MORNING BRIEFING
January 30, 2017

New Normal World Order

See the collection of the individual charts linked below.

(1) Back to the future on trade? (2) Trump's World Order: From multilateral back to bilateral. (3) Trump channeling FDR's Reciprocal Trade Agreements and Reagan's voluntary export restraints. (4) Ross Perot's giant sucking sound. (5) Can Globalization be saved? (6) Excluding soybean exports, real GDP rose 2.5% during Q3 & Q4. (7) Manufacturing capacity, flat since 2001, may be heading higher soon. (8) Leading indicators all pointing higher. (9) Movie review: "Moonlight" (- -).

Globalization: Going Bye-Bye or Bilateral? Previously, Debbie and I have written that Election Day might have marked the end of the New Normal and the resumption of the Old Normal for the US economy. In other words, instead of a continuation of "slower for longer," the business cycle might make a comeback, with increasing odds of stronger economic growth, stimulated by Trump's tax cuts, and higher wage inflation, because the economy is at full employment, resulting in a more normal pace of Fed rate hikes.

While the US economy may be heading back to the Old Normal, the geopolitical order is clearly moving away from the post-World War II Old Order to a yet-to-be-defined New Order. It's hard to know whether the latter will be as orderly as the former, though it certainly seems like the Old Order was already spinning out of control under both George W. Bush and Barack H. Obama. Hopefully, Donald J. Trump's team will make the world a safer place. That's my hope, not a prediction, which is tough to make right now.

The end of World War II marked the beginning of the latest period of Globalization as national markets became more integrated through free trade that was enabled by multilateral (rather than just bilateral) trade treaties. Today's global economy is widely viewed as a product of the post-war world. But in fact, its origins can be traced to the efforts of FDR's Secretary of State Cordell Hull to liberalize world trade in the mid-1930s:

(1) Hull was appalled by the results of the Smoot-Hawley Tariff passed during June 1930. Under his leadership, Congress passed the Reciprocal Trade Agreements Act (RTAA) of 1934. Hull's legislation established a system of bilateral agreements through which the US negotiated reciprocal reductions in the duties imposed on specific commodities with other interested governments.

(2) Hull's tariff reductions were generalized by the application of the most-favored-nation principle, so the reduction accorded to a commodity from one country would then be accorded to the same commodity when imported from other countries. Furthermore, Hull was aware of the lingering resistance to tariff reduction that remained in Congress. So he insisted that the power to make these agreements must rest with the president alone, without the necessity of submitting them to the Senate for approval.

(3) Congress renewed the RTAA again in 1943 and 1945. The RTAA would go on to serve as the model for the negotiation of the 1947 General Agreement on Tariff and Trade (GATT), the critical multilateral institution upon which the modern global economy stands. It was the precursor to the World

Trade Organization (WTO) established in 1995.

For the US, this free trade system started to cause problems and to raise protectionist pressures during the 1980s as the US trade deficit swelled (*Fig. 1* and *Fig. 2*). Imported autos made in Japan and Germany gained significant market share in the US (*Fig. 3*). Many books were written about the "deindustrialization" of America during the decade. Starting in 1981, the Reagan administration responded by forcing Japan to accept "voluntary export restraint" agreements imposing quotas on Japanese car imports. They weren't removed until 1994. The Japanese responded by building "transplant" production facilities in the US, particularly in the South, where right-to-work laws exist, as opposed to the Rust Belt states with established labor unions.

As a result, manufacturing capacity in the auto industry, as well as overall industrial capacity, continued to expand to record highs during the 1980s and 1990s, belying the "deindustrialization" scare (*Fig. 4* and *Fig. 5*). Arguably, Reagan's push for fair trade kept the free trade system alive.

Following the end of WWII, the next major events that led to more Globalization were the end of the Cold War in 1989 and the North American Free Trade Agreement (NAFTA) of 1994. Then China joined the WTO during December 2001. The US trade deficit widened dramatically, especially with China, but also with Mexico and the European Union (*Fig. 6*). Ever since China joined the WTO, industrial capacity has stopped growing in the US in a host of industries. (See our *Manufacturing Production & Capacity by Major Industries*.)

So here we are with a new president who seems inclined to revive Hull's bilateral approach to trade deals rather than maintain the multilateral system that evolved after WWII. It is a radical change, but it could work, and it might actually save Globalization if it helps to calm populist discontent with free trade. Trump's approach can succeed if it convinces its detractors that a bilateral approach allows for more national control to make sure that bilateral free trade deals remain fair to both sides. Reagan succeeded in doing so during the 1980s.

The populist discontent with Globalization has been building for quite some time. For example, in the second 1992 Presidential Debate, Ross Perot argued against the proposed NAFTA treaty:

"We have got to stop sending jobs overseas. It's pretty simple: If you're paying $12, $13, $14 an hour for factory workers and you can move your factory South of the border, pay a dollar an hour for labor ... have no health care--that's the most expensive single element in making a car--have no environmental controls, no pollution controls and no retirement, and you don't care about anything but making money, there will be a giant sucking sound going south. ... [W]hen [Mexico's] jobs come up from a dollar an hour to six dollars an hour, and ours go down to six dollars an hour, and then it's leveled again. But in the meantime, you've wrecked the country with these kinds of deals."

NAFTA was implemented by Bill Clinton in 1994, with some of its supporters predicting that it would increase the standard of living of Mexicans. However, the fact that they are still streaming across the border confirms that hasn't happened. So does the fact that hourly pay rates remain so low in Mexico. A bilateral deal between Mexico and the US might be better for both parties concerned. (Of course, there's still the problem of other Latin Americans crossing the border illegally into the US through Mexico.)

By the way, US automakers long have argued that Mexico provides cheaper labor that allows them to afford building small, fuel-efficient cars--the kinds of cars needed to help them meet the US government's fuel-efficiency standards. In other words, they had to move south of the border to meet US government regulations on their industry.

We conclude that Trump might actually save Globalization from protectionists by replacing multilateral deals, which are difficult to enforce on fairness issues, with bilateral ones, which should be easier for both sides to manage in a mutually beneficial manner. This may all be wishful thinking, but it beats the system that preceded Hull's bilateral deals. For now, our bet is that Globalization is likely to survive the current round of challenges. The first test of our thesis is underway now between the US and Mexico. A much bigger challenge will be negotiating a better trade deal with China. We live in interesting times.

US Real GDP: Exporting Fewer Beans. The US exported a lot of soybeans during Q3-2016. Debbie reports that real GDP rose 3.5% (q/q, saar), but 2.5% excluding agricultural exports (*Fig. 7*). Furthermore, while real GDP rose only 1.9% during Q4, it was up 2.6% excluding agricultural exports. The past two quarters were the best consecutive ones since Q2 and Q3 of 2014, before the recession in the energy sector depressed economic growth. Debbie and I prefer to track the underlying trend in real GDP growth on a y/y basis. It was 1.9% during Q4, and has fluctuated around 2.0% since mid-2010 (*Fig. 8*).

We will find out over the next two years whether the animal spirits unleashed by Trump's proposed economic policies will boost growth closer to 3.0%. Of course, that assumes that his tax cuts will be implemented, and that he will significantly reduce the regulatory burdens on business. We think that's a good bet.

However, payroll growth has slowed from a cyclical peak of 2.3% y/y during February 2015 to 1.5% during December as the labor market has tightened (*Fig. 9*). To get to 3% growth will require productivity growth of about 1.5%. That doesn't sound like much and should be doable, though it's been closer to zero recently and all too often during the current economic expansion (*Fig. 10*). Below, Debbie reviews the latest GDP numbers as well as other indicators showing some animal spirits recently. Here are some of the key findings:

(1) *Manufacturing*. The real GDP data show that manufacturing has been doing quite well in many respects, even before Trump's MAGA pledge. Real spending on industrial equipment rose to another record high at the end of last year (*Fig. 11*). Spending on manufacturing structures dipped, but remains near the cyclical high during Q3-2015 (*Fig. 12*). It's likely to move higher again if Trump's campaign to bully companies to expand their factories in the US continues to work. That should boost industrial capacity and production, though the latter is near its record high during 2007.

By the way, manufacturing employment has remained depressed, totaling just 12.3 million in December (*Fig. 13*). Now guess the peak in this series since the end of WWII. It was only 19.6 million during June 1979. Is all this hoopla about bringing jobs back to the US really about adding 7.3 million factory jobs to bring back the glory days of the 1970s? It's not clear they were all lost to foreign workers. Whatever jobs do come back will mostly be done on automated assembly lines.

(2) *Leading indicators.* S&P 500 forward earnings has been making record highs for the past 16 weeks through mid-January. This series tends to be highly correlated with the Index of Leading Economic Indicators (LEI), which rose 0.5% during December to a new cyclical high (*Fig. 14*). Both the YRI (us) and ECRI (them) Weekly Leading Indexes soared to record highs late last year and early this year (*Fig. 15*). Both are highly correlated with the LEI (*Fig. 16*).

Movie: "Moonlight" (- -) (*link*) is an Oscar contender for Best Motion Picture. I'm not sure why. It is a very slow-paced movie about a sensitive African-American kid doing the best he can to stay out of trouble while growing up in a poor neighborhood infested with drug dealers. Even his mother is an addict. He finds a safe haven with a very nice fellow and his girlfriend, but leaves when he finds out that his mother has been buying drugs from his new friend. I suppose the movie is about coming of age. However, the characters are totally uninteresting and don't seem to learn much as they come of age. Much more interesting are the stories of the director and screenwriter, who both grew up and out of that same neighborhood, and had mothers who were crack addicts. Someone should make a movie about their lives.

CALENDARS

US. Mon: Personal Income & Consumption 0.4%/0.5%, Headline & Core PCED 0.2%/0.2%, Pending Home Sales 0.6%, Dallas Fed Manufacturing Index. **Tues:** Consumer Confidence Index 112.2, Employment Cost Index 0.6%, Chicago PMI 55.2, S&P Case-Shiller PMI, FOMC Begins. (Bloomberg estimates)

Global. Mon: Eurozone Consumer Confidence 107.8, Germany CPI 2.0% y/y, Japan Jobless Rate 3.1%, Japan Household Spending -0.9% y/y, Japan Industrial Production 0.3%m/m/3.0%y/y. **Tues:** Eurozone GDP 0.4%q/q;1.7%y/y, Eurozone Headline & Core CPI 1.5%/0.9% y/y, Germany Unemployment Change & Unemployment rate -5k/6.0%, Germany Retail Sales 0.6%m/m/0.5%y/y, France GDP 0.4%q/q/1.1%y/y, Canada GDP 1.4%y/y, China M-PMI 51.2, Japan M-PMI, BOJ Long- and Short-Term Policy Rates, BOJ Monetary Policy Statement & Outlook Report. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 1.0% last week, ranking 34th of the 49 markets as 42 rose in US dollar terms--compared to 20th a week earlier, when it fell 0.2% as 16 markets moved higher. The AC World ex-US index outperformed the US MSCI for only the third time in the past 11 weeks, rising 1.6% for the week versus a 0.5% gain a week earlier. EM Eastern Europe was the best-performing region last week with a gain of 4.6%, followed by EM Latin America (3.8), BRIC (2.9), EMEA (2.9), and EM Asia (2.4). The week's worst-performing regions, albeit with gains: EMU (0.8) and EAFE (1.3). Last week's best-performing countries: Mexico (5.6), Poland (5.1), Russia (5.1), Peru (3.9), India (3.6), and Brazil (3.5). Italy (-1.3) was the worst performer, followed by Morocco (-1.1), Portugal (-0.7), and Hungary (-0.6). The US MSCI is up 2.6% ytd, which ranks 32/49, and has been underperforming the AC World ex-US (4.1) on a ytd basis for the past three weeks. Forty-four of the 49 markets are positive ytd, led by Argentina (19.1), Brazil (12.8), Poland (10.7), Peru (9.6), New Zealand (9.5), and Korea (9.1). The worst country performers ytd: Sri Lanka (-3.1), Greece (-2.1), Turkey (-1.8), and Jordan (-0.7). The best-performing regions ytd: EM Latin America (8.9), BRIC (7.2), EM Asia (6.4), and EM Eastern Europe (4.4). The worst-performing regions, albeit with gains: EMU (2.6), EMEA (3.4), and EAFE (3.4).

S&P 1500/500/400/600 Performance (*link*): All three indexes rose last week, an improvement from a week earlier when all three fell. SmallCap rose 1.3%, barely edging out the gains for MidCap (1.3) and LargeCap (1.0). Twenty-one of the 33 sectors rose in the latest week, up from 13 rising a week earlier. LargeCap ended the week 0.2% below its record high on Wednesday, but MidCap and SmallCap remained 0.8% and 2.2% below their respective record highs in early December. Last week's best performers among sectors: MidCap Materials (3.7), LargeCap Materials (3.4), MidCap Telecom (3.1), SmallCap Tech (2.6), and SmallCap Materials (2.5). LargeCap Telecom (-1.7) was the worst sector performer last week, followed by MidCap Real Estate (-1.0), and LargeCap Real Estate (-1.0). Twenty-two of the 33 sectors are positive ytd, with LargeCap (2.5) leading MidCap (2.2) and SmallCap (0.0). The biggest sector gainers ytd: MidCap Telecom (6.4), LargeCap Materials (6.4), MidCap Materials (5.9), LargeCap Tech (5.8), LargeCap Consumer Discretionary (4.6), and MidCap Health Care (4.5). The worst performers ytd: SmallCap Consumer Staples (-3.7), SmallCap Consumer Discretionary (-3.2), LargeCap Telecom (-3.2), LargeCap Energy (-1.8), and SmallCap Utilities (-1.6).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 sectors rose last week, and five outperformed the S&P 500's 1.0% gain--compared to eight sectors rising a week earlier, when nine outperformed the S&P 500's 0.1% decline. Materials was the best-performing sector for the week with a gain of 3.4%, followed by Tech (2.3), Financials (2.1), Industrials (1.4), and Consumer Discretionary (1.4). Telecom was last week's worst performer, with a decline of 1.7%, followed by Real Estate (-1.0), Energy (-0.5), Utilities (-0.5), Consumer Staples (-0.4), and Health Care (-0.2). Seven of the 11 sectors are higher so far in 2017, and four are outperforming the 2.5% gain for the S&P 500. The best performers in 2017 to date: Materials (6.4), Tech (5.8), Consumer Discretionary (4.6), and Industrials (3.1). The sectors underperforming the S&P 500: Telecom (-3.2), Energy (-1.8), Utilities (-0.4), Real Estate (-0.4), Consumer Staples (1.0), Health Care (1.2), and Financials (1.5).

Commodities Performance (*link*): Five of the 24 commodities we follow rose last week, down from 14 rising a week earlier. The week's best performers: Natural Gas (4.6%), Copper (2.6), Cotton (2.5), Sugar (0.7), and Silver (0.6). Last week's laggards: Feeder Cattle (-2.9), Unleaded Gasoline (-2.6), Nickel (-2.4), and Cocoa (-2.1). Sixteen of the 24 commodities are higher so far in 2017, compared to 18 and seven higher during 2016 and 2015, respectively. The best performers in 2017: Lead (13.9), Coffee (11.2), Silver (7.2), Aluminum (7.2), and Zinc (6.9). This year's laggards: Natural Gas (-9.8), Unleaded Gasoline (-7.1), Nickel (-5.5), and Heating Oil (-5.4).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 6/24 commodities, 7/9 global stock indexes, and 19/33 US stock indexes compared to 10/24, 3/9, and 8/33 rising a week earlier, respectively. Eighteen commodities trade above their 200-dmas, the same as a week earlier, but Commodities' average spread fell to 4.5% from 5.4%. Zinc leads all commodities at 18.7% above its 200-dma, followed by Copper (17.3%), and Lead (16.7). Natural Gas (15.4) improved 3.9ppts w/w relative to its 200-dma for the week's best performance among all commodities. Commodities dominate the lowest-trading assets relative to 200-dmas, with these five commodities at the steepest discounts of all: Cocoa (-23.8), Nickel (-6.3), Gold (-6.0), Silver (-4.5), and Feeder Cattle (-4.2). Unleaded Gasoline (4.7) fell 3.0ppts w/w for the worst performance of all commodities and all assets. The global indexes trade an average of 7.5% above their 200-dmas, up from 6.7% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Brazil (14.8) leads the global indexes, followed by Japan (13.1) and Germany (12.2). Brazil was also the group's best performer last week as it gained 2.0ppts. Indonesia (2.7) is trading at the lowest relative to its 200-dma of the global assets, but the UK (6.9) had the weakest performance of its country peers last week as it fell 0.5 ppts. The US indexes trade an average of 7.4% above their 200-dmas, with 28 sectors above, down from a 6.7% average a week earlier when 29 sectors were above. SmallCap Energy leads all US stock indexes and all assets at 20.2% above its 200-dma, followed by SmallCap Materials (19.9), and SmallCap Financials (17.6). MidCap Materials was last week's best performer among US stock indexes, as it improved 3.5ppts w/w to 12.1%. The following LargeCap sectors trade at the deepest discounts to their 200-dmas among the US indexes: Real Estate (-3.5), Health Care (-1.9), Utilities (-1.5), and Consumer Staples (-1.2). LargeCap Telecom (0.2) was last week's worst performer among US stock indexes, as it fell 1.8ppts.

S&P 500 Technical Indicators (*link*): The S&P 500 remained in a Golden Cross last week for a 40th week (after 17 weeks in a Death Cross) as the index's 50-day moving average (dma) improved relative to its 200-dma for an eighth straight week. Its 50-dma improved to a 14-week high of 4.2% above its 200-dma from 3.9% a week earlier and a six-month low of 2.0% in early December. That's down from a 30-month high of 5.4% in mid-September, but up from a 52-month low of -4.5% in early March. The S&P 500's 50-dma moved higher for an 11th week after six weekly declines, and the index closed the week above its 50-dma for an 11th week after nine weeks below. The S&P 500 improved to 2.0% above its rising 50-dma from 1.4% a week earlier. That's down from a 38-week high of 4.8% above its rising 50-dma on December 13 and compares to a 52-month high of 6.2% on March 21 and a five-month low of -7.8% in January 2016. The S&P 500's bounce off its 200-dma in early November gained steam last week as the index rose to 6.2% above its rising 200-dma from 5.4%, but remains below the 17-week high of 6.9% above its rising 200-dma on December 13. That compares to a 20-month high of 7.1% in mid-August and a six-month low of -10.0% in mid-February. The 50-dma and 200-dma both rose together for an 11th week after falling for eight weeks.

S&P 500 Sectors Technical Indicators (*link*): The short-term picture improved for the 11 S&P 500 sectors last week, and the long-term picture was mostly stronger too. Nine sectors still trade above their 50-day moving averages (dmas), down from 10 above a week earlier, as Telecom fell below in the latest week and joined Energy. That's still a big turnaround from 12 weeks ago, when all 11 sectors traded below their 50-dmas for the first time since December 11, 2015. Seven of the 11 sectors were above their 200-dmas last week, unchanged from a week earlier. The four sectors still trading below their 200-dmas: Consumer Staples, Health Care, Real Estate, and Utilities. Only six sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas: Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. All 11 sectors have rising 50-dmas, up from 10 a week earlier, as Health Care's 50-dma turned higher w/w. Seven have rising 200-dmas, up from six a week earlier, as Telecom turned higher in the latest week. These three still have a falling or flat 200-dma: Consumer Staples, Real Estate, and Health Care (flat).

US ECONOMIC INDICATORS

GDP (*link*): Real GDP growth last quarter slowed to 1.9% (saar), while Q3's was revised higher for the second time to a two-year high of 3.5%--from previous estimates of 3.2% and 2.9%. Real personal consumption expenditures expanded 2.5% (saar) last quarter, slowing steadily from Q2's 4.3% pace. However, goods consumption accelerated 5.2% (saar) from 3.5% during Q3 as growth in durable goods spending (to 10.9% from 11.6%) remained in double digits and nondurable goods consumption (2.3 from -0.5) swung from negative to positive. Meanwhile, services spending (1.3 from 2.7) was the slowest in over three years. Nonfarm inventory investment ($52.6 billion from $7.2 billion, saar) continued to rebound from Q2's liquidation, while residential investment (10.2% from -4.1%) was positive for the first time since Q1--both are the strongest performances in a year. Nonresidential fixed investment (2.4 from 1.4) continued to accelerate from Q1's 3.4% drop, led by gains in intellectual property products (6.4 from 3.2) and equipment (3.1 from -4.5); investment in structures (-5.0 from 12.0) contracted following Q3's surge. Also adding to the top line was a 2.6% (saar) expansion in state & local government spending after two quarters of decline. Partially offsetting these gains was a widening in the trade deficit as growth in exports (-4.3 from 10.0) contracted and imports (8.3 from 2.2) accelerated; real federal government spending (-1.2 from 2.4) turned negative again. For the year 2016, real GDP grew 1.6%, a percentage point lower than 2015's 2.6%.

Contributions to GDP Growth (*link*): Real consumer spending last quarter once again was the number-one contributor to GDP growth; real trade was the only drag. Some details: (1) Real consumer spending accounted for 1.70ppt of real GDP growth, as goods consumption added 1.11ppt--durable (0.79ppt) and nondurable (0.32)--while services consumption contributed 0.58ppt. (2) Inventory investment (1.00) added positively to growth for the second quarter--all nonfarm (1.09)--after a five-quarter string of negative contributions. (3) Residential investment (0.37) contributed to GDP growth for the first time in three quarters. (4) Nonresidential fixed investment (0.30) upped its contribution to GDP last quarter as positive contributions from intellectual property products (0.26) and equipment (0.18) more than offset a decline in structures (-0.14); it was the first positive contribution for equipment since Q3-2015. (5) Real government expenditures (0.21) added to GDP growth--entirely state & local government spending (0.28), which had contributed negatively the previous two quarters; federal government spending (-0.08) detracted from growth for the third time in four quarters. (6) Trade (-1.70) subtracted from growth for the first time in a year, as both imports (-1.17) and exports (-0.53) were a drag on growth.

Leading Indicators (*link*): "The U.S. Leading Economic Index increased in December, suggesting the economy will continue growing at a moderate pace, perhaps even accelerating slightly in the early months of this year," according to the Conference Board. December's Leading Indicators Index (LEI) advanced for the sixth time in seven months, by 0.5% m/m and 1.5% over the period, to a new cyclical high; it's within 1.0% of its record high recorded in March 2006. The Conference Board noted, "December's large gain was mainly driven by improving sentiment about the outlook and suggests the business cycle still showed strong momentum in the final months of 2016." Six of the 10 components contributed positively, led by the interest rate spread (0.22pt), stock prices (0.15), consumer expectations (0.11), and the ISM orders diffusion index (0.10). Only two components contributed negatively--jobless claims (-0.07) and real core nondefense orders (-0.01)-- though recent data indicate the former will be a positive contributor to January's LEI; the average workweek and building permits were unchanged during the month.

Coincident Indicators (*link*): The Coincident Indicators Index (CEI) advanced in December to yet another record high. The CEI expanded for the seventh time in nine months, up 0.3% in December and 1.5% over the period. All four components contributed positively last month; industrial production--the only negative contributor to November's index--was the biggest positive contributor to December's, rebounding 0.8% after a 0.7% loss the prior month. The remaining three indicators continued to contribute positively to the index, with all at new record highs: 1) Nonfarm payroll employment climbed for the seventh month by 0.1% m/m and 0.8% over the period. It hasn't posted a decline since July 2010. 2) Real personal income--excluding transfer payments--is rising again after stalling in early 2016 at record highs. It's up 2.4% since declining 0.4% the first two months of the year. 3) Real manufacturing & trade sales climbed 2.5% during the seven months ending December.

Durable Goods Orders & Shipments (*link*): Capital spending is showing signs of life. Nondefense capital goods shipments ex aircraft (used in calculating GDP) rose in four of the last five months of 2016, while the comparable orders measure (a proxy for future business investment) rose six of the last seven months. In December, they rose 1.0% and 0.8%, respectively. These core shipments accelerated 3.1% (saar) during Q4, the first quarterly advance since Q3-2015 and the strongest since Q3-2014. Real core orders expanded 4.6% (saar) last quarter, matching Q3's performance, which was the best in a year. Headline durable goods orders fell an unexpected 0.4% last month, as volatile defense capital goods orders (-33.4%) posted the largest monthly decline since May 2014; excluding defense, orders rebounded 1.7% last month, led by orders for communications equipment (4.9) and motor vehicles (2.0).

Regional M-PMIs (*link*): Four Fed districts have reported on manufacturing activity for January--New York, Philadelphia, Richmond, and Kansas City--and show growth accelerated for the third straight month. We average the composite, orders, and employment measures as data become available. The composite index (to 12.8 from 11.1) was in positive territory for the fifth month, climbing to its best reading since November 2014. It was driven by both the Philadelphia (23.6 from 19.7) and Richmond (12 from 8) measures, which were the strongest since fall 2014; Kansas City's (9) was unchanged at December's cyclical high, while New York's (6.5 from 7.6) slipped a bit from December's eight-month high. The new orders index (16.0 from 10.3) showed activity grew for the fifth month--reaching a 70-month high. Kansas City's (20 from 5) gauge was the highest since March 2011,while Philadelphia's (26.0 from 14.9) and Richmond's (15 from 11) were the best since November 2014 and March 2016, respectively. Orders in New York (3.1 from 10.4) slowed from December's 27-month high. The employment index (6.3 from -0.4) was in positive territory for the first time in 17 months--at its highest reading since the end of 2014. Factories in Philadelphia (12.8 from 3.6) and Richmond (8 from -1) hired workers at the fastest rates in 21 and 10 months, respectively, while Kansas City's (6 from 8) showed a slight slowing from December's 29-month high. New York's employment measure (-1.7 from -12.2) showed continued job cuts, but at a slower pace.

Consumer Sentiment (*link*): Consumer sentiment in January continued its post-election surge, reaching a 13-year high. The Consumer Sentiment Index has rebounded 11.3 points from a 13-month low of 87.2 in October to 98.5 this month--above its mid-month estimate of 98.1, which was slightly below December's 98.2 reading. Both components reversed direction since the mid-month estimate, with the expectations component rising and the present situation component falling: The expectations component rose to 90.3--rather than dipping to 88.9--representing a two-year high and a 13.5-point jump from October's 76.8. The present situation component slipped to 111.3--rather than climbing to 112.5--after rising 8.7 points during the final two months of last year to a cyclical high of 111.9.

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