embodiment of Hannah Arandt's concept of the "banality of evil."

## Calendars

**US: Mon:** IMF Meetings; Barr; Logan Jefferson. **Tues:** NFIB Small Business Optimism Index; Wholesale Inventories -0.1%; Consumer Inflation Expectations; IMF Meetings; Waller; Kashkari; Daly; Bostic. (FXStreet estimates)

**Global: Mon:** Eurozone Sentix Investor Confidence; Germany Industrial Production -0.3%; UK Retail Sales Monitory; Enria; De Guindos; Mann. **Tues:** Italy Industrial Production; UK Labor Productivity 0.7%; BoE FPC Meeting Minutes; Lagarde; Balz; Kent. (FXStreet estimates)

## Strategy Indicators

**Global Stock Markets Performance** (*link*): The US MSCI index rose 0.4% for its first gain in four weeks and ended its longest losing streak since the end of December 2022. The index is still in a correction at 11.2% below its record high on December 27, 2021. The US MSCI ranked seventh of the 48 global stock markets that we follow in a week when eight of the 48 countries rose in US dollar terms. The AC World ex-US index underperformed with a decline of 1.9% for the week and fell back into bear market territory at 21.0% below its June 15, 2021 record high. With the exception of the US, all regions fell for the week. EM Asia was the best performer, albeit with a decline of 1.0%, ahead of EMU (-1.7%), BIC (-1.7), and EAFE (-1.9). EM Latin America was the worst performing region last week with a 5.9% decline, followed by EM Eastern Europe (-2.3) and EMEA (-2.1). Pakistan was the best-performing country last week, with a gain of 4.2%, followed by Morocco (3.6), Jordan (3.4), Egypt (2.5), and Taiwan (1.5). Among the 21 countries that underperformed the AC World ex-US MSCI last week, the 10.2% decline for Colombia was the biggest, followed by those of Mexico (-7.5), Portugal (-7.2), Norway (-6.0), and Greece (-5.9). Looking at 2023's performance so far, the US MSCI is up 12.7%, as its ytd ranking improved two places w/w to 11/48. The AC World ex-US's ytd gain of 1.0% is trailing the US's, with 28/48 countries in positive territory. EM Eastern Europe is the best regional performer ytd with a gain of 7.8%, followed by EMU (5.2), EAFE (2.6), and EM Latin America (1.7). The regional laggards so far in 2023: BIC (-4.8), EMEA (-1.9), and EM Asia (-1.8). This year's best ytd country performers: Sri Lanka (30.9), Hungary (22.3), Greece (21.5), Egypt (17.4), and Morocco (17.2). Here are the worst-performing countries of the year so far: Pakistan (-26.5), Hong Kong (-19.7), Thailand (-18.8), Colombia (-18.6), and Finland (-17.8).

**S&P 500/400/600 Performance** (*link*): Just one of these three market-capitalization-style indexes moved higher w/w. LargeCap's 0.5% gain was its first in five weeks; MidCap fell 1.9%, and SmallCap tumbled 2.4%. At Friday's close, LargeCap remained in a correction at 10.2% below its record high on January 3, 2022, MidCap slipped deeper into a correction to end at 15.6% below its record high on November 16, 2021, and SmallCap slipped further into bear market territory at 23.3% from its November 8, 2021 record high. Just three of the 33 LargeCap and SMidCap sectors moved higher for the week, compared to 13 rising a week earlier. LargeCap Communication Services was the best performer with a gain of 3.1%, followed by LargeCap Tech (2.9), LargeCap Health Care (0.9), SmallCap Utilities (-0.2), and LargeCap Consumer Discretionary (-0.3). Among the biggest underperformers for the week were SmallCap Energy (-7.3), LargeCap Energy (-5.4), MidCap Consumer Staples (-4.4), SmallCap Consumer Discretionary (-4.3), MidCap Energy (-4.2), and SmallCap Consumer Staples (-4.0). Looking at performances so far in 2023, LargeCap, with a gain of 12.2%, remains well ahead of MidCap (1.0) and SmallCap (-2.9); 14 of the 33 sectors are higher ytd compared to 19 a week earlier. The top sector performers in 2023: LargeCap Communication Services (43.7), LargeCap Tech (37.7), LargeCap Consumer Discretionary (25.4), MidCap Tech (15.6), and MidCap Industrials (15.2). Here are 2023's biggest laggards: MidCap Utilities (-23.4), LargeCap Utilities (-19.0), MidCap Communication Services (-18.2), SmallCap Utilities (-17.2), and SmallCap Financials (-16.1).

**S&P 500 Sectors and Industries Performance** (*link*): Only three of the 11 S&P 500 sectors rose last week, and the same three outperformed the composite index's 0.5% gain. That compares to a 0.7% decline for the S&P 500 a week earlier, when two sectors rose and six outperformed the index. Communication Services was the best performer with a gain of 3.1%, followed by Tech (2.9%) and Health Care (0.9). Energy was the worst performer, with a drop of 5.4%, followed by Consumer Staples (-3.1), Utilities (-2.9), Real Estate (-1.5), Materials (-0.7), Industrials (-0.6), Financials (-0.5), and Consumer Discretionary (-0.3). Looking at 2023's performance so far, the S&P 500 is up 12.2% ytd, with just three sectors still outperforming the index and five higher for the year. The best ytd performers: Communication Services (43.7), Tech (37.7), and Consumer Discretionary (25.4). These are 2023's worst performers: Utilities (-19.0), Consumer Staples (-9.6), Real Estate (-9.4), Health Care (-4.4), Financials (-3.6), Energy (-2.3), Materials (0.3), and Industrials (2.5).

**S&P 500 Technical Indicators** (*link*): The S&P 500 rose 0.5% last week and improved slightly relative to its 50-day moving average (50-dma) and its 200-day moving average (200-dma). The index remained below its 50-dma for a fifth week, but has been above in 21 of the past 28 weeks. It remained above its 200-dma for a 29th week. As for what the dmas themselves have been doing, the 50-dma moved lower w/w for just the fifth time in 28 weeks, but the 200-dma rose for a 19th week in its longest positive streak since March 2022. The S&P 500 improved to 2.6% below its falling 50-dma from a 50-week low of 4.7% below its falling 50-dma at the beginning of the week. For perspective, the latest reading is down from a 20-week high of 5.4% above its (rising) 50-dma in mid-June. Other comparison points include: a four-month low of 10.6% below its (falling) 50-dma at the end of September 2022, a 23-month high of 8.7% above its (rising) 50-dma in August 2022, and a 27-month low of 11.1% below its (falling) 50-dma in June 2022. The index had been trading above its 50-dma from most of 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. Turning to the 200-dma, the price index improved to 2.0% above its (rising) 200-dma from a 28-week low of 0.3% above at the start of the week. That compares to a 24-month high of 12.4% above its (rising) 200-dma in mid-July. The S&P 500 is well above its 26-month low of 17.1% below its (falling) 200-dma in June 2022 and 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 level of the Great Financial Crisis following the failure of Lehman Brothers, the S&P 500 index was 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** (*link*): Communication Services is the only one of the 11 S&P 500 sectors trading above their 50-dmas, turning positive w/w while Energy turned down. That compares to all 11 S&P 500 sectors above their 50-dmas in the three weeks before the end of July. Energy remains the only sector with a rising 50-dma. Looking at the more stable longer-term 200-dmas, the positive club was unchanged w/w at four members. The four sectors still trading above their 200-dmas are Communication Services, Consumer Discretionary, Energy, and Information Technology. The rising 200-dma club remained steady w/w at five sectors, as Energy turned down w/w and Materials turned positive. Materials joins these four sectors in the rising 200-dma club: Communication Services, Consumer Discretionary, Industrials, and Information Technology.

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## US Economic Indicators

**Employment** (*link*): Employment in September was a surprise on the upside, and there were upward revisions to the prior two months. *Payroll employment* rose 336,000 (vs 170,000 expected) in September, and August (to 227,000 from 187,000) and July (236,000 from 157,000) payrolls were revised higher, for a net gain of 119,000. Nonfarm payrolls posted the largest monthly gain since January's 472,000 after averaging monthly gains of 219,000 during the seven months through August. Private *service-providing* industries increased 234,000 in September, stronger than the average monthly gain of 150,400 during the seven months through August. The gain *within service-providing jobs* was led by leisure & hospitality (96,000), which was stronger than the average monthly gain of 61,000 over the prior 12 months, with employment in food services and drinking places jumping 61,000—returning to its pre-pandemic February 2020 level. Accommodations employment (16,000) continued to trend higher, but fell short of its February 2020 level by 217,000. Health care employment dropped from the number one spot to the number three spot in September, rising 41,000, slower than the average monthly gain of 53,000 the prior 12 months. Meanwhile, employment in professional, scientific, and technical services advanced by 29,000 last month, comparable to the average monthly gain of 27,000 the prior 12 months, while social assistance (25,000) jobs were also in line with its prior 12 month average. Information services jobs continued to decline, falling 5,000 in September and 59,000 the past five months. *Goods-producing* jobs advanced 29,000 in September, following gains of 47,000 and 12,000 the previous two months. Manufacturing payrolls increased 17,000 (the most since last October), with durable goods manufacturing rising 13,000 and nondurable goods manufacturing up 4,000—which was the first gain in seven months. Construction jobs increased 11,000 last month, below the average monthly gain of 18,000 the first eight months of this year. Employment in mining & logging edged up 1,000, following no change in September and a 2,000 gain in August. Here's a list of the *industries that are above their February 2020 pre-pandemic levels*: professional & business services (+1.6 million), transportation & warehousing (+916,700), health care (+574,200), construction (+406,000), social assistance (+294,200), financial activities (+288,000), wholesale trade (+181,600), durable goods manufacturing (160,000), education (+142,300), information services (+128,000), nondurable goods manufacturing (+66,000), and retail trade (+38,200). Here are the *industries that are below their February 2020 pre-pandemic levels*: mining & logging (-44,000) and leisure & hospitality (-184,000).

**Wages** (*link*): Average hourly earnings (AHE) for all workers rose in September by 0.2% for the second month, half the gain of the prior two months and the lowest monthly gain since February 2022. The yearly rate slowed to 4.2%, down from its recent high of 5.9% during March 2022. September's 4.2% yearly rate was 0.5ppt above August's CPI rate of 3.7% and 0.7ppt above the PCED's rate of 3.5%. Private industry wages rose 3.3% (saar) over the three months through September, slowing from June's 4.8% rate and below its yearly rate of 4.2%, with the goods-producing (4.9% saar & 5.3% y/y) industries' three-month rate below its yearly rate, as were the comparable rates for service-providing (3.0 & 3.9) industries. *Service-providing industries showing three-month rates above their yearly rates*: financial services (7.7 & 4.9) and other services (4.2 & 3.3). *Service-providing industries showing three-month rates below their yearly rates:* leisure & hospitality (1.1 & 4.7), utilities (2.2 & 4.6), education & health services (2.8 & 3.2), professional & business services (3.1 & 4.3), retail trade (3.3 & 4.2), transportation & warehousing (3.3 & 4.4), and wholesale trade (4.1 & 5.7); the information services rates are identical (0.9 & 0.9). *Goods-producing industries*: Three-month rates are above yearly rates for construction (5.5 & 5.1) and below for natural resources (3.9 & 5.6) and nondurable goods manufacturing (4.3 & 5.9); the rate for durable goods manufacturing (4.5 & 4.7) are nearly identical.

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, increased 0.4% in September, slowing from August's 0.7%. That makes the EIP's 40th increase in the past 41 months, with a 40.3% cumulative climb over the period to yet another record high. In August, *average hourly earnings* advanced 0.2%, with *aggregate weekly* hours also up 0.2%—private payroll employment increased 0.2%, while the average workweek was flat. Over the past 12 months, our EIP advanced 5.6%, slowing from 6.1% in August—with aggregate weekly hours up 1.4% and average hourly earnings up 4.2%; August's rate is below the 8.1% at the start of this year. It peaked last February at 11.8%, which was the fastest since spring 2021.

**Unemployment** (*link*): The unemployment rate was unchanged at 3.8% in September, with the number of employed and unemployed up 86,000 and 5,000, respectively, and only 90,000 entering the labor market. The participation rate in September remained at 62.8%—which was the highest since February 2020—after being at 62.6% the prior five months. It remains below its pre-pandemic reading of 63.3%. *By race*: The unemployment rate for Hispanics (to 4.6% from 4.9%) and Asians (2.8 from 3.1) both fell by 0.3ppt, while the rate for Whites was unchanged at 3.4%. Meanwhile, the rate for African Americans (5.7 from 5.3) saw a 0.4ppt uptick in September, following a 0.7ppt decline the prior two months. *By education*: The rate for those for those with a high school diploma climbed for the second month, from 3.4% to a 13-month high of 4.1%, while those with less than a high school diploma showed a slight uptick from 5.4% to 5.5%. Meanwhile, the rate for those with a bachelor's degree or higher (2.1% from 2.2) ticked down, while the rate for those with some college was unchanged at 3.0%. Here are the current rates compared to their record lows: less than a high school degree (5.5% vs 4.4%), high school degree (4.1 vs 3.2), some college or associates degree (3.0 vs 2.4), and bachelor's degree or higher (2.1 vs 1.5).

**Auto Sales** (*link*): *Total motor vehicle sales* remain on a volatile uptrend, moving up to 15.7mu (saar) in September, after falling from 16.2mu to in June to 15.5 mu in August. Sales are up from the recent low of 12.7mu last May, with this September's level closing in on June's recent high of 16.2mu. *Domestic light-truck* sales have pulled back slightly since reaching a recent high of 10.1mu (saar) in June, falling to 9.4mu in September, though that's 1.3mu above last December's recent low of 8.1 mu. *Domestic car sales* have fluctuated in a volatile flat trend between 2.0mu to 2.5mu the past 13 months, flattening out at 2.3mu the past three months. Sales of *imports* are in a volatile uptrend, accelerating from a recent low of 3.0mu last May to 4.0mu this September—the highest since mid-2021.

**Merchandise Trade** (*link*): The *real merchandise trade deficit* narrowed in August to $83.9 billion, after widening from $85.8 billion in June to $88.4 billion July. The July/August average deficit came in at $86.2 billion, below Q2's average monthly deficit of $90.4 billion—suggesting that trade will likely be a positive contributor to GDP growth when it's reported on October 26. *Real exports* rose for the fourth straight month in August by 0.1% m/m and 3.6% over the period, an encouraging sign. Meanwhile, *real imports* fell for the third time in four months, by 1.9% in August and 3.3% over the period. Looking at *real exports versus a year ago*, they're down 2.9%—as declines in exports of foods, feeds & beverages (-13.5% y/y), and industrial supplies & materials (-9.8) more than offset gains in automotive vehicles, parts & engines (14.1), other goods (10.8), capital goods ex autos

(1.7), and nonfood consumer goods ex autos (1.0). Turning to *real imports versus a year ago*, they're down 1.8%, as imports of automotive vehicles, parts, and engines (11.9% y/y) and other goods (10.1) both rose at a double-digit pace, though imports of industrial supplies & materials (-2.2), foods, feeds & beverages (-9.4), nonfood consumer goods ex autos (-7.5), and capital goods ex autos (-2.7) were below year-ago levels.

## Global Economic Indicators

**Germany Factory Orders** (***link***): The German manufacturing sector showed signs of regaining traction in August, as factory orders blew past forecasts. German *factory orders* were a surprise on the upside in August, rebounding 3.9%, led by gains in data processing equipment and optical products. Billings had plunged 11.2% in July, which followed a three-month gain of 14.4%. Both *domestic* (4.0%) and *foreign* orders (3.9) rebounded in August, with foreign orders from inside and outside the Eurozone both advancing 3.9% during the month. Foreign and domestic orders had tanked 9.2% and 12.7%, respectively, during July. *Versus a year ago*, total orders fell 4.2%, narrowing from -10.1% in July, with the yearly decline in domestic (-3.3) and foreign (-4.8) orders narrowing from -9.4% and -10.6%, respectively, during July. Within foreign orders, billings were down 5.9% within the Eurozone and 4.1% outside the Eurozone. Here's a look at the movements in domestic orders, along with the breakdown from both inside and outside the Eurozone for the main industry groupings versus a year ago: capital goods (-3.2%, -9.0%, -6.9%), intermediate goods (-3.2, -4.3, -1.5), consumer durable goods (-11.6, -13.5, +1.1), and consumer nondurable goods (-2.9, +19.8, +11.9).

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