MORNING BRIEFING
November 16, 2015

Sleepless in Cincinnati & Minneapolis

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Strategy: Stalling Into a Recession? You don’t need me to tell you that last week was a really horrible one. The worst of it occurred on Friday, when Jihadist terrorists slaughtered and injured hundreds of people in Paris in six coordinated strikes around the city. President François Hollande declared the attacks on Paris “an act of war that was waged by a terrorist army, a jihadism army, by Daesh [the Islamic State], against France.”

This attack could trigger a NATO response. The 11/14 Foreign Policy notes: “The 28-nation alliance, after all, is founded on one key premise enshrined in the Article 5 of its founding treaty: ‘The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defence recognised by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked.’ It is worth noting that the only country to ever activate Article 5 was the United States after the 9/11 attacks in 2001.”

It’s too soon to conclude that this latest terrorist strike in Europe will have any significant impact on the region’s economy, which has been growing at a snail’s pace in any case. It will probably turn European sentiment against the tidal wave of immigrants pouring into Europe given that one of the terrorists reportedly came from Syria through Greece. We will see how the financial and commodity markets respond this week to the attacks. Similar ones in the past didn’t have any significant economic or financial consequences, though this one may be different for lots of obvious reasons.

Last week, investors found plenty to worry about before the awful news from Paris hit the wires after the stock market closed on Friday in the US. The S&P 500 was down sharply for the week to a three-week low of 2023.04, led by the Energy sector as follows: Energy (-6.0%), IT (-4.6), Consumer Discretionary (-4.6), S&P 500 (-3.6), Financials (-3.4), Health Care (-3.2), Telecom Services (-2.9), Consumer Staples (-2.8), Industrials (-2.3), Materials (-2.2), and Utilities (0.3) (Fig. 1 and Table). Let’s have a closer look at what’s driving all this, and where we are heading:

(1) Litany of bad news here and abroad. The renewed drop in oil and other commodity prices was unsettling last week. So was the 16.3% plunge in the S&P 500 Department Stores stock price index as both earnings and October retail sales disappointed. Fed officials continued to beat their rate-hike drum, which rallied the dollar bulls. A higher dollar, of course, is bad news for corporate earnings.
Overseas economic growth was also disappointing, as evidenced by the Eurozone’s lackluster GDP report on Friday.

(2) *Pessimism in the Heartland.* While most of this was happening, I was meeting with our accounts in Cincinnati and Minneapolis on Thursday and Friday of last week. No wonder they were mostly downbeat despite the impressive rally in the stock market during October. The widespread worry is that the global economy, including the US, may be stalling into a recession.

Industry analysts who attended my meetings are concerned. The ones covering Industrials are worried that the plunge in commodity prices will continue to hammer their sector as capital spending in the energy and mining industries is slashed. The ones covering Consumer Discretionary stocks are wondering why solid labor market gains and lower gasoline pump prices aren’t boosting consumer spending more. The ones following Consumer Staples are lowering their earnings estimates as the dollar soars.

Everyone, it seems, is anticipating that higher wages might boost labor costs and reduce profit margins. If revenues growth remains weak, an earnings recession could be the engine that stalls and stops the economy from growing as companies cut back hiring and capital spending.

When I came home late Friday evening from LaGuardia, I realized that I had left my laptop in the seat pocket on the plane. I guess all the negativity dulled my senses. Or else, I was just tired after the thought-provoking discussions with my friends in the Heartland, where economic activity seems to be just fine. I retrieved my laptop from Delta’s lost-and-found on Saturday.

(2) *Consumers may be experiencing a warm patch.* I’m not losing any sleep over consumer spending, though I can’t ignore the 34.3% ytd decline in the S&P 500 Department Stores stock price index (JWN, KSS, and M) *(Fig. 2).* Jackie and I noted just last Thursday that the industry’s forward P/E was still relatively high compared to analysts’ declining consensus estimate for earnings growth. This may be one industry where profit margins are clearly starting to get squeezed by labor shortages and higher wages, which are up 3.2% y/y through October *(Fig. 3).* Sure enough, analysts’ consensus estimates for the forward profit margin of the industry dropped from 5.4% at the start of the year to 5.1% in early November. *(Click ⭐ to add S&P 500 Department Stores to MyPage.)*

On Saturday, I went to Macy’s in Manhasset, Long Island to check out the problem. The store was crammed to the rafters with winter coats. It’s been a very mild fall around here. It was in the 50s in Minneapolis on Friday. El Niño is producing warm water in the equatorial Pacific Ocean and warming up the weather nationwide.

Granted, total October retail sales rose a scant 0.1%. However, as Debbie reports below, adjusted for inflation it was a gain of 0.4%. Debbie adds that over the past three months through October, real retail sales is up 5.6% (saar), the fastest pace in seven months *(Fig. 4).* *(Click ⭐ to add Retail Sales to MyPage.)*

(3) *Mighty dollar increases odds of none-and-done in 2016.* After the release of September’s abysmally weak employment report, everyone concluded that the Fed wasn’t likely to start raising interest rates over the rest of this year. After October’s uniformly upbeat report, “one-and-done” in 2015 was back in fashion. It still is, but much can happen between now and the final FOMC meeting of the year on December 15-16.

For now, Fed officials, even the most dovish ones, seem to be ready to raise rates at the December meeting. I think they want to show they are finally ready to “normalize” monetary policy now that the
labor market is showing some signs of faster-rising wages. The problem is that the trade-weighted dollar is up 19% since July 1 of last year on expectations of the long-delayed rate hike in the US, while the other major central banks continue to ease (Fig. 5).

The strong dollar is already depressing US exports and profits, which could depress employment and capital spending. The strong dollar is also a big headwind for the Fed’s goal of boosting inflation closer to 2%. The import price deflator, excluding petroleum imports, fell 3.4% y/y during October, the weakest since October 2009. It is highly correlated with the core PPI for intermediate goods, which fell 4.0% y/y during October (Fig. 6).

Last Thursday in a speech, Fed Vice Chairman Stanley Fischer explained why he isn’t concerned: “From the standpoint of the outlook, this transience means that some of the forces holding down inflation in 2015--particularly those due to a stronger dollar and lower energy prices--will begin to fade next year. Consequently, overall PCE inflation is likely on this account alone to rebound next year to around 1-1/2 percent.” That’s assuming the dollar doesn’t continue to soar.

In our opinion, one-and-done in December might increase the odds of none-and-done next year if the dollar remains strong and inflation remains well below 2%. Furthermore, if “liftoff” occurs at the December meeting of the FOMC, Fed Chair Janet Yellen will spend most of her press conference explaining why the federal funds rate will remain close to the ground for a very long time.

(4) **Freefalling commodity prices are unsettling.** Okay, I am hard-pressed to come up with a positive spin on the plunge in commodity prices. It’s not hard to argue that lower oil prices are great for consumers. The average US household is spending over $1,000 per year less on gasoline than a year ago (Fig. 7). That adds up to more than $100 billion, at an annual rate, in additional purchasing power for consumers. Debbie and I think they are spending it, though higher health insurance costs may be taking some of the octane out of this windfall for retail sales. However, as noted above, lower oil prices are bad news for energy-related capital goods industries.

The accelerating freefall in the CRB raw industrials spot price index in recent days is more worrisome to Debbie and me since we give it a lot of weight in our assessment of the global economy (Fig. 8). It does raise the possibility of a global recession if it is reflecting a freefall in demand for commodities. More likely, it is reflecting the persistence of excess supply as cash-strapped commodity producers ramp up their production in a vain effort to boost their revenues. Their misfortune is weighing on global economic growth, but not enough to cause a recession, in our judgment.

(5) **Europe’s recovery is lackluster and vulnerable to latest shocks.** Of course, it would help to revive commodity prices if there were any upside surprises anywhere in the global economy. They certainly aren’t popping up in Europe. On Friday, we learned that real GDP in the Eurozone rose just 1.2% (saar) during Q3, down from 1.4% the previous quarter (Fig. 9). It is up just 1.6% y/y. As Debbie and I have noted before, a magnifying glass is needed to see the recovery in the region’s industrial production, which is up just 1.7% y/y through September (Fig. 10).

This means that there is a very high probability that the ECB’s Governing Council will cut its deposit rate by 10 basis points in December, taking it to minus 0.3%. Needless to say, that’s weighing on the euro, which dropped to $1.07 on Friday, putting further upward pressure on the dollar (Fig. 11).

(6) **Muddling rather than stalling still looks like best bet.** If the US and global economies stall out into a recession, that would be unprecedented, especially given the enormous amount of liquidity pumped into the global financial system by central banks. That doesn’t mean that there couldn’t be a first time...
for a “stall-out recession.” However, while Debbie and I are closely monitoring the situation, we don’t see enough yet to convince us that that’s where we are headed.

Granted, there are lots of worries, including worsening terrorism. However, this may be the most anxiety-provoking bull market in history. Yet stocks move higher when the panic attacks are followed by relief rallies. We think that’s still the modus operandi of this secular bull market—-but that depends on whether earnings continue to move higher rather than fall into a recession. Now, let’s turn to that issue by examining the results of the Q3 earnings season.

Earnings: Joyless Q3 Season. The latest earnings season is over just as the holiday season is beginning. Q3’s results were neither naughty nor nice. It was a joyless season, though stocks staged an impressive rally during October. But that’s after getting whacked hard during August and September. Then they got whacked again last week (Fig. 12).

Q3 results certainly had some impact on the market. Internet Retail stocks soared along with their upwardly revised forward earnings. (Click ⭐ to add Internet Retail to MyPage.) Internet Software and Systems Software stocks were also lifted by “beats.” On the other hand, as noted above, Department Stores were heavily discounted after they released their disappointing earnings last week. Here’s a rundown of the S&P 500’s top and bottom lines for Q3:

1) Revenues. S&P 500 revenues per share edged up during Q3 by 0.9% q/q following the 3.0% advance during Q2, but it is still down 3.2% y/y as a result of the 38.5% plunge in the Energy sector’s revenues (Fig. 13). Total revenues on an aggregate basis (not per share) is down 4.0% y/y, but up 1.5% excluding Energy (Fig. 14).

2) Earnings. While Joe and I track the revenues numbers compiled by S&P for the S&P 500, we prefer the Thomson Reuters (TR) composite for earnings. The two are often very similar, but they can diverge significantly as they are doing now (Fig. 15).

During Q3, TR S&P 500 earnings fell 0.3% y/y, while S&P earnings dropped 14.1%. S&P sticks to Generally Accepted Accounting Principles (GAAP). One big difference between S&P and TR operating earnings in recent quarters has been the way they account for asset impairment among S&P 500 Energy companies. (TR doesn’t publish a reported earnings-per-share or a revenues-per-share series, but both must be identical to the one published by S&P.)

Again, Energy has had a big impact on the TR numbers. Aggregate earnings for the S&P 500 fell 0.3% y/y, but rose 7.0% y/y excluding Energy, which plunged 57.1% (Fig. 16).

3) Profit margin. The profit margin based on TR earnings and S&P revenues edged down to 10.6% from a record high of 10.7% during Q2. That’s impressive (Fig. 17). It’s less impressive using the S&P earnings for the numerator, which brings the margin down to 9.0% during Q3 from the record high of 10.1% during Q3-2014 (Fig. 18).

4) Sectors. Finally, a slice-and-dice of the sectors shows the following y/y performance derby for Q3 revenues per share based on the S&P data: Health Care (12.4%), Consumer Discretionary (6.5%), Industrials (2.6%), Telecommunication Services (1.7%), Financials (1.1%), Consumer Staples (0.2%), Utilities (-1.8%), Information Technology (-2.7%), S&P 500 (-3.2%), Materials (-11.8%), and Energy (-38.5) (Fig. 19).

Here is the one for the y/y change in Q3 earnings per share based on S&P data: Consumer Discretionary (16.5%), Industrials (9.1%), Health Care (8.4%), Financials (4.7%), Telecommunication
Services (4.0), Information Technology (3.7), Consumer Staples (-4.2), Utilities (-5.3), S&P 500 (-14.1), Materials (-68.0), and Energy (-136.0) (*Fig. 20*).

Here’s the trailing-four-quarter operating profit margins based on S&P data: Information Technology (17.5%), Financials (15.3), Utilities (10.1), Industrials (9.2), S&P 500 (9.2), Health Care (8.5), Consumer Discretionary (7.3), Telecommunication Services (6.8), Consumer Staples (6.5), Materials (5.9), and Energy (0.3) (*Fig. 21*).

(5) *Bottom line.* Joe and I conclude that we are not in a profits recession. Excluding Energy, revenues and earnings are growing and profit margins are at record highs. We expect that revenues and earnings will continue to grow next year.

**CALENDARS**

**US.** *Mon:* Empire State Manufacturing Index -5.0. *Tues:* Headline & Core CPI 0.2%/0.2%, Total & Manufacturing Industrial Production 0.1%/0.3%, Capacity Utilization 77.5%, Housing Market Index 64, Treasury International Capital, Powell. (Bloomberg estimates)

**Global.** *Mon:* Eurozone CPI. *Tues:* European Car Sales, Eurozone ZEW Economic Survey, UK CPI. (DailyFX estimates)

**PERFORMANCE & ASSET ALLOCATION**

**Global Stock Markets Performance (link):** The US MSCI index fell 3.6% last week, ranking 38th of the 49 markets as four markets rose in US dollar terms—compared to 12th a week earlier, when it was up 1.0% as 20 markets rose. The AC World ex-US index outperformed, falling 2.3% versus a 1.1% loss a week earlier. The best-performing regions last week, albeit with declines: EAFE (-1.8%) and EM Latin America (-2.2). The week’s worst: EM Eastern Europe (-3.8) and EM Asia (-3.7). Turkey and Japan were last week’s best performers among countries, with gains of 1.9% and 1.6%, respectively. Last week’s biggest decliners: Colombia (-11.6) and Egypt (-8.8). The US MSCI is down 2.7% so far in November, ranking 18/49 and beating the AC World ex-US’s 3.4% decline. Seven of the 49 countries are higher in November, and all of the regions are negative; EM Latin America is the best performer, with a drop of 1.4%, and EMU the worst with a 4.4% decline. November’s best-performing countries: Turkey (4.2), Sri Lanka (2.1), and Brazil (2.0). November’s worst performers: Greece (-15.3) and Colombia (-11.0). The US MSCI ranks 15/49 ytd with a decline of 1.7% versus the AC World ex-US’s 7.3% drop; 11 of the 49 markets are positive ytd. EM Eastern Europe is the best regional performer ytd, down 2.3%, EM Latin America the worst (-27.4). The best country performers ytd: Hungary (23.9) and Denmark (15.2); the worst: Greece (-56.3) and Colombia (-40.2).

**S&P 1500/500/400/600 Performance (link):** All three market-cap indexes index moved lower last week. SmallCap suffered its worst w/w decline since August 2012 as LargeCap and MidCap fell the most since the August correction. LargeCap dropped 3.6%, better than the declines recorded by MidCap (-3.9) and SmallCap (-4.6). LargeCap now stands 5.1% below its May 21 record high, MidCap 9.3% below its June 23 record, and SmallCap 8.9% below its June 23 record high. Just five of the 30 sectors are above their August 25 lows: SmallCap Consumer Discretionary (-5.3%), MidCap Consumer Discretionary (-5.3), MidCap Consumer Staples (-3.5), MidCap Health Care (-1.0), and SmallCap Materials (-0.7). LargeCap Utilities rose 0.3% last week for the sole gain among the 30 sectors, down from 21 rising in the prior week. SmallCap Consumer Discretionary was the biggest decliner for the week, falling 6.5%, followed by SmallCap Materials (-6.2) and LargeCap Energy (-6.0). SmallCap is down 2.0% so far in November, but that’s less than the 2.7% declines for MidCap and LargeCap. The leading SuperComposite sectors so far in November: Financials (-0.9) and Industrials (-1.4).
November’s SuperComposite laggards: Telecom (-4.5), Consumer Staples (-4.3), and Consumer Discretionary (-4.2). LargeCap still holds the reins as the best performer ytd, albeit with a decline of 1.7%, and is beginning to put some distance between itself and both SmallCap (-2.8) and MidCap (-3.2). The SuperComposite Consumer Discretionary is the top sector performer ytd (5.4), ahead of Tech (3.0) and Health Care (2.0). These SuperComposite sectors are down the most ytd: Energy (-18.0), Materials (-10.3), and Utilities (-10.3).

S&P 500 Sectors and Industries Performance (link): Just one of the S&P 500’s 10 sectors rose last week as the index fell 3.6%. That compares to seven sectors rising a week earlier when the S&P 500 gained 1.0%. The index is now 5.1% below its record high, but that’s up 8.3% from its 2015 low of 1867 on August 25. Utilities edged up 0.3% for the sole gain of the week. Last week’s biggest decliners: Energy (-6.0%) and Consumer Discretionary (-4.6). The S&P 500 is down 2.7% so far in November and all 10 sectors are lower. November’s smallest decliners: Financials (-0.8), Industrials (-1.2), and Materials (-2.2). November’s biggest underperformers: Telecommunication Services (-4.5), Consumer Staples (-4.2), and Consumer Discretionary (-4.1). The S&P 500’s ytd decline of 1.7% is up from a ytd decline of 9.3% at the August 25 correction low, and not far off its peak ytd gain of 2.6% at its record high on May 21. However, it’s a very narrow market with just three sectors outperforming the S&P 500 ytd: Consumer Discretionary (7.6), Information Technology (3.1), and Health Care (1.4). The ytd laggards: Energy (-17.6), Utilities (-10.5), and Materials (-8.8).

Commodities Performance (link): Five of the 24 commodities we follow rose last week, up from three rising a week earlier. Last week’s best performers: Natural Gas (5.1%), Sugar (4.0), and Cocoa (3.8); the biggest laggards: Unleaded Gasoline (-9.9), Brent Crude (-6.3), and Heating Oil (-5.9). Just four of the 24 commodities have gained ground in November, led by Natural Gas (8.8) and Sugar (3.6); November’s worst performers: Unleaded Gasoline (-10.2), Feeder Cattle (-10.2), and Brent Crude (-10.0). Seven commodities were positive for all of last year, seven were positive ytd at the end of Q2, and now just three are in the black ytd: Cocoa (15.6), Sugar (3.6), and Cotton (2.9). The worst ytd performers: Nickel (-37.7), Coffee (-30.5), and Lean Hogs (-29.7).

Assets Sorted by Spread w/ 200-dmas (link): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 5/24 commodities, 1/9 global stock indexes, and 1/30 US stock indexes compared to 4/24 commodities, 9/9 global stock indexes, and 23/30 rising a week earlier. Sugar leads all commodities—and all assets—at 18.8% above its 200-dma, one of only two commodities trading above its 200-dma (down from three a week earlier). Natural Gas rose 4.7ppts w/w to 7.0% below its 200-dma for the biggest improvement among commodities; Unleaded Gasoline fell the most (down 7.6ppts to -28.3%). Commodities’ average spread fell to -10.8% from -9.3% a week earlier. Eight of the nine global indexes still trade below their 200-dmas. Japan now leads at 1.0% above as it rose 1.4ppts w/w for the biggest gain, and Canada lags at -9.7%. South Korea fell the most w/w (down 3.4ppts to -2.7%). The global indexes’ average spread weakened to -5.5% from -3.7%. Six of the 30 US stock indexes trade above their 200-dmas, down from 14 a week earlier, as their average spread tumbled to -4.9% from -1.2%. SmallCap Utilities now leads all US stock indexes relative to their 200-dmas, at 5.8% above, but LargeCap Utilities was the best performer last week, rising 0.6ppts to -3.1%. At the other end of the spectrum, SmallCap Energy continues to lag the US stock indexes at 25.4% below its 200-dma; SmallCap Consumer Discretionary was the weakest last week, slipping 5.9ppts to -12.4%.

S&P 500 Technical Indicators (link): There was a big downturn among the moving averages last week, but Consumer Discretionary remained the only sector in a Golden Cross. The S&P 500 has been above its 50-day moving average (dma) for six straight weeks, and it has been rising for three weeks—but it closed below its 200-dma and had a falling 200-dma for the first time in four. The S&P 500 tumbled to 8.8% above its rising 50-dma from 5.2% above a week earlier, and to 2.0% below its now-falling 200-dma from 1.7% above its rising 200-dma. However, its 50-dma relative to its 200-dma
improved to 2.8% below from 3.3% below. Utilities was the only sector with an improving price index last week relative to its 50-dma and 200-dma. Nine sectors traded above their 50-dmas a week earlier (all but Utilities); now just five are doing so: Consumer Discretionary, Financials, Industrials, Information Technology, and Materials. Consumer Discretionary and Information Technology are the only sectors now trading above their 200-dmas, down from five a week earlier as Consumer Staples, Financials, and Industrials moved below that mark. However, the S&P 500 and nine sectors (all but Telecommunication Services) have a rising 50-dma, up from eight a week earlier. A week earlier, six sectors had a rising 200-dma; now only two are rising: Consumer Discretionary and Information Technology.

**US ECONOMIC INDICATORS**

**Retail Sales** ([link](#)): Retail sales remained stalled at its record high last month. Total retail sales ticked up 0.1% in October after no change in both September and August. Of the 13 sales categories, seven increased, five declined, while sales at clothing stores were flat. Sales were higher for miscellaneous (1.8%), nonstore (1.4), building materials (0.9), health & personal care (0.7), restaurant (0.5), furniture (0.4), and sporting goods (0.4) establishments. Sales were lower for retailers of gasoline (-0.9), motor vehicles (-0.5), electronics (-0.4), general merchandise (-0.4), and food & beverages (-0.3). Adjusted for inflation, we estimate headline retail sales advanced 0.4% last month after gains of 0.8% and 0.4% the prior two months. These sales accelerated at a seven-month high of 5.6% (saar) during the three months ending October, based on the three-month average, improving steadily from August's 18-month low of 1.7%.

**Business Sales** ([link](#)): Nominal business sales were weak again in September; August real business sales took another step forward toward April's record high. The details: Nominal manufacturing & trade sales (MTS) were flat in September after falling 0.6% in August. Sales had recovered a total of 1.9% the prior five months after a seven-month slide of 4.5% from July's record high. Inflation-adjusted MTS advanced 0.2% for the second straight month in August to within 0.2% of April's record high. August’s real inventories-to-sales ratio remained at 1.43, the highest since September 2009, though still relatively low. September’s nominal inventories-to-sales ratio climbed to a new cyclical high of 1.38. It had fluctuated in a narrow band between 1.29 and 1.31 before its move up at the start of this year.

**Business Inventories** ([link](#)): Businesses inventories unexpectedly rose in September, suggesting that inventories were less of a drag on Q3 GDP than first estimated. Finished goods business inventories climbed 0.6% (the most since June) after upwardly revised gains of 0.3% and 0.2% the prior two months. Real business inventory investment slowed to $56.8 billion (saar) during Q3 from $113.5 billion during Q2, subtracting 1.44ppt from Q2 GDP growth. Gains in retail (0.8%) and wholesale (0.5) inventories more than offset a decline in factory inventories during September.

**JOLTS** ([link](#)): September job openings recovered 149,000 to 5.526 million (the second-highest reading on record) after sinking 291,000 in August from July’s series high of 5.668 million. Hirings fell 32,000 in September to 5.049 million; separations were 47,000 lower at 4.839 million. The latest hirings and separations data yielded an employment gain of 210,000 for the month, above September's payroll gain of 137,000—overstating the payroll count for the fifth month. The job-opening rate (4.0%) moved up towards July's record high of 4.1%, while the total hires rate held at 3.9% again in September, just below its cyclical high of 4.1% posted at the end of last year. The quit rate edged down to 2.1%; it's been fluctuating between 2.1% and its cyclical high of 2.2% for 13 straight months. The ratio of unemployed workers per job opening dropped to a new cyclical low of 1.43. It was as high as 6.80 in July 2009.

**Consumer Sentiment** ([link](#)): Consumer sentiment rose more than expected in mid-November, climbing to a four-month high. The University of Michigan’s Consumer Sentiment Index (CSI) advanced for the
second month from 87.2 in September to 93.1 in mid-November. According to the report, “Two trends dominated the early November data: consumers anticipated somewhat larger income increases during the year ahead as well as expected a somewhat lower inflation rate. This meant that consumers held the most favorable inflation-adjusted income expectations since 2007.” Consumers are more confident about both the present and future. Over the past two months, the present situation advanced from 101.2 to 104.8; expectations climbed from 78.2 to 85.6. Both measures reached cyclical peaks in January—the former at 109.3, the latter at 91.0.

**Producer Price Index** (link): The PPI for final demand fell 0.4% in October after a 0.5% decline in September—the first back-to-back declines since the first two months of this year. Over 70% of last month’s loss can be traced to a 0.3% decrease in prices for final demand services; final demand goods (-0.4%) also moved lower. Over half of the decline in the former is attributable to a 15.8% drop in margins for fuels & lubricants retailing. Over one-third of the October decline in the final demand goods index is attributable to prices for light motor trucks, which fell 1.8%. The yearly inflation rate for the headline series fell 1.6%, a record 12-month decline for this index, which was introduced in November 2009. The goods rate fell 4.8% y/y; the services rate sank from 1.0% to 0.1%, a low for the series. The rates for the core (0.8 to 0.1) and core ex trade services (0.5 to 0.4) both eased.

**GLOBAL ECONOMIC INDICATORS**

**Eurozone GDP** (link): Q3 marked the second quarter of deceleration in the Eurozone’s economic growth, according to the GDP flash estimate, after three quarters of acceleration. Among the four largest economies, growth slowed in Germany, Italy, and Spain and accelerated in France. Eurozone GDP growth eased to 1.2% (saar) during Q3 from 1.4% and 2.1% (strongest since Q1-2011) the prior two quarters. Spain’s GDP expanded a robust 3.2% (saar), though deteriorated for the first time in 11 quarters, after accelerating steadily from -3.8% during Q4-2010 to 3.9% during Q2-2015. The German economy grew 1.3% (saar), its weakest performance in a year; Italy’s GDP advanced 0.8% (saar) down from 1.2% and 1.7% (highest since Q3-2010) the previous two quarters. France’s GDP recovered 1.4% (saar) during Q3 after slowing to a standstill during Q2, following Q1’s seven-quarter high of 2.9%.

**Eurozone Industrial Production** (link): Output in the Eurozone fell for the fourth time in five months in September. Industrial production (excluding construction) slumped 0.3% following a 0.4% decline in August and a 0.7% increase in July—which is one of only three gains this year. September’s decline was driven by consumer durable (-3.9%), consumer nondurable (-1.0), and capital (-0.3) goods orders; intermediate goods orders were flat. A gain in energy output (1.2) was a small offset. Among the four largest economies, only Germany (-1.2) posted a decline; output in Spain, France, and Italy posted gains of 1.4%, 0.2%, and 0.2%, respectively. Available data on other member countries showed the biggest losers were Ireland (-2.4), Lithuania (-2.3), and Greece (-1.9); the biggest winners were Slovakia (2.2), Finland (1.3), and the Netherlands (1.2).

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