FHN FINANCIAL

DECEMBER 5, 2019

MONTH IN REVIEW

November 2019: Mixed Picture for Trade

Hope for a China trade deal was the primary market influence in November. Stories suggesting negotiating progress boosted stocks and hurt bonds, while stories focused on stalled negotiations knocked stocks down while boosting bond prices. Late in the month, Congress passed and the President signed the Hong Kong Human Rights and Democracy Act, complicating relations with Beijing.

Jay Powell's congressional testimony confirmed the Fed is on hold. Fed minutes concentrated on an FOMC discussion of policy tools. Participants appeared to balk at major changes. Trade-deal optimism influenced the Fed's October decision to stop easing. In November, participants emphasized policy flexibility.

Stocks pushed to multiple record highs during the month. Earnings were generally healthy, but several retailers guided lower. Consumer surveys showed growing apprehension about current conditions, particularly in the labor market.

ECONOMICS

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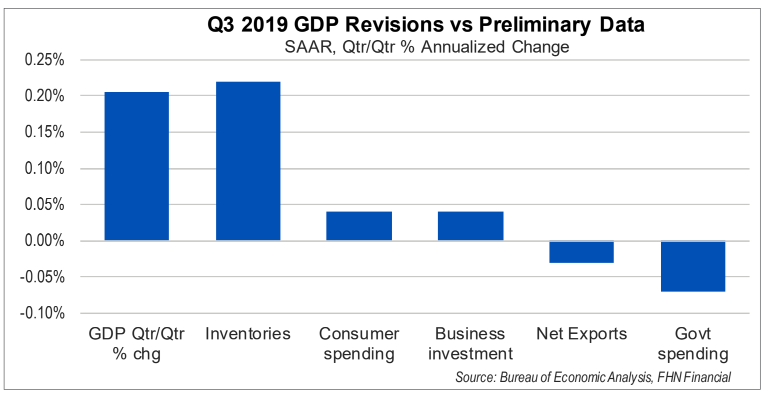
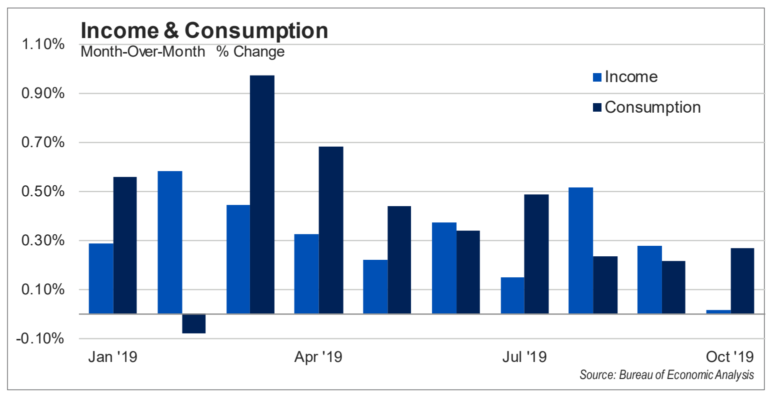
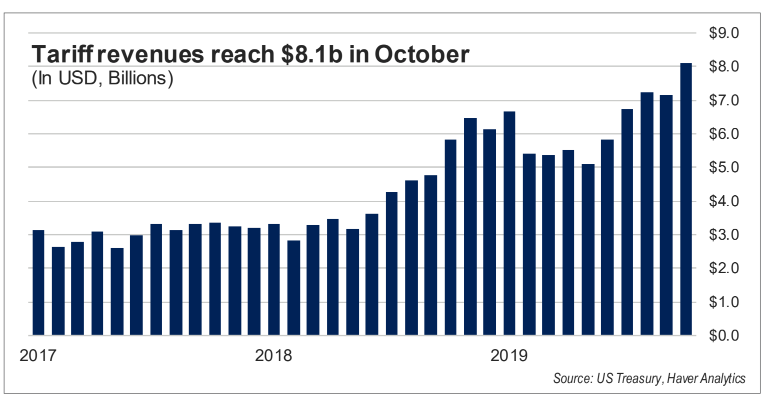


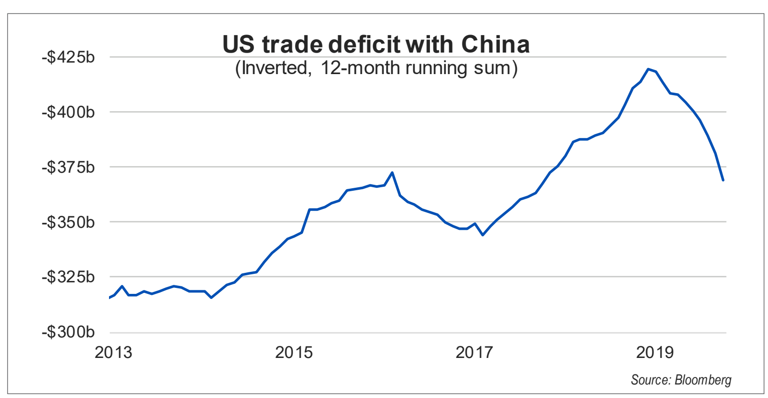
The BEA revised Q3 GDP from 1.9% to 2.1%. Inventories, largely autos and Boeing aircraft, accounted for the bulk of the increase. Autos (+0.5%) and gas sales (from -0.4% to 0.0%) were the largest contributors to upward revisions in personal consumption. On the flip side, clothing & shoe sales clipped 0.3% from non-durable goods.



October's consumer spending rose 0.3%, in line with estimates. Goods rose 0.2% largely from nondurables, and services rose 0.3%, largely from gas and electricity. New motor vehicles contributed the largest chunk to the -0.7% decrease in durable goods. Income was flat over the month.

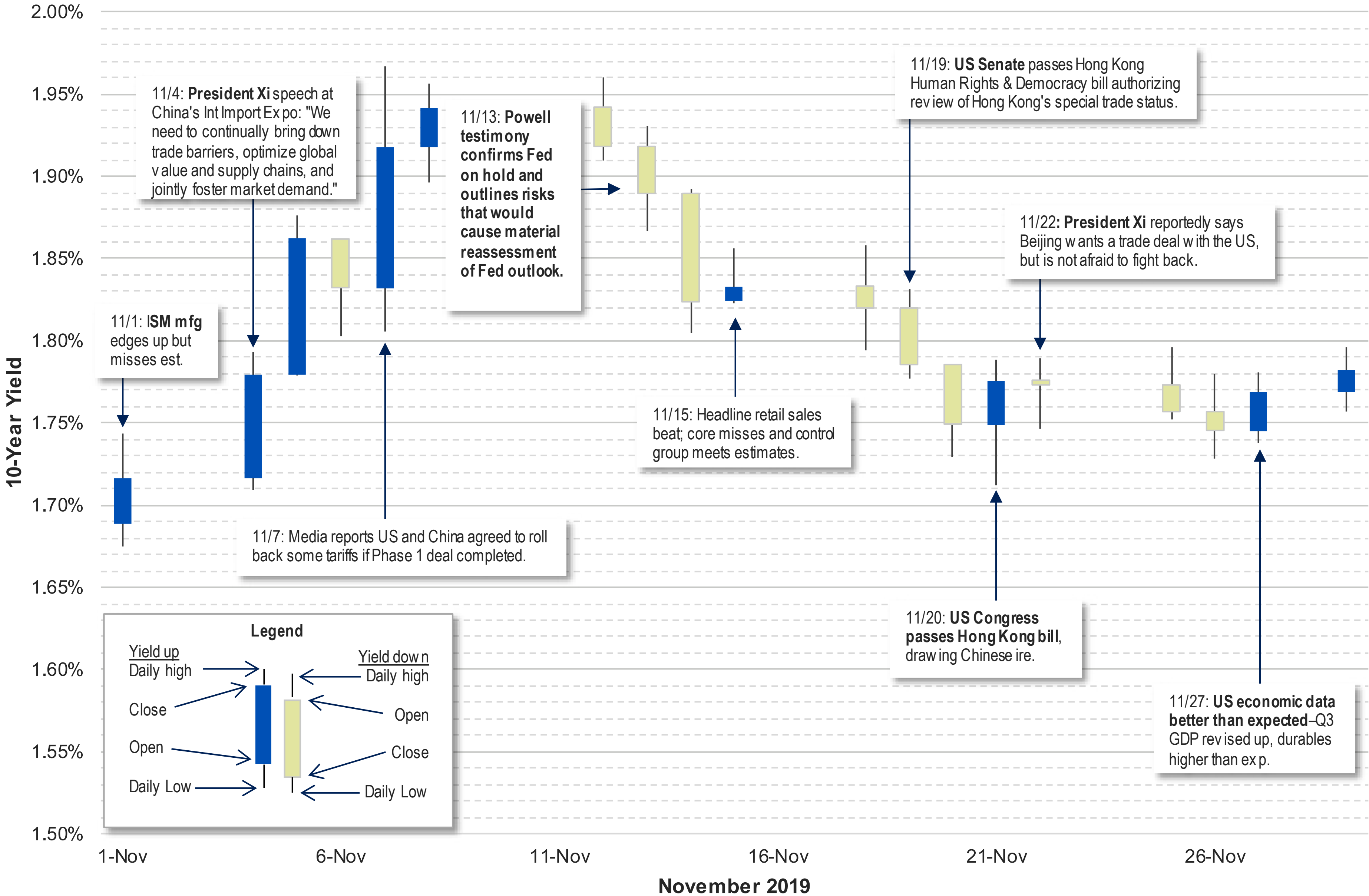


October's customs duties and fees rose from $7.2b in September to $8.1b, a 39% rise since October 2018. Roughly $2.1b of the $8.1b are non-China related tariffs and the remaining $6b are China-related, according to [The Trade Partnership](). The YTD total is $63.2b versus $39.1b YTD 2018 and $30.4b YTD in 2017.

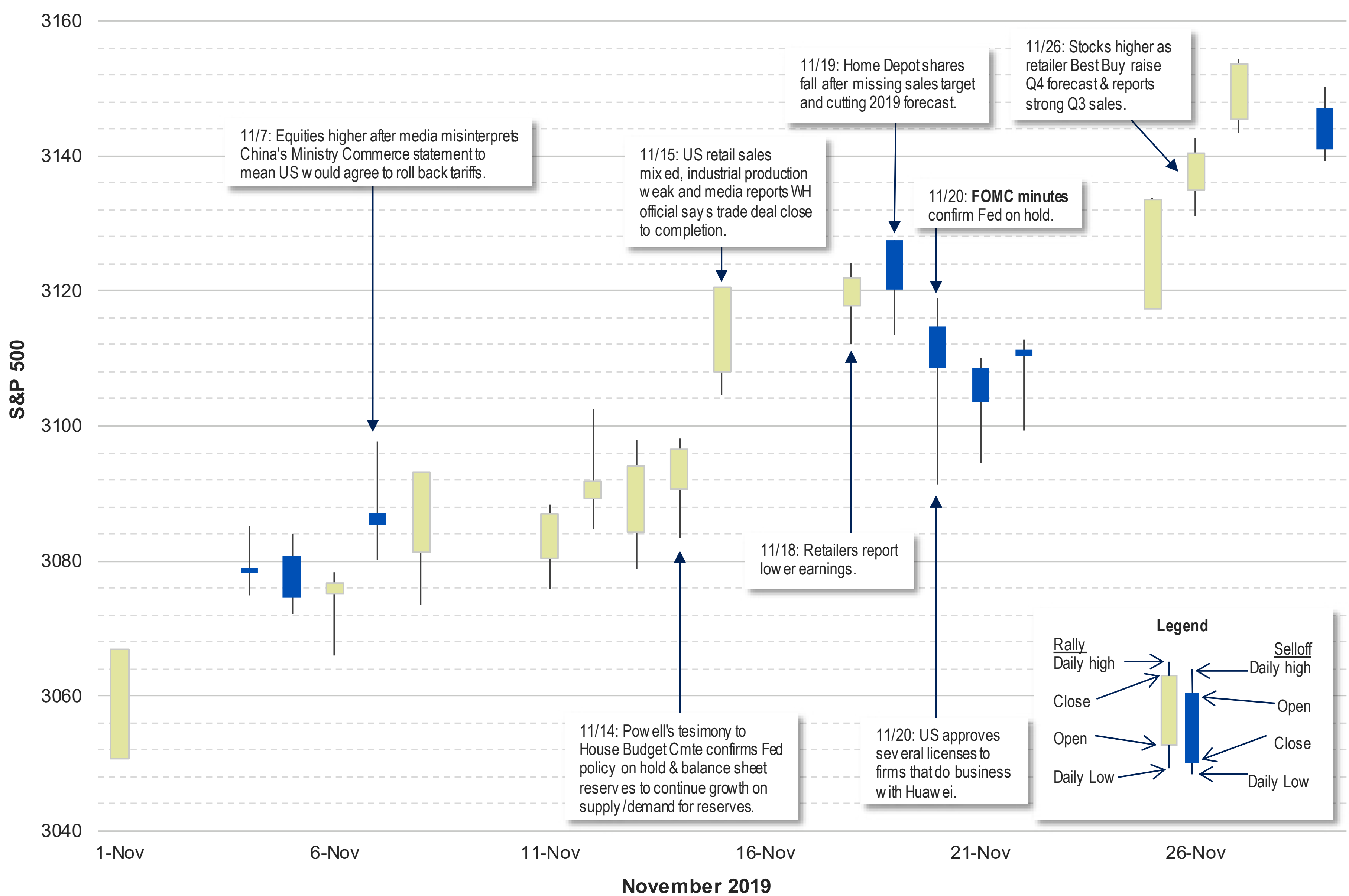


October's trade data indicated goods imports from China have fallen to 2015 levels, as importers have started sourcing goods from other markets. On a 12-month average basis, goods imports from China totaled $475b, down from the $540b at the end of 2018. The trade deficit with China also narrowed to 2017 levels of $369.1b.

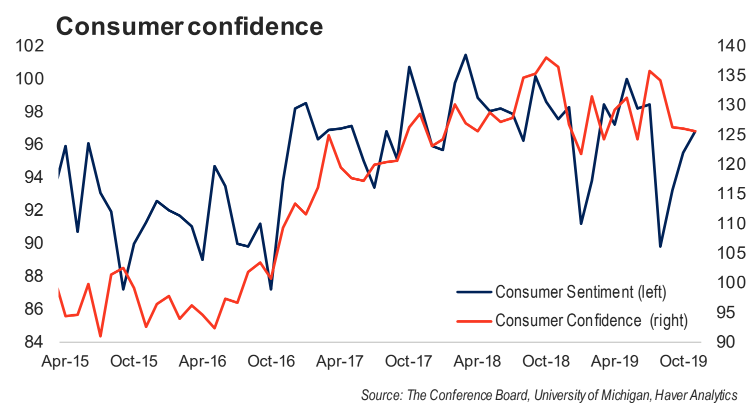
Market-Moving Events: 10-Year Treasury

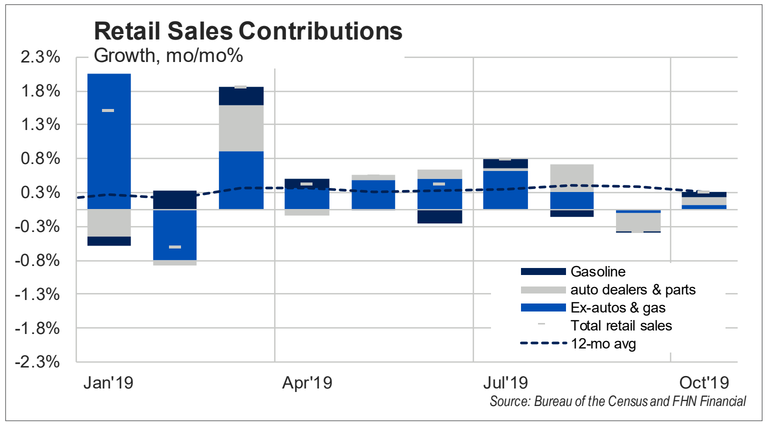


Market-Moving Events: S&P 500



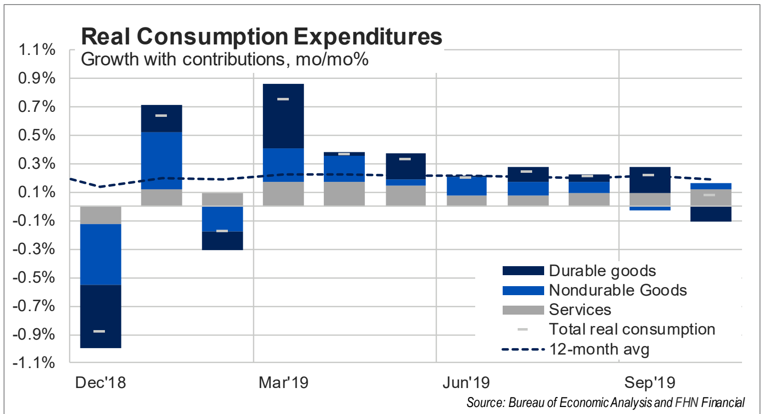
Data Watch: Key Economic Indicators

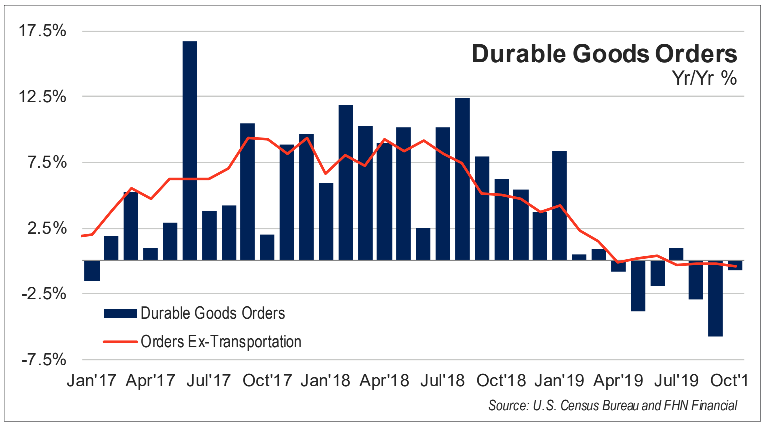




November's consumer confidence fell from 126.1 in October to 125.5. Pessimism over the current labor market (and to a lesser extent, business conditions) led the decline. Expectations rose, largely because fewer people anticipated a drop in job openings. Sentiment inched up from 95.5 to 95.7.

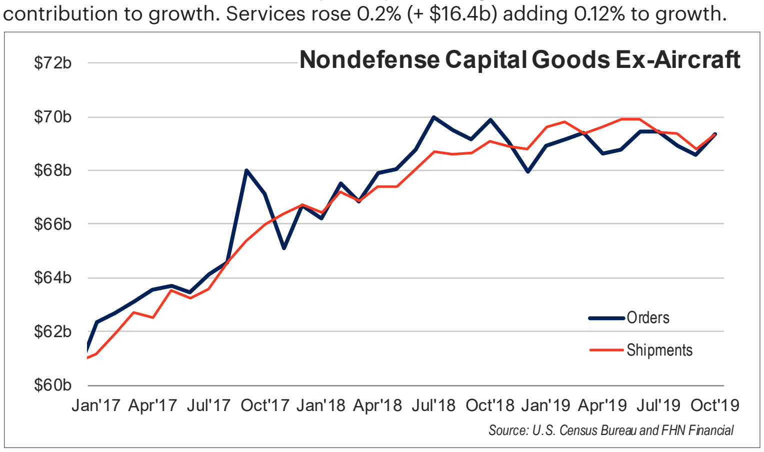
October's retail sales rose 0.3% m/m beating 0.2% consensus, but core sales (ex autos & gas) missed overly optimistic estimates of 0.4%. Aside from autos & gas, grocery and online sales contributed to the rise. Clothing, restaurant, bars, furniture, and electrical appliance sales all clipped 0.1% from growth.

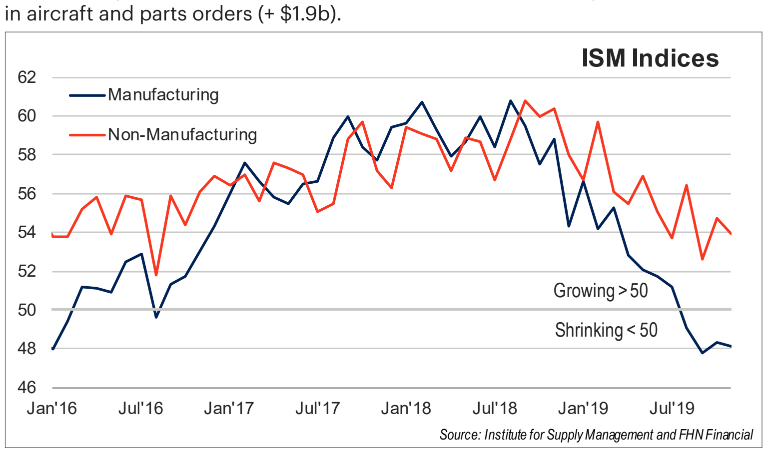




October's real consumption rose a tenth. Goods fell 0.2% m/m (-$7.4b) clipping 0.05% from growth. Durables fell 0.8% (-$14.0b), clipping 0.1% from growth, while nondurables rose 0.2% (+ $5.0b), partially offsetting the weakness with a +0.04% contribution to growth. Services rose 0.2% (+ $16.4b) adding 0.12% to growth.

October's durable goods orders rose 0.6% m/m, beating -0.9% consensus. September's -1.2% was revised down to -1.4%. Autos and auto parts fell 1.9% (-$1.2b) likely due to the GM strike, but it was more than offset by a 14.0% m/m rise in aircraft and parts orders (+ $1.9b).





October's core capital goods (nondefense ex-aircraft) rose 1.2% m/m to $69.4b and beat consensus of -0.2%. Fabricated metals (+ $614m), machinery (+ $423m), and computer and electronic parts (+ $165m) were big contributors, while primary metal manufacturing fell 1.4% (-$285m). As the chart shows, these orders have not really grown in a year despite the unexpected October increase.

November's manufacturing PMI fell from 48.3 to 48.1, missing 49.2 consensus. Inventories (-3.4 to 45.5), new orders (-1.9 to 47.2), and employment (-1.1 to 46.6) led the decline. Two separate sub-indices — new export orders (-2.5 to 47.9) and backlogs (-1.1 to 43.3) — indicated further weakness lies ahead. Non-manufacturing dipped 0.8 points, from 54.7 to 53.9, largely on slowing business activity.