MORNING BRIEFING
December 14, 2023

Drugs, China & AI

Check out the accompanying chart collection.

Executive Summary: The S&P 500 sector with the brightest 2024 earnings growth outlook is none other than Health Care, with a share price index that's a deep underperformer this year, Jackie reports. One of its component industries accounts for much of both this year's stock price pain and next year's projected earnings gains—pharmaceuticals. Three drug makers in particular appear bound for standout earnings next year. … Also: China's government is not doing what it takes to overcome its formidable economic challenges. … And in today's Disruptive Technologies segment: one tech veteran's advice for working with AI, warts and all.

Health Care: Hoping for a 2024 Recovery. The S&P 500 Health Care sector stock price index has been sickly all year, posting negative ytd performance through Tuesday's close. Tough y/y comparisons to Covid-boosted-earnings in 2022 hurt some drug companies. Others fell off patent cliffs. Pharmacy benefit managers have come under pressure from new competition from the online pharmacy services being offered by Amazon and billionaire entrepreneur Mark Cuban. The makers of weight-loss drugs were among the few pharmaceutical manufacturers to have a banner year.

As the new year begins, analysts are optimistic about the 2024 earnings prospects for companies in the Health Care sector. In fact, the sector's earnings growth next year is expected to trump that of any other S&P 500 sector—including Technology.

Let's dive into what hurt Health Care names this year and what stands to help the sector in the year ahead:

(1) *A tough 2023.* The S&P 500 Health Care sector's stock price index is one of only four among the 11 S&P 500 sectors to fall this year. Here's the performance derby for the S&P 500 and its sectors ytd through Tuesday's close: Information Technology (54.0%), Communication Services (47.8), Consumer Discretionary (36.9), S&P 500 (20.9), Industrials (12.0), Financials (6.6), Materials (6.3), Real Estate (2.3), Health Care (-2.1), Consumer Staples (-4.1), Energy (-8.4), and Utilities (-10.6) (*Fig. 1*).

The stock price indexes of all but one of the industries within the S&P 500 Health Care sector severely lagged the S&P 500 ytd through Tuesday's close: Health Care Distributors (23.1%), Health Care Facilities (8.6), Health Care Equipment (3.9), Health Care Supplies (2.7), Managed Health Care (0.4), Biotechnology (-2.9), Pharmaceuticals (-3.7), Life Sciences Tools and Services (-9.9), and Health Care Services (-12.9) (*Fig. 2*).

(2) *Strong earnings growth expected in '24.* Ironically, given the 2023 underperformance of Health Care's stock price index, this is the S&P 500 sector that analysts see bound for the strongest earnings growth in 2024—of 19.5%, representing a sharp about-face from the sector's projected earnings drop this year of 20.2%.

Note how much faster the S&P 500 Health Care sector's earnings are forecast to grow in 2024 relative to the other S&P 500 sectors: Health Care (19.5%), Communication Services (15.9), Information Technology (14.7), Consumer Discretionary (11.7), Industrials (11.1), S&P 500 (11.0), Utilities (8.1), Financials (5.9), Consumer Staples (5.2), Energy (3.7), Materials (2.9), and Real Estate (-0.5).

The Health Care sector's healthier earnings growth next year owes much to the rebound in the Pharmaceuticals industry's earnings. In 2022, pharma earnings were boosted by the pandemic, particularly for companies that sold vaccines or needed supplies. This year, earnings for those companies fell sharply as memories of the pandemic faded. Next year, more normal earnings growth is expected to return.

The Pharmaceuticals industry had 18.0% earnings growth in 2022, followed by a projected 41.9% decline in earnings this year; it's expected to grow earnings by 51.1% in 2024. As a result, the Pharmaceuticals industry's earnings are expected to be the second fastest growing in the S&P 500 next year, behind only Movies & Entertainment. Notably, though, the Pharmaceutical industry's earnings estimates will likely be trimmed over the next week as analysts factor in the sharply lower 2024 earnings guidance that Pfizer announced yesterday.

Here are the 2024 earnings growth estimates for the S&P 500 Health Care sector and its component industries: Pharmaceuticals (51.5%), Health Care sector (19.6), Health Care Distributors (13.0), Managed Health Care (11.0), Health Care Supplies (10.7), Biotechnology (9.1), Health Care Facilities (8.2), Health Care Equipment (8.1), Health Care Services (5.1), and Life Sciences Tools & Services (1.0).

(3) *Thank Merck, Pfizer & Lilly.* Three pharma stocks are expected to post standout earnings growth next year: Eli Lilly, Merck, and Pfizer. Lilly's results should get a boost from

Mounjaro, a diabetes drug that's now being used for weight loss. A recent analysis of health records and other data showed that those taking Mounjaro lost weight faster than those taking Novo Nordisk's competing Wegovy and Ozempic drugs, a November 27 Reuters *article* reported. Lilly's earnings are expected to rise 86.2% next year, and its shares have climbed 59.8% ytd.

Merck's earnings growth will jump next year because this year's earnings are depressed. The drugmaker is facing the patent expiration of blockbuster cancer drug Keytruda later this decade. In preparation for the expiration, Merck has been doing deals to boost its drug pipeline, including a recently announced joint venture with Daiichi Sankyo to commercialize three antibody-drug conjugates that fight cancer. While an upfront payment of $5.5 billion related to the Daiichi joint venture depressed Merck's earnings this year, it will make Merck earnings growth in 2024 look impressive: 455.6%. Merck's shares are 5.9% lower ytd.

Pfizer is also facing drug patent expirations and tough comparisons to Covid-boosted earnings in 2022. To help fill its drug pipeline, Pfizer recently announced the acquisition of Seagen, another antibody drug conjugate for fighting cancer. In October, Pfizer slashed its 2023 sales guidance for Paxlovid (a drug to treat Covid) to $1 billion from $8 billion, announcing that the US government returned roughly a third of the Paxlovid doses it had bought from the company.

On Wednesday, Pfizer announced its 2024 earnings estimate of $2.05-$2.25 a share, far below analysts' consensus forecast of $3.18 a share. Results will be lower than expected because revenue from Covid-related products are forecast to come in well below what analysts had penciled in. Pfizer's earnings are still expected to bungie from the $5.47 a share it earned in 2022 down to $1.73 this year, then up 24.4% to $2.15 in 2024, using the midpoint of the earnings range the company gave. But the rebound was far lower than expected; that sent the shares tumbling roughly 7% yesterday, bringing its ytd decline to almost 50%.

China: Is Xi Fiddling? It's been more than two years since China's most indebted property developer, Evergrande, defaulted on more than $300 billion of debt. Over that time, no restructuring plan has been agreed to, leaving creditors and an estimated 1.5 million retail homebuyers in limbo. Evergrande isn't alone. Oher Chinese property developers have defaulted as well, and debt restructurings—the kind that really flush out the system and allow it to grow again—are mostly nonexistent. A few developers have restructured their dollar-denominated debt, but they've yet to reduce the amount of local debt outstanding.

The status quo has left consumers who purchased apartments in the developers' unfinished properties unsure of what will happen to their investments and likely wary of spending much on other goods. Most developers aren't moving forward with new projects, so they're not buying new parcels of land from municipalities. That's leaving local municipal coffers low on funds and staring up a mountain of debt.

Earlier this week, the Chinese Communist Party (CCP) held its annual economic conference, but it concluded without news of any large, splashy spending program to save the day. Meanwhile, more signs of deflation have appeared in China's economy, an ominous development given the amount of debt the country needs to repay. We wouldn't be surprised to see a cartoon of President Xi fiddling, as Nero purportedly did while Rome burned (though fiddles didn't exist in the time of Nero).

Let's take a closer look at these recent developments:

(1) *Many goals, no instructions.* The CCP aims to promote "high-quality development" and focus on scientific and technological innovation, according to a government statement published by Xinhua News Agency. The government aims to "vigorously promote" new industrialization, develop the digital economy, and accelerate the development of artificial intelligence. The party is targeting the development of industries that include biomanufacturing, commercial aerospace, quantum, and life sciences, while strengthening applied and cutting-edge research and encouraging both entrepreneurial and equity investments. The government also aims to stimulate consumption and expand investments that have proven profitable.

The statement did acknowledge the real estate problem China faces: "It is necessary to coordinate and resolve risks in real estate, local debt, small and medium-sized financial institutions, etc., severely crack down on illegal financial activities, and resolutely maintain the bottom line of preventing systemic risks." But no solutions to the problem were given.

Chinese shares have fallen sharply this year, with the China MSCI index closing at a 13-month low on Monday and down 13.9% ytd through Tuesday's close. The broader Shanghai Shenzhen CSI 300 closed at a 58-month low on Wednesday and is down 13.0% ytd (*Fig. 3*).

(2) *Daunting deflation.* Both consumer and producer prices have fallen y/y several months this year, indicating that deflation may be on the verge of becoming entrenched. China's consumer price index (CPI) fell 0.5% y/y in November, its third month of declines. CPI was

negative by 0.2% in October and 0.3% in July and unchanged in June and September. China's core CPI fell 0.6% y/y in June and was flat in May and July. It was at 0.4% y/y in November.

Producer prices have also been in negative territory since last October and most recently fell by 3.0% in November (*Fig. 4*).

The specter of deflation should keep Chinese central bankers up at night. It certainly worried former Fed Chair Ben Bernanke when deflation was a problem in the US; he once said that if deflation became serious enough, it could warrant dropping money from a helicopter to resolve it. While he wasn't serious, the implication is that central bankers should do whatever is possible to steer economies clear of or out of deflationary environments.

(3) *Lots of can kicking.* Since the start of 2020, at least 60 Chinese property developers with more than $140 billion of dollar-denominated bonds collectively have defaulted, according to a December 8 *FT* *article*. That doesn't include the hundreds of billions of dollars of domestic debt these property developers owe.

While it seems clear that debt restructurings are needed, investors continue to let the heavily leveraged property developers off the hook—for now. In the handful of restructurings that have been proposed, it's the dollar-denominated offshore debt that's being restructured, while the local debt remains outstanding.

Just this week, most investors in Country Garden Holdings' yuan-denominated bonds agreed not to exercise a put option that would require the bond be repaid now, before it matures next year. And they were rewarded. Country Garden announced on Wednesday that it repaid the bond in full. Meanwhile, the builder already defaulted on a dollar-denominated bond in October, and its sales fell 77% in November, a December 12 Bloomberg *article* reported.

Chinese property developer Shimao Group has proposed a restructuring plan that would reduce its $14 billion of offshore debt by as much as half. Some of the debt would be exchanged for new nine-year loans, new senior secured debt, and equity-linked instruments. The company's $25 billion of local debt does not seem to be impacted by the restructuring proposal. The company has been selling assets to reduce its debt, but it still had to roll over about CNY18.9 billion of local debt during H1-2023 when it posted a net loss that rose 23% to CNY12.1 billion, a December 8 Yicai Global *article* reported.

Developer Sunac won court approval to restructure about $10 billion of offshore debt, in part by issuing creditors new notes and convertible bonds. The company did not say whether or how its Rmb1trillion of debt would be affected, an October 5 *FT* *article* reported.

Bucking this trend are Evergrande's offshore creditors, who have petitioned a Hong Kong court to liquidate the company. However, the judge in the case postponed a hearing until January to give the property developer more time to propose a restructuring plan, a December 4 *FT* *article* reported.

Disruptive Technologies: Riding the AI Wave. Artificial intelligence (AI) definitely captured the public's attention this year. All of a sudden, ChatGPT and other AI programs were available to the ordinary Joe for free, firing the imaginations of everyone from 13-year-olds with homework to do (or not?) to CEOs focused on using the technology to increase productivity.

Long-time tech watcher and former Andreessen Horowitz partner Benedict Evans made AI the subject of his annual *presentation* on macro and strategic trends in the tech industry. It's worth a look, as is the video of a presentation he gave a year ago on the subject.

In the video, he suggests thinking about AI as an intern. If you employed 50 or 100 interns, what would you ask them to do to make work easier, faster, and more efficient? As with many interns, AI's output needs to be checked given its proclivity to hallucinate, but that won't eliminate the technology's usefulness and ability to increase productivity.

In his presentation, Evans quotes Bill Gates: "In my lifetime, I've seen two demonstrations of technology that struck me as revolutionary … the [graphic user interface] and ChatGPT." Graphic user interfaces (GUI) are the symbols on computer screens that allow you to do things, like open email or cut and paste copy, with the click of a mouse instead of having to write lines of code. GUIs made computers accessible to the everyman, eliminating the need for users to have a programing degree.

Now the question is: What will ChatGPT empower the ordinary Joe to do that once required specialized skills? Our kids know ChatGPT can turn them into writers, artists, and videographers. Companies seem to be harnessing the technology in their marketing departments and in chatbots to improve communication with customers. We're sure that smart folks will continuously think of novel uses, giving us plenty to write about in 2024.

Calendars

US: Thurs: Retail Sales 0.2%m/m/1.6%y/y; Business Inventories 0.0%; Initial Jobless Claims 221k; Import & Export Prices -0.8%/-1.0%; Atlanta Fed GDPNow; Fed's Balance Sheet; IEA Monthly Report. **Fri:** Empire State Manufacturing Index 2.00; Headline & Manufacturing Industrial Production 0.3%/0.5%; Capacity Utilization 79.2%; S&P M-PMI & NM-PMI Flash Estimates 49.1/50.5; Baker-Hughes Rig Count. (FXStreet estimates)

Global: Thurs: UK Gfk Consumer Confidence -23; Japan M-PMI 48.2; China Industrial Production 5.7%y/y; China Retail Sales 12.5%y/y; China Unemployment Rate 5.0%; ECB Interest Rate Decision & Deposit Facility Rate 4.50%/4.00%; ECB BoE Interest Rate Decision 5.25%; BoE Inflation Letter; EU Leaders Summit; Lagarde. **Fri:** Eurozone WPI; Eurozone CPI; Eurozone, Germany, and France C-PMI Flash Estimates 48.0/48.3/44.9; Eurozone, Germany, and France M-PMI 44.5/43.3/43.2; Eurozone, Germany, and France NM-PMI Flash Estimates 49.0/49.8/46.0; UK C-PMI, M-PMI, and NM-PMI Flash Estimates 50.9/47.5/51.0; EU Leaders Summit. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* rose to 2.87 this week, the highest since late July, after dipping from 2.60 to 2.54 last week. *Bullish* sentiment ticked up to 55.6% this week, after ticking down from 55.7% (the highest percentage since late July) to 55.1% last week, the third week in the caution zone (above 55%). Meanwhile, *bearish* sentiment slipped to 19.4% this week, the lowest since last August, after edging up from 21.4% to 21.7% last week. The *correction count* climbed for the second straight week to 25.0% after sliding the prior four weeks by 8.5ppts (to 22.9% from 31.4%). Turning to the *AAII Sentiment Survey* (as of December 7), optimism fell for the first time in five weeks, while pessimism rebounded from its lowest level in six years—with both returning to their respective typical ranges. The *percentage expecting stock prices to rise over the next six months* fell 1.4ppts to 47.3%, after rebounding 24.5ppts (to 48.8% from 24.3%) the prior four weeks to 48.8%. Optimism was above its historical average of 37.5% for the fifth straight week and the sixth time in nine weeks. The *percentage expecting stocks to fall over the next six months* increased 7.8ppts to 27.4%, after falling three of the previous four weeks by 30.7ppts (to 19.6% from 50.3%). Pessimism is below its historical average of 31.0% for the fifth successive week and the fifth time in 12 weeks. The *percentage expecting stock prices will stay essentially unchanged over the next six months* fell 6.4ppts to 25.3% after rising 3.6ppts the prior two weeks (to 31.7% from 28.1%). Neutral sentiment is below its historical average of 31.5% for the ninth time in 10 weeks.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin improved 0.1pt w/w to 12.8% during the December 7 week, and now matches 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 0.6pt from its record high of 13.4% achieved intermittently in 2022 from March to June. It's now 2.5pts above its seven-year low of 10.3% during April 2020. Forward revenues rose 0.5% w/w to its first record high in 11 weeks. It had hit that mark during the September 21 week for the first time since the June 16, 2022 week. Revenues and earnings 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 rose 0.3pt to a 14-month high of 5.0% and is now up 2.7pts 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 rose 0.7pt w/w to a 25-month high of 11.4%, and is now 7.9pts 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 5.0% in 2024 (up 0.1pt w/w) compared to a revenues gain of 12.4% in 2022. They expect an earnings gain of 1.1% in 2023 (up 0.1pt w/w) and an 11.0% rise in 2024 (down 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 0.2pt w/w to 18.7, 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 dropped 0.02pt w/w to 2.39 from 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 December 7 week saw consensus forward revenues rise for 10 of the 11 sectors and forward earnings rise for nine sectors. The forward profit margin moved higher for nine sectors. Three of the 11 sectors have forward revenues at post-pandemic or record highs this week: Communication Services, Health Care, and Information Technology. Among the remaining eight sectors, just three have forward revenues more than 5.0% below their post-pandemic highs: Energy, Financials, and Materials. Three sectors also have forward earnings at a record high this week, as these four sectors have eased from that mark over the past 12 weeks: Communication Services, Information Technology, and Utilities. Among the remaining eight 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, and their recent stall appears to be ending. Consumer Discretionary and Information Technology are the only sectors with their forward profit margin at a record high this week. That compares to three sectors in that club in early October, which also included Industrials at that time. The forward profit margins of Communication Services and Industrials remain close to their post-pandemic highs. Energy has stalled recently after improving 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 (25.9%, a record high this week), Financials (18.4, down from its 19.8 record high in August 2021), Real Estate (16.4, down from its 19.2 record high in 2016), Communication Services (16.6, down from its 17.0 record high in October 2021), Utilities (13.4, down from its 14.8 record high in April 2021), S&P 500 (12.8, 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 (8.4, a record high this week), and Consumer Staples (6.8, down from its 7.7 record high in June 2020).

S&P 500 Sectors & Industries Forward Profit Margin Since March 30 Bottom (*link*): The S&P 500's forward profit margin rose 0.1ppt w/w to 12.8% during the December 7 week, and now matches its 11-month high during the September 21 week. It's up 0.5ppt from a two-year low of 12.3% during the March 30 week. Six of the 11 sectors' margins have improved since then, with the S&P 500's gain paced by four sectors. It's still down

4.9%, or 0.6ppt, from its record-high 13.4% during the June 9, 2022 week, as seven of the 11 sectors' margins are down since then, with the S&P 500's drop paced by five of the 11 sectors. Here's the sector performance since the S&P 500's forward profit margin bottom on March 30: Consumer Discretionary (up 15.0% to 8.4%), Communication Services (up 14.6% to 16.6%), Information Technology (up 10.9% to 25.9%), Industrials (up 4.4% to 10.7%), S&P 500 (up 4.1% to 12.8%), Consumer Staples (up 1.8% to 6.8%), Utilities (up 1.8% to 13.4%), Financials (down 0.3% to 18.4%), Real Estate (down 1.2% to 16.4%), Materials (down 2.0% to 10.8%), Energy (down 4.1% to 11.2%), and Health Care (down 5.0% to 9.1%). These are the best performing industries since the March 30, 2023 bottom: Casinos & Gaming (up 78.1% to 6.8%), Wireless Telecommunication Services (up 27.2% to 14.6%), Apparel & Accessories (up 25.6% to 11.0%), Brewers (up 23.8% to 9.8%), Semiconductors (up 22.6% to 32.3%), and Hotels, Resorts, & Cruise Lines (up 22.0% to 14.0%).

US Economic Indicators

Producer Price Index (*link*): The PPI was lower than expected in November. *Final demand* was unchanged (vs +0.1% expected), after posting a 0.4% decline in October. November's yearly inflation rate eased for the second month, to 0.9%, after accelerating from 0.3% in June to 2.0% in September. *Core prices*—which excludes food, energy, and trade services—ticked up only 0.1% for the second consecutive month, after averaging monthly gains of 0.25% the prior four months. The *yearly rate* slowed for the second month to 2.5%, from a steady rate of 2.9% during May through September. It peaked at 7.1% in March 2022. *Final demand goods* was unchanged in November—as a decline in the cost of energy products (-1.2%) offset a rise in food prices (+0.6%)—following October's 1.4% drop. It had increased 3.0% over the three months through September. The yearly rate for final demand goods was negative for the second month, at -1.5% in November, after two months fractionally above zero in August and September. The rate was at a record high of 17.6% last June. *Final demand services* was unchanged in October for the second month, slowing steadily from July's 0.7% increase. The yearly rate was 2.1% y/y in November—the slowest yearly rate since January 2021; it peaked at a record-high 9.4% during March 2022. The PPI for *personal consumption* showed no change in November after falling 0.6% in October, following a four-month spurt of 2.0%. The yearly rate eased for the second month to 1.0% after climbing the prior three months from 0.5% in June to 2.4% in September. The yearly rate for *personal consumption excluding food & energy* eased to a 34-month low of 2.2% in November, down from its record high of 8.1% during March 2022.

Global Economic Indicators

Eurozone Industrial Production (*link*): Eurozone industrial production continued to contract in October, falling to its lowest level since October 2020. *Headline* production, which excludes construction, fell for the fourth time in five months, by 0.7% in October and 2.5% over the period. Output is down 6.6% y/y, little changed from September's -6.8%, which was the steepest yearly decline since June 2020. *Manufacturing* production remains in a rut, falling to its lowest level since October 2020, down 0.5% m/m, 5.3% ytd, and 7.1%y/y. Among the main industrial groups, *intermediate goods* output has declined in six of the past eight months, by falling 0.6% in October and 3.6% over the period. *Consumer durable goods* production ticked up 0.2% in October after contracting five of the prior six months, falling 2.1% during September and 7.4% over the period, while *consumer nondurable goods* output declined 0.6% in October and 7.3% ytd. Meanwhile, *energy output* remains on a volatile downtrend, increasing 1.1% in October, but is down 2.7% ytd. *Compared to a year ago*, production in all main industrial groups were in the red: capital goods (-9.7% y/y), consumer nondurable goods (-7.8), consumer durable goods (-6.2), intermediate goods (-4.1), and energy (-0.5). October production data for the *top four Eurozone economies* are now available and show that over the 12 months through October, France (1.8% y/y) was the only country in the plus column, while Germany (-3.9% y/y) posted the biggest decline, followed by Spain (-1.4) and Italy (-1.1).

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