Yardeni Research

MORNING BRIEFING
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Onshoring, Acquisitions & Octopus

Check out the accompanying chart collection.

Executive Summary: Federal incentives promoting the onshoring of manufacturing plants have certainly hit their mark in Arizona and New York. Both states are sprouting new regional semiconductor manufacturing ecosystems, Jackie reports, dramatically boosting local economic development. … Also: Financial firms with investment banking operations report a pickup in M&A, a trend that should only accelerate when the interest-rate environment stabilizes. … And our Disruptive Technologies focus today is on Octopus Energy, a British company with an innovative business model that rewards green electricity consumption.

Industrials: Onshoring's Ripple Effects. In phase one of the onshoring wave, many large companies announced plans to take advantage of tax breaks and open new manufacturing facilities in the US. Manufacturers in the solar, semiconductor, and chemical industries have been among the most aggressive in taking advantage of so-called Bidenbucks, the dollars and tax breaks available through the CHIPS and Science Act, the Inflation Reduction Act, and the Infrastructure Investment and Jobs Act.

Now comes phase two. Suppliers are following their large customers and building new manufacturing plants in the US of A as well. The process is well underway in Arizona, where Taiwan Semiconductor Manufacturing is spending $40 billion to build two massive plants, the first of which is expected to open in 2025. In upstate New York, where Micron Technologies has committed to building four plants, the green shoots are visible as well.

The development of these new semiconductor ecosystems as well as manufacturing plants in other industries has contributed to the surge in spending on manufacturing structures. It was up 66.4% y/y during Q3 to a record high; in the first three quarters of 2023, such spending rose 43.3% y/y (*Fig. 1*). That strength has boosted new orders for construction equipment, which rose 6.7% y/y during October to the fourth highest reading on record (*Fig. 2*).

All this building has led to more jobs. The number of Americans working in manufacturing has risen to 13.0 million as of October, according to the Labor Department. That's higher than the prior peak in 2019 and brings manufacturing employment back to a level last seen in 2008 (*Fig. 3*). Likewise, record numbers of folks are working in heavy and civil engineering construction, 1.1 million in October, and in construction, 8.0 million as of October (*Fig. 4* and *Fig. 5*).

Here's a look at some of the companies building the semiconductor ecosystems in Arizona and New York:

(1) *Arizona's success story.* Taiwan Semiconductor first announced plans to build a $12 billion semiconductor plant in Arizona in 2020. Two years later, it doubled down, expanding that project to two plants costing $40 billion. The project hit some bumps this summer, with squabbles erupting over workers being brought in from Taiwan and the opening pushed back a year to 2025; but otherwise, it's progressing. Intel is also in the process of building two fabs in Arizona with a $20 billion price tag.

These huge commitments have given suppliers confidence to move to Arizona as well. Since the Taiwan Semi news, 27 semiconductor industry-related companies have announced plans to move to the Phoenix area or have bought or leased property there, a September 10 *article* on azcentral.com reported. The new businesses have attracted new residents, and builders are building new apartment units to house them.

One semi supplier is Solvay, which announced plans last year to invest in a new facility to produce electronic-grade hydrogen peroxide that cleans silicon wafers, a July 26, 2022 company *press release stated*. The company, which has other factories in the US, purchased 25 acres of land in Arizona and planned to begin construction this year. Taiwan-based Chang Chun also announced plans in 2022 to produce in Arizona electronic-grade hydrogen peroxide and other solutions for the semiconductor industry. Its first US manufacturing facility is expected to cost $300 million and create 200 jobs.

Yield Engineering Systems develops and manufactures thermal, deposition, and wet process equipment used in semiconductor, life sciences, and display manufacturing. It leased a 123,000-square-foot facility in Arizona in May 2022 to house operations that cater to the semiconductor industry, a May 2022 *press release* from the local municipality states. The ribbon-cutting was in July 2023.

KPCT Advanced Chemicals, a joint venture between Taiwan-based Kanto Group and Chemtrade Logistics in the US, is building an electronic-grade sulphuric acid manufacturing plant in Arizona over 10 acres. It too will supply the semiconductor industry and is expected to be operational by 2025, a November 2022 *press release* from the Arizona Commerce

Authority states.

Many other industries are building new factories in the state as well. Arizona boasts a $675 million plant being built by Nestle USA to produce creamers. Virgin Galactic is building a manufacturing facility to produce as many as six Delta-class spaceships per year. Proctor & Gamble is building a $500 million manufacturing plant to support its fabric care business by 2025, a January 10 *article* in *Engineering News Record*.

(2) *Upstate NY bets on semis.* Manufacturers like General Electric, Kodak, and Carrier have exited or sharply reduced their operations in the upstate New York area in recent decades, forcing many folks relocate if they want to make a decent living. So it was big news when Micron Technology announced in October 2022 that it would spend $100 billion over the next 20 years to build semiconductor plants in Clay, New York, just north of Syracuse. Construction is expected to begin in 2024 on the first of four plants that should be operational by 2030 and employ 3,000 people directly.

Micron anticipates hiring 9,000 people eventually, when all the fabs are constructed, and 41,000 additional jobs are expected to be created by other businesses supplying the company and its employees with everything from materials to maintenance and restaurants, a July 6 *MIT Technology Review* *article* reported.

A handful of other semiconductor businesses have cropped up in upstate New York as well. In November 2022, Edwards Vacuum, a UK-based manufacturer of vacuum and abatement equipment for the semiconductor industry, announced plans to develop a $319 million dry pump manufacturing facility in Genesee County, about two hours west of Clay. That follows the April 2022 opening of Wolfspeed’s $1 billion silicon carbide chip plant north of Utica. The chips initially will be used in electric vehicles (EVs) produced by Lucid and General Motors, a May 2, 2022 *article* in the *Utica Observer-Dispatch* reported.

New York State is hopeful that more semi suppliers will brave the New York winters. Governor Kathy Hochul announced $40 million in grants to develop shovel-ready tracks of land on which semiconductor suppliers could build plants. “Employers want to know that the permits are in place, the infrastructure is right, and work can begin almost immediately because time is money," Hochul said according to an August 15 *article* on WXXI News.

To help meet the region’s future need for qualified labor, Syracuse University plans to expand funding for its College of Engineering and Computer Science by 50% over the next five years or so. Onondaga Community College is also creating two new degree programs.

Time will tell whether New York is as successful as Arizona.

(3) *Industrials benefit.* All this manufacturing activity has helped boost the S&P 500 Industrial sector's stock price index by 9.6% ytd through Tuesday's close. Here's how Industrials' ytd performance stacks up against that of the S&P 500 and its other sectors: Information Technology (50.2%), Communication Services (45.3), Consumer Discretionary (34.5), S&P 500 (19.0), Industrials (9.6), Financials (4.7), Materials (4.1), Real Estate (2.5), Health Care (-3.3), Consumer Staples (-4.8), Energy (-6.2), and Utilities (-11.7) (*Fig. 6*).

The Industrials sector would have performed even more admirably had it not been dragged down by some of the defense contractors, airlines, and air freight & logistics industries. Here's how some of the best performing industries within Industrials have fared ytd through Tuesday's close: Industrial Machinery (16.0%), Electrical Components & Equipment (15.9), Industrial Conglomerates (14.1), Construction Machinery & Heavy Trucks (11.5), and Aerospace & Defense (0.4) (*Fig. 7*).

The S&P 500 Industrials sector is expected to grow revenue by 4.3% this year and 4.8% in 2024, while earnings for the sector are projected to increase 14.2% in 2023 and 11.1% next year (*Fig. 8* and *Fig. 9*). The sector's forward P/E, at 18.4, is toward the upper end of its range of 11 to 26 over the last decade (*Fig. 10*).

Financials: A Glimmer of Hope. In recent days and weeks, we've noticed that reports of large mergers and acquisitions (M&A) seem to have picked up. Executives at some of the largest banks, while still couching their comments, sounded just a touch more optimistic about the M&A deal environment as well.

"M&A deals are coming a little faster," Bank of America CEO Brian Moynihan told a Goldman Sachs conference, a Reuters *article* reported on Tuesday. As the interest-rate environment stabilizes, there will be more scope for dealmaking, he added. The bank's investment banking fees of about $1 billion in the current quarter will be down y/y at percentages in the low single digits but are still expected to outperform the industry average.

Goldman Sachs CFO Denis Coleman said that a lot of clients have appetites for strategic deals but that the high cost of funding has kept private equity firms cautious about undertaking them, Reuters reported.

Here are some of the deals that caught our attention in a wide array of industries:

(1) *Health care.* Cigna is in merger talks with Humana to create a $140 billion giant that combines a huge pharmacy benefit management operation with the second largest Medicare Advantage business. Roche agreed earlier this month to buy Carmot Therapeutics, an obesity drug developer, for $2.7 billion. Meanwhile, AbbVie is paying $10.1 billion in cash to buy ImmuoGen, which has an antibody drug that fights ovarian cancer.

(2) *Oil patch.* Occidental Petroleum is reportedly in talks to buy shale company CrownRock. Meanwhile, ExxonMobil has offered to acquire Pioneer Natural Resources for $59.5 billion in stock, but the deal could face a bumpy road if the Federal Trade Commission's recent request for additional information is any indication.

(3) *Airlines.* Alaska Air Group has offered $1.9 billion to acquire Hawaiian Airlines. The offer was made even as the Justice Department sued to block JetBlue Airways' $3.8 billion offer to buy Spirit Airlines. The parties are awaiting a judge's decision.

(4) *Odds 'n ends.* Steel manufacturer Cleveland-Cliffs is in negotiations to buy US Steel, while Neiman Marcus has turned down Saks Fifth Avenue's $3 billion acquisition offer after months of negotiations. Talks between the two retailers reportedly continue.

Disruptive Technologies: Introducing Octopus. Windmills always seem to be painted white, so pictures of several purple and hot pink windmills towering outside of the Dubai venue of the big international climate change conference COP28 demanded further attention. They were installed by Octopus Energy, a privately held British company that's trying to turn the electric industry on its head. It's attempting to manage the intermittency of solar and wind energy by deploying storage solutions, incentivizing consumers to use electricity when renewable energy is at peak production, and rolling out smart software to manage it all.

The company has its tentacles in many different areas. Here's a quick look at some of them:

(1) *Green production.* Octopus owns wind and solar projects in 15 countries, including the UK, France, Finland, Sweeden, and Australia. On Monday, it announced an agreement to develop up to five wind turbines and solar panels with batteries in Sierra Leone in partnership with actor Idris Elba and Siaka Steven's development company, Sherbro Alliance Partners.

(2) *Electricity provider.* Octopus sells electricity to consumers and to businesses. It installs

heat pumps, EV chargers, smart meters, and other hardware in residential homes. Consumers get the opportunity to invest in that local green energy generation; and if they live near a wind turbine, consumers can receive a 20% discount on electricity used when the wind is blowing most actively. The same goes for solar. The model incentivizes consumers to use electricity when it's the most available and cheapest for Octopus to provide it.

The company is working with British property developers, telling them how many solar panels to put on a home and what sizes of battery, heat pump, and water heater are necessary to install. The company provides homeowners with a license to consume the solar energy provided and guarantees that they won't receive an electric bill for 10 years.

(3) *EV lessor.* Another program Octopus offers gets EVs into consumers' driveways. Companies can lease EVs from Octopus to offer as employee perks; employees can buy the EVs they're using over time with a portion of their gross salary. As part of the deal, they receive a free home charger, insurance, car maintenance, and free home charging on the first 4,000 miles driven. The payroll deductions allow employees to save on National Insurance (the UK's social security system) and income tax, the company's *website* explains.

(4) *Software manages it all.* Perhaps Octopus' most valuable arm is Kraken Technologies. It offers a software operating system that utilities use to manage and optimize energy production and consumption. Its software also manages customer information, billing, meter data management and offers AI-powered communication and automation.

Intelligent Octopus is a Kraken-powered retail offering that helps British customers max out their renewable electricity use when power is abundant and cheap. "Speaking on a panel at COP28, [Octopus Energy's founder and CEO Greg Jackson] said that the previous day more than half a million Octopus customers were paid to use less electricity at peak times, which was 'the equivalent of turning off the entire energy consumption of two cities,'" according to a December 4 *article* in the *Australian Financial Review*. As a result, Octopus doesn't have to buy expensive coal-generated electricity during peak periods. It creates a "virtual power plant" that's growing 24% m/m in the UK.

The company is selling the Kraken software internationally. On Tuesday, Octopus announced a *trial* with Abu Dhabi National Energy Company; and last June, the company *struck* its first US deal with Tenaska Power Services.

Calendars

US: Thurs: Initial Jobless Claims 223k; Consumer Credit $9.0b; Wholesale Inventories -0.2%; Fed's Balance Sheet. **Fri:** Payroll Employment Total, Private, and Manufacturing 180k/155k/25k; Average Hourly Earnings 0.3%m/m/4.0%y/y; Average Weekly Hours 34.3; Unemployment Rate 3.9%; University of Michigan Consumer Sentiment 61.8; Baker-Hughes Rig Count. (FXStreet estimates)

Global: Thurs: Eurozone GDP 0.1%q/q/-0.1%y/y; Eurozone Employment Change 0.3%q/q/1.4%y/y; Germany Industrial Production 0.5%; France Trade Balance -8.5b; Italy Retail Sales 0.1%; Italy Industrial Production -0.3%; Eurogroup Group Meetings; UK Halifax House Price Index 0.3%; Japan Leading & Coincident Indicators; Japan DP -0.5%q/q/-2.1%y/y; Japan Household Spending -0.2%m/m/-3.0%y/y; Wuermeling; Gravelle; Machlem. **Fri:** Germany CPI -0.4%m/m/3.2%y/y; France Nonfarm Payrolls -0.1%. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* dipped to 2.54 this week, after rising the prior four weeks from 1.67 to 2.60. *Bullish* sentiment ticked down to 55.1% after climbing the prior four weeks by 12.8 percentage points, from 42.9% to 55.7%—which was the highest percentage since the end of July. Meanwhile, *bearish* sentiment ticked up to 21.7% after falling the prior four weeks by 4.3ppts (to 21.4% from 25.7%). The *correction count* edged up to 23.2% after sliding the prior four week 8.5ppts (to 22.9% from 31.4%). Turning to the *AAII Sentiment Survey* (as of November 30), optimism continued to rise during the latest week, while pessimism sank to its lowest level in almost six years. The *percentage expecting stock prices to rise over the next six months* rebounded 24.5ppts the past four weeks to 48.8%, after falling the prior three weeks by 15.7ppts to (24.3% from 40.0%). Optimism is unusually high and is above its historical average of 37.5% for the fourth successive week and the fifth time in eight weeks. The *percentage expecting stocks to fall over the next six months* fell for the third time in four weeks, by 30.7ppts to 19.6%, after climbing the prior two weeks by 15.7ppts (to 50.3% from 34.6%), which was the highest since December 22, 2022's 52.3%. Pessimism is unusually low—at its lowest percentage since January 3, 2018 (15.6%)—and is below its historical average of 31.0% for the fourth time in 11 weeks. The *percentage expecting stock prices will stay essentially unchanged over the next six months* rose 3.6ppts the past two weeks to 31.1%, after slipping the prior week by 2.1ppts to 28.1%. Neutral sentiment is above its historical average of 31.5% for the first time in nine weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was steady at 12.7% during the November 30 week, and is now just 0.1pt below its 11-month high of 12.8% during the September 21 week. That's up from a 24-month low of 12.3% during the March 30 week, but is down 0.7pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.4pts above its seven-year low of 10.3% during April 2020. Forward revenues ticked down 0.1% w/w to 0.2% below its record high during the November 2 week. Forward earnings rose 0.1% w/w to 0.4% below its record high during the September 21 week, which had been its first since the June 16, 2022 week. Both had been steadily making new highs from the beginning of March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth fell 0.1pt to 4.7% from a 12-month high of 4.8% and is now up 2.4pts from its 33-month low of 2.3% during the February 23 week. 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. The forward earnings growth forecast was unchanged w/w at 10.7%, just below its 24-month high of 10.8% during the November 2 week, and is now 7.2pts above its 31-month low of 3.5% in mid-February. 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. Analysts expect revenues to rise 2.1% in 2023 (unchanged w/w) and 4.9% in 2024 (up 0.1pt w/w) compared to a revenues gain of 12.4% in 2022. They expect an earnings gain of 1.0% in 2023 (unchanged w/w) and an 11.1% rise in 2024 (up 0.1pt w/w) compared to an earnings gain of 7.3% in 2022. Analysts expect the profit margin to fall 0.1ppt y/y to 12.0% in 2023 (unchanged w/w), compared to 12.1% in 2022, and to rise 0.7ppt y/y to 12.7% in 2024 (unchanged w/w). The S&P 500's weekly reading of its forward P/E dropped 0.1pt w/w to 18.9, and is down from a 17-month high of 19.8 during the July 20 week. That's still up from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio was unchanged w/w near a three-month high of 2.41 and is up from a six-month low of 2.22 during the October 26 week. That compares to a 15-month high of 2.46 during the July 27 week and is up from a 31-month low of 1.98 in October 2022. That 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*): Looking at the S&P 500 sectors, the November 30 week saw consensus forward revenues rise for four of the 11 sectors and forward earnings rise for six sectors. The forward profit margin moved higher for three sectors. None of the 11 sectors have forward revenues at post-pandemic or record highs this week. Only Information Technology was in that club a week earlier. In early November, these three sectors were in that club: Communication Services, Health Care, and Industrials. Among the remaining seven sectors, just three have forward revenues more than 5.0% below their post-pandemic highs: Energy, Financials, and Materials. Information Technology is the only sector with forward earnings at a record high this week, as these four sectors have eased from that mark over the past 12 weeks: Communication Services, Consumer Discretionary, Industrials, and Utilities. Among the remaining six sectors, only Energy and Materials have forward earnings down more than 10.0% from their post-pandemic highs, while Financials exited that club in early October. Among the 11 sectors, only Industrials has weathered a broad margin retreat from post-pandemic or record highs. Now nearly all of the sectors are showing signs of recovering from their early 2023 lows, though it has stalled recently. Information Technology was the only sector with its forward profit margin at a record high this week. That compares to three sectors in that club in early October, which included also Consumer Discretionary and Industrials at that time. The forward profit margins of Communication Services, Consumer Discretionary, and Industrials remain close to their post-pandemic highs. Energy has improved markedly off its low in July, but Consumer Staples and Health Care remain at or close to their record lows. Energy and Industrials were the only two sectors to have their profit margins improve y/y for full-year 2022. The annual profit margin is expected to be flat y/y in 2023 for Consumer Staples, but these six sectors are expected to see their margins improve: Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, and Utilities. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (25.7%, a record high this week), Financials (18.3, down from its 19.8 record high in August 2021), Real Estate (16.6, down from its 19.2 record high in 2016), Communication Services (16.5, down from its 17.0 record high in October 2021), Utilities (13.3, down from its 14.8 record high in April 2021), S&P 500 (12.7, down from its record high of 13.4 achieved intermittently in 2022 from March to June), Energy (11.2, down from its 12.8 record high in November), Materials (10.8, down from its 13.6 record high in June 2022), Industrials (10.7, down from its record high 10.8 in September), Health Care (9.1, a record low and down from its 11.5 record high in February 2022), Consumer Discretionary (8.3, down from its 8.4 record high in mid-September), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

US Economic Indicators

ADP Employment (*link*): "Restaurants and hotels were the biggest job creators during the post-pandemic recovery," noted Nela Richardson, chief economist, ADP. "But that boost is behind us, and the return to trend in leisure and hospitality suggests the economy as a whole will see more moderate hiring and wage growth in 2024." *Private payrolls* increased a smaller-than-expected 103,000 (vs 130,000 expected) in November, while October's 113,000 increase was revised lower, to 106,000, though both were up from September's 89,000—which was the weakest performance since January 2021. Service-providing jobs rose 117,000 in September, averaging only 104,000 the past three months, compared with the average monthly gain of 230,000 during the five months through August. Meanwhile, goods-producing jobs fell for the second month, by 14,000 in November and 19,000 over the two-month period—the first back-to-back declines since the beginning months of the pandemic. Within *servicing-providing* industries, trade, transportation & utilities (55,000) posted the biggest gain, followed by education & health services (44,000), other service (15,000), financial activities (11,000), and information services (4,000)—with trade, transportation & utilities, education & health services, and other services at record highs and professional and business services and leisure and hospitality hovering around record highs. Within *goods-producing* industries, construction jobs slipped 4,000, after a nine-month surge of 363,000—with most of the gain occurring during the four months through June. As for manufacturing payrolls, they have contracted during eight of the past nine months, by 15,000 in November and 221,000 over the period, though the level remains relatively high—within 260,000 of January 2019's record high. Natural resources & mining jobs have increased every month but one so far this year, by 375,000 to a new record—though the pace has slowed dramatically over the past four months. By *company size*, medium (68,000), large (33,000), and small (6,000) all added jobs last month, with medium and small at new record highs. Turning to ADP's *median annual pay* measures, the yearly rate for *job-stayers* slowed to a 26-month low of 5.6% this November, down from last September's 7.8% peak, while the rate for *job-changers* eased to 8.3%, 8.1ppts below last June's 16.4% peak.

Productivity & Unit Labor Costs (*link*): Productivity, which measures output per hours worked, grew faster than initially reported last quarter, putting additional downward pressure on unit labor costs. Revisions show Q3 *productivity* expanded 5.2% (saar), up from the 4.7% initial estimate and the strongest growth since Q3-2020. *Output* (6.1% from 5.9%, saar) growth was faster than first reported, while *hours worked* (0.9 from 1.1) was slower. The upward revision to Q3 productivity caused a steeper decline in *unit labor costs* (-1.2%

from -0.8%, saar) during the quarter, with hourly compensation unchanged at the initial estimate of a 3.9% (saar) increase. Unit labor costs and *hourly compensation* began the year accelerating 7.4% and 6.9% (saar), respectively, during Q1.

Merchandise Trade (*link*): The *real merchandise trade deficit* widened for the second month in October to $87.0 billion from $83.8 billion in August. October's deficit is slightly larger than the Q3 average monthly deficit of $86.1 billion. Real exports fell for the first time in six months, by 0.3% in October, following a five-month surge of 6.0%. Meanwhile, *real imports* increased for the third time in four months, by 0.2% in October and 2.7% over the period. Looking at *real exports versus a year ago*, they're up 1.9%—led by gains in exports of other goods (9.5% y/y), automotive vehicles, parts & engines (6.6), foods, feeds & beverages (5.1), and nonfood consumer goods ex autos (5.1). Exports of capital goods ex autos (0.6) and industrial supplies & materials (-0.4) are basically flat with their year-ago levels, the former fractionally positive, the latter fractionally negative. Turning to *real imports versus a year ago*, they're down 2.3%, as imports of foods, feeds & beverages (-9.9% y/y), nonfood consumer goods ex autos (-5.6), industrial supplies & materials (-4.9), capital goods ex autos (-2.2) were below year-ago levels, while exports of other goods (4.7) and automotive vehicles, parts, and engines (9.9) were above.

Global Economic Indicators

Eurozone Retail Sales (*link*): Eurozone retail sales has shown virtually no growth so far this year. *Retail sales* ticked up 0.1% both in October and ytd. Since reaching a record high in June 2021, sales have dropped 4.2%. Spending on *food, drinks & tobacco* continues to bounce around recent lows, falling 1.0% in October after a 1.0% rise and a 0.5% fall the prior two months. Meanwhile, sales of *non-food products excluding fuel* rose 0.8% in October after falling the prior two months by 1.7%; these sales are up 1.3% ytd. Consumption of *automotive fuels* has declined in all but two months so far this year, by 0.8% during October and 7.6% ytd. October data are available for three of *Eurozone's four largest economies*: Spain's retail sales slipped 0.4% in October, after climbing 13 of the prior 14 months by 9.1%, to its highest level since November 2010. Meanwhile, sales in France have been in a volatile downtrend, falling 1.0% in October and 1.3% ytd. Sales in Germany rose 1.1% in October, the first increase in five months, after contracting 1.8% during the four months through September. *Versus a year ago*, sales in Spain (5.9% y/y) were significantly above year-ago levels, while sales in France (-3.1) were below and Germany's (-0.1) virtually flat with a year ago.

Germany Factory Orders (*link*): German factory orders surprised on the downside in October, on a steep drop in foreign orders. *Factory orders* sank 3.7% (vs an expected 0.2% uptick), following a two-month gain of 2.6%. Order are down 6.2% ytd. *Foreign orders* plunged 7.6% in October, with orders from both inside the Eurozone (-7.6%) and outside the Eurozone (-7.5) down sharply. Domestic orders increased 2.4% after falling two of the prior three months by 12.4%. *Versus a year ago*, total orders fell 7.3%, with the yearly percent change in both domestic (-7.4) and foreign (-7.1) deep in contractionary territory. Within foreign orders, billings were down 8.3% outside the Eurozone and 5.4% inside 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 (-7.7%, -5.9%, -11.4%), intermediate goods (-6.5, -3.5, -3.4), consumer durable goods (-16.5, -28.0, -3.7), and consumer nondurable goods (-8.6, +10.1, +7.6).

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