<u>**The Outlook: Jan. 8, 2021**</u>

"Eventually" finally arrives; when Main Street facts matter more than media headlines.

Just a couple of days ago, explaining the market's astonishing cheerfulness in the face of appalling daily headlines, we summed it up this way:

- The market's giant daily speculating crowd loves to bet on the impressions created by awful headlines . . . but it <u>must</u> also bet on the picture of future reality painted by the cold, hard facts which flow by, every day, even when they're temporarily swamped by the headlines. And those cold facts have been consistently showing off the amazing adaptability and strength of Main Street USA, as it finds ways to operate at nearly full speed despite the burden of political actions like "Lockdown!"

At the risk of our eyes glazing, let's just take a quick glance at a few of those facts:

On Wednesday came the monthly survey of manufacturing activity for December, above. As the green circle shows, US manufacturing expansion hit a 2-year high last month . . . <u>despite</u> the fairly broad "US Lockdowns, Round Two" which got rolling in mid-November (and were accompanied by much harsher "Lockdowns, Round Two" elsewhere around the world, especially in Britain.)

Then today came the monthly employment report: "Nonfarm Payrolls." It was not cheerful, plunging by 140,000 jobs (the first decline in many months.) Now comes the eye-glaze warning: "Look only at the red and green circles, below!"

Employment Situation Summary Table B. Establishment data, seasonally adjusted

ESTABLISHMENT DATA
Summary table B. Establishment data, seasonally adjusted

Category	Dec. 2019	Oct. 2020	Nov. 2020(P)	Dec. 2020(P)
EMPLOYMENT BY SELECTED INDUSTRY (Over-the-month change, in thousands)				
Total nonfarm	184	654	336	-140
Total private	164	925	417	-95
Goods-producing	5	117	67	93
Mining and logging	-9	2	3	4
Construction	16	72	29	51
Manufacturing	-2	43	35	38
Durable goods(1)	0	19	25	25
Motor vehicles and parts	2.0	4.1	10.9	6.7
Nondurable goods	-2	24	10	13
Private service-providing	159	808	350	-188
Wholesale trade	6.9	8.7	11.8	25.1
Retail trade	41.4	100.3	-21.2	120.5
Transportation and warehousing	-2.1	65.8	128.0	46.6
Utilities	0.7	-1.3	-0.5	-0.4
Information	9	-16	2	-1
Financial activities	10	30	16	12
Professional and business services(1)	22	245	88	161
Temporary help services	4.5	125.5	41.8	67.6
Education and health services(1)	29	65	44	-31
Health care and social assistance	25.3	90.8	48.5	32.0
Leisure and hospitality	40	265	75	-498
Other services	2	46	6	-22
Government	20	-271	-81	-45

That first circle, minus-140,000, was the headline. The circle far below it is the perspective. It shows 500,000 jobs lost in Leisure and Hospitality: the direct result of "Lockdown, Round Two," pretty much. Those 2 numbers mean, of course, that everything else was up, in jobs, not down. Here's another proof (which will certainly glaze any remaining eyeballs, sorry.)

Payroll Diffusion Index: Percent of Total Industries Adding Jobs, Versus Cutting Them

DIFFUSION INDEX (Over 1-month span)(5)				
Total private (258 industries)	58.1	74.8	62.8	61.0
Manufacturing (76 industries)	50.7	67.1	61.2	71.1

Our green circle is December's number: 61% of total US industries added jobs, 39% cut them. The green arrow runs from one year ago (December 2019, before most of us had heard of Covid) to now. Yes . . . this past month was a broader and deeper job-growth month than we saw a year ago, when the world and the market were pretty cheerful about things.

As always, economist Brian Wesbury got to the meaning of this:

Job-gaining sectors included manufacturing, construction, retail trade, wholesale trade, transportation & warehousing, financial activities, professional & business services, and health care. In other words, this doesn't look anything like a "double-dip" recession.

In a nutshell, the market is buying and buying (in spite of its more typical inclination to sell and sell more, on bad headlines) because those cold facts say business earnings and cash flow are going to get even stronger than they are today, and will continue their remarkable recovery from the second quarter's "Virus Catastrophe." As always, headlines and impressions grab our eyes and emotions, but the steady, determined actions on Main Street USA are the things that really matter.

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