

Fresh Data Signals Slower Growth and Lower Prices Ahead

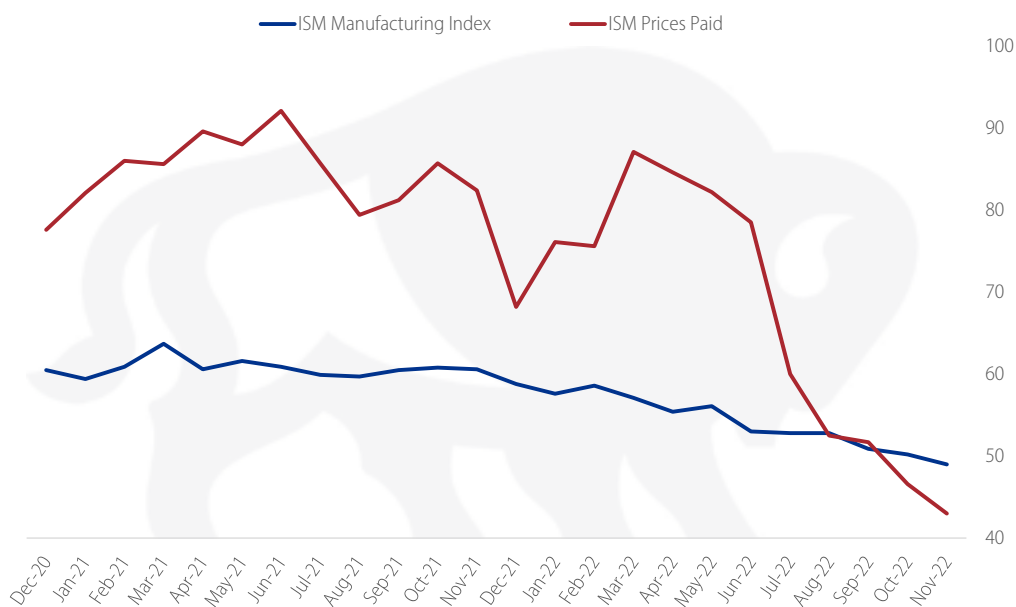
This morning, the Fed's preferred inflation measure, the Personal Consumption Expenditures (PCE) core price index rose by just +0.2% in October, below forecast and a welcome deceleration from +0.5% in the previous month. On a year-over-year basis, core PCE slowed from +5.2% to +5.0%, *encouraging, but still too hot*.

Also, this morning, the personal savings rate declined from 2.4% to 2.3% in October, a 17-year low and less than half of where it began the year. Higher consumer prices have clearly eaten into savings, and borrowing is up. *This isn't sustainable*. As a result, consumer spending is poised to slow further in the coming months, which reinforces the idea that recession is on the horizon.

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ISM Purchasing Managers Index



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Source: Institute for Supply Management

Another signal that the economy is weakening showed up in the November purchasing managers survey this morning. The ISM manufacturing index slipped from 50.2 to 49.0 in November, *indicating contraction* for the first time since the Covid lockdown 2½ years ago. The ISM prices paid index tumbled from 46.6 to 43.0 as an increasing number of purchasing managers reported easing of prices. Just eight months ago, the price index stood at 87.1. Other sub-indexes indicate weakness in current production, new orders and employment. Improvement continues in the order backlogs index, suggesting that supply chain snarls are untangling. Good news for supply.

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Yesterday, as the markets awaited Powell's speech, several interesting economic data reports were released. Pending home sales, which represent signed, but not yet closed contracts, fell for the 11th time in the last 12 months. This reliable leading

indicator fell another -4.6% in October, continuing to signal weakness in housing.

On a housing-related note from earlier this week, the S&P CoreLogic Case-Schiller National Home Price Index fell in September for the third consecutive month, the first time this has happened since 2018. The most recent -1.2% decline brought the three-month total price drop to -2.6%. The average 30-year mortgage rate has fallen half a point to 6.58% from its cycle peak in November according to Freddie Mac, but homebuyer sentiment, according to Fannie Mae data, has plunged to a record low in the data series going back 11 years.

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In a sign of both impending recession and investor confidence that the Fed will ultimately subdue inflation, yield curve inversion reached 78 basis points on Tuesday, the widest gap between the 2-year and 10-year Treasury yield in more than 40 years.

On the labor front, the Job Openings and Labor Turnover Survey (JOLTS) showed U.S. job openings had declined from 10.7 to 10.3 million in October. It's hard to get too excited about 10.3 million available jobs when only 6 million Americans are actively seeking work, but at least job supply is on the decline. It seems likely that employers will pull some of the help-wanted signs after the holidays.

Bond yields on the short end of the curve are essentially flat this morning after a massive Powell-induced rally yesterday. Fed officials may be determined to raise rates further and hold the peak for longer, but investors expect once the recession begins, the Fed will waiver.

Market Indications as of 10:43 A.M. Central Time

DOW	Down -282 to 34,308 (HIGH: 36,800)
NASDAQ	Up 8 to 11,476 (HIGH: 16,057)
S&P 500	Down -12 to 4,068 (HIGH: 4,797)
1-Yr T-bill	current yield 4.69%; opening yield 4.68%
2-Yr T-note	current yield 4.31%; opening yield 4.32%
3-Yr T-note	current yield 4.05%; opening yield 4.06%
5-Yr T-note	current yield 3.73%; opening yield 3.74%
10-Yr T-note	current yield 3.58%; opening yield 3.62%
30-Yr T-bond	current yield 3.69%; opening yield 3.75%

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