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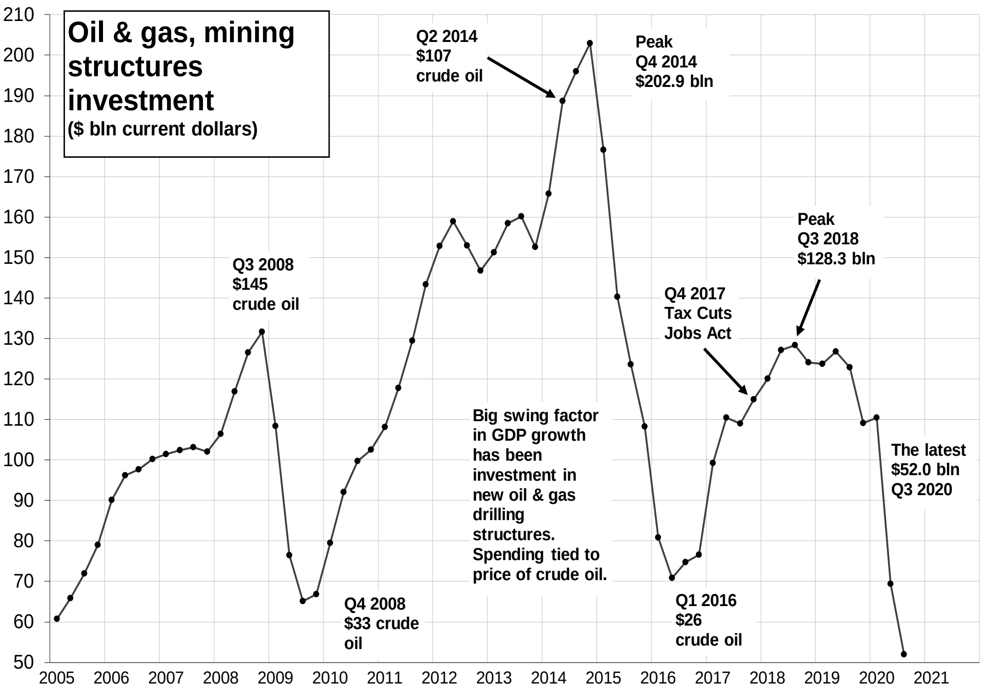
NO RECOVERY FOR BUSINESS INVESTMENT IN STRUCTURES

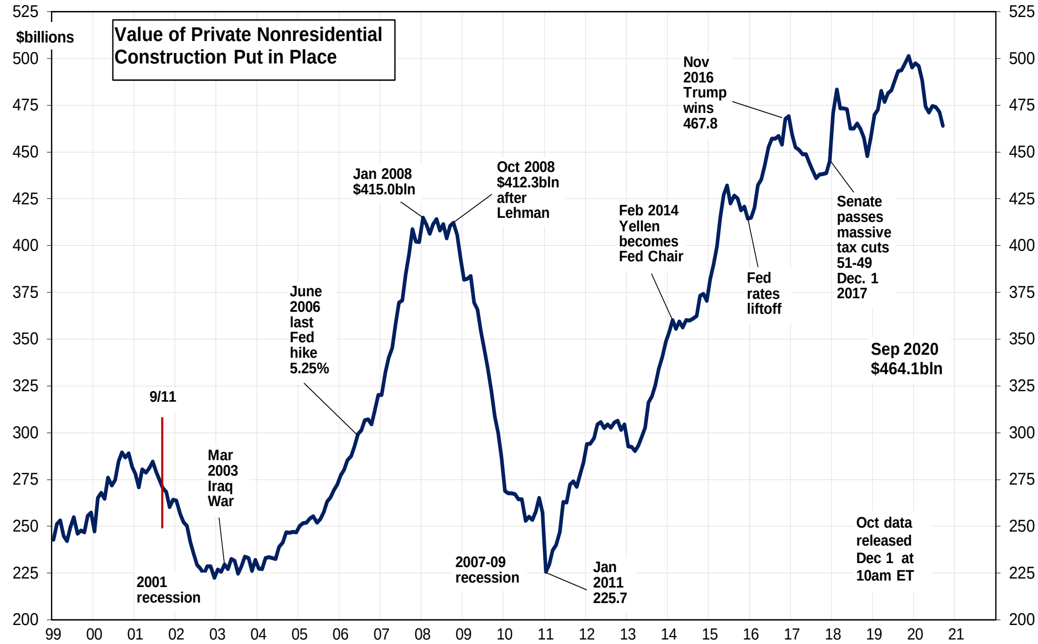


Real GDP jumped 33.1% in the third quarter, but there is no recovery seen yet for business investment in structures. Business investment in actual nominal dollars spent had been going up 3.7% in 2018 and 5.0% in 2019 before the 2020 recession. That is more growth than real GDP that is normally cited. Economists have got everyone else focused on whether the real economy is growing at just a 2% "sub-par" rate or whether it is at the 3% sustainable pace that the Trump economics team was trying to make a reality. Four years ago Trump economics was loosely defined as his plan to cut taxes, reduce regulation, increase oil, gas and clean coal production, and eliminate America's trade deficit by increasing exports and reducing imports, which would all work together to boost economic growth significantly. The pandemic recession interrupted

Structures ($billion)	Q1 18	Q2 18	Q3 18	Q4 18	YOY%	Q1 19	Q2 19	Q3 19	Q4 19	YOY%	Q1 20	Q2 20	Q3 20	SAAR
	629.2	640.7	634.2	621.5	3.7	640.1	649.7	658.8	652.3	5.0	648.7	584.0	562.5	-18.4
Commercial and health care	192.2	193.1	191.8	187.6	3.0	192.1	193.2	197.6	199.3	6.2	200.6	196.3	192.9	-4.3
Manufacturing	68.5	68.3	70.8	70.8	7.1	77.6	76.9	77.4	76.5	8.1	73.5	69.7	71.3	-9.1
Power and communication	121.6	123.7	116.0	113.1	-1.3	116.0	125.6	133.9	141.4	25.0	142.5	136.1	134.8	-6.2
Mining exploration, shafts, and wells	120.1	127.2	128.3	124.1	8.0	123.7	126.8	122.9	109.1	-12.1	110.5	69.4	52.0	-69.8
Other structures *	126.8	128.3	127.2	125.9	3.6	130.7	127.1	127.0	125.9	0.0	121.6	112.5	111.4	-15.4

* Religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, other

all that and right now business investment in structures is at rock bottom lows. Historically, one of the big drivers of business investment in structures is oil & gas, mining structures. All structures categories, warehouses, factories, offices, power generation are down, but oil and gas drilling has been the big swing factor for GDP growth in recent years. In the third quarter of 2020, structures are down 18.4% for the year at an annual rate which totals $89.8 billion, and plummeting oil & gas drilling structures accounted for 63 percent of that decline.



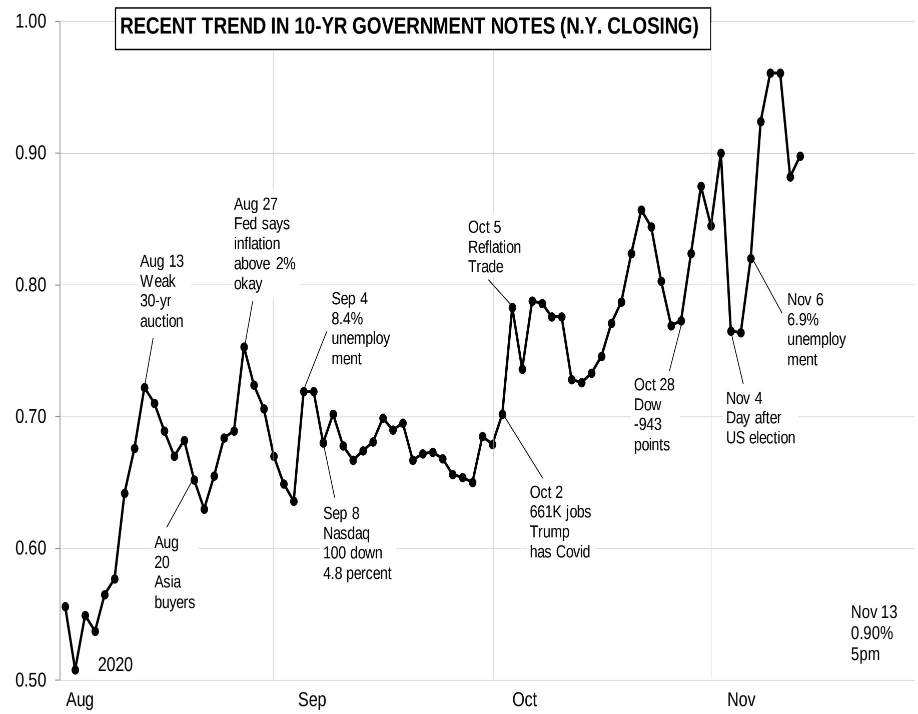
The monthly data on the value of private nonresidential construction put in place tracks the GDP structures investment closely, although one major difference is there is not oil & gas drilling structures. Interest rates lifting off from zero in December 2015 didn't do much to stop the recovery from the last recession. Construction spending was $467.8 billion when Trump was elected in November 2016 and is a little lower at $464.1 billion in September 2020. It was such a short if steep downturn we are not sure if the normal rules apply where construction starts to fall in the year or two following recessions as companies reassess their needs. Construction spending fell 23.1% in the 2001 recession and 45.6% in the Great Recession over a decade ago. Right now spending is off 6.0% from the peak in November 2019.

Nonresidential Construction $bln						Peak since 2007-09	
	Sep 2020	% Chg	2019	2018	% chg	Recession	Year
Total private	464.054	-4.6	486.255	465.457	4.5	486.255	2019
Lodging	26.812	-16.0	31.931	30.453	4.9	31.931	2019
Office	66.971	-9.4	73.945	66.835	10.6	73.945	2019
Commercial	77.549	1.5	76.432	82.808	-7.7	84.479	2017
Health Care	37.677	3.8	36.287	33.962	6.8	36.287	2019
Educational	17.423	-17.4	21.087	22.346	-5.6	22.346	2018
Religious	3.053	-13.9	3.544	3.499	1.3	5.237	2010
Amusement	11.858	-21.7	15.139	15.712	-3.6	15.712	2018
Transportation	15.657	-8.3	17.080	17.880	-4.5	17.880	2018
Communication	22.354	1.1	22.112	24.320	-9.1	24.320	2018
Power	108.580	1.3	107.146	94.390	13.5	107.146	2019
Manufacturing	71.922	-9.8	79.757	72.005	10.8	82.382	2015

Lodging construction is down 16.0% in September from the full year 2019. Office building jumped 10.6% in 2019, but now is 9.4% lower. Commerical buildings peaked in 2017 because shopping centers and malls are way down, but it is up 1.5% in September over 2019 due to warehouses. Amusement is down 21.7% which is the most this year followed by a 17.4% drop in mostly higher Educational facilities. Manufacturing is down 9.8% in September from full year 2019 levels and peaked back in 2015 when chemical plants and car factories were brought on line. Buckle up. History says the worst for construction is yet to come.

MARKETS OUTLOOK

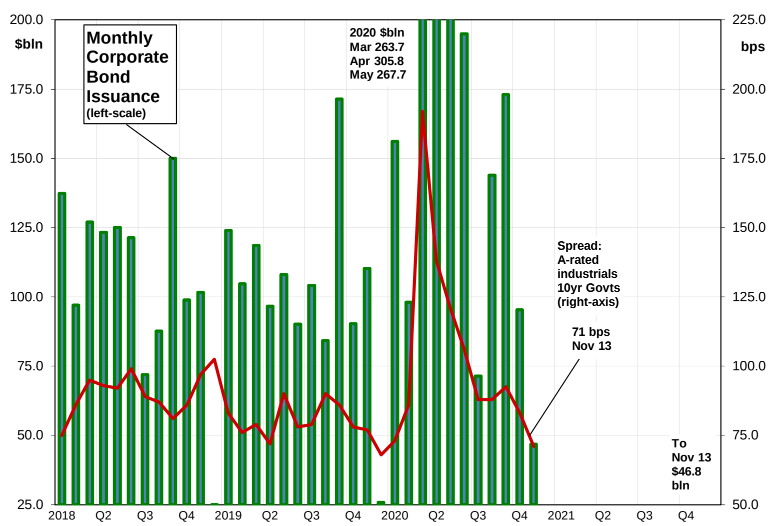
	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
30-Yr Treasury	2.11	2.39	1.32	1.41	1.46	1.40	1.40	1.50	1.60	1.70
10-Yr Note	1.67	1.92	0.67	0.66	0.69	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.55	1.69	0.38	0.29	0.28	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.62	1.57	0.25	0.15	0.13	0.20	0.20	0.20	0.30	0.30
3-month Libor	2.09	1.90	1.45	0.30	0.23	0.20	0.20	0.20	0.20	0.20
Fed Funds Rate	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	5	35	42	51	56	50	50	60	60	70



Bond yields closed 0.90% this week after 0.82% last week. The stock market opened higher Sunday night on the news networks calling the election for Biden on Saturday. The bond market did little on the Biden news. Then both stocks and bond yields rose on a 645am ET story Monday that Pfizer had a 90-proof vaccine that prevents infections. Both stocks and bond yields (more or less) made their highs for the week on Monday. Is it only us, or did others wonder how the Pfizer study results, based on just 94 people who actually got Covid-19, was so significant. The bond market was closed Wednesday for Veterans' Day and then upon reopening, 10-yr yields fell to 0.88% at Thursday's close. Rising virus restrictions and the White House no longer being part of the fiscal talks with Congress seemed to be reasons for the yield drop.

CORPORATES: VERIZON COMMUNICATIONS, BRISTOL-MYERS SQUIBB, BANKS

Corporate bond offerings were $43.8 billion in the November 13 week versus $3.0 billion in the November 6 week. On Monday, Bristol-Myers Squibb sold $7.0 billion 3s/5s/7s/10s/20s/30s. It priced a $1.25 billion 1.45% 10-yr (m-w +10bp) at 55 bps (A2/A+). The global biopharmaceutical company will use the proceeds for its MyoKardia acquisition. Corporate bond yields (10-yr Industrials rated A2) were 71 bps above 10-yr Treasuries Friday versus 76 bps last week.



FEDERAL RESERVE POLICY

The Fed meets December 15-16, 2020 to consider its monetary policy. We wouldn't think there is that much to do with all their weapons fully deployed. The market is always hopeful of more stimulus to support the recovery now that Congress is unable to come to an agreement. The Fed is buying $80 billion per month of Treasuries and it isn't clear what buying more and trying to drive down long-term interest rates would do. We would say forget it, not going to happen, except Powell did say Thursday they might need to do more... or the market thought it heard that, it really sounded as if Powell meant Congress might need to do more. Fed officials generally are concerned about what the new wave of coronavirus cases will do to the economy with many businesses being partially shut back down. Powell spoke Thursday at a European Central Bank Forum on Central Banking with the ECB's Lagarde and Andrew Bailey, the Governor of the Bank of England. His remarks were written up as negative for the outlook with stories about the economy as we knew it might be over and other stories highlighting one Powell remark: "We're not going back to the same economy." It sounds overly pessimistic, but who knows where the virus is going and we can't forget that the 120.844 million private payroll jobs in October are still almost 9 million short of the February peak of 129.718 million before the pandemic. Powell isn't forgetting the jobless. He also said the recovery was uneven where lower income workers are facing 20% unemployment. On the other hand, Powell sounded surprised there had not been a greater wave of bankruptcies on the part of businesses and we are puzzled as well by this although it is early to come to a judgment on this.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	11-Nov	4-Nov	28-Oct	21-Oct	Sep 10 2008** pre-LEH
Factors adding reserves					
U.S. Treasury securities	4552.731	4538.087	4527.186	4509.778	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2000.368	2000.324	2000.305	2047.235	0.000
Repurchase agreements	1.000	1.000	1.000	1.000	126.750
Primary credit (Discount Window)	2.317	2.372	2.790	3.146	23.455
MMLF	5.496	5.504	5.530	5.740	
PDCF	0.263	0.263	0.243	0.193	
Commerical Paper Funding Facility	8.559	8.559	8.576	8.559	
Paycheck Protection Facility	60.102	61.522	63.899	64.126	
Corporate Credit Facility (CCF)	45.692	45.663	45.477	45.378	
Municipal Liquidity Facility	16.553	16.552	16.551	16.550	
Main Street Lending Program	42.337	41.683	41.273	40.893	
Term Asset-Backed Facility (TALF II)	12.266	12.266	11.763	11.762	
Central bank liquidity swaps	8.036	7.248	6.799	7.642	62.000
Federal Reserve Assets	7224.2	7206.3	7194.5	7225.9	961.7
3-month Libor %	0.22	0.23	0.21	0.21	2.82
Factors draining reserves					
Currency in circulation	2058.082	2050.037	2044.990	2042.729	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Treasury credit facilities contribution	114.000	114.000	114.000	114.000	
Reverse repurchases w/others	0.000	0.000	0.005	0.000	0.000
Reserve Balances (Net Liquidity)	2992.098	2979.537	2947.256	2890.130	24.964
Treasuries within 15 days	71.475	92.517	76.703	79.660	14.955
Treasuries 16 to 90 days	285.323	272.111	269.340	264.999	31.549
Treasuries 91 days to 1 year	642.675	633.540	654.840	656.206	69.272
Treasuries over 1-yr to 5 years	1725.831	1714.301	1710.201	1701.341	170.807
Treasuries over 5-yrs to 10 years	812.450	812.404	809.323	805.291	91.863
Treasuries over 10-years	1014.977	1013.214	1006.780	1002.280	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds

PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days

CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

Finally, Powell took a question, without question if you will, when asked about the impact of the Fed's recent change to "treat the employment mandate as a broad based and inclusive goal, which recognizes that macro policy has to work for the margins of the labor market." [So much for inflation.] He answered saying the economy needs to grow [for longer] so everyone in society can take part, and noted that unemployment was 3.5 to 4.0 percent for two full years and yet we didn't see worrisome inflation. [So much for inflation.] Sounds to us like he won't be pushing interest rates to restrictive levels, if at all, for some time.

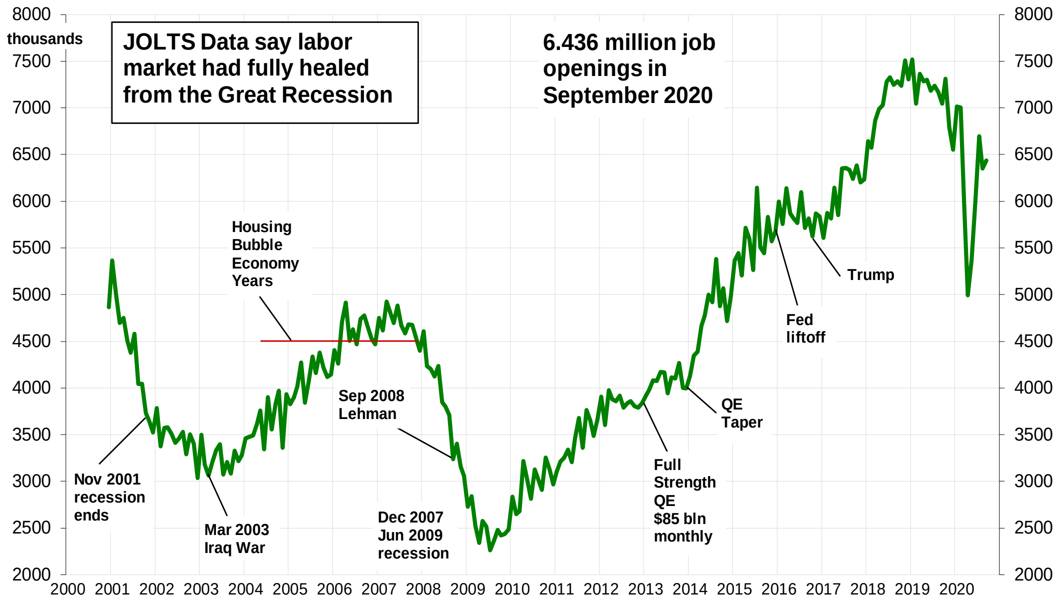
U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

	Q4 2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total FY 2020	FY 2021 Oct	Nov	Total FY 2021
Fed QE	221.179	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	86.918	2,337.8	81.709	25.545	107.3
New Cash	330.2	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.4	176.5	4,014.3	62.5	106.1	168.6
Bills	39.9	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	-47.8	2,651.9	-43.6	-28.7	-72.3
Coupons	290.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	224.3	1,362.1	106.1	134.8	240.9
Federal Reserve's 11 Lending Facilities			0	58.352	94.641	136.343	204.607	203.100	197.237	196.505		193.312	191.268	
Central bank liquidity swaps			0.044	206.051	438.953	448.946	274.963	117.473	92.140	23.895		6.799	8.036	

OTHER ECONOMIC NEWS THIS WEEK

Job openings today unless you work in factories or retail stores or [were] in the Federal government (Tuesday)

Breaking economy news. The Jolts data, job openings and labor turnover survey, for September is out. There are 6.436 million job openings in September up slightly from 6.352 million in August. These data are always released with a lag of one month and are somewhat old news given Friday's report of October nonfarm payroll employment with the unemployment rate dropping a full percentage point to 6.9%. Someone clearly took the September job postings off the wall and ran with them because the number of unemployed Americans dropped by over 1.5 million to 11.061 million jobless Americans outstanding in October.



The virus count is hitting records however so it is questionable, given the new mini-lockdowns in many states, whether as many jobs will be required in the future at bars and restaurants, sporting events, museums and amusement parks. The recession is over if you are a big corporation, but the jobs recession isn't over if you work at the many small retail stores or hospitality and leisure businesses scattered across the nation. Given the headwinds posed by the virus uncertainty, 90%-proof vaccine or not, it is amazing that there are 781 thousand jobs needed in leisure and hospitality right now with current job openings of 85 thousand in Arts, entertainment, and recreation, and 696 thousand at hotels and restaurants. At the pre-Covid peak in February this year, job openings at hotels and restaurants were 815 thousand. The best labor market in history level seen during the Trump administration was actually back in 2019 before the U.S. trade war threats made to China and stock market volatility pushed the level of job openings down from the record for-hire postings on the nation's jobs boards.

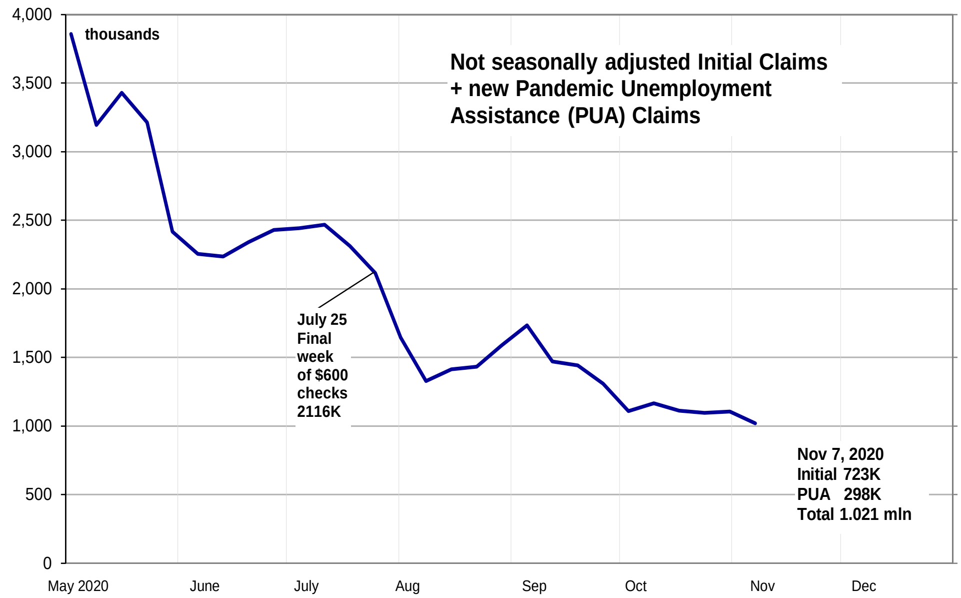
Net, net, there still aren't as many employment opportunities as there were before the pandemic shutdowns in March, but the fact that there are any help-wanted signs posted at all is remarkable given the severity and depth of this economic downturn. Happy days aren't here again for jobless workers but the labor market is slowly healing day by day. As sands through the hour-glass, so are the days of our lives.

Not enough jobs, and not enough inflation for Fed policymakers (Thursday)

Breaking economy news. Two for one. CPI inflation and weekly jobless claims this morning. There was no inflation in October with both headline and core prices unchanged this month. This puts the year-year changes at 1.2% for headline CPI and core CPI at 1.6%. The Fed is looking for inflation to run above 2% for some time to counter-balance the years that inflation ran below 2%, so officials will not find today's inflation data at all comforting.

		Monthly Percent Changes			YOY %
Weight	CPI inflation	Aug 2020	Sep 2020	Oct 2020	Oct 2020
100.0	Total	0.4	0.2	0.0	1.2
14.2	Food	0.1	0.0	0.2	3.9
7.9	Food at home	-0.1	-0.4	0.1	4.0
5.7	Energy	0.9	0.8	0.1	-9.2
79.0	Ex-food & energy	0.4	0.2	0.0	1.6
3.7	New vehicles	0.0	0.3	0.4	1.5
2.5	Used cars/trucks	5.4	6.7	-0.1	11.5
2.7	Clothing	0.6	-0.5	-1.2	-5.5
1.6	Medical care goods	-0.1	0.0	-0.8	-0.8
33.5	Shelter	0.1	0.1	0.1	2.0
4.9	Transportation	0.0	-0.9	0.1	-5.1
7.3	Medical care services	0.1	0.0	-0.3	3.7

Core CPI is running less as somehow shelter costs rose just 0.1% for a third consecutive month. Home prices in my town outside New York City are up 20% from pre-pandemic levels. The Bureau of Labor Statistics (BLS) says shelter prices are up just 2.0% from prior year levels. The biggest change this month in the inflation data is that the huge jumps in used car and light truck prices are over for now with prices falling 0.1% after big gains of 6.7% in September and 5.4% in August. Guess the rush to get a used car is over and we will see if the mini-lockdowns in many states due to a second wave of Covid cases pushes used truck prices back down. It was also surprising this month that in the midst of the ongoing health crisis, medical care commodity prices (your meds) fell 0.8% while medical care services fell 0.3%.

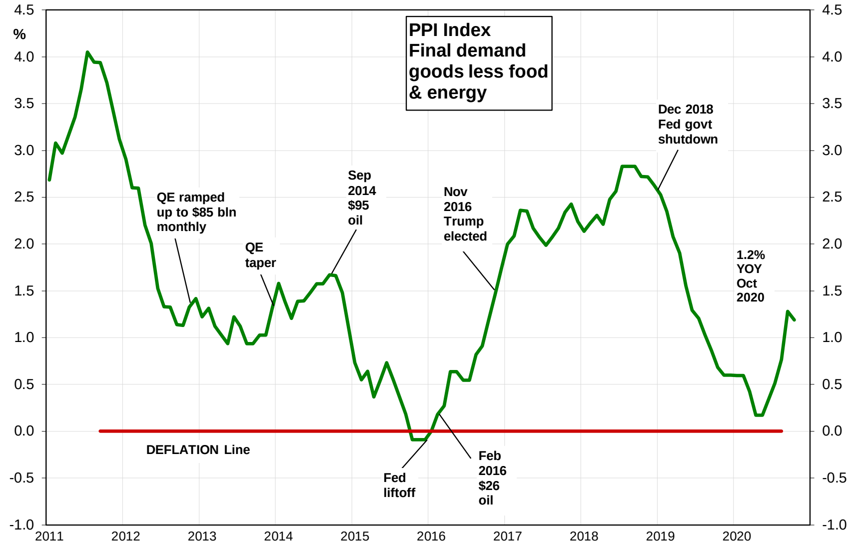


Weekly jobless claims fell to 709 thousand newly unemployed workers in the November 7 week from 757 thousand in the October 31 week. However, you would be hard pressed to say the economy is rounding the turn and on the mend from this recession with new claims running higher than the worst week of the Great Recession over a decade ago.

Net, net, there are not enough jobs and not enough inflation out there to assuage the worries of Fed officials trying to go it alone to engineer this economic recovery as Washington elected officials dither over providing additional fiscal stimulus. Although there are some signs that jobless workers are coming off the nation's unemployment rolls faster than others are applying for extended benefits, the labor market continues to heal very slowly, too slowly if you aren't getting a paycheck and there is little prospect of finding work anytime soon. Not enough work and not enough inflation out there. What's a poor economy to do?

Factories aren't producing much inflation for the economy either (Friday)

Breaking economy news. Fed's Bullard speaks on the U.S. economy. Scratch that. Another day another Fed official speaking about how their low interest rates policy is supporting the economic recovery even as it steals from seniors living on the interest from their retirement savings. No. The economic news this morning is the good old, and we mean old, PPI inflation report. PPI inflation, along with the monthly trade deficit, used to be the two biggest market-moving economic numbers in the world, maybe late 80s to early 90s, when foreign exchange markets were still moving around a lot.



Okay then PPI final demand prices as the report has been rebranded in order to get more reader clicks rose 0.3% in October and are up just 0.5% from last year. Not a lot of factory inflation to report, but then again manufacturing industrial production was still down 6.0% in September from year ago levels due to the pandemic. The Bureau of Labor Statistics (BLS) says three-quarters of the October increase was due to food prices and energy prices lifted final demand inflation a little further. Core final demand producer prices rose 0.1% in October and are 1.1% higher than a year ago.

Final demand goods inflation less food and energy was a big fat zero this month after big monthly price increases of 0.3 or 0.4 percent in July, August and September. It looks increasingly like the recovery in factory production may be in danger of failing as demand pulls back with many states moving back to mini-lockdowns with new social distancing measures. Factories aren't producing as much inflation for the economy and this means the fourth quarter may see slower economic growth than we thought.

Net, net, there are no cost-push pressures on inflation from factories in America that produce the goods and some services that consumers and other businesses require. Factory production can overheat and lead to higher inflation when economic conditions are strong. But inflation is hard to find at the producer level at the moment and with the second wave of coronavirus cases hitting new records nearly every day, producer goods inflation is unlikely to emerge in coming months, and it will be a miracle if factories can remain open if the spread of the virus continues to worsen.

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