Look Forward to Working With You in 2016

Since 1960, after every “flat” year for the S&P, like 2015, the S&P has rallied between +11% and +34% the following year, with +17% on average. There’ve been 7 such instances since 1970. For example, in 1970 the S&P was 0%, followed by +11% in 1971. However, S&P earnings increased in all 7 “following years”, by +12% on average. So if earnings increase in 2016, perhaps not surprisingly, the S&P is likely to increase. China is key to S&P earnings in 2016. We believe China growth is stabilizing and that S&P earnings will increase +5% in 2016.

US growth is OK, but global growth is still too slow, the global output gap too big, giving the global economy a deflationary undertow.

But at the same time, AHEs in the US are now accelerating, which in the past has always been associated with the start of Fed tightening, as it is now. The acceleration in AHEs gives the US expansion another source of strength, which it needs. AHEs in Dec likely accelerated to +2.7% y/y, and are likely to be up +3.0% or more by the end of 2016.

EVERCORE ISI

Weekly Economic Report

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Mon Jan 4 2016

"Good News"

Retail sales from both online and in stores rise 7.9% over 2014

$15 Minimum Wage Could Spread In 2016

Iraqi Forces Retake Much of Key City of Ramadi Held by ISIS

Disney's 'Star Wars" hits $1 bil

Home Price Gains Accelerate

Jobless Claims Are Near Lows

Consumer Confidence Climbs

Distressed home sales decline

Home Prices Climb Back to Pre-Recession Peak

Amazon soars on bumper holiday season

Christmas Sales Look Jolly for E-Retailers

"Bad News"

Oil Price Fall Hits Stocks, Currencies

Economy Headed For 11th Year Of Sub-3% Annual GDP Growth

China's Yuan Continues Slide

Russia GDP Falls on Low Oil, Recession Will Stretch Into 2016

Saudi Arabia Plans to Cut Budget as Oil Prices Sink

Dividends Hitting A Bump In The Road

Dallas Fed factories tumble

Japanese spending weak

Puerto Rico to Miss Debt Payments

El Niño Bedevils Farmers

Oil Falls On Oversupply Fears

Brazil deficit woes raise pressure on new minister

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Good Morning,

Look Forward to Working With You in 2016

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There’s much more to cover, so thanks for looking over the following SUMMARY.

Again, Happy New Year 2016!

Sincerely,

Ed Hyman
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This Story Is Certainly Going Around

After every "flat" year for the S&P, the S&P has rallied between +11% and +34% the following year, with +17% on average, eg, +1% in 1978 was followed by +12% in 1979. There have been 7 of these: 1970, 1978, 1984, 1987, 1994, 2005, and 2011. Except for 1970, they've all been in expansions. What's not being pointed out in "this story" is that in all 7 of the "following years" S&P earnings increased between +5% and +25%, eg, earnings increased +6% in 1979 (see above).

None of the above is particularly surprising once pointed out. But it puts the spotlight on S&P earnings in 2016. S&P earnings in 2015 declined -3%.

U.S. Wages Accelerating

Even though there's a Global Deflationary Undertow, US wages are probably accelerating. If AHEs accelerate from +2.0% y/y to +3.0%, then personal income would likely accelerate to a solid +5.0%. This also puts pressure on the Fed to keep tightening.

AHEs Likely to Pop in Dec

AHEs in Dec of 2014 had an unusual decline of -0.2% m/m. So if AHEs increase +0.2% m/m in Dec of this year, reported this Friday, then AHEs y/y will pop to +2.7%!

Minimum wages in Jan are scheduled to increase in 19 states and localities.

In the 1980s, the 1990s, and 2000s, AHEs accelerated from roughly +2.0% y/y to +4.0% in roughly 3 years.

U.S. Expansion Slow

EVRISI company surveys increased +0.4, but to just 49.6, consistent with slightly less than +2.0% real GDP growth. Particularly unsettling, the svc PMI in Dec declined to 53.7%. Judging by weakness in the Chicago PMI and the Texas PMI, the national ISM mfg in Dec probably declined to 48.0% (reported tomorrow).

The plunge in oil is still battering related sectors. The rig count continues under pressure. EVRISI cap goods cos survey was unchanged last week at a very soft 35.5. And when the yuan goes down (it declined -4.5% in 2015), the dollar goes up, which puts downward pressure on oil.

Although, the DXY, which is composed of mainly the euro, the yen, and the pound, has been basically unchanged over the past nine months. In contrast, the Trade Weighted $ has continued to make new highs (includes China, South Africa, Russia, etc). This TW$ strength helps explain the weakness in commodity prices, puts downward pressure on inflation in general, and is a drag on US growth.

The US spread 10-year minus 2-year has narrowed to a worrisome level, ie, to the bottom of its six-year range that has been associated with +2.0% real GDP growth. However, it's still a long ways from an inversion recession signal.

The risk of terrorist attacks is keeping confidence down:

- *Train stations evacuated in Moscow amid terror scares.*
- *Munich police probe terror links as railroad stations reopen.*
- *Hollande says terrorism risk remains high.*

U.S. Expansion Slow but Solid

Most US economic indicators that cut across the whole economy are solid, eg, bank loans +8.4%, money supply +6.1%, and record-low unemployment claims. EVRISI apartment cos survey of rents ticked up to 62.5 last week, much stronger than it has been for the same week in the past. Personal income in Nov was up an ok +4.4% y/y. This reflects employment increases, which have averaged roughly +200k for 6½ years. As noted above, wages appear to be accelerating, which if true, is a potential game changer. Existing house prices in Nov were up +6.5% y/y, and have increased +40% from their recession low. MasterCard reported Holiday Sales up +7.9%. Dick Hokenson pointed out last week that the number of full-time workers is increasing. Household formation is increasing. Mtg rates have stayed below 4.00%. Mtg apps for purchase have increased over the past month from 210 to 231. Gasoline prices have averaged $2.00 over the past month versus $3.50 in early 2014.

Global Inflationary Undertow

The highly-respected Christine Lagarde expects *"global growth to be disappointing and uneven in 2016."* It certainly is currently. Last week's reports included weak readings for Hong Kong exports and imports, Russia GDP, Japan household expenditures, South Korea IP, and China mfg PMI.

Spain's CPI has been basically unchanged for 3 years and ticked down -0.1% m/m in Dec. Big US airlines are cutting fares in response to low-cost rivals.

Policymakers Continuing to Respond

To the Global Deflationary Undertow

- ECB and BoJ balance sheets continue to expand.
- ECB says it still has *"by no means used up all our ammunition".*
- *China says fiscal policy must be forceful and monetary policy must be flexible.*
- *China will take further steps including widening the fiscal deficit and stimulating housing.*

Markets Last Week

The S&P slipped -0.8% w/w, pushing it down for the year -- depressing. WTI declined -$1. Corn declined -$6, gold -$14.

The link was the +5bp increase in US 2-year yields and DXY increasing +0.7%. The yuan depreciated -0.3%. US 10-year yields increased +3bp, UK +4bp. However, German 10-year yields declined -1bp, which restrained US yields.

There were several bright spots, eg, the Nikkei +1.4%, Greece +1.8%, Indonesia +1.6%, and Walmart +0.8%.

2016 Key Economic Themes

1. Bifurcated Economy.
2. Slow and Steady Wins the Race.
3. US Wages Accelerate.
4. Household Formation Stronger.
5. Lower Oil Prices Lift GDP.
6. China Growth Stabilizes.
7. Central Bank Policies Still *"Extremely Stimulative".*

Evercore ISI U.S. Forecast

	2015 e	2016 f
Real GDP	2.2%	2.5%
GDP Price Deflator	1.0%	1.5%
Nominal GDP	3.2%	4.0%
Fed Funds Rate*	0.35%	1.10%
10-Year Bond Yield**	2.20%	3.00%
S&P EPS	$116	$122

* Effective Fed funds rate, yearend

** Treasury yield, yearend

TOO MANY NEGATIVE HEADLINES TODAY

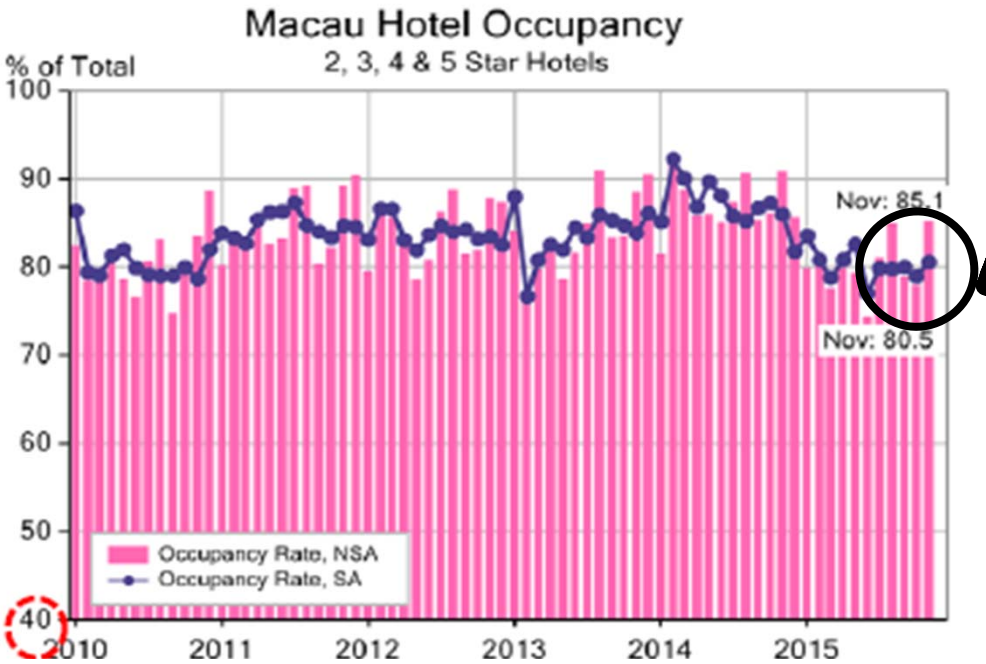
The headlines below are the backdrop for the S&P being down -36 points this morning.

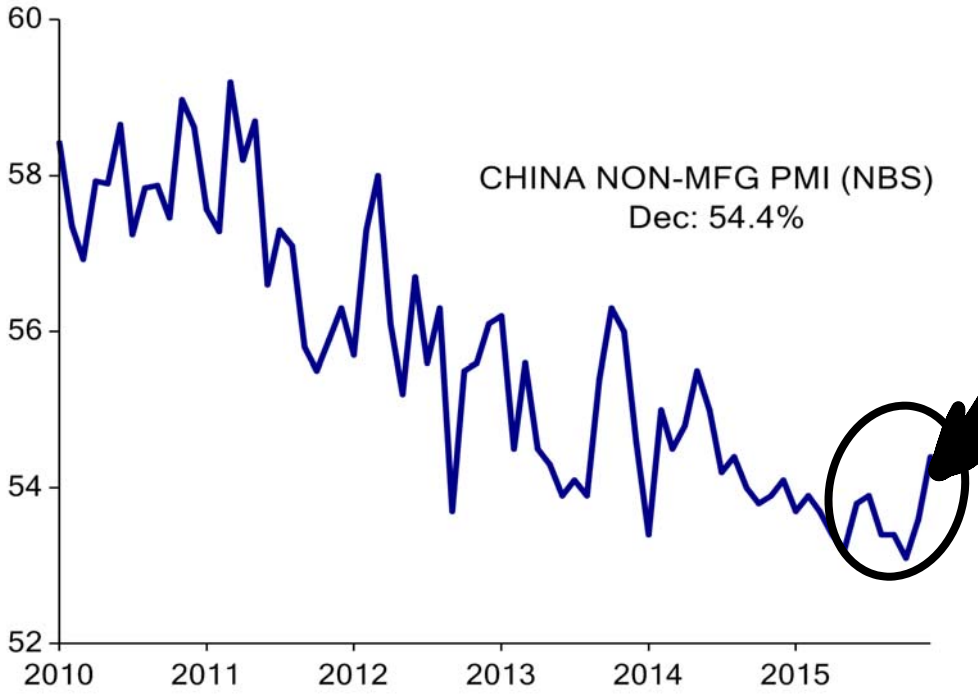
- *Train stations evacuated in Moscow amid terror scares.*
- *Munich police probe terror links as railroad stations reopen.*
- *Hollande says terrorism risk remains high.*
- *Saudi break with Iran fuels crisis.*
- *China halts stock trading after -7% rout triggers circuit breaker.*

China Mfg PMI at 48.2% Probably Doesn't Explain -7% SHCOMP Plunge

As shown on the next page, a number of China's economic indicators are improving. And the China mfg PMI was barely down. The plunge in the SHCOMP today was probably more due to prospects for reopening trading.

CHINA PLUS DATA: Macau, Non-Mfg PMI, and Property Prices.





Don Straszheim Evercore ISI Jan 4

After a 2015 China equities roller coaster, we think 2016 will be an up year.

✓ Jan 4 (*China Daily*) -- **After austerity, restaurants regain their appetite**

Three years after the Chinese government declared war on the misuse of public funds on meals, travel and in other areas, knocking the stuffing out of the catering industry, fresh life seems to be coming back to the business.

China Bond Yields Plunged Last Week

We believe that China growth is stabilizing. But this plunge in bond yields is unsettling. Among other things, it reflects PBoC rate cuts and slowing inflation.

U.S. Holiday Sales Just OK

EVRISI retailers sales survey increased last week but to just an OK level, down from the same week in 2014 but above the average for 2002-14. It's worth noting that this survey underrepresents e-commerce.

Evercore ISI Retailers Sales Survey

0=Weak 100=Strong

	Avg 2002-2014	2014	2015
-3 wks	46.3	49.6	46.3
-2 wks	45.0	53.5	46.4
-1 wks	44.4	53.0	46.4
Wed before Thanksgiving	43.3	52.0	49.3
Mon after Thanksgiving	48.3	51.5	52.5
+1 wks	46.2	53.0	50.2
+2 wks	45.2	52.5	48.5
+3 wks	44.9	53.3	47.1
+4 wks	45.8	57.2	51.1
+5 wks	49.6 ✓	57.2 ✓	52.3 ✓
+6 wks	49.1	55.9	
+7 wks	49.6	52.9	
+8 wks	47.5	52.1	

Company Surveys Up But Still At Moderate Level

Led by auto dealers and retailers, EVRISI company surveys increased this week but to just 49.6, which is consistent with slightly less than +2.0% real GDP. *"Slow and Steady"* continues to be the best characterization of this expansion.

Evercore ISI Company Surveys

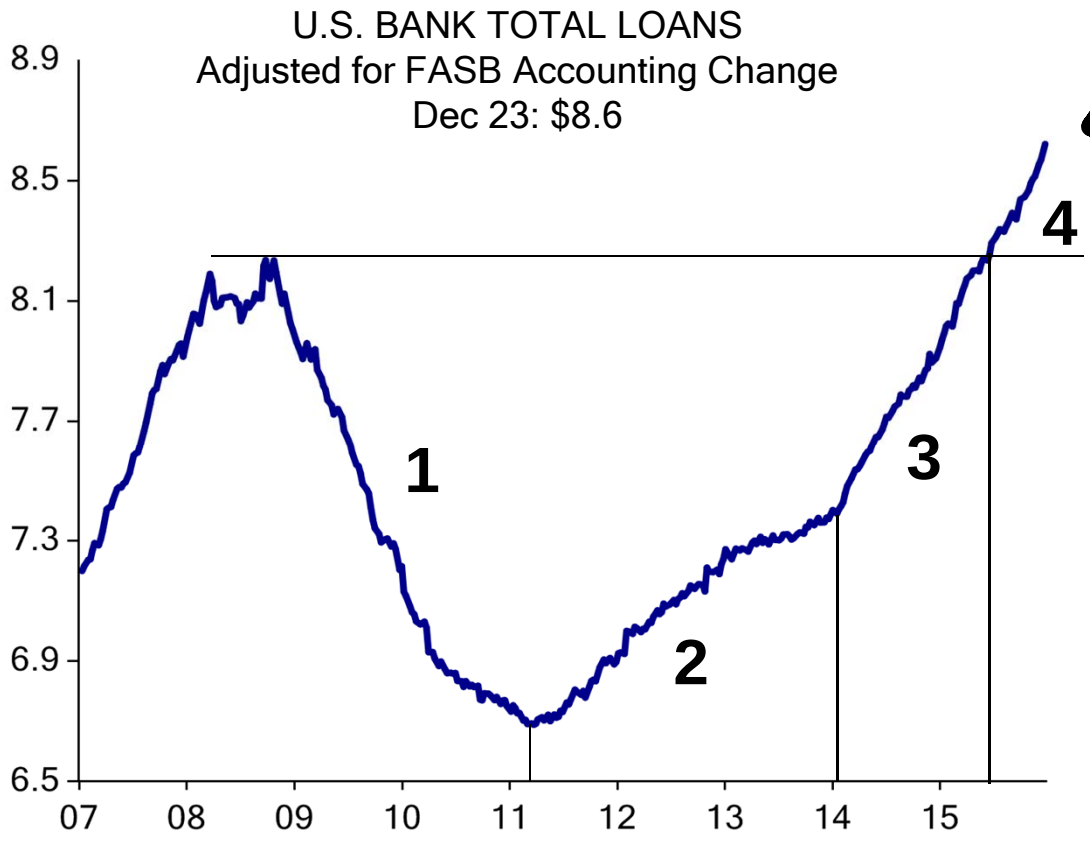
0=Weak 100=Strong

	Dec 31	W/W Ch
Auto Dealers	57.7	+3.2 ✓
Retailers	52.3	+1.2 ✓
Trucking Cos	51.3	+0.1
Credit Card Cos	54.1	0.0
Airlines	47.8	0.0
Tech Cos	47.8	0.0
Mfg Cos	45.9	0.0
Cap Goods Cos	35.5	0.0
Shopping Guide Cos	51.5	-0.1
Bank Loans	46.3	-0.2
Homebuilders	52.5	-1.1
AVERAGE	**49.6** ✓	**+0.4** ✓

U.S. Bank Loans Up +8.4% Y/Y

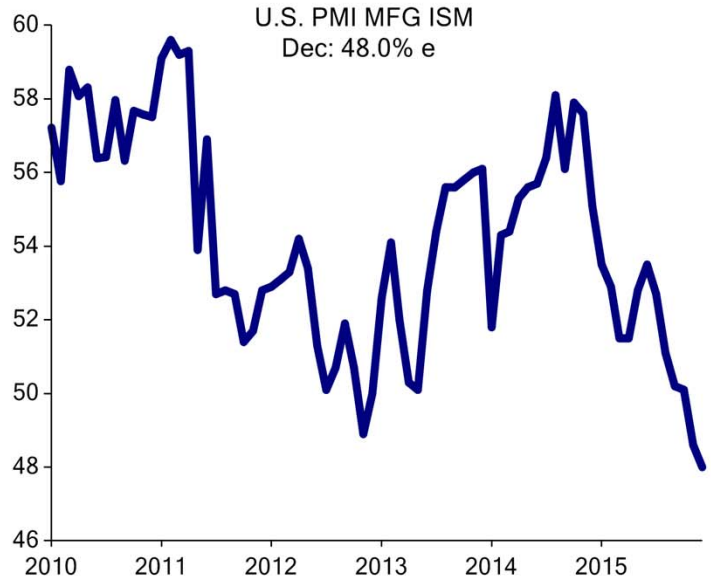
Broad-based US economic indicators are generally solid, eg, employment and bank loans.

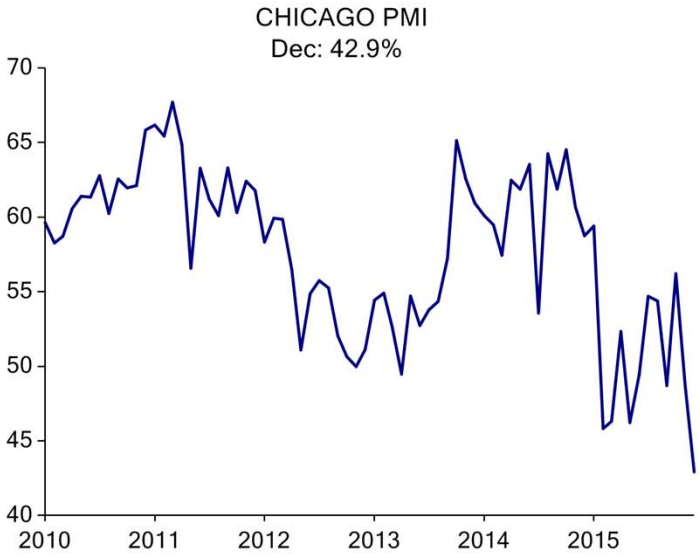
1. Bank loans decline through 2010.
2. Bank loans recover slowly 2011-2013.
3. Bank loans accelerate to +8% growth in 2014.
4. Bank loans move above their prior peak in 2015.

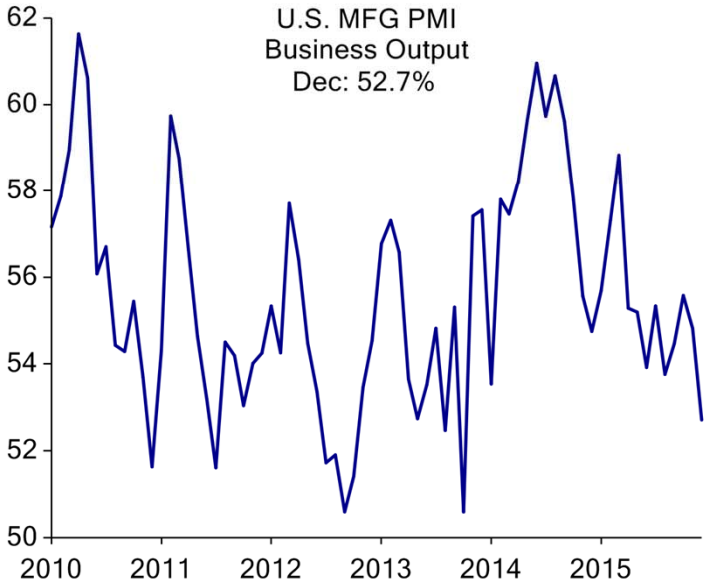


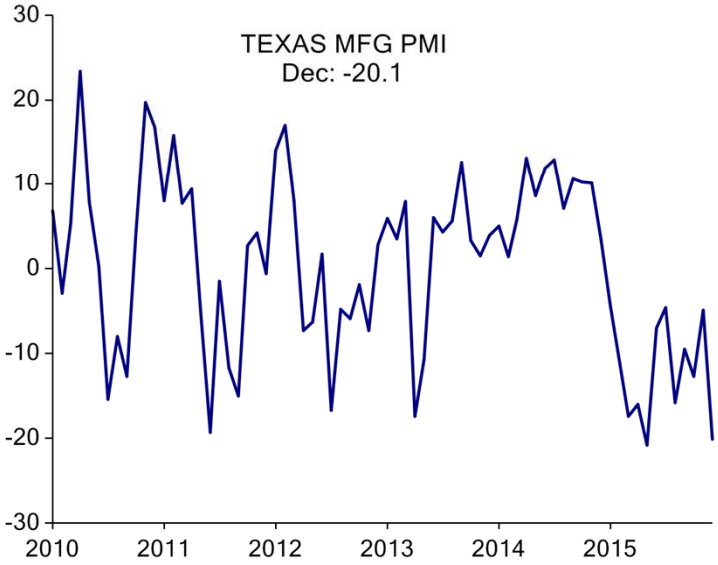
U.S. Mfg PMIs for Dec Quite Weak

Weakness in commodity-related sectors continue to batter the US mfg sector.



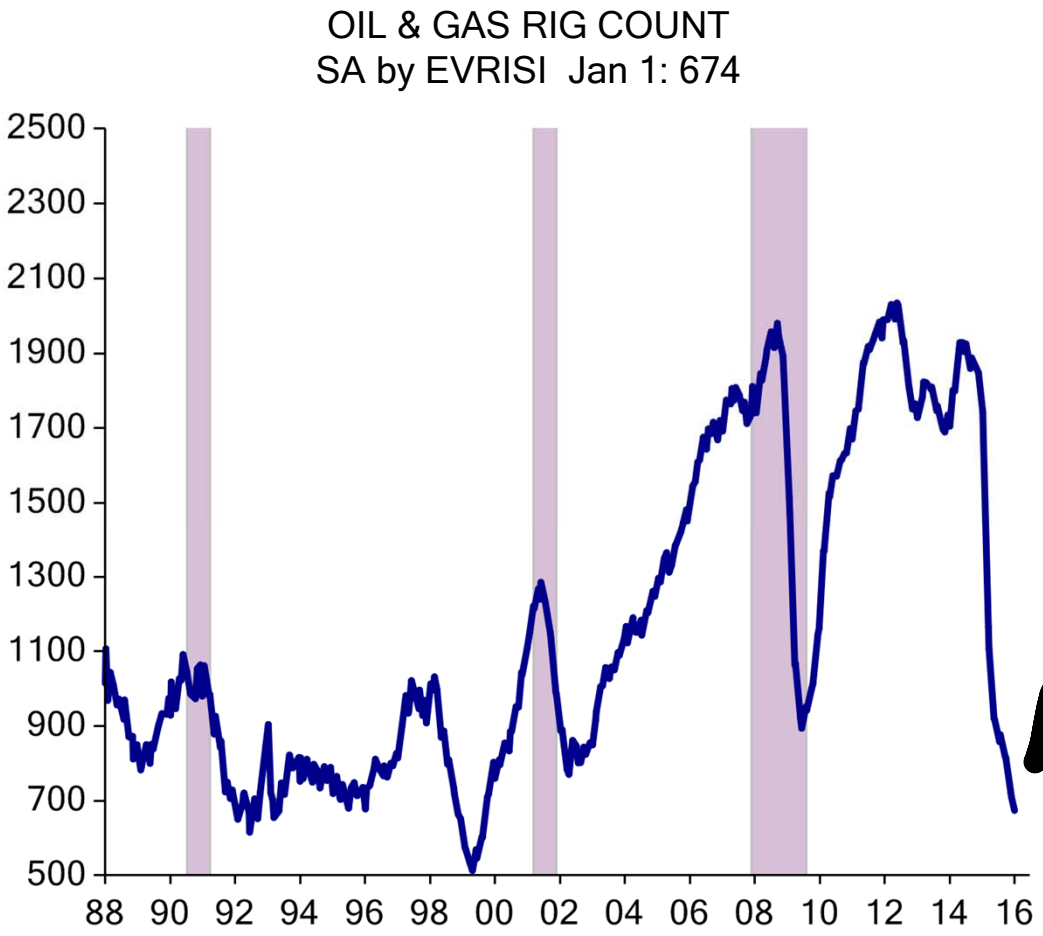






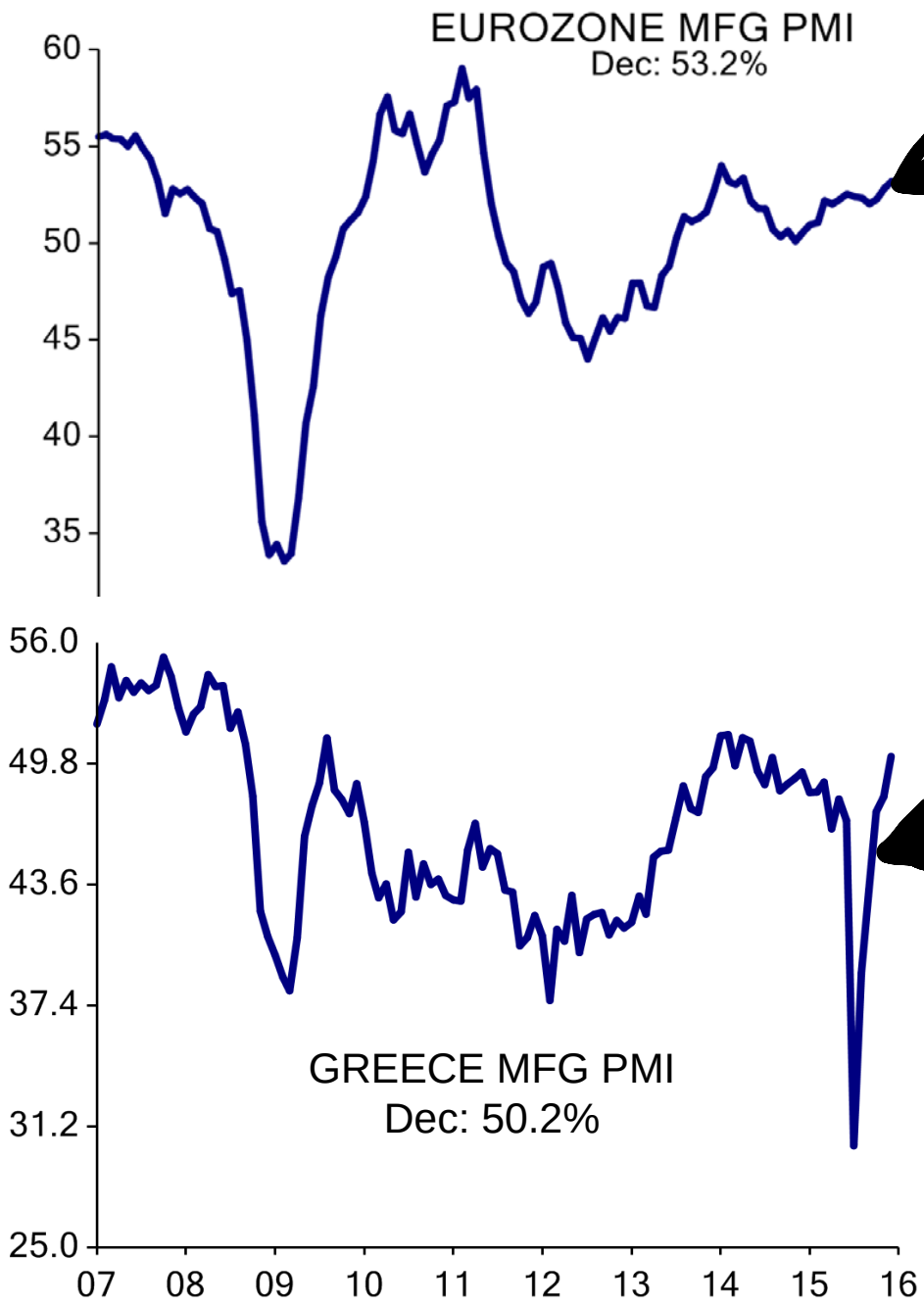
Plunging Rig Count Still A Drag on U.S. Growth

A key question for 2016 is will weakness in commodity-related sectors bring down the rest of the US economy? We strongly doubt it. But it is a **Tug of War**, and the rig count edged down again last week. The key here is China.



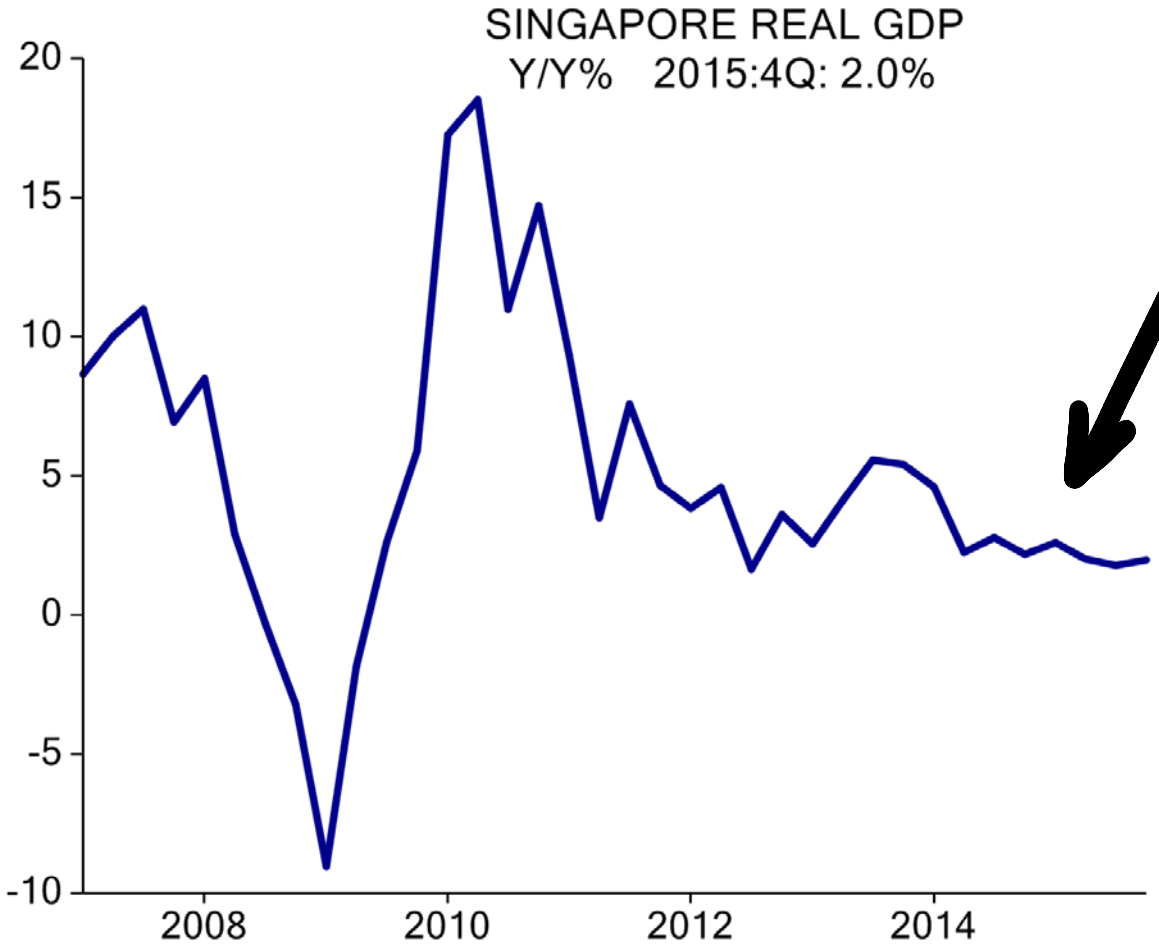
Eurozone Mfg PMI Edges Up to 53.2%

The decline in the euro from 1.40 to 1.10 is helping the Eurozone recover. The turnaround in Greece is amazing!



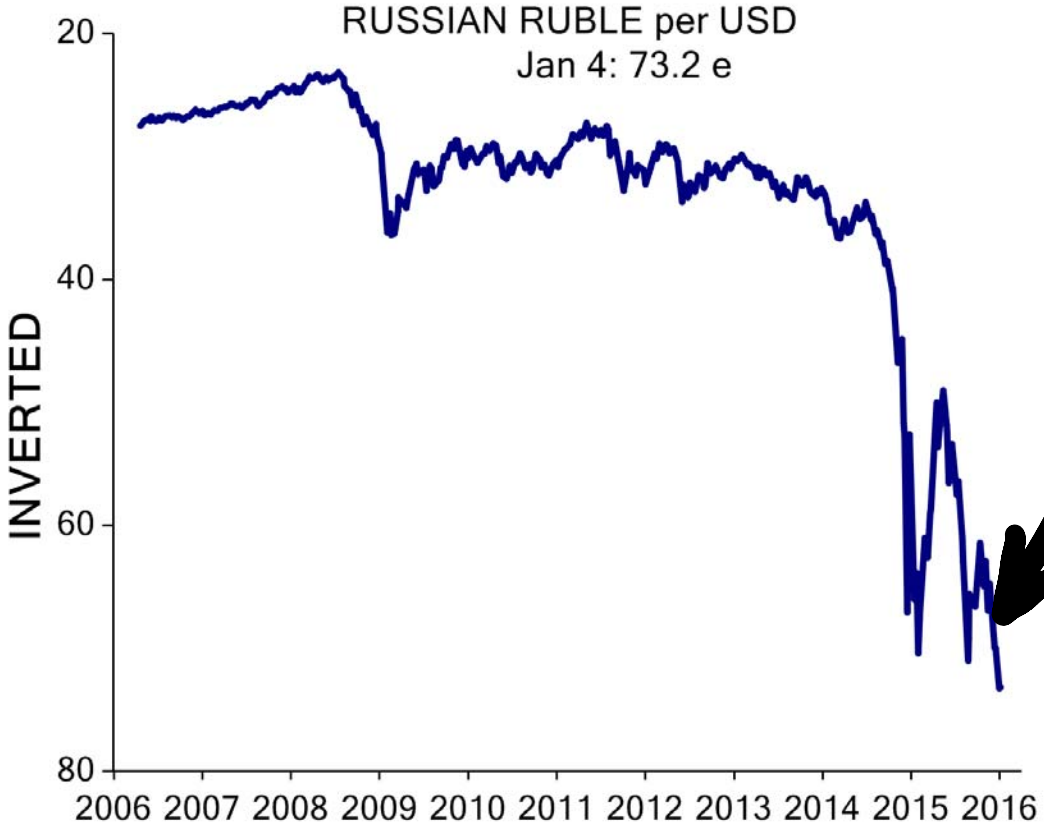
SINGAPORE:
Slow and Steady Wins the Race

Real GDP growth in both the US and Singapore has settled in around +2.0%.



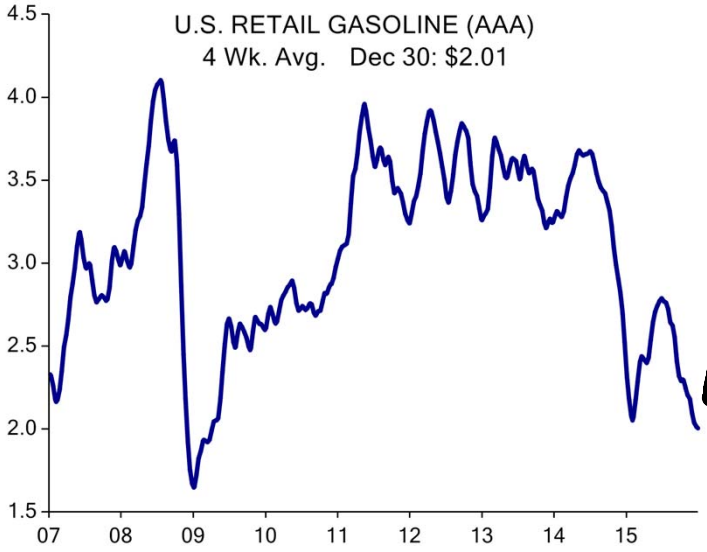
Dec 31 (*FT*) -- Ruble Plunges As Latest Oil Decline Heralds Second Year of Recession

There's a negative feedback loop at work here: The yuan declines, which pushes up the dollar, which puts downward pressure on oil, which batters Russia's economy.



CHARTS OF THE WEEK

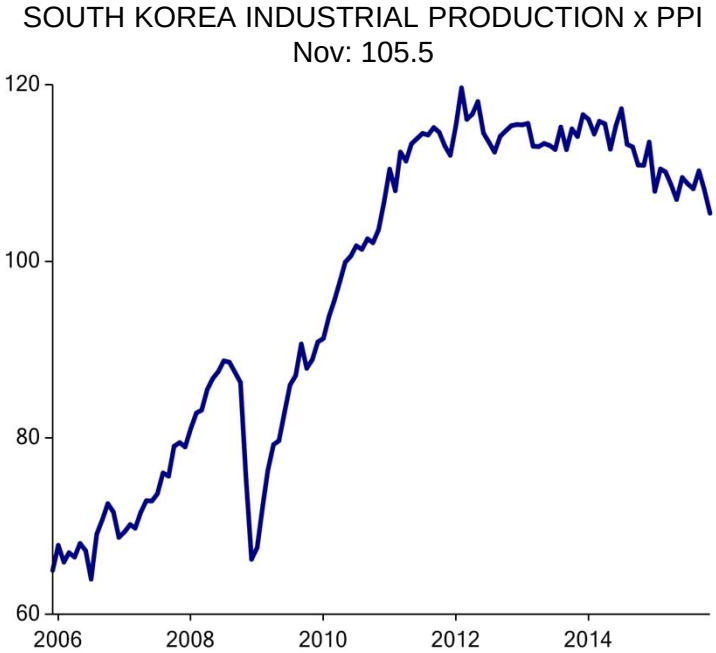
- **Chinese Yuan per USD**
- **US Retail Gasoline**

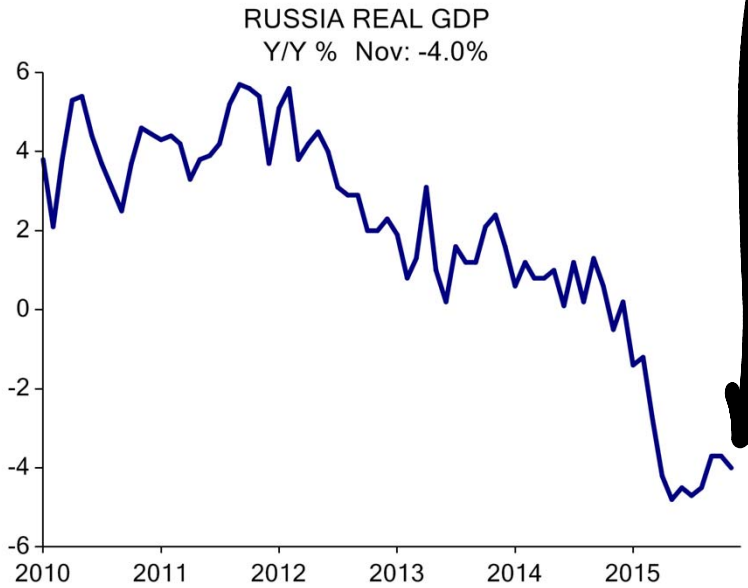


When the yuan goes down, the dollar goes up, which puts downward pressure on oil, which -- with a short lag -- pushes down gasoline prices.

CHARTS OF THE WEEK

- **South Korea Nominal IP**
- **Russia Real GDP**





Korea nominal IP is down -4.9% y/y and Russia real GDP is down -4.0%. To be sure, weakness in EM economies is a significant drag on global growth. This puts China as the keystone for global growth in 2016.

Domestic Data the Primary Focus

Vehicle sales were solid for most of last month. As a result, we estimate they posted a solid 17.9m selling rate in Dec. The trade gap likely narrowed modestly in Nov due to a smaller oil bill. But the most important release will be payroll employment. We expect a moderate gain of +195k for Dec and the unemployment rate probably was unchanged at 5.0%.

Overseas it is still a quiet week following the holiday. We estimate employment in Canada rebounded +15k in Dec and German unemployment likely was unchanged.

Stan Shipley *1/4/16*

		Consensus		Evercore ISI	Actual
Monday, Jan 4					
UNITED STATES	Nov		Dec		
1. Construction Spending	+1.0%	+0.7%		+1.2%	
2. ISM Mfg PMI	48.6	49.0		49.5	
Tuesday, Jan 5					
UNITED STATES	Nov		Dec		
3. Vehicle Sales	18.1	18.0		17.9	
GERMANY	Nov		Dec		
4. Unemployment Change	-13	-1		0	
Wednesday, Jan 6					
UNITED STATES	Nov		Dec		
5. ADP Employment	217	194		180	
	Oct		Nov		
6. Trade Balance	-$43.9	-$44.2		-$43.0	
Thursday, Jan 7					
UNITED STATES	Dec 26		Jan 2		
7. Unemployment Claims	287	270		270	
4 Wk. Avg.	277	274		274	
GERMANY	Oct		Nov		
8. Retail Sales Y/Y %	+2.5%	+2.0%		+2.2%	
Friday, Jan 8					
UNITED STATES	Nov		Dec		
9. Payroll Employment	211	200		195	
Unemployment Rate	5.0%	5.0%		5.0%	
Average Hourly Earnings	0.2%	0.2%		0.2%	
CANADA	Nov		Dec		
10. Employment	-36	+10		+15	

EVERCORE ISI

Economics Estimates

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Mon Jan 4 2016

Monday Jan 04	Jan 05	Jan 06	Jan 07	Jan 08
MFG PMI 10:00 Nov 48.6 **Dec 48.0 E** 49.0 C **CONSTRUCTION** 10:00 Oct +1.0% **Nov +1.2% E** +0.5% C	**VEHICLE SALES** p.m. Nov 18.1 **Dec 18.0 E** 17.9 C	**MORTGAGE APPS** **ADP EMP** 8:15 Nov 217 **Dec 180 E** 190 C **TRADE GAP** 8:30 Oct -$43.9 **Nov -$43.0 E** -$44.3 C **MFG ORDERS** 10:00 Oct +1.5% **Nov -0.2% E** -0.8% C **NONMFG PMI** 10:00 Nov 55.9 **Dec 56.5 E** 56.0 C **FOMC MINUTES**	**UNEMP CLAIMS** 8:30 Dec 26 287 **Jan 2 270 E** 275 C **CONSUMER COMFORT**	**PAYROLL EMP** 8:30 Nov 211 **Dec 195 E** 200 C **MFG EMP** Nov -1 **Dec +10 E** **UNEMP RATE** Nov 5.0% **Dec 5.0% E** 5.0% C **AVG HOURLY EARN** Nov 0.2% **Dec 0.2% E** 0.2% C **CONSUMER CREDIT** 3:00 Oct +$16.0 **Nov +$18.5 E** +$19.0 C **WHOLESALE INV**

Monday Jan 11	Jan 12	Jan 13	Jan 14	Jan 15
LABOR MARKETS COND **OECD LEI** a.m. Oct 0.0% **Nov 0.0% E**	**NFIB** 6:00 Nov 94.8 **Dec 96.0 E** **JOLTS** 9:45 Oct 5.383 **Nov 5.400 E** **ECO OPTIMISM SURVEY**	**MORTGAGE APPS** **BUDGET GAP** 2:00 Nov -$64.6 **Dec +$8.5 E** **BEIGE BOOK**	**UNEMP CLAIMS** 8:30 **Jan 2 270 E** 275 C **Jan 9 270 E** **CONSUMER COMFORT** **IMPORT PRICES** 8:30 Nov -0.4% **Dec -0.2% E** **CORE IMPORT** Nov -0.2% **Dec +0.1% E** **CONSUMER SENT** 9:45 Dec 92.6 **Jan 1H 91.0 E** **MFG & TRADE INV** 10:00 Oct 0.0% **Nov -0.1% E**	**PPI** 8:30 Nov +0.3% **Dec -0.1% E** **PPI CORE** Nov +0.3% **Dec +0.1% E** **EMPIRE MFG INDEX** 8:30 Dec -4.6 **Jan -2.0 E** **RETAIL SALES** 8:30 Nov +0.2% **Dec +0.1% E** **RETAIL SALES ex AUTO** Nov +0.4% **Dec +0.3% E** **INDUSTRIAL PROD** 9:15 Nov -0.6% **Dec +0.1% E** **OPERATING RATE** Nov 77.0% **Dec 77.0% E**