

No More Flying Blind!

We're finally breaking out of the clouds! Economists have mostly been flying blind because of the government shutdown, but this week the data really start to flow again. In particular, we get a partial report on the employment situation in October and a full report for November, retail sales in October, and consumer prices in November.

Combined, October and November employment data will likely show modest continued growth in jobs. If you believe ADP, October will be up and November down; if you believe jobless claims, October will be weak and November better. Either way, it's important to recognize that given the huge policy shift from lax to strict immigration enforcement, the push by the Trump Administration to thin government payrolls, as well as the ongoing aging of the population and layoffs attributed to AI, payroll growth should be slow.

In the meantime, the retail sales report for October should be relatively soft. Sales of cars and light trucks were the slowest for any month this year. However, it was not because of the government shutdown. Instead, federal electric-vehicle tax credits worth up to \$7,500 expired at the end of September, which pulled many purchases into the third quarter. We will be focusing on retail sales excluding volatile autos, in particular sales at restaurants and bars, which is the only part of the report that covers the service sector.

On Thursday the Labor Department will release the Consumer Price Index report for November and might include some key data for October, as well. In addition to the headline figures, we will be looking at details that hint at new trends. In particular, is housing rent inflation continuing to slow.

Primary rents for actual tenants rose 4.8% in the twelve months ending in September 2024 but a slower 3.4% in the twelve months ending in September 2025. Given slower money growth in the past three years, this deceleration should continue. We see no threat of outright deflation, but the Federal Reserve will pay close attention to rents when deciding how much room it might have to cut rates in 2026.

At last week's meeting, the median prediction from Fed officials was that short-term rates would only drop one more quarter point next year. Meanwhile, the futures market is pricing in two cuts of that size. We think two cuts are more likely than one and there is even the possibility of three cuts. A new Fed Chair won't have carte blanche, but if the economy and inflation both slow the case for more than one cut will be compelling.

As our readers know we believe the path of M2 is more important than the actual level of interest rates, and last week the Fed restarted quantitative easing, which should boost M2 in the months ahead.

In terms of President Trump's pick for Fed Chair, what we would like to know is what the contenders think about reversing the regime of "abundant reserves" and the Fed paying banks interest on reserves. These policies were unnecessary for the Fed for nearly its first one hundred years, but its current leaders are adamant about keeping them after they were implemented in the Great Financial Crisis of 2008-09, a crisis these new policies did nothing to stop or fix. Restarting QE seems like a shot across the bow to anyone who wants to alter course and return to a scarce reserve system.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|-------------------------------|-----------|-------------|--------|-----------|
| 12-15 / 7:30 am | Empire State Mfg Survey – Dec | 10.0 | 3.7 | -3.9 | 18.7 |
| 12-16 / 7:30 am | Non-Farm Payrolls – Nov | 50K | 87K | | NA |
| 7:30 am | Private Payrolls – Nov | 40K | 87K | | NA |
| 7:30 am | Manufacturing Payrolls – Nov | -5K | -10K | | NA |
| 7:30 am | Unemployment Rate – Nov | 4.5% | 4.5% | | NA |
| 7:30 am | Average Hourly Earnings – Nov | +0.3% | +0.3% | | NA |
| 7:30 am | Average Weekly Hours – Nov | 34.2 | 34.2 | | NA |
| 7:30 am | Retail Sales – Oct | +0.1% | +0.1% | | +0.2% |
| 7:30 am | Retail Sales Ex-Auto – Oct | +0.2% | +0.2% | | +0.3% |
| 12-18 / 7:30 am | Initial Claims – Dec 13 | 225K | 219K | | 236K |
| 7:30 am | CPI – Nov | +0.3% | +0.3% | | NA |
| 7:30 am | "Core" CPI – Nov | +0.3% | +0.2% | | NA |
| 7:30 am | Philly Fed Survey – Dec | 2.3 | 3.4 | | -1.7 |
| 12-19 / 9:00 am | Existing Home Sales – Nov | 4.150 Mil | 4.170 Mil | | 4.100 Mil |