Yardeni Research

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Morning Briefing

A Negative Saving Rate?

Check out the accompanying chart collection.

Executive Summary: Expansions, bull markets, and healthy labor markets aren't created by presidents. All have occurred under the administrations of both parties. Successful businesses create prosperity. Today Dr Ed examines the record-setting economy that has remained resilient while inflation has been tamed. … Also: a look at the Baby Boomers' increased spending and decreased saving as more of them retire and work down their nest eggs.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

US Economy I: Do Presidents Create Jobs? Today is Election Day. Please go vote and vote often. Just kidding, of course. Vote once. Among the worst-case scenarios is that the election will be contested for weeks. The contest between George W. Bush and Al Gore is one of the most famous. It lasted until December 12, 2000, when the US Supreme Court's decision in *Bush v. Gore* effectively resolved the election in Bush's favor over a month after Election Day. A bitterly contested election certainly could unnerve the financial markets and act as a speed bump for the economy.

I agree with the widely held view that today's election is the most important election of our lifetime, as were all the previous elections of our lifetime. I don't want to influence your vote. But in this *Morning Briefing*, Debbie, Eric, and I review the latest GDP data. They are great. Yesterday, we reviewed the latest employment data and concluded that excluding the effects of strikes and hurricanes, the labor market is in great shape too.

That's not an endorsement of the policies of the current administration. It reflects our long-held view that the American economy has performed remarkably well over the years despite Washington's policies. Real GDP has been rising for decades with a few recessions along the way no matter who sat in the Oval Office (*Fig. 1*). Recessions have occurred when either party held the White House. Both parties have contributed to the ballooning of the federal government's debt.

Presidents often take credit for bull markets in stocks. That's because bull markets last longer than the relatively infrequent bear markets. The S&P 500 has been trending higher for decades—again, despite the meddling of Washington (*Fig. 2*).

Also trending higher over time, no matter the party of the president, has been payroll employment (*Fig. 3*). Not surprisingly, presidents often take credit for creating jobs during their time in office to assert that their administration's policies were good for the economy. Our view is that jobs are created by companies that manage to increase their profits over time—again, despite Washington's meddling.

According to ADP, during October, small, medium sized, and large companies' payrolls totaled 57.6 million, 51.1 million, and 24.1 million (*Fig. 4*). Among the companies that tend to hire the most over time are successful small and medium sized companies that grow into medium sized and large companies.

The US economy remains a very entrepreneurial one (again, despite Washington). We are particularly impressed that as of 2021 there were 29 million nonfarm sole proprietorships (*Fig. 5*). Proprietors' income (which is included in personal income) rose to a record $2.0 trillion (saar) during September (*Fig. 6*). Also impressive is that over the 12 months through September, business applications totaled 426,000 (*Fig. 7*).

Our conclusion is that presidents don't create jobs; employers do that when their companies are profitable and the economy is expanding.

US Economy II: Record Setting Economy. The last US economic recession lasted two months, during March and April 2020, when pandemic lockdowns depressed the economy. Real GDP fell 9.2% from Q4-2019 through Q2-2020 to $19.1 trillion (saar). Since then, it is up 22.7% to $23.4 trillion. That's a record high. It has been rising to record highs since Q1-2021. There has been only one slightly negative quarter, i.e., Q1-2022 (*Fig. 8*).

That's an impressive achievement given the pandemic and the tightening of monetary policy from 2022 through 2024. Indeed, both the goods and services components of real GDP have been growing since the lockdown recession and are at record highs (*Fig. 9*). On September 28, 2023, the latest annual benchmark revision of real GDP raised it by 1.3% during Q2-2024 (*Fig. 10*).

We expect that Q3's productivity index will show a solid increase to another record high when it is reported on Thursday. Real nonfarm business output probably rose faster than

Q3's real GDP increase of 2.8% (saar). Payroll employment averaged monthly gains of 104,300 during Q3, down from Q2. Aggregate hours worked rose 0.8% (saar) during Q3, down from 1.2% during Q2.

Unit labor costs (ULC) likely rose to a new record high in Q3, but the ULC inflation rate probably remained close to zero; it was 0.3% through Q2. ULC determines the underlying inflation rate, which explains why the PCED headline inflation rate fell to 2.1% y/y during September, the lowest reading since February 2021. The broadest measure of inflation is the yearly percent change in the GDP price deflator. It was down from a peak of 7.8% during Q2-2022 to 2.2% during Q3-2024 (*Fig. 11*).

In other words, mission accomplished: Our "Immaculate Disinflation" outlook has been achieved—i.e., economic growth has remained resilient while inflation has subsided significantly. We first started to write about this scenario in our September 6, 2022 *Morning Briefing*:

"Of course, a return to the Old Normal requires that inflation shows more signs of moderating and does so without the economy falling into a significant recession. Is immaculate disinflation possible? History shows that inflation rarely falls on its own without a recession. … But we don't think history necessarily has to repeat itself (despite how often it rhymes). … What seems to be different this time (so far) is that the credit system is less vulnerable to a credit crunch than it was in the past. The result is what we now have: a rolling recession hitting different sectors of the economy at different times; we expect it to bring inflation down without precipitating an economy-wide downturn."

US Economy III: Baby Boomers Saving Less. Also at a record high during Q3-2024 were total real personal consumption expenditures (PCE) including both goods and services real PCE (*Fig. 12*). Real disposable personal income (DPI) per household rose to a pre-pandemic record high of $133,500 during Q3-2024 (saar). Real PCE per household rose to a record high of $121,400 (saar) last quarter (*Fig. 13*). This is our favorite measure of the standard of living in the United States. It is up five-fold since 1960. It has doubled since the early 1980s.

The "nattering nabobs of negativity" observed that real PCE rose 3.7% (saar) during Q3, while real DPI rose 1.6% during the quarter. As a result, the personal saving rate fell to 4.8% from 5.2% during the previous quarter (*Fig. 14*). That's true, but the saving rate was also revised up (along with GDP) during the recent annual benchmark revision, from 3.3% to 5.2% during Q2 (*Fig. 15*).

At a September 30 conference, Fed Chair Jerome Powell responded to that news by saying that the revision "removes a downside risk to the economy." He added: "These were very large, healthy revisions."

In any event, we've been predicting that the personal saving rate might stay very low during the rest of the decade as the Baby Boomers continue to retire. Indeed, we now think it might turn slightly negative in coming years. That's because retired Baby Boomers will no longer receive wages and salaries. They will have other sources of unearned income, but the personal saving rate is bound to decline for retired Boomers as they continue to consume while no longer receiving paychecks. They will do so by reducing their net worth, which has been bolstered by rising stock and home prices. Consider the following:

(1) From 1946-1964, 75 million Baby Boomers were born (*Fig. 16*). The latest Visa Business Economic Insights observes: "Baby Boomers … have always had an outsized presence compared with other generations. Four times larger than any previous birth wave, their sheer size created a massive bulge in an otherwise narrow age distribution that ensured every stage of their life was experienced by the entire country." Furthermore, "the big bulge of the baby boomer generation is now a retirement wave." Indeed, more than 11,000 Americans will turn 65 every day. That's more than 4.1 million every year from 2024 to 2027.

(2) The oldest of the Baby Boomers turned 65 years old in 2011 and 75 in 2021 (*Fig. 17*). Since the start of 2011, the number of seniors (over 65 years old increased by about 10 million to 48 million.

(3) At the end of Q2-2024, the Baby Boomers had amassed a net worth of $79.8 trillion, or 49% of total household net worth (*Fig. 18*). They have lots of assets and few liabilities (*Fig. 19*). There current portfolio includes corporate equity and mutual funds ($23.0 trillion), owner's equity in real estate ($17.3 trillion), pensions ($9.8 trillion), liquid assets ($8.4 trillion), noncorporate business equity ($7.8 trillion), home mortgages ($2.6 trillion), consumer credit ($1.1 trillion), and life insurance reserves $1.0 trillion).

(4) The Baby Boomers watched *Star Trek* starting in 1966. They often heard Spock's benediction "Live long and prosper." They certainly have done so. And now they are spending their wealth on their retirement. The personal saving rate could certainly fall closer to zero or even turn negative.

Calendars

US: 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%. **Wed:** MBA Mortgage Applications; Crude Oil Inventories & Gasoline Production. (FXStreet estimates)

Global: Tues: France Industrial Production -0.7%; Spain Unemployment Change 11.5k; Eurogroup Meetings; UK C-PMI & NM-PMI 51.7/51.8; Schnabel. **Wed:** Eurozone, Germany, and France 49.7/48.4/48.3; Eurozone, Germany, and France NM-PMIs 51.2/51.4/48.3; Germany Factory Orders 1.6%; Eurozone PPI -0.5%m/m/-3.5%y/y; Lagarde; De Guindos; Nagel; Buch; Rogers. (FXStreet estimates)

Strategy Indicators

S&P 500/400/600 Forward Earnings (*link*): Forward earnings moved higher for just one of these three indexes during the November 1 week. LargeCap's forward earnings rose for a fifth week to a record high after falling for two straight weeks for the first time since December (when it fell for three straight weeks). LargeCap snapped its 37-week streak of record-high forward earnings during the September 13 week, which was its lengthiest string of weekly record-high forward earnings in nearly 19 years (since the November 11 week of 2005, when it hit record highs for 42 straight weeks). MidCap's fell less than 0.1% w/w to 2.0% below its record high in early June 2022. SmallCap's dropped 0.4% w/w to 11.8% below its mid-June 2022 record. Through the week ending November 1, LargeCap's forward earnings has soared 19.7% from its 54-week low during the week of February 1, 2023; MidCap's is 6.7% above its 55-week low during the week of March 10, 2023; and SmallCap's is 2.1% above its 72-week low during the March 17, 2023 week. These three indexes' forward earnings downtrends since mid-2022 have been relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Their forward earnings momentum has improved from three-year lows just over a year ago, but LargeCap's has improved faster than the SMidCap's. Here are the latest consensus earnings growth rates for 2024 and 2025: LargeCap (9.8%, 13.3%), MidCap (-1.2, 15.3), and SmallCap (-10.7, 17.6).

S&P 500/400/600 Valuation (*link*): Valuations mostly fell again during the November 1 week from the multi-year highs during the October 18 week for these three indexes. LargeCap's forward P/E dropped 0.3pt w/w to 21.2 and is now 0.5pts below its recent 42-

month high of 21.8. It's up 4.2pts from a seven-month low of 17.0 during the October 27, 2023 week and 6.1pts from its 30-month low of 15.1 at the end of September 2022, which compares to an 11-year low of 11.1 during March 2020. MidCap's forward P/E fell 0.1pt w/w to 15.8 and is now 0.5pt below its recent 35-month high of 16.3. It's up 3.5pts from a 12-month low of 12.3 at the end of October last year and compares to a record high of 22.9 in June 2020 and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.1pt w/w to 15.4, but remains 0.4pt below its recent 35-month high of 15.8. It's up 4.8pts from its 14-year low of 10.6 in September 2022 and compares to a record low of 10.2 in November 2009 during the Great Financial Crisis. That also compares to its record high of 26.7 in early June 2020 when forward earnings was depressed. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's 25% discount to LargeCap's P/E is up from a 25-year-low 29% discount during the July 5 week. It had been at a 19% discount during the March 2, 2023 week, which was near its best reading since October 14, 2021. SmallCap's 27% discount is up from a 24-year-low 34% discount during the July 5 week. That compares to a 20% discount during the March 2, 2023 week; that one was near its lowest discount since August 2021. The SMidCap's P/Es had been mostly above LargeCap's from 2003 to 2018.

Global Economic Indicators

Global Manufacturing PMIs (*link*): The global manufacturing sector in October remained subdued as new orders continued to contract. The JP Morgan Global M-PMI remained in contractionary territory for the fourth successive month, though moved back toward the breakeven point of 50.0. The measure rose in October to 49.4, after falling from a recent peak of 51.0 in May to a 14-month low of 48.7 in October. Both new orders (to 48.8 from 47.2) and employment (48.8 from 48.6) continued to contract, though at slower paces, while output (50.1 from 49.2) broadly stabilized at September's level. Meanwhile, stressed supplier delivery times lengthened for the fifth straight month and to the greatest extent since December 2022. By geographic area, conditions improved in China, while downturns in the US and the Eurozone eased. Meanwhile, India, Spain, and Brazil were at the top of the rankings, while Austria, Germany, and Fance were at the bottom. By sector, consumer goods continued to expand, climbing to a four-month high, while intermediate and investment goods continued to contract, though eased in both cases. Turning to pricing, the rate of input inflation held steady at September's six-month low, while average output charges rose only slightly, with an acceleration in the emerging nations offsetting a deceleration in developed nations.

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