EVERCORE ISI

Economics | Weekly Economic Report

Macro Note

October 06, 2019

Ed Hyman
ed.hyman@evercoreisi.com

Jaewoo Nakajima
jaewoo.nakajima@evercoreisi.com

Dick Rippe
dick.rippe@evercoreisi.com

Stan Shipley
stan.shipley@evercoreisi.com

Sean Zhang, CFA
sean.zhang@evercoreisi.com

Francesca Ponziani
francesca.ponziani@evercoreisi.com

Morgan Smith
morgan.smith@evercoreisi.com

Game Changer

“Good News”

U.S. Economy Added 136,000 Jobs in September

US unemployment drops to lowest since 1969

China’s Economy Gets a Little Better

Australia retail sales rise, suggesting recent rates buoying consumption

Mortgage Apps Jump Back Up, Borrowers Rush to Refi

S&P Reports $14.6 Billion Increase in U.S. Dividends for Q3

“Bad News”

US manufacturing sector falls to lowest level in 10 years

Global manufacturing contraction stretches to longest in 7 years

Global markets fall on poor economic data

US services sector growth slips to three-year low in September

South Korean exports slump for tenth month and prices fall

Germany’s services sector suffers as recession fears mount

Game Changer

One view of the US economy is that it has been weak and fragile, eg, bond yields have plunged, PMIs have declined sharply, mfg is in a recession, and the S&P peaked over a year ago.

A second view is that the US economy is OK and solid, eg, unemployment claims, consumer confidence, and EVRISI company surveys. The S&P is set for another leg up.

Last week's employment report gave the lead to the second view. Payroll employment with revisions increased +181k, up +1.3% y/y, and household +391k, up +1.4% y/y. The unemployment rate declined to 3.5%. These stronger employment data for Sep suggest S&P earnings in 3Q were OK. That's also suggested by S&P dividends which increased +8.2% y/y in 3Q.

AHEs slowed to just +2.9% y/y in Sep, which suggests the odds of a recession are low.

Global Short Rates made a new low last week, highlighting the ongoing *Global Easing Cycle*.

There was an unusually positive package of data for Australia, ie, exports, retail sales, and the mfg PMI, which ticked up to 54.7%. So Australia is in its 29th year without a recession and still moving ahead. And RBA just cut its policy rate to just 0.75%, something the FOMC might take into consideration.

To be sure, there's a significant package of negatives, eg, the inverted yield curve, 2020 elections, trade war, China/HK, and Brexit.

Very best regards,

Ed Hyman

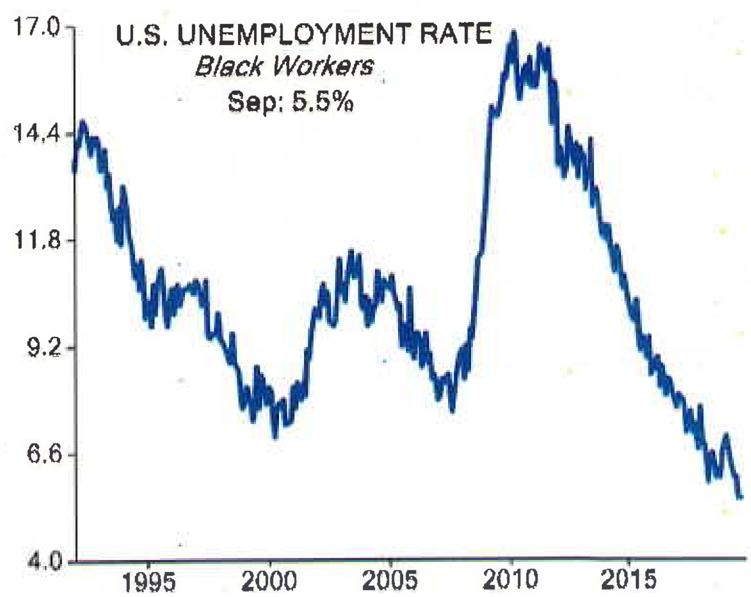
212-446-5617
646-287-7242
Ed.Hyman@evercoreisi.com

SUMMARY

Game Changer

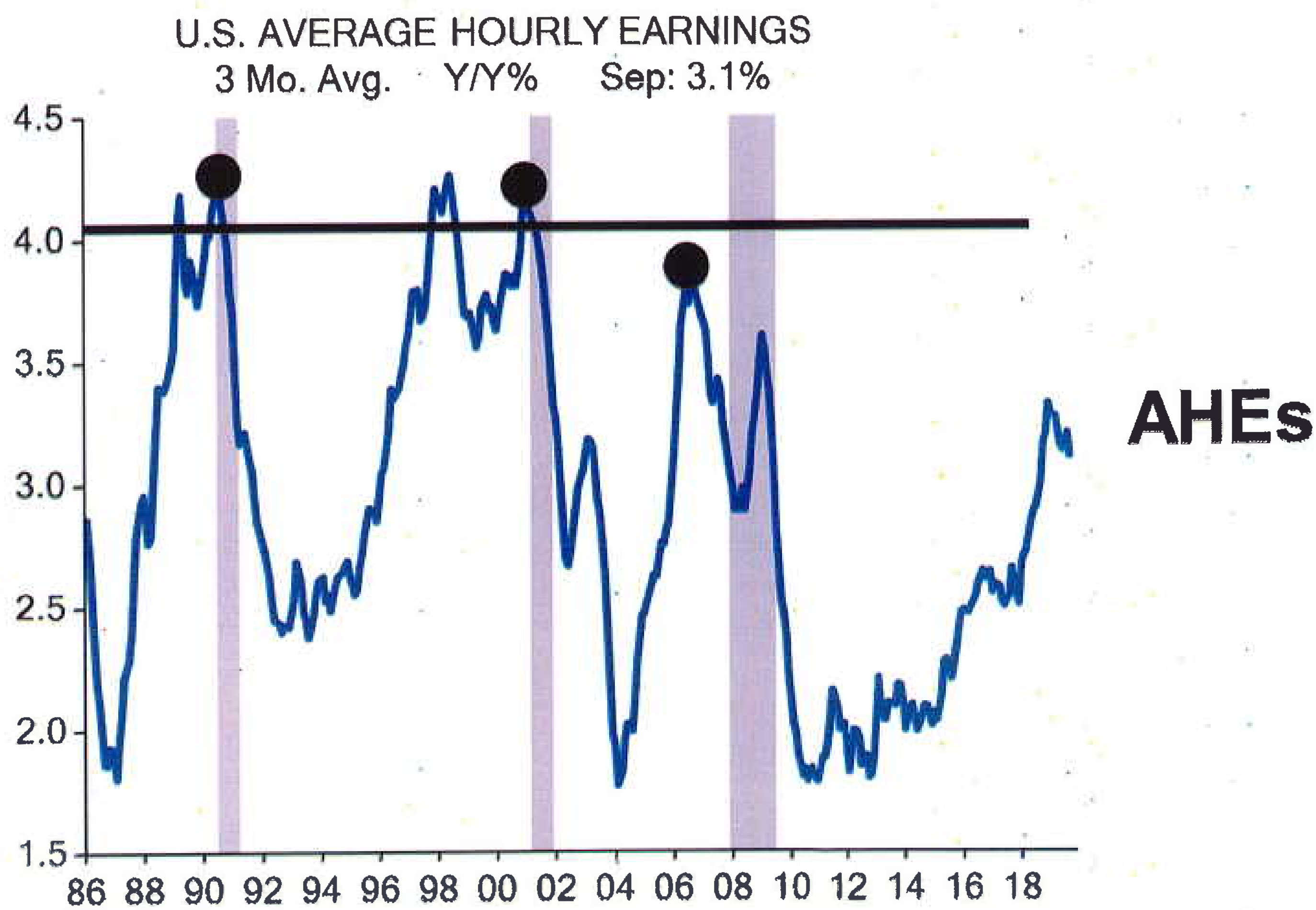
Employment gains have certainly slowed. But payroll employment and household employment were up +1.3% y/y and +1.4% y/y respectively in Sep. That's faster than labor force growth, and with just +1.1% productivity, would support +2.5% real GDP growth. Payroll employment has increased almost +22m or almost +17% over the past nine years. That's +1.6% per year. As a result, the unemployment rate has declined to just 3.5% and the unemployment rates for blacks, Hispanics, and *less than high school education* all declined to record lows.

To say the least, the expansion has broadened out.



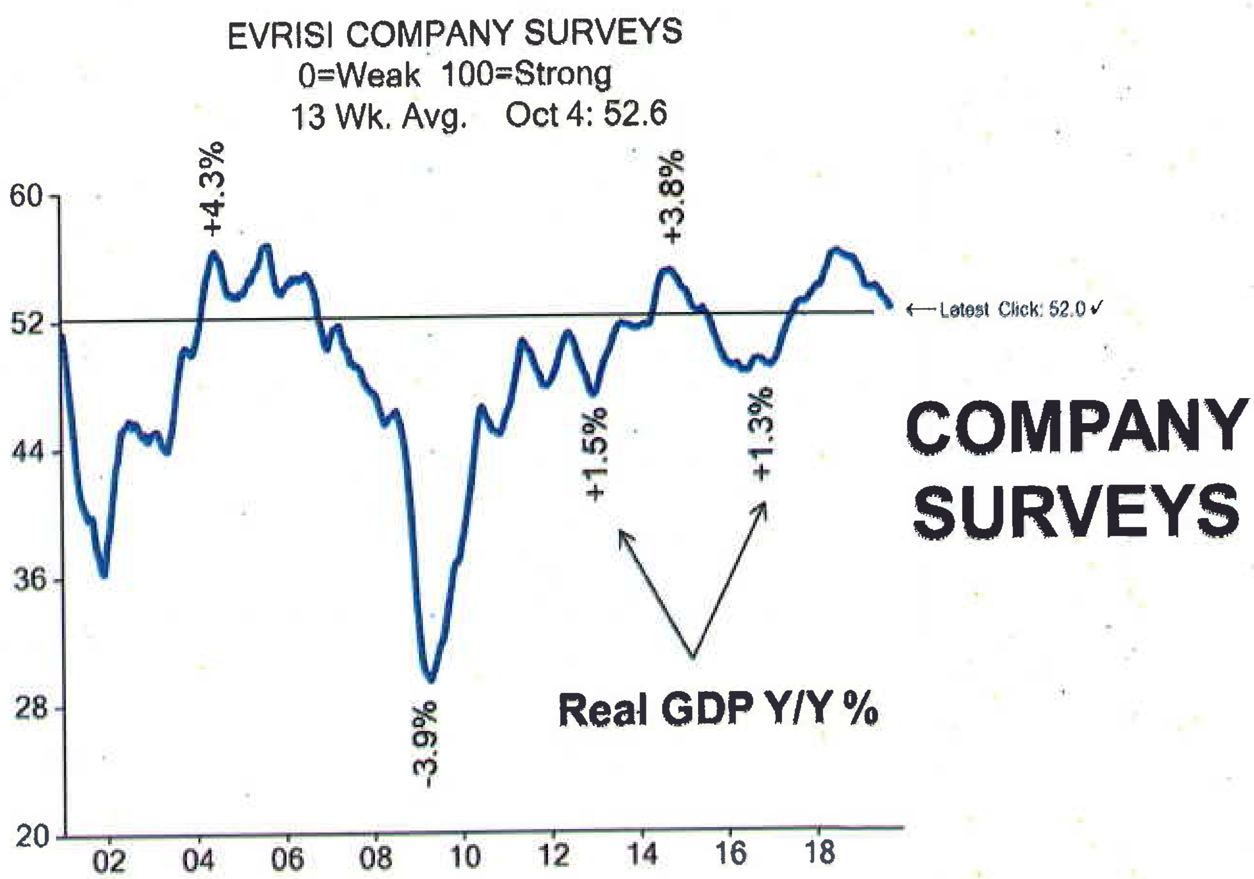
Game Changer Contd

And with the unemployment rate down to just 3.5%, AHEs are still tame with a decline of -0.04% m/m in Sep and a slowdown to just +2.9% y/y. This is faster than inflation but well below the +4.0% that has been reached before previous recessions have started. *Slow And Steady* wins the race. A recession is not in sight.

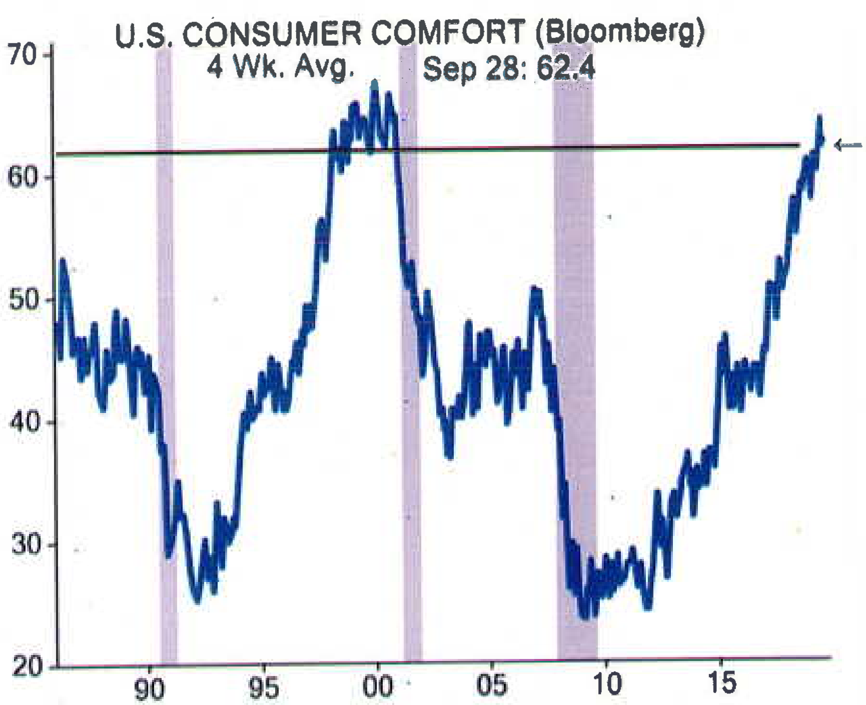


Game Changer Contd

We have identified 93 cities around the county that are doing well, eg, Charlotte, Boise, and Boston. So while the expansion has been slow, it has been persistent and that has led to the best economy overall we can remember. This fits with Friday's employment report, elevated consumer confidence, rising house prices, record-low unemployment claims, and EVRISI company surveys, which ticked up to 52.0 last week, a level consistent with +2.5% real GDP growth.



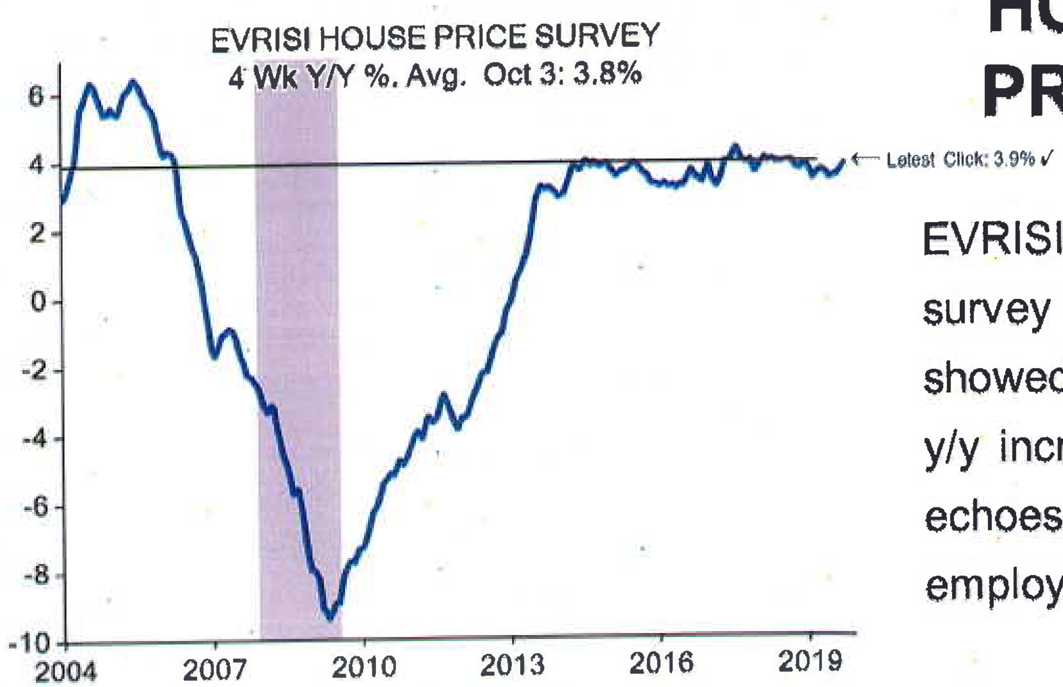
Game Changer Contd



CONSUMER COMFORT

Bloomberg's weekly survey of consumer confidence increased +0.3 last week to an elevated 62.0.

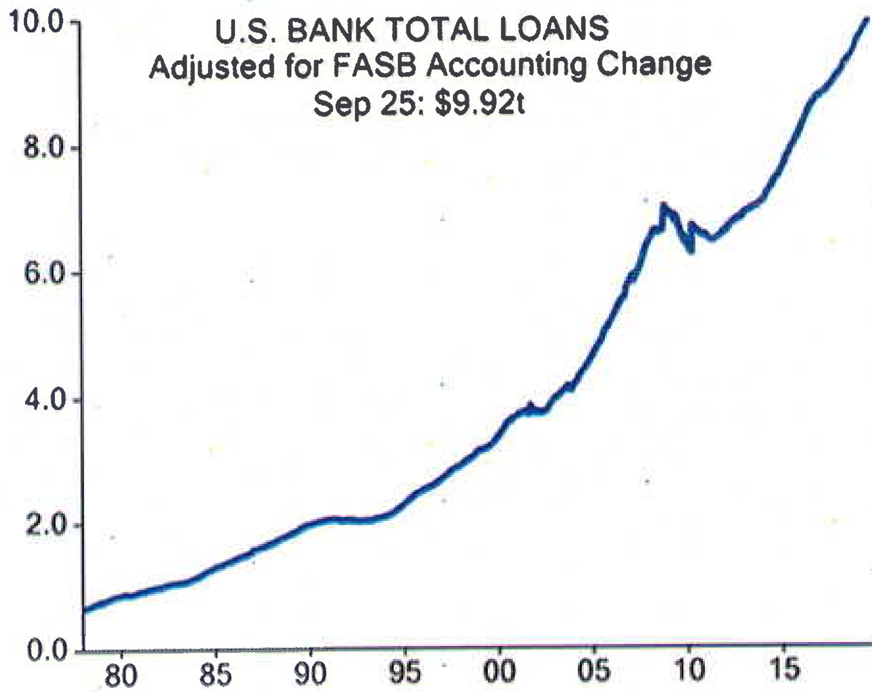
This echoes Friday's employment report.



HOUSE PRICES

EVRISI house price survey last week showed a +3.9% y/y increase, which echoes Friday's employment report.

Game Changer Contd



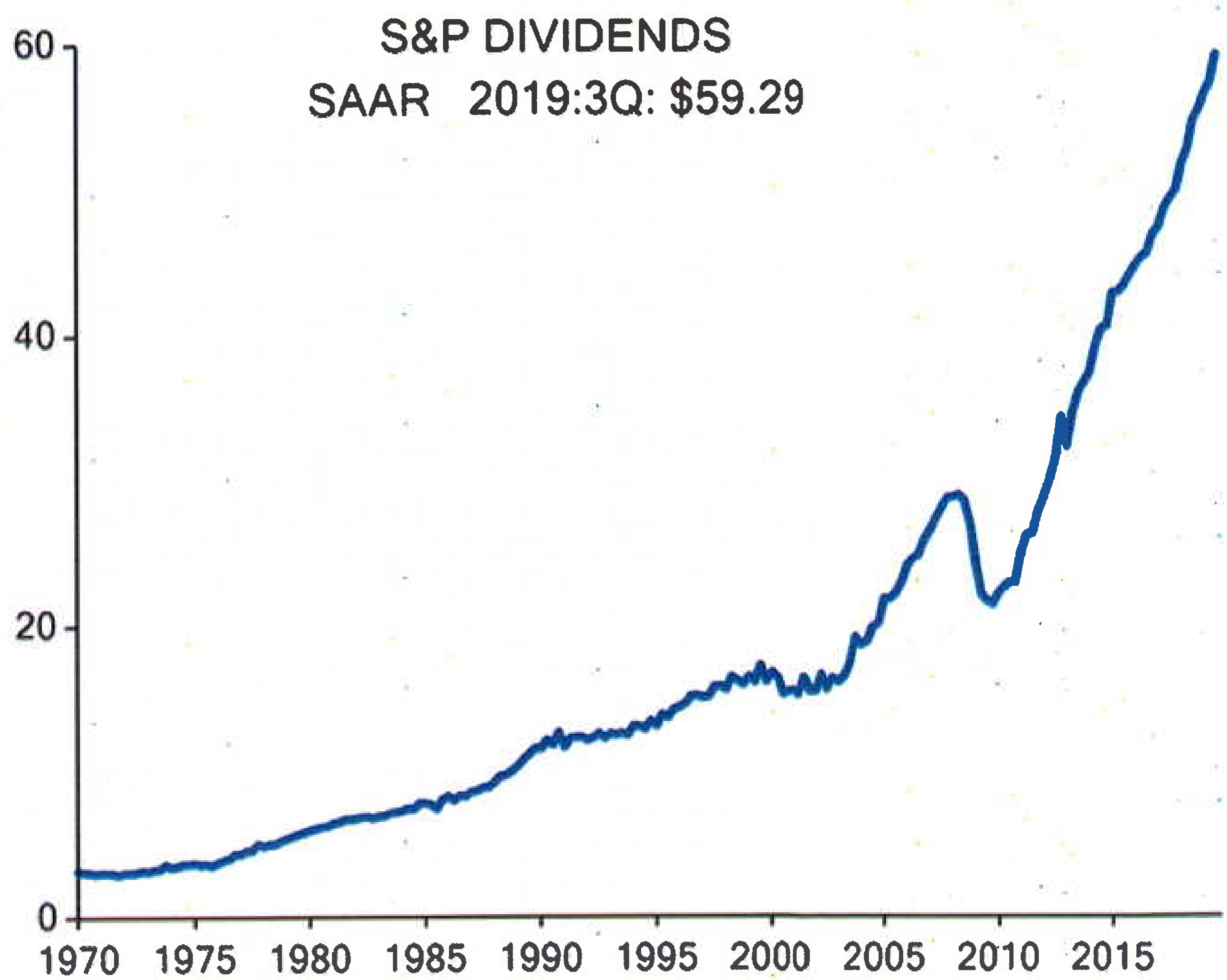
BANK LOANS

M2 was reported last Thursday with an acceleration to +6.0% y/y! Bank loans were reported Friday with an acceleration to +5.2% y/y. Again, both echo Friday's employment report.

Game Changer Contd

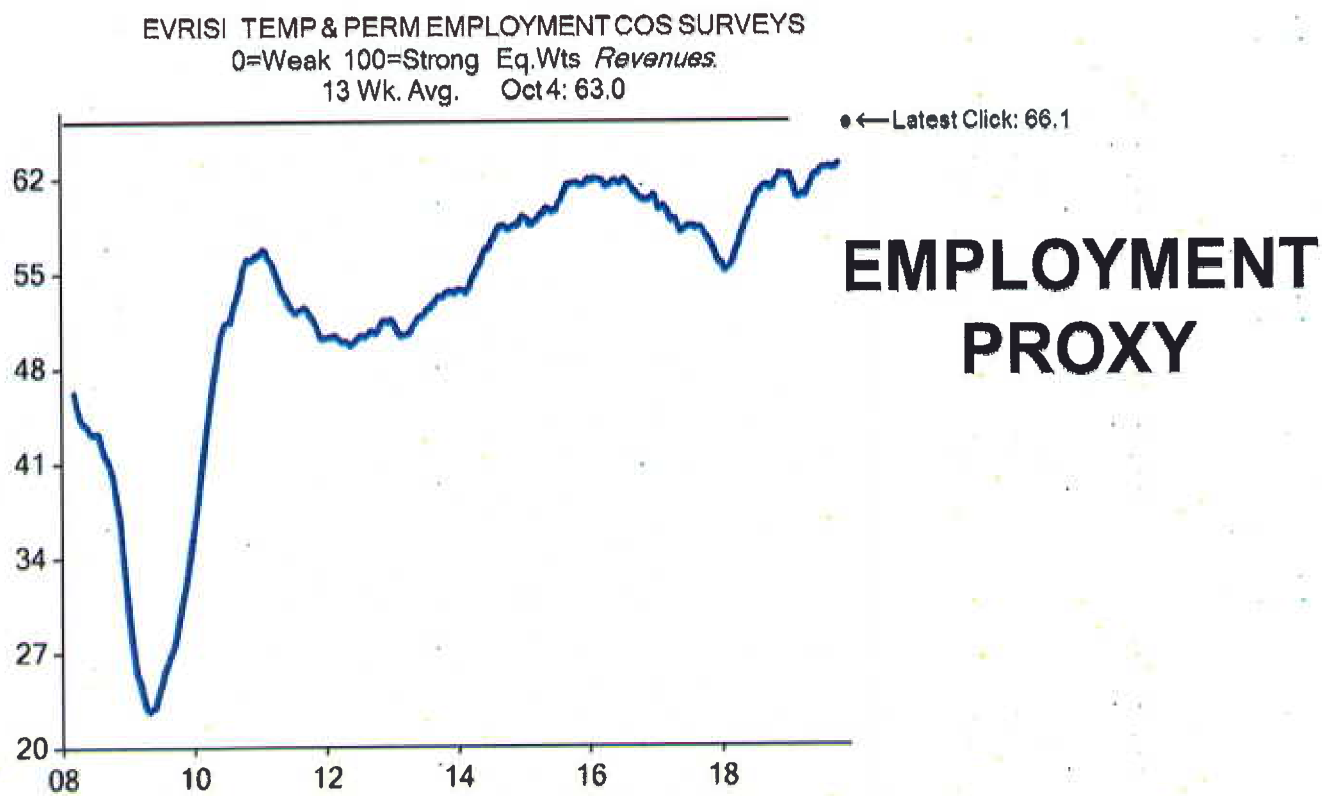
Also of note here, S&P dividends for 3Q were reported last week with a very strong +13.5% q/q a.r. increase and a strong +8.2% y/y increase. Dividends at $59.29 put the S&P yield at 2.01% versus the bond yield at 1.53%.

Stronger employment and dividends both suggest stronger S&P earnings in 3Q.



Game Changer Contd

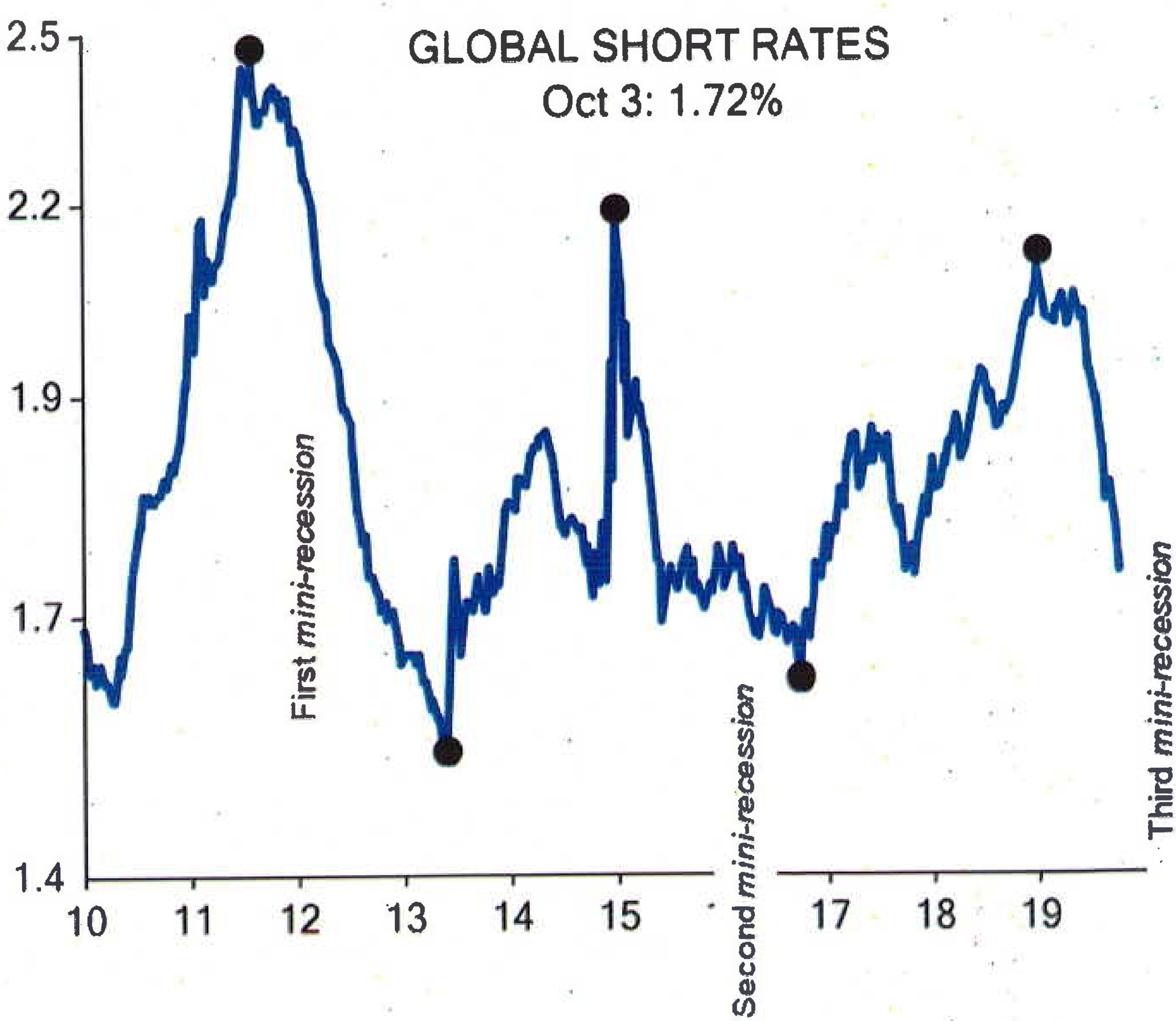
Every week Oscar Sloterbeck's team surveys 13 temp & perm employment agencies around the country, asking them how their revenues are doing. This proxy of employment has been strong and surged last week to very strong 66.1. This survey echoes Friday's employment report.



To be sure, US mfg sector is in recession, and the economy overall has slowed significantly over the past year. But it's still growing at a solid pace and is likely to keep growing for the foreseeable future.

Global Easing Cycle

EVRISI's proprietary measure of *Global Short Rates* declined again last week, has declined significantly over the past nine months, and is likely to continue to decline. Judging by history, this is setting the stage for this Third *mini-recession* to bottom.



Inflation MIA Give Central Banks Green Lights

The surprising slowing in AHEs to just +2.9% underscores restrained inflation in the US. And three core CPIs for Sep outside the US reported last week were all restrained, to say the least:

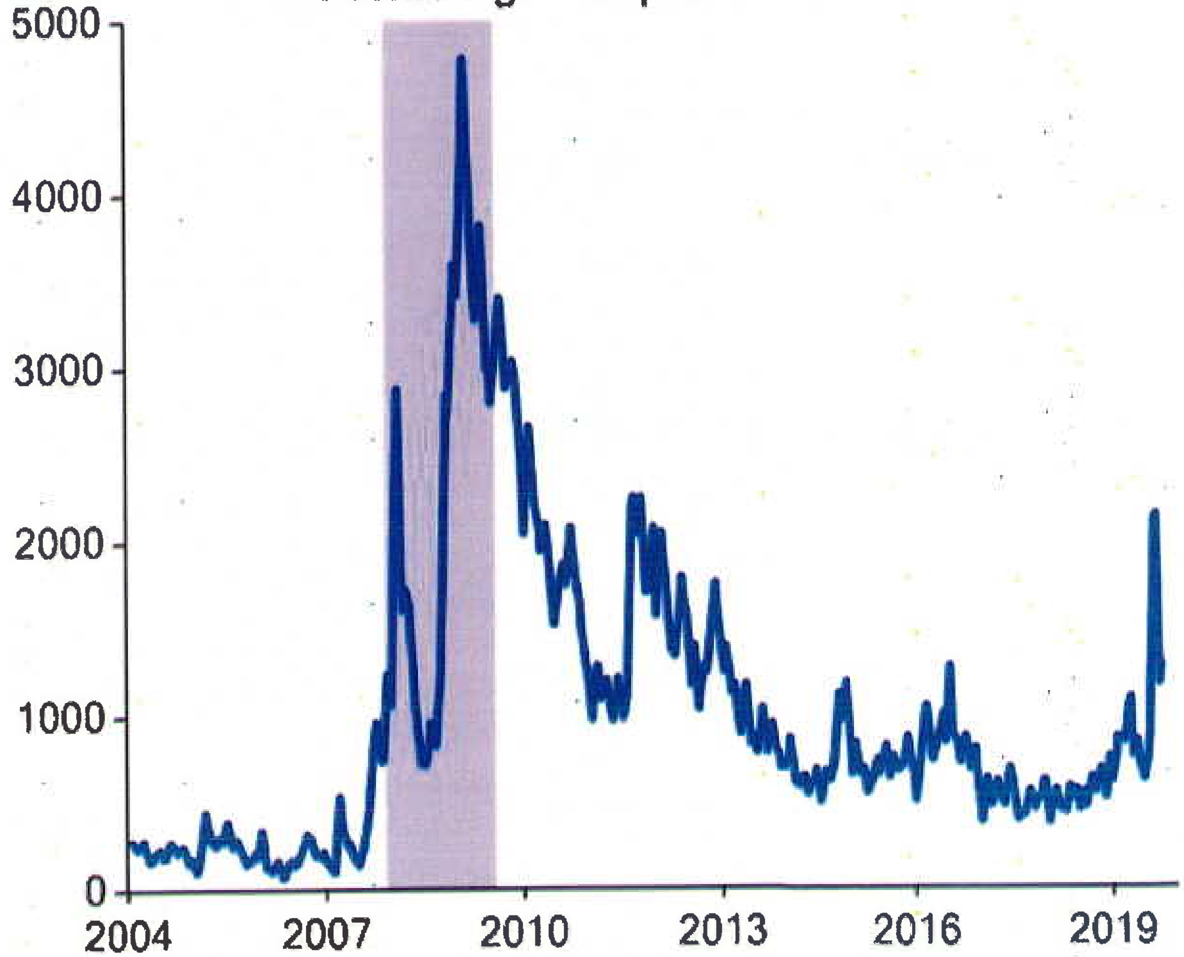
- Eurozone +0.10% m/m and +1.0% y/y.
- South Korea -0.18% m/m and +0.5% y/y.
- Thailand +0.05% m/m and +0.4% y/y.

Krishna Guha expects the Fed to cut in Oct to 1.75% and to resume balance sheet growth ($15b per month).

PMIs Influenced By "Recession" Mentions?

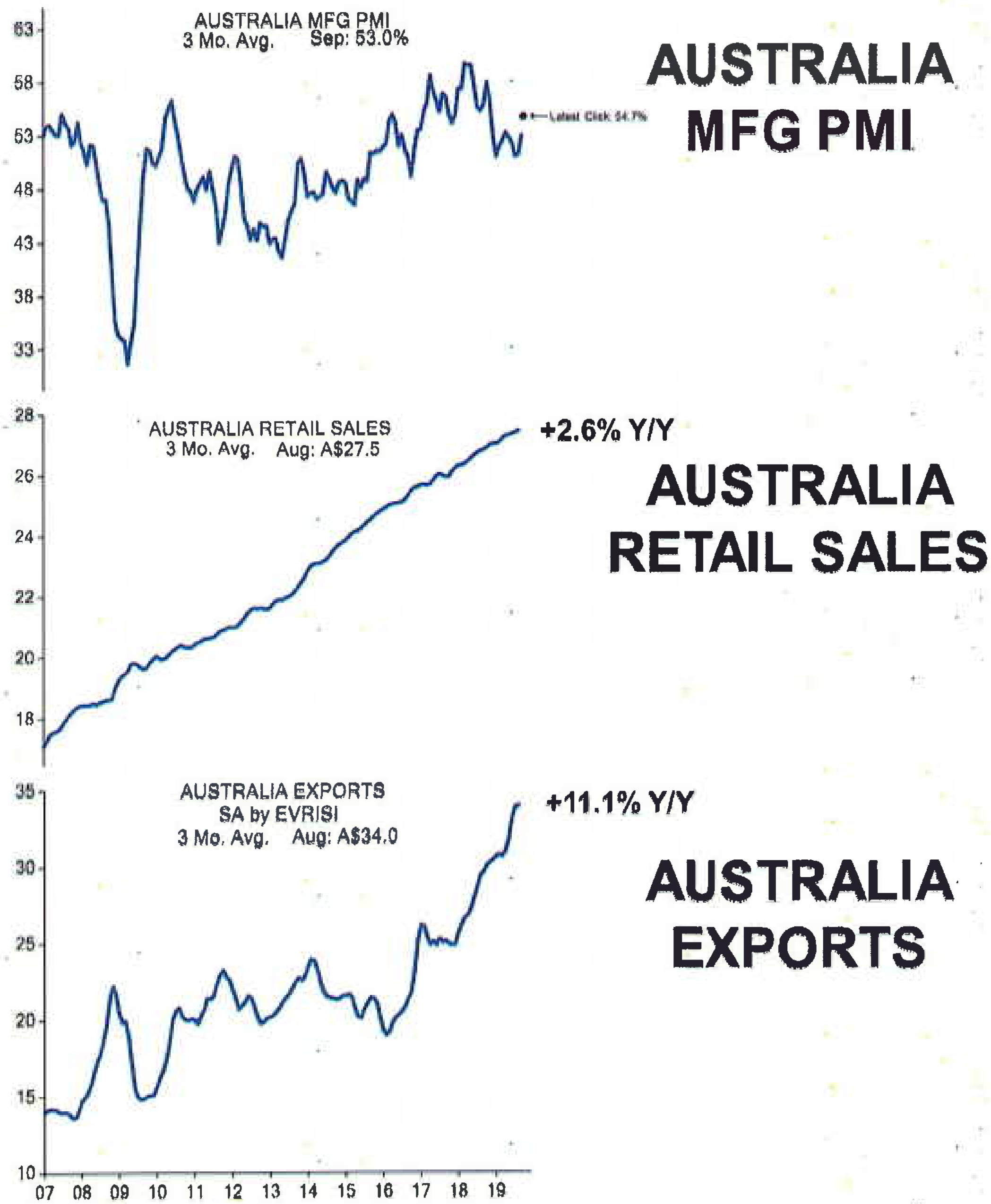
It's possible that the unusual spike in "recession" mentions that occurred going into Sep influenced PMI survey results. Many articles mentioned "recession" in the context of the trade war, inverted yield curve, and Brexit. Since then, "recession" mentions have returned to more normal levels.

BLOOMBERG ARTICLES MENTIONING "RECESSION"
4 Wk. Avg. Sep 27: 1284



29th Year!

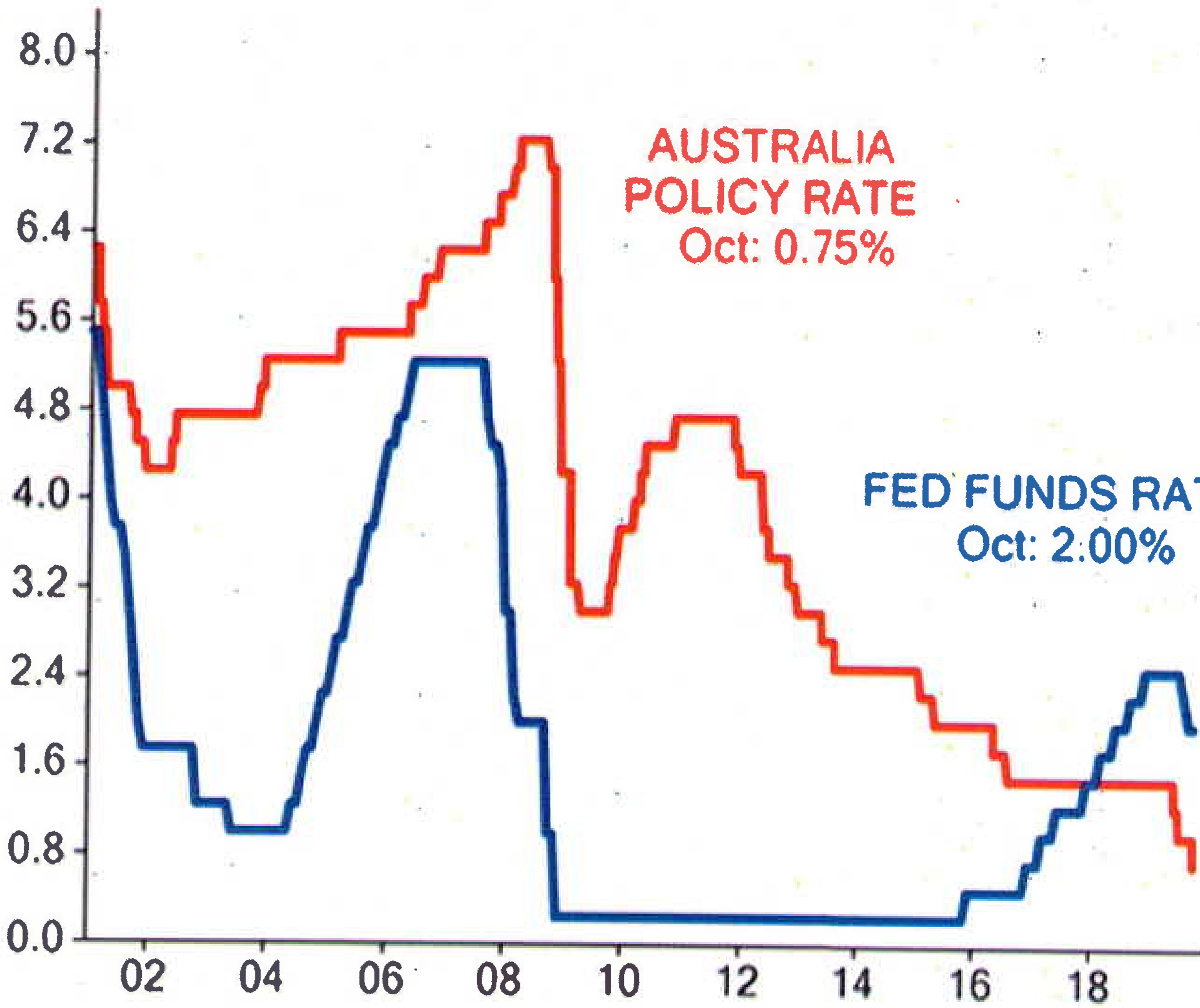
There was an unusually positive package of data for Australia reported last week:



So Australia real GDP probably increased again in 3Q, the start of its 29th year of expansion.

29th Year! Contd

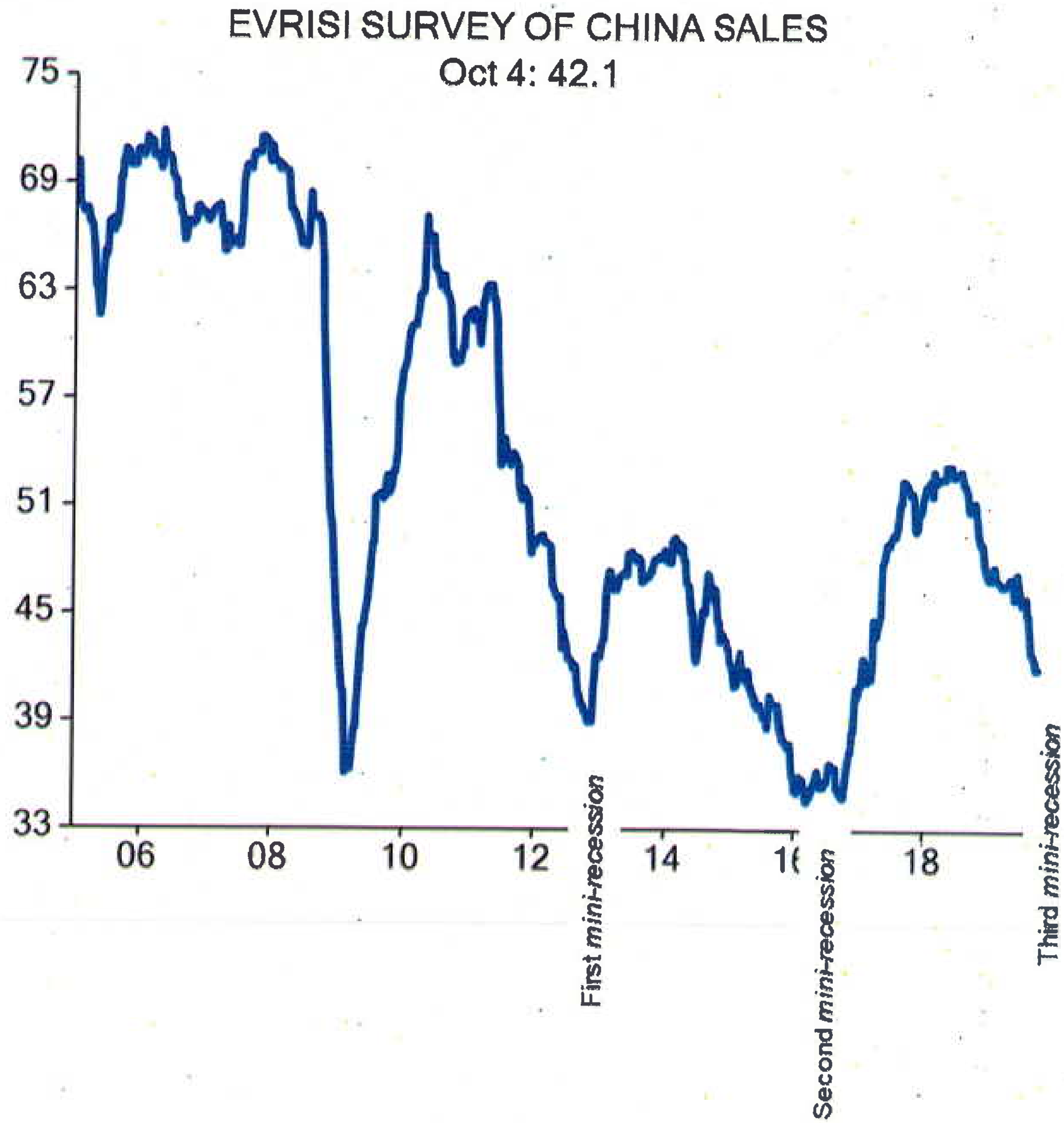
The Fed may want to take note of the fact that Australia's policy rate was cut to just 0.75% last week, particularly given that fed funds are roughly +50bp above bond yields.



(CNBC) -- Major Asia markets close higher as Australia slashes cash rate by 25bp to new record low of 0.75%.

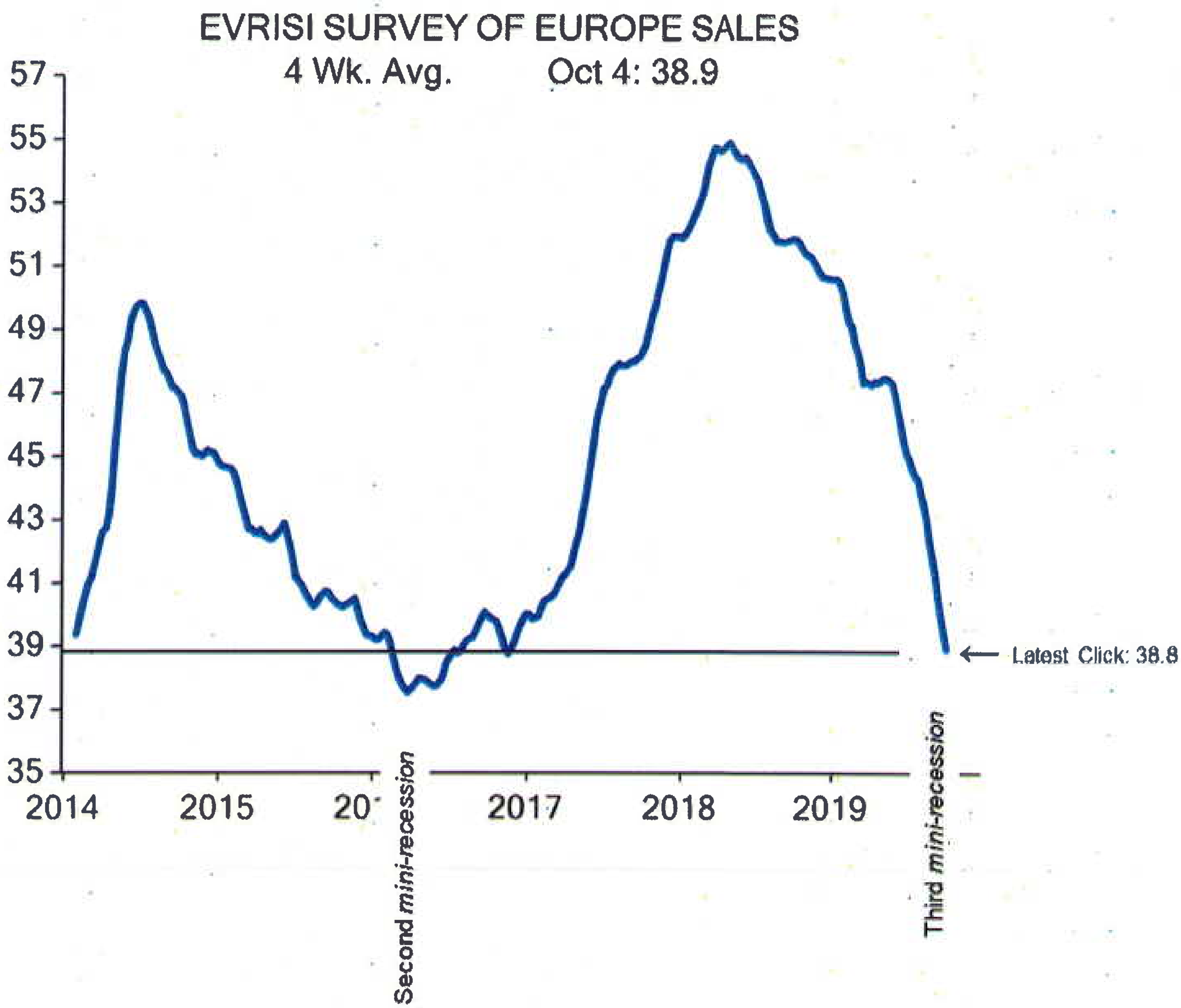
China Survey Still Very Weak

EVRISI survey of China cos sales was unchanged last week at a very weak 42.1. China was a driver of the First and Second *mini-recessions*, and it has been a driver of this Third *mini-recession*.



Europe Survey Still Very Weak

EVRISI survey of Europe cos sales was unchanged last week at a very weak 38.8.



Don Straszheim

- Highly confident -- US announced progress but not final trade resolution.
- Expect 'progress' per Trump from trade talks in DC Oct 10-11. US put on 'indefinite hold' the scheduled (Oct 15) rise in tariffs (25% rate to 30% rate).
- Flow of recent news has our confidence high. Not a tariff cut – just no hike. US side celebrates – process is working.
- Then, Nov 16-17 Santiago, Trump-Xi meet. US announces more 'progress' and another 'indefinite hold' on US tariffs set to rise to 15% on Dec 15.
- Santiago, likely a 'Joint Statement' by US and China, first since May 19, 2018.

Recession Risks Review

We do not expect a recession in the foreseeable future, but there are certainly risks:

Yield curve *Trade war* *2020 election*

China *Brexit*

These risks help explain why the Fed is continuing to ease.

Here is a brief review of what caused the last three recessions:

1990 Recession

- Real fed funds hit 500bp.
- Inflation moved over +4.0%.
- Oil prices surged.
- Yield curve inverted.
- Japan bubble burst.
- Housing starts plunged.

2001 Recession

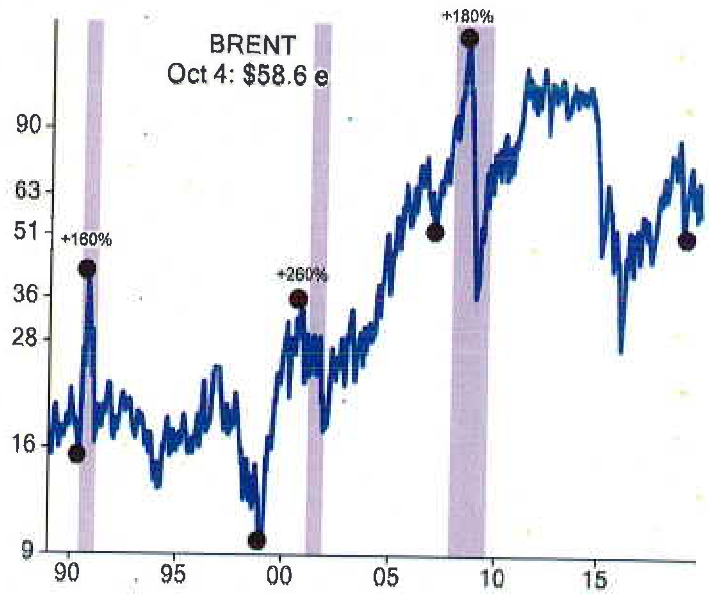
- Real fed funds hit 400bp.
- PE roughly 30x.
- Oil prices surged.
- Yield curve inverted.
- Tech bubble unwinding.

2008 Recession

- Real fed funds hit 250bp.
- Oil prices surged.
- Yield curve inverted.
- Housing bubble unwinding.

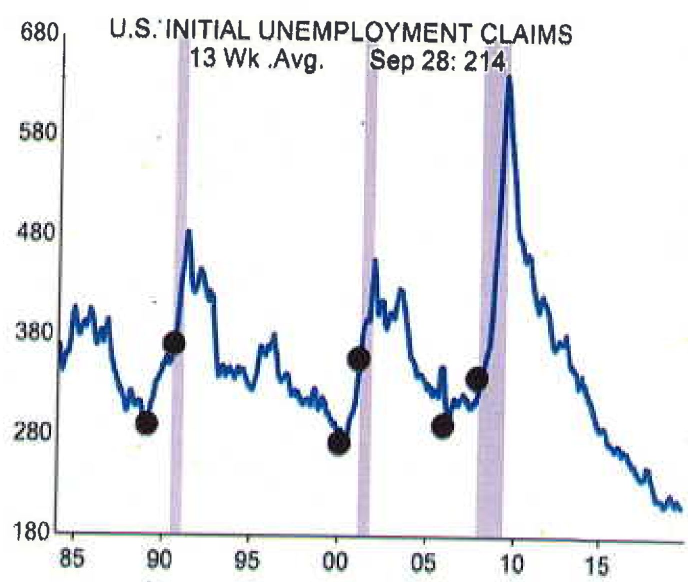
Recession Risks Review Contd

Oil Spikes And Recessions



Oil is not giving a recession signal.

Unemployment Claims And Recessions



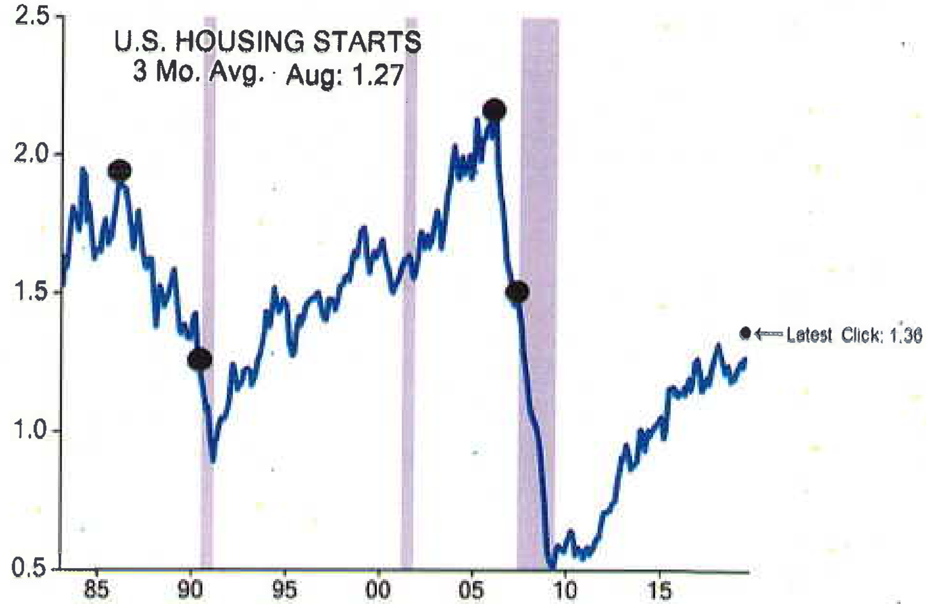
Unemployment claims are not giving a recession signal.

Recession Risks Review Contd

Saving Rate And Recessions

The saving rate is not giving a recession signal.

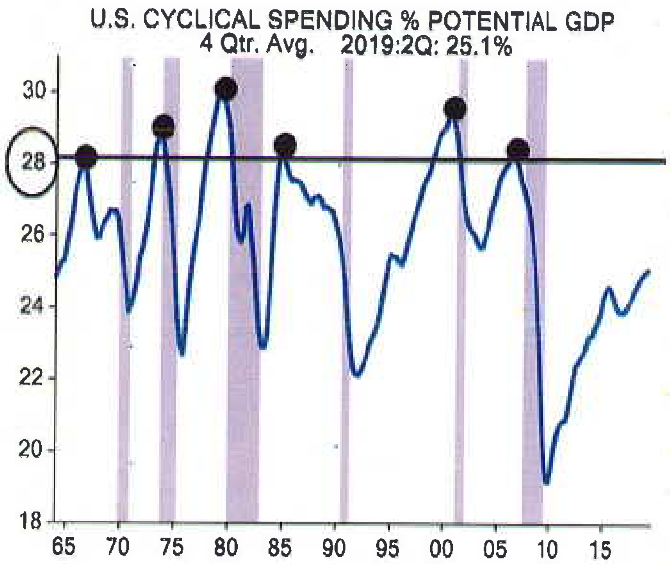
Housing Starts And Recessions



Housing starts are not giving a recession signal.

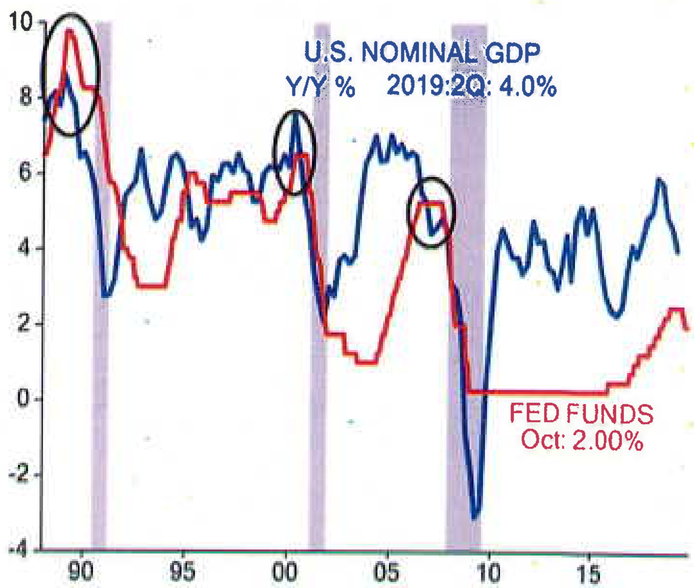
Recession Risks Review Contd

Cyclical Spending And Recessions



Cyclical spending as a percent of GDP is not giving a recession signal.

Fed Funds, Nominal GDP And Recessions.



Fed funds relative to GDP are not giving a recession signal.

Evercore ISI U.S. Outlook

	2018	2019 f	2020 f
Real GDP	2.5%	2.2%	1.8%
GDP Price Deflator	2.3%	1.4%	1.7%
Nominal GDP	4.9%	3.6%	3.5%
Fed Funds Rate*	2.50%	1.75%	1.75%

The CPI and Consumer Sentiment Will be the Market's Focus This Week

The headline and core CPI probably advanced +0.1% m/m and +0.2%, respectively, in Sep, following big core readings over the prior three months. The budget gap will probably show a surplus around +$76.0b for Sep. However, the budget deficit for the next fiscal year could approach $1.05t. Consumer sentiment readings will probably remain elevated: So far trade tensions, political discord, and equity volatility have not significantly weighed down sentiment.

Overseas, Canadian employment is the key release: Their employment, which surged in Aug, likely registered little gain in Sep.

Stan Shipley

		Consensus		Evercore ISI 10/07/19	Actual
Tuesday, Oct 8					
UNITED STATES	Aug		Sep		
1. NFIB	103.1	102.5		103.0	
2. PPI	+0.1%	+0.1%		+0.2%	
Core PPI	0.3%	+0.2%		+0.3%	
3. Budget Gap	-$200.3	+$85.0		+$76.0	
4. 3/10/30 Treasury Auctions					
Wednesday, Oct 9					
UNITED STATES	July		Aug		
5. JOLTS - Openings	7,217	N/A		7,250	
Thursday, Oct 10					
UNITED STATES	Sep 28		Oct 5		
6. Unemployment Claims	219	220		215	
4 Wk.Avg.	213	216		215	
	Aug		Sep		
7. CPI	+0.1%	+0.1%		+0.1%	
Core CPI	+0.3%	+0.2%		+0.2%	
Friday, Oct 11					
UNITED STATES	Aug		Sep		
8. Import Prices	-0.5%	+0.0%		+0.0%	
	Sep		1H Oct		
9. Consumer Sentiment	93.2	92.0		92.5	
CANADA	Aug		Sep		
10. Employment	81.1	0.0		+5.0	

EVERCORE ISI

Economic Estimates

Mon Oct 7

Stan Shipley 212 446 9474 917 463-6773 stan.shipley@evercoreisi.com

1 of 1

Monday Oct 07	Oct 08	Oct 09	Oct 10	Oct 11
CONSUMER CREDIT 3:00 July +$23.3 Aug +$15.8 E +$16.0 BUDGET GAP * 2:00 Aug -$200.3 Sep +$76.0 E +$86.0 * Oct 7 to Oct 11	NFIB 6:00 Aug 103.1 Sep 103.0 E 102.6 C PPI 8:30 Aug +0.1% Sep +0.1% E +0.2% C PPI CORE Aug +0.3% Sep +0.3% E +0.2% C PPI CORE EX TRADE Aug +0.4% Sep +0.2% E OECD BROAD LEI a.m. Aug +0.1% Sep 0.0% E	MORTGAGE APPS JOLTS - Openings 10:00 July 7.217 Aug 7.250 E FOMC MINUTES	UNEMP CLAIMS 8:30 Sep 28 219 Oct 5 215 E 220 C CONSUMER COMFORT CPI 8:30 Aug +0.1% Sep +0.1% E 0.1% C CPI CORE Aug +0.3% Sep +0.2% E +0.2% C REAL AVG EARNINGS	IMPORT PRICES 8:30 Aug -0.6% Sep +0.0% E 0.0% C CORE IMPORT Aug 0.0% Sep +0.1% E CONSUMER SENT 10:00 Sep 93.2 Oct 1H 92.5 E 92.0 C
Monday Oct 14	**Oct 15**	**Oct 16**	**Oct 17**	**Oct 18**
	EMPIRE MFG INDEX 8:30 Sep +2.0 Oct 0.0 E +3.4 C	MORTGAGE APPS RETAIL SALES 8:30 Aug +0.4% Sep +0.4% E +0.3% C RETAIL SALES EX AUTO Aug 0.0% Sep +0.3% E +0.2% C NAHB 10:00 Sep 68 Oct 70 E MFG & TRADE INV 10:00 July +0.4% Aug +0.5% E TICS	UNEMP CLAIMS 8:30 Oct 5 215 E 220 C Oct 12 215 E CONSUMER COMFORT HOUSING STARTS 8:30 Aug 1.364 Sep 1.300 E 1.320 C BUILDING PERMITS Aug 1.419 Sep 1.350 E 1.366 C INDUSTRIAL PROD 9:15 Aug +0.6% Sep +0.2% E +0.1% C OPERATING RATES Aug 77.9% Jul 78.0% E 77.9% C	LEI 10:00 Aug +0.0% Sep +0.1% E PHIL FED SURVEY 8:30 Sep +12.0 Oct +8.0 E

GENERAL DISCLOSURES

This report is approved and/or distributed by Evercore Group L.L.C. ("Evercore Group"), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority ("FINRA") and by Evercore ISI International Limited ("ISI UK"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI ("Evercore ISI"). Both Evercore Group and ISI UK are subsidiaries of Evercore Inc. ("Evercore"). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Inc.

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Evercore ISI. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates. Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel.

Evercore ISI does not provide individually tailored investment advice in research reports. This report has been prepared without regard to the particular investments and circumstances of the recipient. The financial instruments discussed in this report may not suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Securities and other financial instruments discussed in this report, or recommended or offered by Evercore ISI, are not insured by the Federal Deposit Insurance Corporation and are not deposits of or other obligations of any insured depository institution. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes such currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance.

Evercore ISI salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research. Our asset management affiliates and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Electronic research is simultaneously available to all clients. This report is provided to Evercore ISI clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Evercore ISI. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations, estimates or target prices) without first obtaining express permission from Evercore ISI.

This report is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

For investors in the UK: In making this report available, Evercore makes no recommendation to buy, sell or otherwise deal in any securities or investments whatsoever and you should neither rely or act upon, directly or indirectly, any of the information contained in this report in respect of any such investment activity. This report is being directed at or distributed to, (a) persons who fall within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) persons falling within the definition of high net worth companies, unincorporated associations, etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied on by persons who are not relevant persons.

Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore ISI, and can be obtained by writing to Evercore Group L.L.C., Attn. Compliance, 666 Fifth Avenue, 11th Floor, New York, NY 10103.

In compliance with the European Securities and Markets Authority's Market Abuse Regulation, a list of all Evercore ISI recommendations disseminated in the preceding 12 months for the subject companies herein, may be found at the following site: https://evercoreisi.mediasterling.com/disclosure.