

In this month's recap: stocks stay in rally mode, helped by hints that the U.S. and China may be closing in on a phase-one trade deal; hiring bounces back; key real estate indicators look stronger.

Monthly Economic Update

Presented by Eszylfie Taylor, December 2019

THE MONTH IN BRIEF

The S&P 500 rose 3.4% in November and attained a series of record closes in the process. Earnings results helped stocks, as did intermittent signals that the first stage of a U.S.-China trade agreement might be near at hand. Job creation improved, and consumer spending lived up to market expectations; consumer confidence and business activity, not so much. Housing indicators communicated good news, and the rally in stocks made the commodity sector look less attractive.

DOMESTIC ECONOMIC HEALTH

Were the U.S. and China close to signing off on the first phase of a new trade deal? According to officials from both countries, the answer was yes. When would this phase-one deal be finalized? No definite answer emerged. On November 8, President Donald Trump said that such an agreement was near, and six days later, White House economic advisor Larry Kudlow said that negotiators were “getting close” to an accord. On November 26, China’s commerce ministry announced that trade representatives had “reached a consensus” on remaining issues, and President Trump said that negotiators were in the “final throes of a very important deal.” Still, November ended without any announcement that a phase-one pact had been reached. ^{2,3}

The Department of Labor’s latest employment report found that the economy generated 128,000 net new jobs in October. This was a surprise to the upside. Analysts surveyed by Bloomberg expected 85,000 new hires. Since more people looked for work in October than in September, the headline unemployment rate ticked up 0.1% to 3.6%. The U-6 rate, which encompasses both the unemployed and underemployed, also rose 0.1% to 7.0%. ^{4,5}

Consumer spending rose 0.3% in October, representing the largest monthly gain since July. This happened even without a gain in consumer income. One prominent index of consumer confidence declined in November: the Conference Board's consumer confidence gauge fell 0.6 points to 125.5. The University of Michigan's Consumer Sentiment Index, however, rose to a final November mark of 96.8 from a 95.5 preliminary reading. ^{4,6}

In the business sector, the Institute for Supply Management's purchasing manager indices of manufacturing and non-manufacturing activity both rose. The ISM Manufacturing PMI came in half a point higher for October at 48.3; the Non-Manufacturing PMI was at 54.7, nearly two points higher. For economists worried about a downturn in the business cycle, these numbers were encouraging. ⁴

Retail sales were up 0.3% in October, and looking ahead, the National Retail Federation is forecasting a year-over-year gain of between 3.8% and 4.2% for holiday-season retail purchases. If its prediction comes true, the 2019 holiday shopping season could rank as one of the better ones seen this decade. ^{4,6}

An October jump of 0.4% for the Consumer Price Index was noticed by economists, but it still left annualized inflation at a manageable 1.8%. The core CPI, which strips out volatile food and energy costs, was rising 2.3% year-over-year through October. ⁴

Minutes from the Federal Reserve's October policy meeting were released on November 20, and they indicated that central bank officials were prepared to... stand pat, at least for a while. In October, most Fed officials believed the current monetary policy approach would prove adequate to guide the economy in the near term. If some event or trend prompted a "material reassessment" of the Fed's economic outlook, then policy might shift. ⁷

GLOBAL ECONOMIC HEALTH

The European Union scaled back its annual growth projections for 2020-21. Its latest economic forecast projects a 1.2% increase in gross domestic product for both years. This is about half the current pace of economic expansion in the United States. Inflation is projected to vary from 1.2% to 1.3%. E.U. economists believe the euro area will have a GDP of 1.1% for 2019. ⁸

With a general election coming up in the United Kingdom, Prime Minister Boris Johnson, a Tory, and his chief challenger, Jeremy Corbyn of the Labor Party, took different views of the Brexit. In November, Johnson vowed to meet the rescheduled January 31 Brexit deadline and arrange a new trade pact with the E.U. by December of next year. Corbyn claimed his party could negotiate a new Brexit deal with the E.U. before March, a deal that would be put before the electorate; voters could either approve or reject the terms of the deal and even the Brexit, itself. ⁹

In late November, key indicators suggested that China's economy had slowed for a seventh consecutive month. (China's third-quarter GDP reading was its poorest in nearly 30 years.) Through October, profits at Chinese industrial companies were down 9.9% year-over-year, a record annualized dip. An index of business confidence hit a 14-month low in October. ¹⁰

WORLD MARKETS

Outside America, October index performance was mixed. Several key benchmarks advanced. France's CAC 40 and Germany's DAX respectively rose 3.18% and 2.35%. Russia's RTS index gained 1.01%. Australia's All Ordinaries added 1.45%. Japan's Nikkei 225 was up 1.39% for the month. Eyeing a macro view of global equities, the MSCI EAFE index (which measures performance across developed stock markets outside North America) improved 1.37%. ^{11,12}

October descents to note: Indonesia's Jakarta Composite pulled back 4.29%, Malaysia's KLCI lost 1.02%, China's Shanghai Composite slipped 2.78%, Hong Kong's Hang Seng lost 1.64%, and Mexico's Bolsa fell 1.52%. ¹¹

COMMODITIES MARKETS

Coffee was hot in November, rising 14.77%. Two other crops also realized big gains: cocoa was up 9.31%; wheat, 7.57%. WTI crude oil added 2.36% across November; at the November 29 close on the New York Mercantile Exchange (NYMEX), a barrel was worth \$58.14. ¹³

Oil was the only key energy commodity to advance in October. Natural gas slipped 12.32%. Smaller losses came for unleaded gasoline (1.48%) and heating oil (0.12%). While copper eked out a monthly gain of 0.09%, gold lost 3.25%; silver, 5.80%; platinum, 3.46%. Gold finished November at a NYMEX price of \$1,470.10 an ounce; silver, at \$17.10 an ounce. Corn fell 4.94%; soybeans, 4.36%. Cotton gained 2.13%; sugar, 2.48%. The U.S. Dollar Index improved 0.94% to 98.27. ^{13,14}

REAL ESTATE

The pace of home buying accelerated during October. According to the National Association of Realtors, existing home sales advanced 1.9% in October, partly reversing a 2.5% September setback. New home sales, however, retreated 0.7% for October by Census Bureau calculations; they were up 4.5% in September. ⁴

Building permits were up 5.0% in the tenth month of 2019, housing starts 3.8%. The Census Bureau noted that single-family starts were up 3.2% across the 12 months ending in October, reaching a level unseen in 12 years. ^{4,15}

Freddie Mac said that the average interest rate for a 30-year, fixed-rate home loan was 3.68% on November 27. That compares to 3.78% on Halloween and nearly 5% a year earlier. In Freddie's November 27 Primary Mortgage Market Survey, the mean rate on a 15-year, fixed-rate home loan was 3.15%. Incidentally, home loan processing firm Ellie Mae said refinances accounted for 51% of U.S. mortgage activity in October. The last month that saw so many refis: March 2015. ^{15,16}

30-year and 15-year fixed rate mortgages are conventional home loans generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

LOOKING BACK, LOOKING FORWARD

The Dow Jones Industrial Average reached another milestone in November, topping 28,000. It settled at 28,051.41 on November 29; on the same day, the Nasdaq Composite closed at 8,665.47, and the S&P 500, at 3,140.98. All in all, November was the best month for U.S. stocks since June, with indices shattering historical highs. ¹⁷

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+20.25	+3.72	-5.63
NASDAQ	+30.60	+4.50	-3.88
S&P 500	+25.30	+3.40	-6.24

BOND YIELD	11/29 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.78	1.84	3.03

Sources: wsj.com, treasury.gov – 11/29/19 ^{18,19,20}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

The short-term economic outlook has shifted to some degree; anxieties about a recession arriving in 2020 have lessened. There is still optimism that the U.S. and China may reach a phase-one trade agreement, and the Federal Reserve appears comfortable with its current monetary policy stance and seems to be watching the business cycle closely.