On Your Mark, Get Set, Pause

See the collection of the individual charts linked below.

(1) Trump, Kudlow, Cramer, and moi. (2) Is neutral federal funds rate a long way off or getting closer? (3) Powell, Clarida, and Bostic weigh in. (4) Fed putting monetary policy under review until mid-2019. (5) Getting ready to do nothing? (6) Treasury yields fall on Clarida statement and drop in oil price. (7) Three and done? (8) During Q3, S&P 500 revenues and earnings jump 8.5% y/y and 27.5%, sending profit margin to yet another record high. (9) Joe sorts out the Q3 data for the S&P 500 sectors.

The Fed: Open to Suggestions. President Donald Trump and Larry Kudlow, his economic adviser, have been calling for Fed officials to pause their interest-rate hiking. So has CNBC’s Jim Cramer. And so have I. Fed Chairman Jerome Powell and his colleagues may be starting to get the message and act accordingly. Here are the latest developments:

(1) Closing in on neutral. In the 10/29 Morning Briefing, I wrote: “What’s the rush to raise interest rates? Why not pause the rate hikes and assess how the economy is responding to them so far? … In my opinion, the plunge in stock prices, especially the ones of cyclical companies, suggests that the economy may not be as strong as the Fed perceives and that inflationary risks remain low.”

Last month’s stock market rout was triggered on October 3 when Powell said the following in an interview: “Interest rates are still accommodative, but we’re gradually moving to a place where they will be neutral. We may go past neutral, but we’re a long way from neutral at this point, probably.” That was especially shocking since the 9/26 FOMC statement deleted the following language that had appeared in previous statements: “The stance of monetary policy remains accommodative.” This sentence had been in every FOMC statement since December 16, 2015, when the Fed started its latest rate-hiking program. In his press conference that same day, Powell minimized the import of this development, saying that the language simply had outlived its “useful life.”

Yet only a few days later, he said interest rates were still accommodative and had to go higher. In his first public speech as Fed Vice Chairman, Richard H. Clarida said on October 25: “However, even after our September decision, I believe U.S. monetary policy remains accommodative.” That was a rookie mistake, for sure, but Powell should have known better!

Clarida walked that statement back for himself, and maybe for Powell too, on Friday, saying in a CNBC interview: “As you move in the range of policy that by some estimates is close to neutral, then with the economy doing well it’s appropriate to sort of shift the emphasis toward being more data dependent.” He was actually seconding Atlanta Fed President Raphael Bostic, who said last Thursday that the Fed is “not too far” from reaching a “neutral” rate. There’s a big difference between Clarida’s “close to” and Bostic’s “not too far” on the one hand, and Powell’s “a long way off from” on the other hand.

(2) Asking for suggestions. At the end of last week, Reuters reported: “The Federal Reserve, under pressure from a critical White House even while it largely hits its inflation and employment targets, will
conduct an extensive review next year of how it guides the U.S. economy as it seeks to become more open and accountable. The U.S. central bank said on Thursday it will hold a series of forums across the country to hear from a ‘wide range’ of stakeholders. By the time the review wraps up around mid-2019, it could lead to a rethink of the tools the Fed uses to achieve its goals and the way it communicates policy to the public and financial markets.”

In an 11/15 statement, Powell explained the reason for this “outreach” program as follows: “With labor market conditions close to maximum employment and inflation near our 2 percent objective, now is a good time to take stock of how we formulate, conduct, and communicate monetary policy.”

Since Fed officials now are open to suggestions from the public, may I suggest that they consider this: If the economy is exactly where it should be, then perhaps the neutral federal funds rate is 2.00% rather than 3.00%?! What if NAIRU (the non-accelerating inflation rate of unemployment) isn’t 4.5%, as indicated in the FOMC’s latest dot plot, but closer to the current unemployment rate of 3.7%? Why raise interest rates further if the labor market continues to produce 212,500 jobs per month—as it has on average during the first 10 months of this year—without pushing up price inflation above the Fed’s 2.0% target? (For more on the role of NAIRU in monetary policymaking, see my 11/16 video podcast.)

(3) More pressers. Back in June, Powell announced that starting at the beginning of next year, he will be holding press conferences after all FOMC meetings. Rather than the customary four pressers a year (in March, June, September, and December), he will have eight. That should give the Fed more flexibility on the timing of rate hikes, as it will break the financial markets’ habit of expecting a hike after every presser-followed FOMC meeting this year and next year.

(4) Data dependent again. In any event, Clarida suggested that the Fed is back to hiking rates (or not) based on the economic data rather than Powell’s quarterly pressers. The latest 11/8 FOMC statement noted: “Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier in the year.” The previous (9/26) one had observed that both “have grown strongly.” That might have been a faint hint of a pause in the rate hikes.

Last Thursday, the Atlanta Fed reported: “The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2018 is 2.8 percent on November 15, down from 2.9 percent on November 9. The nowcast of fourth-quarter real personal consumption expenditures growth declined from 2.9 percent to 2.7 percent after this morning’s retail sales report from the U.S. Census Bureau.” The latest estimate for Q4 would be a slowdown from Q3’s 4.0% (saar).

October’s core CPI was up 2.1% y/y—in line with the Fed’s target—showing that a tight labor market, with wages rising at a somewhat faster pace than a year ago, isn’t putting upward pressure on price inflation (Fig. 1). The three-month core CPI was up just 1.6% at an annual rate (Fig. 2). This suggests that productivity may be making a comeback. That’s confirmed by the record high in the S&P 500’s profit margin during Q3, as Joe and I discuss below, despite lots of chatter about rising cost pressures!

The recent plunge in oil prices will also take some pressure off both the headline and core inflation rates. The 10-year US Treasury bond yield fell to 3.08% on Friday as the expected inflation rate fell to 2.02%, holding around its lowest readings since the start of the year (Fig. 3 and Fig. 4).

(5) Three and done? The two-year Treasury note yield dropped from its recent high of 2.98% on November 8 to 2.81% by the end of last week (Fig. 5 and Fig. 6). It tends to signal investors’ expectations for where the federal funds rate will be in a year. The drop was attributed to Clarida’s relatively dovish CNBC interview on Friday.
The federal funds rate range was raised to 2.00-2.25% at September’s FOMC meeting. It will probably be raised to 2.25-2.50% at the December meeting. But then, Melissa and I expect that the Fed will signal a pause in the rate hikes in the new year. So we don’t expect a rate hike during the first six months of 2019, especially if the Fed’s cover story is that a re-evaluation of monetary policy is underway. We don’t rule out two more rate hikes before the end of next year, bringing the federal funds rate up to 2.75-3.00%. However, we expect that the word “restrictive”—which appeared twice for the first time in the September FOMC minutes, suggesting a rate above 3.00%—will be dropped from FOMC minutes and speeches by FOMC officials for a while.

**Strategy: The Last Great Earnings Season.** Joe reports that S&P 500 revenues and earnings are out for Q3-2018. It’s all good news across the board, but company guidance released during the season indicated that Q3 would likely mark the top of the growth cycle during the current economic expansion. Let’s review:

1. **Revenues stall at all-time high.** Most extraordinary is that S&P 500 revenues per share jumped 8.5% y/y last quarter and has been above the long-term growth trend since the presidential election in Q4-2016 ([Fig. 7](#) and [Fig. 8](#)). Normally this far into an economic expansion, revenues growth tends to be around 4%-6% y/y. However, quarterly revenues was down 0.1% q/q. If that decline holds as the remaining 38 companies report, it would mark the first time that Q3 revenues have fallen q/q since Q3-2008.

2. **Earnings at all-time high.** S&P 500 earnings, as measured by I/B/E/S, soared 27.5% y/y last quarter, its strongest growth since Q4-2010 and up from 25.8% y/y during Q2. Q3’s results continue to reflect the strength in revenues as well as the cut in the corporate tax rate ([Fig. 9](#) and [Fig. 10](#)).

3. **Profit margin at all-time high.** Despite the increasing chatter about rising costs, companies surprised us in Q3 as the S&P 500 corporate profit margin, based on S&P’s trailing-four-quarter operating earnings data, rose once again to a record high of 11.4% ([Fig. 11](#)). It was at a record 10.1% during Q4-2017 before the tax cut, before rising to 10.5% during Q1-2018 and 10.9% in Q2-2018 thanks to the tax cut. Yet here it is at yet another record high, and we suspect it will edge even higher during Q4 as the old tax rate ages out of the y/y comparison.

While the bears have been growling during most of the current bull market that the margin is about to revert sharply lower to the historical mean of 7%-8% or lower, we think it will ease a lot less beginning in 2019 toward a higher new normal, because of the lower corporate tax rate and our expectation of a pickup in productivity growth.

4. **Lots of happy sectors, but some big changes.** I asked Joe to drill down into the 11 sectors of the S&P 500, and delve further through the noise that popped up. To recap the biggest classification changes by S&P at the end of September, companies in the Media industry and three of the FANGs (all but Amazon) were moved from their two sectors (Consumer Discretionary and Information Technology) to the old Telecommunication Services sector, which was then renamed “Communication Services.” Since S&P’s policy is to “freeze” the revenue and earnings actuals as each quarter is completed, the y/y growth comparisons and profit margins during Q3-2018 compared results for the new sectors with their old alignments. However, I/B/E/S (now a part of Refinitiv instead of Thomson Reuters), provides an apples-to-apples comparison, which Joe also shares below.

Joe reports the following y/y growth rates for revenues based on S&P’s methodology: Materials (27.3%), Energy (26.9), Information Technology (21.7), Consumer Discretionary (17.0), Health Care (16.3), Real Estate (11.3), Financials (8.7), Industrials (8.5), S&P 500 (8.5), Utilities (0.3), Consumer Staples (-5.0), and Communication Services (-51.0) ([Fig. 12](#)). The growth rates for the sectors as
calculated by I/B/E/S are mostly similar, with the exception of the following apples-to-apples comparisons for Communication Services (12.3), Consumer Discretionary (7.6), and Information Technology (10.6).

Here is the comparable derby for operating earnings growth as compiled by S&P: Energy (126.3%), Financials (61.6), Information Technology (39.2), S&P 500 (32.5), Materials (26.1), Industrials (22.7), Consumer Discretionary (17.0), Health Care (16.1), Utilities (10.1), Consumer Staples (8.9), Real Estate (7.7), and Communication Services (-23.0) (Fig. 13). The growth rates from I/B/E/S for the affected sectors are as follows: Communication Services (26.1), Consumer Discretionary (24.9), and Information Technology (28.5).

And here are the latest trailing-four-quarter profit margins based on S&P’s operating earnings data: Information Technology (22.7%), Real Estate (18.7), Financials (16.1), Utilities (12.4), Communication Services (12.5), S&P 500 (11.4), Materials (10.0), Industrials (10.0), Health Care (8.7), Consumer Discretionary (7.8), Consumer Staples (7.2), and Energy (6.1).

Based on S&P’s method, Q3-2018 marks the first quarter of “misleading” margins for three sectors, which will persist through Q2-2019, with the apples-to-oranges data finally aging out in Q3-2019. However, here are I/B/E/S’s estimates of the Q3-2018 profit margin for those sectors: Communication Services (16.5%), Consumer Discretionary (8.0), and Information Technology (23.1).

CALENDARS

US. Mon: Housing Market Index 68, E-Commerce Sales, Williams. Tues: Housing Starts & Building Permits 1.240mu/1.260mu. (Econoday estimates)


STRATEGY INDICATORS

Global Stock Markets Performance (link): The US MSCI index fell 1.6% last week, ranking 37th out of the 49 markets in a week when 20 countries rose in US dollar terms. That compares to the prior week’s 9/49 ranking when the US MSCI rose 2.0% and 22 markets rose. The AC World ex-US index fell 0.8% for the week; that compares to a 0.4% drop a week earlier. BRIC was the best performer for the week with a gain of 2.5%, ahead of EM Latin America (1.6%), EM Asia (1.2), EMEA (-0.1), and EM Eastern Europe (-0.2). EAFE (-1.5) was the worst performer, followed by EMU (-1.0). Indonesia was the best-performing country, rising 4.0%, followed by Turkey (3.7), Brazil (3.4), Hong Kong (3.3), Argentina (3.1), and China (2.8). Of the 21 countries that underperformed the AC World ex-US MSCI last week, Greece fared the worst, falling 3.8%, followed by Poland (-3.4), Mexico (-3.4), the UK (-2.7), and Ireland (-2.7). The US MSCI’s ytd ranking dropped one place last week to a still-astounding 3/49 ytd, with its 2.2% gain far ahead of the AC World ex-US (-12.4) performance. Nearly all countries—45/49—and all regions are in negative territory ytd. Falling less on a ytd basis than the AC World ex-US are: EM Latin America (-5.7), EM Eastern Europe (-5.8), EMEA (-9.6), and EAFE (-11.6). EM Asia (-15.7) is the biggest laggard relative to the AC World ex-US’s performance, followed by EMU (-13.4) and BRIC (-12.9). The best country performers ytd: Israel (9.4), Peru (2.8), the US (2.2), and Brazil (0.9). The worst-performing countries ytd: Argentina (-48.3), Turkey (-42.6), Greece (-35.0), Pakistan (-26.4), and South Africa (-26.4).

S&P 1500/500/400/600 Performance (link): LargeCap and MidCap fell for the first time in three weeks, but SmallCap was down for the eighth time in nine weeks. LargeCap slipped 1.6% for the week, trailing
the declines for both MidCap (-0.9%) and SmallCap (-1.2). SmallCap remains in a correction at 12.5% below its August 29 record high. MidCap exited its correction several weeks ago, but remains 9.0% below its August 29 record. LargeCap barely avoided slipping into a correction during the recent selloff and ended the week 6.6% below its record high on September 20. Eight of the 33 sectors moved higher in the latest week, compared to 23 rising a week earlier. The best performers in the latest week: MidCap Utilities (1.6), SmallCap Utilities (1.1), and LargeCap Real Estate (0.8). MidCap Energy and SmallCap Energy were the biggest decliners last week, with each falling 5.0%, followed by LargeCap Consumer Discretionary (-3.8) and LargeCap Tech (-2.5). SmallCap is up 2.7% ytd and now leads LargeCap (2.3) again, but both are ahead of MidCap (-1.9). Eighteen sectors are now positive to date in 2018, unchanged from a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (27.3), MidCap Health Care (21.0), SmallCap Communication Services (15.1), LargeCap Health Care (11.2), and MidCap Communication Services (9.0). The worst performers ytd: SmallCap Energy (-18.3), LargeCap Communication Services (-10.9), and MidCap Materials (-10.9).

S&P 500 Sectors and Industries Performance (link): Two of the 11 sectors rose last week, and seven outperformed the S&P 500’s 1.6% decline. That compares to ten rising a week earlier, when five outperformed the S&P 500’s 2.0% rise. Real Estate was the best-performing sector with a gain of 0.8%, ahead of Materials (0.4%), Utilities (-0.3), Industrials (-0.7), Health Care (-1.0), Communication Services (-1.1), and Financials (-1.3). Consumer Discretionary (-3.8) was the biggest decliner, followed by the also-underperforming Tech (-2.5), Energy (-2.1), and Consumer Staples (-1.7). Five sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in mid-September, which had matched the best ytd count also achieved in early March. These four sectors are outperforming the S&P 500’s 2.3% ytd gain: Health Care (11.2), Tech (7.9), Consumer Discretionary (6.7), and Utilities (3.6). The seven ytd underperformers: Communication Services (-10.9), Materials (-8.9), Energy (-7.2), Industrials (-5.3), Financials (-4.4), Consumer Staples (-2.3), and Real Estate (1.2).

Commodities Performance (link): Last week, the S&P GSCI index fell 1.9% as 13 of the 24 commodities moved higher. That was the lowest count since mid-July and compares to a 2.2% decline a week earlier when only 4/24 commodities rose, in the lowest count since mid-July. Last week’s strongest performers: Natural Gas (15.3%), Lean Hogs (15.0), Zinc (3.2), Live Cattle (2.8), and Copper (2.4). Crude Oil (-6.0) was the biggest decliner, followed by Brent Crude (-4.7), Heating Oil (-4.6), and GasOil (-4.1). The S&P GSCI commodities index is now down 2.3% ytd, and is in a correction now with its current level down 14.0% from its four-year high on October 3, which was just half of its record high in July 2008 before the financial crisis. The top performer so far in 2018 is now Natural Gas (45.3), followed by Wheat (20.7), Kansas Wheat (18.5), Cocoa (18.1), and Corn (7.1). The biggest laggards of 2018 to date are dominated by industrials metals: Zinc (-21.3), Lead (-19.5), Sugar (-16.3), Silver (-15.4), Aluminum (-14.9), and Copper (-14.2).

Assets Sorted by Spread w/ 200-dmas (link): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 13/24 commodities, 5/9 global stock indexes, and 8/33 US stock indexes, compared to 6/24 commodities, 6/9 global stock indexes, and 23/33 US stock indexes rising a week earlier. Commodities’ average spread improved w/w to -2.9% from -4.0%, and seven commodities ended the week trading above their 200-dmas, down from eight a week earlier. Commodities took home all the trophies among the asset classes last week (highest and lowest trading relative to 200-dmas as well as best- and worst-performing): Natural Gas leads all commodities and all assets at 46.7% above its 200-dma, after logging the best performance among all assets last week—up 17.8ppts w/w—relative to its 200-dma. Unleaded Gasoline (-21.7%) trades at the lowest relative to its 200-dma among commodities and all assets, while Crude Oil (-15.7) fell 5.2ppts w/w for the worst performance among commodities and all assets. The global indexes trade at an average of 3.9% below their 200-dmas, up from -4.4% in the prior week. Just one of the nine global indexes trades above its
200-dma, unchanged from a week earlier. Brazil (9.4) leads the global indexes, and rose 3.4ppts w/w for the best performance among global assets. Japan (-2.9) was the worst global index performer with a loss of 2.6ppts w/w. South Korea (-10.6) now trades at the lowest point relative to its 200-dma among global assets. The US stock indexes trade at an average of 2.0% below their 200-dmas, with 11 of the 33 sectors above, down from -0.8% a week earlier, when 15 sectors were above. MidCap Utilities (7.5) now leads the US stock indexes and also rose 1.3ppts last week for the best gain among US stock indexes. SmallCap Energy (-19.9) trades the lowest among all US stock indexes and all assets relative to 200-dmas, but MidCap Energy (-11.6) dropped 4.8ppts w/w for the worst performance among US stock indexes last week.

S&P 500 Technical Indicators (link): The S&P 500 price index fell 1.6% last week, and remained solidly below its short-term 50-day moving average (50-dma). It also moved back below its 200-dma after being above a week earlier for the first time in five weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 134th straight week (after 17 weeks in a Death Cross) as the S&P 500's 50-dma relative to its 200-dma fell for a sixth straight week. The current Golden Cross reading of 1.8% is at a 19-week low dating back to early July; it's down from 2.5% a week earlier and a 27-week high of 4.1% in early October. That's well below its 55-month high of 7.2% in early February; these compare to its 25-month low of 1.0% at the end of May and four-year low of -4.5% in March 2016. The S&P 500's 50-dma fell for a fifth week following 19 straight weekly gains, which compares to declines during eight of the 10 weeks from mid-March to late May in what was then the worst performance since before the 2016 election. The index weakened to 2.7% below its falling 50-dma from 1.7% below a week earlier and a 33-month low of 7.0% below at the end of October. That 33-month low had surpassed the then-25-month low of 5.6% below the index's falling 50-dma near the end of March, and is down from a two-year high of 6.2% above its rising 50-dma on January 29. However, the 200-dma rose for a second week following three straight weekly declines through early November in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 had successfully tested its 200-dma in early April and may be doing so again. It ended the week at 1.0% below its rising 200-dma, down from 0.7% above its rising 200-dma a week earlier. That's up from a 32-month low of 3.9% below its falling 200-dma at the end of October and down from a six-month high of 6.4% above its rising 200-dma during the week ending September 21. Last week's reading remains well below the seven-year high of 13.5% above its rising 200-dma on January 29.

S&P 500 Sectors Technical Indicators (link): Most of the 11 S&P 500 sectors weakened last week relative to their 50-dmas and 200-dmas. Three are now trading above their 50-dmas, compared to four a week earlier. All 11 had been below at the end of October for the first time since late March and only the second time since February 2016. In late July, all 11 sectors had traded above their 50-dmas, the most since early December. Health Care moved below its 50-dma in the latest week and left Consumer Staples, Real Estate, and Utilities in that club. The longer-term picture—i.e., relative to 200-dmas—shows four sectors trading above currently, down from five a week earlier. That compares to three at the end of October in the lowest count since all 11 were below in January 2016. That's a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. Two long-term 200-dma leaders left the building during October: Tech fell below its 200-dma for the first time in 121 weeks last month, and Consumer Discretionary fell below its 200-dma in October for the first time in 102 weeks, briefly rejoining the above-200-dma club a week earlier after just a two-week absence. The four sectors trading above their 200-dma: Health Care (25 straight weeks), Utilities (21), Consumer Staples (5), and Real Estate (3). Eight sectors are still in a Golden Cross (with 50-dmas higher than 200-dmas), down from nine a week earlier. Among the laggards, Financials has been out of Golden Cross territory for straight five weeks and during 17 of the past 21 weeks, while Materials has been out for 29 straight weeks. All 11 sectors had been in a Golden Cross back in mid-January (for the first time since a 26-week streak ended in October 2016). Three sectors have rising 50-dmas now, unchanged from a week earlier, as Real Estate joined Consumer and Utilities, and Health Care dropped out. That's
down from eight sectors with rising 50-dmas in early October and compares to all 11 sectors with falling 50-dmas during late October and early April (the worst counts since before the election in November 2016). Seven sectors had rising 200-dmas at the end of last week, up from six a week ago, and two the week before in the lowest count since January 2016 when all 11 sectors had falling 200-dmas. In the latest week, Energy joined the rising 200-dma club occupied by Consumer Discretionary, Consumer Staples, Health Care, Real Estate, Tech, and Utilities.

**US ECONOMIC INDICATORS**

**Retail Sales** ([link](#)): Consumer spending in October rebounded to a new record high. Retail sales advanced 0.8% last month after declines of -0.1% in each of the prior two months. Meanwhile, core retail sales rose for the third time in four months, by 0.3% m/m and 1.3% over the period. (The BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) We estimate real retail sales climbed for the fifth time in six months, up 0.3% m/m and 1.9% over the six-month span, while real core retail sales have been more volatile, slipping -0.1% in October after a 0.5% gain and a -0.4% loss the previous two months. Growth in both real headline (1.1%, saar) and real core (1.3) retail sales eased in the three months through October (based on the three-month average), with the former recording the slowest growth in six months, and the latter in seven months. In October, 10 of the 13 major nominal sales categories rose, while only two fell—furniture stores (-0.3) and restaurants (-0.2); sales at health & personal care stores were unchanged. The biggest gains were recorded by gasoline (3.5), motor vehicle (1.1), and building materials (1.0) establishments—with the remaining categories posting gains from 0.4% to 0.7%.

**Business Sales & Inventories** ([link](#)): Both nominal business sales in September and real business sales in August reached new record highs, yet again. Nominal manufacturing & trade sales (MTS) advanced for the 15th time in 16 months, rising 0.4% in September and a robust 10.0% over the period; inflation-adjusted MTS expanded at an 11-month high of 0.6% in August and at a 4.8% pace since April 2017. Real sales of retailers held at its record high in August, while sales of wholesalers jumped to a new record high; manufacturers’ sales broke out of a year-long flat trend. Except for a temporary blip earlier this year, the real inventories-to-sales ratio has been on a fairly steady downtrend since reaching a cyclical high of 1.47 in early 2016, holding at 1.42 in August. September’s nominal inventories-to-sales ratio was at 1.34 for the third month, after falling from a seven-year high of 1.43 two years ago to 1.33 in June—which was the lowest since November 2014.

**Industrial Production** ([link](#)): Headline production in October climbed less than expected, but there was a big upward revision to Q3 production. Total production ticked up 0.1% after a downwardly revised gain of 0.2% (from 0.3%) in September—however, upward revisions to both August (to 0.8% from 0.4%) and July (0.4 from 0.3) pushed Q3’s growth rate up to 4.7% (saar) last quarter, from the preliminary estimate of 3.3%. Manufacturing production advanced for the fifth straight month, up 0.3% in October and 2.0% over the period, to a new cyclical high. Both mining (-0.3%) and utilities (-0.5) output declined for the second month in October, though the former had reached an all-time high in August—boosted by booming oil and gas production. By market grouping, production of business equipment expanded for the fifth month, by 0.8% m/m and 5.5% over the period, to its highest reading since November 2014. Here’s a look at output among the components within business equipment, on a monthly and five-month basis, respectively: Industrial & other equipment (1.7% & 5.6%), information processing (0.6 & 2.4), and transit equipment (-0.9 & 8.7). Production of information processing equipment reached a new record high, while industrial equipment output was the highest since December 2014; transit equipment production was fractionally below September’s 34-month high. Consumer goods production advanced 1.9% during the five months through October, driven by a 4.7% jump in durable goods output, though it did dip a bit last month; nondurable goods production was up 1.1% over the five-month period.
Capacity Utilization (link): The headline capacity utilization rate in October ticked down to 78.4% from 78.5% the previous two months—which were the highest readings since January 2015. Still, it was 1.4ppts below its long-run (1972-2017) average. Meanwhile, the manufacturing capacity utilization rate rose for the fifth month to 76.2% in October, its highest reading since July 2015, though was still 2.1ppts below its long-run average. The utilization rate for mining dropped to 92.7% but remained well above its long-run average of 87.0%, while the utilities rate sank to 77.3%—8.0ppts below its long-run average.

Regional M-PMIs (link): The three Fed districts that have reported on manufacturing activity for November so far—Philadelphia, New York, and Kansas City—showed factories continued to grow at October’s healthy pace, though slower than earlier this year. We average the composite, orders, and employment measures as data become available. The composite index was unchanged at 17.1 this month, easing from readings above 20.0 from March through July. Composite indexes for the New York (to 23.3 from 21.1) and Kansas City (15.0 from 8.0) regions accelerated this month, while Philadelphia’s (12.9 from 22.2) decelerated. The new orders gauge (16.5 from 16.3) also matched last month’s pace. Orders growth in the Kansas City (20.0 from 7.0) region nearly tripled, while Philly’s (9.1 from 19.3) was virtually cut in half. Meanwhile, New York’s (20.4 from 22.5) wasn’t far from October’s robust pace. The employment measure (12.1 from 12.2) reveals job gains also matched last month’s pace. Manufacturers in the Philly (16.3 from 19.5) region hired at a slower pace than last month, though still at a faster pace than the New York (14.1 from 9.0) region, which actually showed a pickup in job growth this month; Kansas City (6 from 8) manufacturers hired at a much slower pace than the other two regions. Meanwhile, inflationary pressures have eased, according to the prices-paid and received indexes for the three regions. Here’s a look at the prices-paid indexes for November versus their respective peaks this year: Philadelphia (to 39.3 from 62.9), Kansas City (41.0 from 55.0), and New York (44.5 from 54.0). Here’s the same drill for the prices-received indexes: Philadelphia (21.9 from 36.4), New York (13.1 from 23.3), and Kansas City (23 from 29)—with the latter holding near its high.

Import Prices (link): Import prices rose in October at the fastest pace in five months, boosted by petroleum and food prices. Total import prices climbed 0.5% last month after a revised 0.2% gain in September—which was less than half the initial estimate of 0.5%; prices had declined -0.5% during the three months through August. Petroleum prices jumped for the sixth time in seven months, by 2.8% m/m and 17.7% over the period. Nonpetroleum import prices rose for the first time in five months in October, by 0.2%—boosted by the biggest gain in food (2.1%) prices since July 2016; nonpetroleum prices were flat in September after a drop of -0.6% the prior three months. The yearly rate for import prices edged up to 3.5% y/y after easing from 4.8% in July (highest since February 2012) to a nine-month low of 3.2% in September. Yearly rates for both petroleum (to 31.4% from 28.4% y/y) and nonpetroleum (0.8 from 0.6) imports moved higher—though the latter was little changed near September’s 20-month low. The rate for capital goods imports (-0.2% y/y) dipped into negative territory for the first time since May 2017, while the rate for industrial materials & supplies (14.2) remained in double digits—though down from the recent high of 21.1% in July. Meanwhile, the yearly rate for consumer goods ex autos (0.7) continued to bounce around recent highs just below 1.0%, while autos’ (0.2) rate remained in a volatile flat trend around zero; the rate for food prices (-0.6) turned negative in June for the first time in two years, and continued to fall in October—though has narrowed steadily from July’s -3.6% decline.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI (link): October’s CPI rate accelerated to its highest reading since the end of 2012—matching its flash estimate. The headline CPI rate accelerated for the second month, to 2.2% y/y, after easing from 2.1% in July to 2.0% in August—above the ECB’s target rate of just under 2.0% for the
sixth month. Looking at the main components, energy (to 10.7% from 9.5% y/y) once again recorded the highest annual rate in October. Also moving higher were rates for services (1.5 from 1.3) and non-energy industrial goods (0.4 to 0.3). Meanwhile, the rate for food, alcohol & tobacco (2.2 from 2.6) posted its slowest pace since March. The core rate—which excludes energy, food, alcohol, and tobacco—moved up to 1.1% y/y from 0.9% the prior two months, matching its high for the year posted in both July and May. Of the top four Eurozone economies, inflation rates in France (2.5% y/y), Germany (2.4), and Spain (2.3) were above the Eurozone’s 2.2% rate, while Italy’s (1.7) was below. Portugal (0.8) and Ireland (1.1) recorded the lowest CPI rates in the Eurozone—with Greece’s (1.8) accelerating out of that pack.

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