Yardeni Research

November 4, 2024

Morning Briefing

Bond Vigilantes Are Fed Up

Check out the accompanying chart collection.

Executive Summary: The bond market seems to be ignoring developments that usually halt rising yields in their track. Investors seem focused instead on the stimulus—both fiscal and monetary—that's likely coming to an economy that doesn't need it. The effective result: The bond market is tightening the economy itself. The Bond Vigilantes are back and threatening to take the 10-year Treasury bond yield up to the 5% realm. That ought to give FOMC members pause. … Also: The labor market remains healthy notwithstanding the latest employment report. It offers no good reason for the Fed to ease further at this point. … And Dr Ed pans "Conclave" (- -).

YRI Weekly Webcast. Join our live webcast with Q&A on Mondays at 11 a.m., EST, with Ed and Eric. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

US Economy I: Don't Fight the Bond Vigilantes. Nothing seems to be stopping US Treasury bond yields from rising. The Fed is widely expected to cut the federal funds rate (FFR) this week by 25bps after the 50bps cut on September 18. The price of oil has dropped sharply since Israel bombed Iran on October 26. September's PCED headline inflation rate declined to 2.1% y/y. Last month's payroll employment was weaker than expected, and so was the manufacturing PMI. Yet bond yields continue to rise.

After briefly dipping on the weak headline 12,000 rise in payroll employment, the 10-year US Treasury yield finished Friday 10bps higher. It's now at 4.37%, roughly 75bps higher than where it was trading just before the Fed's September rate cut (*Fig. 1*). The bond market appeared to look right through the impacts of strikes at Boeing and two hurricanes, focusing ahead on Tuesday's US election and Thursday's Federal Open Market Committee (FOMC) decision. Both are increasingly likely to deliver more stimulus to an economy that's doing quite well already.

We aren't (yet) calling for the 10-year Treasury yield to reach 5%, but the Bond Vigilantes seem to be threatening to take it there:

(1) *Bond Vigilantes in the driver's seat.* As noted above, the FOMC is widely expected to cut the FFR by 25bps next week. Based on the prevailing economic strength, there's little to suggest it needs to. We suspect the latest weak ISM manufacturing PMI report and October employment report may be used to justify another rate reduction. Fed Chair Powell may also point to the real FFR becoming increasingly "tighter" as inflation falls as justification.

Investors often hear "Don't fight the Fed," but perhaps it's the Fed that shouldn't be fighting the Bond Vigilantes. The bond market could easily nullify the impacts of another rate cut. That's because the bond market believes the Fed is cutting rates by too much, too soon, and is therefore raising long-term inflation expectations (*Fig. 2*). These expectations are heightened by concerns about more fiscal excesses from the next administration.

So the Fed must weigh whether it's better to leave rates unchanged or to cut the overnight FFR and risk even higher long-term bond yields. Indeed, mortgage rates have climbed back above 6.7% since the Fed's September cut (*Fig. 3*). Tighter financing conditions aren't the only risk facing the FOMC officials: If yields keep rising despite more rate cuts, they risk losing credibility now that they've gotten the Bond Vigilantes to saddle up.

(2) *Note Vigilantes in the passenger's seat.* Some market commentators have opined that bond yields have risen since the Fed's September rate cut because the risk of recession has fallen. We find a few flaws with that reasoning. First, there wasn't material recession risk before the Fed cut rates. Second, were that the case, the yield curve would likely be much steeper than 16bps (*Fig. 4*). Instead, the entire yield curve has shifted upward as the 2-year Treasury yield has risen 62bps (*Fig. 5*). The kicker is that the spread of junk bond yields over Treasuries is historically low below 300bps (*Fig. 6*). It never signaled much concern about a recession.

(3) *Bonds versus oil*. It's unsettling to see that yields have not responded to falling oil prices. Historically, breakeven inflation is highly correlated with the price of crude (*Fig. 7*). The PCED inflation rate was just 2.1% y/y in September. But breakeven inflation has climbed near cycle highs above 2.4%. That suggests the Fed is potentially making a policy mistake amid growing concerns about more fiscal excesses.

(4) *MOVE to the side*. Bond volatility has spiked in recent weeks, much more than currency or stock market volatility (*Fig. 8*). That corroborates the story that fiscal concerns are rising in the bond market.

We also note that swap spreads—the difference between yields on Treasuries and their accompanying derivatives—are trading deeply negative. That means bank balance sheets are getting bloated with Treasury bonds and investors would rather buy lower-yielding derivatives than own bonds.

Rising bond yields, inflation expectations, and volatility all appear to be correlated with policy concerns. The US economy is doing well, surpassing its global peers. We, and the bond market, see more risk in DC policymakers overheating the economy than underdoing stimulus. That's why we incorporated the risk of a debt crisis into our geopolitical risk scenario, raising it from a subjective probability of 20% to 30% (see last Wednesday's *Morning Briefing*).

US Economy II: Countering Negative Employment Spins. We didn't see anything in the October employment report to make us change our upbeat economic outlook. Apparently, neither did the financial markets.

Both labor market indicators throughout October and the monthly employment report suggest that the jobs market is still in good shape. But as we discuss above, the FOMC is likely to cut the FFR by 25bps after the November 6-7 meeting of the committee, raising the risk of overheating the economy. It could also fuel a stock market meltup, though we did lower the odds of that last week from 30% to 20% because we raised the odds of a debt crisis (and a geopolitical crisis) from 20% to 30%.

Consider our takeaways from the latest labor market data:

(1) *Unemployment rate*. Due to the weather, 1.41 million workers had to work part time in October, and an additional 510,000 were not at work (*Fig. 9*). Notably, these workers were all counted as "employed" in the household survey, which includes the unemployment rate. The Bureau of Labor Statistics (BLS) said it found "no discernible effect on the national unemployment rate from the household survey."

We're skeptical of this claim considering the unemployment rate rose to a cycle high of 4.3% in July when Hurricane Beryl struck, before falling to 4.0% just two months later. It's difficult to account for the downstream impacts on suppliers and permanent business closures. In any case, the unemployment rate remained essentially unchanged in October at 4.1%, rising less than a tenth of 1% (*Fig. 10*).

(2) *Labor force*. It is true that 220,000 workers dropped out of the labor force in October. The labor force participation rate for prime-age workers (25-54) fell from 83.8% to 83.5%

(*Fig. 11*). But in the grand scheme of the labor market, neither is very significant, especially off record highs. The same is true for the employment-population ratio, which dipped from 80.9% to 80.6%. We wouldn't be surprised to see each of those series bounce back next month.

Meanwhile, the number of employed workers losing their jobs and becoming unemployed remained less than 1% of the total labor force in October (*Fig. 12*). Hardly cause for concern.

(3) *Payroll employment*. The weather likely led to a one-off reduction in payroll employment. The BLS said: "[I]t is likely that payroll employment estimates in some industries were affected by the hurricanes; however, it is not possible to quantify the net effect on the over-the-month change in national employment, hours, or earnings estimates because the establishment survey is not designed to isolate effects from extreme weather events." In other words, ignore Friday's payrolls data!

The 49,000 fall in temporary employment industries could also have been weather related (*Fig. 13*). Furthermore, the BLS acknowledged that the 44,000 decline in transportation equipment manufacturing was largely due to strike activity. So perhaps payroll employment actually increased by more than 100,000 last month excluding these two developments. Who knows?

(4) *Hours and earnings*. Average hourly earnings (AHE) rose 0.4% m/m in October, beating expectations. Our Earned Income Proxy for private wages and salaries in personal income also rose 0.4%, as total hours worked was unchanged last month (*Fig. 14*).

We expect the headline PCED inflation rate declined 0.1% m/m in October led by falling gasoline prices; that suggests strong growth in real wages. The rising rate of wage growth also supports our upbeat outlook on the labor market, consumer spending, and the economy (*Fig. 15*).

Hours worked were likely affected by the hurricanes and strikes, yet they remained flat m/m in October rather than falling (*Fig. 16*). We expect a rebound in November.

(5) *Collection rate*. The BLS said that the payroll survey response rate was "well below average." The collection period was also only 10 days (it can be up to 16 days). That led to the October response rate falling to 47.4%, the lowest for the month of October since 1985 (*Fig. 17*).

(6) *Revisions*. August payroll growth was revised down by 81,000 to 78,000, and September payrolls were revised lower by 31,000 to 254,000. At face value, these help drag the three-month average for payroll growth to 104,000 (*Fig. 18*).

However, these revisions can be taken with two grains of salt: First, they reflect the data from late responders, who might have been delayed by strikes and hurricanes. Second, as BLS commissioner Erika McEntarfer notes, August and September payrolls were actually revised up by 4,000 on a non-seasonally adjusted basis. The downward revisions on a seasonally adjusted basis were due to updated seasonal factors, which can "push back weakness/strength in current month data as the moving average of employment growth changes."

That helps explain why positive (negative) surprises in payroll employment tend to be accompanied by positive (negative) revisions to prior months. All in all, there was little to worry about in this employment report. The bulk of indicators suggests the labor market remains in good shape. We expect that to continue through year-end and well into next year.

Movie. "Conclave" (- -) (*link*) was an interesting suspense drama until it went into a woke death dive near the end. Even the fine performance of Ralph Fiennes couldn't save it. The movie is about the intrigue behind the selection of a new pope. Secrets that could shake the foundation of the Vatican are uncovered. There's a schism between conservative and progressive Cardinals. The tensions between Christianity and radical Islam are briefly mentioned. If you leave the theater when the bomb goes off in the movie, you'll undoubtedly come up with a better ending for the film than the one chosen by the director.

Calendars

US: Mon: Factory Orders -0.4%; Auto Sales 15.6mu. **Tues:** US Presidential Election; ISM N-PMI 53.3; S&P Global C-MI & NM-PMI 54.3/55.3; Trade Balance -$1.6b; Atlanta GDPNow 2.3%. (FXStreet estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 45.9/42.6/44.5/48.8/53.1; RBA Interest Rate Decision 4.35%; Eurogroup Meetings; Elderson Nagel. **Tues:** France Industrial Production -0.7%; Spain Unemployment Change 11.5k; Eurogroup Meetings; UK C-PMI & NM-PMI 51.7/51.8; Schnabel. (FXStreet estimates)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index fell 1.3% last week and is now down 2.3% from its record high on October 18. The AC World ex-US index dropped 1.1% w/w to 6.4% below its June 15, 2021 record high. EMEA was the best performing region last week with a gain of 0.3%, followed by EAFE (-1.1%) and the AC World ex-US. EM Latin America was the worst regional performer, with a drop of 3.5%, followed by Europe (-1.4), EMU (-1.1), EM (-1.1), and EM Asia (-1.1). Just three of the 18 major selected country markets that we follow rose last week. India performed the best with a gain of 0.5%, followed by Spain (0.3), Japan (0.3), Hong Kong (-0.3), and South Africa (-0.8). Brazil was the worst performer, falling 3.8%, followed by Sweden (-2.8), Mexico (-2.8), Taiwan (-2.7), and Switzerland (-2.2). The US MSCI's 20.0% ytd gain remains well ahead of the AC World ex-US index's (6.4). EM Asia is still ahead of the pack as the leading region ytd with a gain of 14.5%, followed by EM (9.6) and the AC World ex-US. The worst performing regions so far in 2024: EM Latin America (-21.5), EMEA (3.3), EAFE (4.5), EMU (4.6), and Europe (4.6). Looking at the major selected country markets that we follow, Taiwan is the best ytd performer with a gain of 32.2%, followed by the United States (20.0), China (19.8), South Africa (17.0), and India (15.6). The worst performing countries ytd: Mexico (-24.2), Brazil (-23.6), Korea (-13.7), France (-2.6), and Sweden (0.6).

US Stock Indexes (*link*): Just eight of the 48 major US stock indexes that we follow rose w/w, but that's up from only three rising a week earlier. The Dow Jones 20 Transports index was the best performer, with a gain of 1.5%, ahead of S&P 600 SmallCap Value (0.4%), Russell 2000 Growth (0.3), S&P 400 MidCap Pure Value (0.3), and S&P 500 LargeCap Pure Value (0.3). The Dow Jones 15 Utilities index was the worst performer with a decline of 2.7%, followed by S&P 500 LargeCap Pure Growth (-2.5), S&P 500 LargeCap Growth (-1.8), Russell 1000 Growth (-1.6), and Nasdaq 100 (-1.6). Looking at their ytd performances, all but one of the 48 indexes are now positive so far. The S&P 500 LargeCap Growth index remains in the top spot as the best performer so far in 2024, with a gain of 27.5%, ahead of Russell 1000 Growth (24.3), S&P 100 MegaCap (23.9), Russell 3000 Growth (23.8), and S&P 500 LargeCap Pure Growth (22.0). The worst performing major US stock indexes ytd: S&P 600 SmallCap Pure Value (-1.1), S&P 400 MidCap Pure Value (1.6), S&P 600 SmallCap Equal Weighted (2.3), S&P 600 SmallCap Value (2.7), and Dow Jones 20 Transports (2.8).

S&P 500 Sectors Performance (*link*): Two of the 11 S&P 500 sectors rose last week, and seven were ahead of the S&P 500's 1.4% decline. That compares to two sectors rising a week earlier when four were ahead of the composite index's 1.0% drop. The outperformers last week: Communication Services (1.5%), Consumer Discretionary (0.5), Financials (-0.2), Health Care (-0.6), Industrials (-1.0), Materials (-1.2), and Consumer Staples (-1.3). The underperformers last week: Information Technology (-3.3), Real Estate (-3.1), Utilities (-2.8), and Energy (-2.1). The S&P 500 is up 20.1% ytd, with all 11 sectors in positive territory and four sectors ahead of the index. During the September 6 week, a ytd high of five sectors beat the index for the first time since mid-May. Communication Services is the best ytd performer, with a gain of 30.1%, ahead of Information Technology (29.1), Financials (23.6), and Utilities (23.2). These sectors are lagging the S&P 500 so far in 2024: Energy (5.6), Real Estate (6.5), Health Care (8.3), Materials (8.4), Consumer Staples (13.0), Consumer Discretionary (14.1), and Industrials (17.4).

US Economic Indicators

Employment (*link*): Employment was considerably below expectations in October, and there were big downward revisions to both September and August. *Payroll employment* advanced only 12,000 (vs 113,000 expected) in October, the weakest increase since December 2020, reflecting two hurricanes and the ongoing Boeing strike. Revisions show both September (to 223,000 from 254,000) and August (78,000 from 159,000) payroll increases were lower than previously reported, for a net of loss of 112,000 over the two-month period. *Private payroll* employment fell 28,000 (vs +90,000 expected), following gains of 192,000 and 37,000 the prior two months. *Private service-providing* industries posted job gains of only 9,000 in October, while *goods-producing* industries lost 37,000 jobs during the month. *Manufacturing* jobs fell again in October, down 46,000 last month, largely due to strike activity, with *transportation equipment* companies cutting 44,000 jobs during the month. Meanwhile, construction jobs rose only 8,000 last month, less than half the 20,000 jobs per month added over the prior 12 months. The report notes employment continued to trend higher in health care and government, with *health care* adding 52,000 jobs, in line with the average monthly gain of 58,000 over the prior 12 months, led by ambulatory health care services (+36,000) and nursing & residential care facilities (+9,000). *Government* jobs also continued their upward trend adding 40,000 jobs in October, similar to the average monthly gain of 43,000 over the prior 12 months. *Professional & business services* lost 47,000 in October, dragged down by the 48,500 drop in *temporary help services*—which have fallen 577,000 since peaking in March 2022.

Wages (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.4% in October, while the three-month rate increased 4.4% (saar), exceeding the yearly rate of 4.0%. The yearly rate is up from 3.6% in July, which was the lowest since May 2021; the yearly rate peaked at 5.9% in March 2022. *Service-providing industries showing three-month rates above their yearly rates*: information services (11.2% & 5.1% y/y), professional & business services (7.2 & 5.1), utilities (7.1 & 3.4), retail trade (5.2 & 2.8), and other services (4.0 & 3.6). *Service-providing industries showing three-month rates below their yearly rates:* leisure & hospitality (1.6 & 3.6), and transportation & warehousing (3.1 & 3.7). *Service-providing industries with three-month and yearly rates nearly identical:* wholesale trade (2.3 & 2.4), education & health services (3.2 & 3.0), and financial services (4.6 & 4.4). Within *goods-producing* industries, the annualized three-month rates were above the yearly rate for *nondurable goods* manufacturing (3.9 & 3.0) and below for *durable goods* manufacturing (3.2 & 5.7) industries.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in October, increasing 0.4%. *Average hourly earnings* in October advanced 0.4%, while *aggregate weekly hours* were flat—with private payroll employment flat and the average workweek also showing no change. Over the past 12 months, our EIP advanced 5.3%—with aggregate weekly hours up 1.3% and average hourly earnings up 4.0%.

Unemployment (*link*): The *number of unemployed* rose 150,000 in October to 7.0 million after falling from a recent peak of 7.2 million in July to 6.8 million in September. The *unemployment rate* was unchanged at 4.1% after climbing from 3.8% in March to 4.3% in July—which was the highest since October 2021. The rate was below 4.0% from February 2022 through April 2024 before reaching 4.0% this May. *Household employment* fell 368,000 in October, while the *labor force* was 220,000 lower than in September. The *participation rate* ticked down to 62.6% after being at 62.7% the prior three months, and has been in a volatile flat trend over the past year. *By race:* The unemployment rate in October fell among Asians (to 3.9% from 4.1%), while the rates for both Hispanics (5.1) and African Americans (5.7) were unchanged. The unemployment rate for Whites (3.8 from 3.6) moved higher during the month. *By education:* Unemployment rates fell in October for those with less than a high school diploma (to 6.6 from 6.8) and those with a bachelor's degree or higher (2.5 from 2.3), while rates were once again unchanged for those with a high school degree (4.0) and with some college or an associates degree (3.4).

Personal Income & Consumption (*link*): Personal income was in line with expectations in September, while consumer spending topped expectations. *Personal income* advanced 0.3% in September, following gains of 0.2% and 0.3% the prior two months, with *disposable income* matching those increases. *Personal consumption expenditures* increased 0.5% (vs

0.4% expected) in September, following gains of 0.3% and 0.6% the prior two months. *Goods* consumption rebounded 0.5% from August's 0.2% decline, which followed a 1.0% gain in July, with both durable goods (0.8) and nondurable goods (0.4) spending posting gains during September. Services consumption continues to post solid gains, rising 0.5% in both September and August. Adjusted for inflation, *real PCE* rose 0.4%, double August's 0.2% increase and matching July's 0.4% gain, with both *durable* and *nondurable goods* consumption posting solid gains of 0.4% and 0.8%, respectively, in September. Meanwhile, *real services* consumption rose 0.2% following gains 0.3% and 0.2% the prior two months. Real goods consumption is up 2.8% y/y—with durable good spending (3.4%) outpacing nondurable goods (2.5) spending, while services spending is up 3.2% over the 12-month period. Meanwhile, *real disposable income* posted a string of 0.1% monthly gains from June through September. *Personal saving* fell for the fifth straight month, by $49 billion in September and $143 billion over the period (to $1,000 billion from $1,143 billion). September's saving rate fell to 4.6%, the lowest since December 2023, down from a recent peak of 5.5% at the start of the year.

Personal Consumption Deflator (*link*): Both the *headline and core PCEDs* were in line with expectations for September, climbing 0.2% and 0.3%, respectively. The *yearly rate for the headline* PCED eased to 2.1%—the lowest rate since February 2021—while the core rate was at 2.7% for the third successive month, a tick above June's 2.6%—which was the lowest since March 2021. The headline and core rates peaked at 7.2% and 5.6%, respectively, during June 2022 and September 2022. *Goods* prices fell 1.2% y/y in September, with the yearly durable goods rate at -1.9% and the nondurable goods rates falling to -0.8%. There's deflation in *durable goods* prices: used motor vehicles (-7.5% y/y), furnishings & durable household equipment (-2.7), motor vehicles & parts (-2.4), and recreational goods & vehicles (-2.0), though the rates for motor vehicles parts & accessories (2.7) and other durable goods (0.7) have moved back above zero. Within *nondurable goods* prices, most rates are down dramatically from recent peaks: household supplies (-2.5% y/y from 10.0% y/y), clothing & footwear (1.4 from 6.9), and personal care (0.3 from 8.1). Two components, however, had spiked higher in recent months from recent lows: magazines, newspapers & stationary (to 4.6 from -2.1) and recreational items (1.1 from -2.6), though the former is dropping sharply toward zero, while the latter has dropped back below zero. Services PCED rose 3.7% y/y for the second month in August, from a recent peak of 6.0% in in February 2023. Within *services*, *housing* costs remain stubbornly high but are down from recent peaks: owners' equivalent rent (to 5.2% from 8.2%), tenant rent (4.8 from 8.8), and housing & utilities (5.1 from 8.3). Looking at *non-housing* services, transportation (2.5 from 15.3) and personal care (5.9 from 10.4) services showed noticeable drops in the rate of inflation, though the latter has been more volatile recently; the communication services

(0.1) rate has moved back toward zero.

US Manufacturing PMI (*link*): The ISM M-PMI in October continued to point to a contraction in manufacturing activity for the seventh successive month and 23nd time in the past 24 months, sinking to the lowest level since July 2023, with some of the weakness likely tied to the ongoing Boeing strike. “Demand remains subdued, as companies continue to show an unwillingness to invest in capital and inventory due to concerns (for example, inflation resurgence) about federal monetary policy direction in light of the fiscal policies proposed by both major parties,” noted Timothy Fiore, chairman of the ISM survey. The *M-PMI* fell to 46.5 (vs 47.6 expected) in October from 47.2 in both September and August, down from its recent high of 50.3 in March. According to ISM, the *overall economy* continued its expansion for the 54th month after a one-month contraction in April 2020. (A manufacturing PMI above 42.5% over a period of time generally indicates an expansion of the overall economy.) The *production* (to 46.2 from 49.8) fell deeper into contractionary territory, while the new orders (47.1 from 46.1) measure remained in contractionary territory, though declined at a slightly slower pace in October. Meanwhile, factory *employment* (44.4 from 43.9) declined at a slower rate during October, remaining in contractionary territory for the fifth consecutive month. The *supplier deliveries* (52.0 from 52.2) measure remained above 50.0—a reading that indicates slower deliveries. Meanwhile, companies liquidated inventories (42.6 from 43.0) at a slightly faster rate. *Turning to prices,* manufacturers faced higher input (to 54.8 from 48.3) prices in October, after falling below 50.0 in September for the first time this year.

Construction Spending (*link*): Construction spending rose to a four-month high in September. *Total construction spending* edged up 0.1%, slightly higher than the consensus estimate of no gain, while August’s initial estimate of a 0.1 downtick was revised to a 0.1% uptick. Total spending was within 0.9% of May’s record high, and up 4.6% y/y. *Public construction* expenditures rose 0.5% in September, with *residential* investment up 2.3% m/m and 8.3% y/y and *nonresidential* spending up 0.4% and 7.0% over the comparable time spans. The biggest monthly gains in *nonresidential* building during the month were led by health care (1.4%), transportation (1.3), and commercial (1.0) facilities. *Private construction* spending was flat in September and up 3.8% y/y, with residential investment up 0.2% m/m and 4.1% y/y, led by single-family building, which increased 0.4% m/m and 0.9% y/y, while multi-family building fell 0.1% m/m and 8.1% y/y. Private nonresidential investment fell 0.1% m/m, though was 3.5% above a year ago.

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone CPI* flash estimate for October accelerated to 2.0% y/y in mid-October after slowing from 2.6% in July to 1.7 in September—which was the lowest rate since April 2021. Meanwhile, the *core CPI* was unchanged at 2.7% in mid-October. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the *services* rate is expected to hold steady at 3.9% in mid-October, after fluctuating in a narrow band between 4.0% and 4.1% from May through August. *Energy* prices are expected to fall -4.6% y/y in mid-October, narrowing from September's -6.0%; it had dropped below zero in August (-3.0% y/y) for the first time since April. Meanwhile, the rate for *food, alcohol & tobacco* is forecast to move up to 2.9% y/y from 2.3% in July and August. The rate for non-energy industrial goods is forecast to tick up to 0.5% from 0.4% in August and September, following gains of 0.7% in each of the prior three months; it was at 1.1% in March. Among the four *largest Eurozone countries*, all are expected to show slightly higher rates in CPI inflation in October: Germany (2.4% y/y from 1.8% y/y) showed the biggest gain, followed by Italy (1.0 from 0.7), while rates in both Spain (1.8 from 1.7) and France (1.5 from 1.4) barely budged.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Eric Wallerstein, Chief Markets Strategist, 201-661-3575
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102