MORNING BRIEFING
March 20, 2017

Lots of Strong Soft Data

See the pdf and the collection of the individual charts linked below.

(1) Yellen waiting to see if strong soft data turn into hard data. (2) Fed officials say business people more optimistic, but have a wait-and-see attitude. (3) "Gradual" remains in fashion at the Fed. (4) Less focus on "fiscal." (5) Markets loved Yellen's latest dovish cooing. She remains the Fairy Godmother of the Bull Market! (6) CEOs are bullish, which is good for capital spending. (7) Republicans are happy, while Democrats are sad. A net negative for spending? (8) Homebuilders seeing more traffic. (9) Lots of quitters. (10) NY & Philly business surveys remained exuberant in March. (11) The Fed plays with words and dots. (12) From one-and-done to three-a-piece.

US Economy: Wait & See? The economy's soft data are hard, while the hard data remain relatively soft. That might explain the Janus-like posture Fed Chair Janet Yellen took during her press conference last Wednesday. She said more rate hikes are coming this year and probably over the next two years, but they will occur gradually. Yet she also said that the FOMC's projections for the economic outlook remain unchanged since December. Last Wednesday, when she was asked about the remarkable strength of soft data—such as surveys of CEOs, consumers, homebuilders, small business owners, regional businesses, and purchasing managers—she responded as follows:

"So, we recognize, our statement actually last time noted that there had been an improvement, a marked improvement in business and household sentiment. It's uncertain just how much sentiment actually impacts spending decisions. And I wouldn't say, at this point, that I have seen hard evidence of any change in spending decisions based on expectations about the future. We exchange around the table what we learned from our many business contacts, and I think it's fair to say that many of my colleagues and I note a much more optimistic frame of mind among many, many businesses in recent months. But I'd say most of the business people that we've talked to also have a wait and see attitude, and are very hopeful that they will be able to expand investment and are looking forward to doing that, but are waiting to see what will happen. So, we will watch that. And, of course, if we were to see a major shift in spending reflecting those expectations, that could very well affect the outlook. I'm not seeing it—I'm not seeing that at this point. But the shift in sentiment is obvious and notable."

That might explain why Yellen used the word "gradual" (or "gradually") 21 times during her press conference in reference to the pace of future rate hikes. Melissa and I were mildly shocked when we did a similar word count on the transcript of her previous presser on December 14, 2016: There were only two mentions of "gradual" in her prepared remarks and none at all during the Q&A session by either her or the reporters in the room.

That might be because the word "fiscal" appeared 20 times during the December press conference, with her mentioning the word eight times and reporters doing so 12 times. Obviously, since that was the first Yellen presser since Trump's election, there was much focus on Trump's plans to stimulate the economy with tax cuts and infrastructure spending. During last week's presser, there were 12 mentions of "fiscal," split 50/50 between Yellen and her inquisitors. This suggests that everyone in the room was a bit less confident about the likelihood that Trump's plans will be fully implemented than at the previous press conference.

So, the FOMC will maintain a gradual approach to monetary policy tightening while waiting to see if all the strong soft data show up as harder hard data. Yellen seemed a wee bit skeptical that this will happen. No wonder that the markets interpreted Yellen's comments as more dovish than was widely expected, sending stock and bond prices higher and the dollar lower. Yellen remains the Fairy Godmother of the Bull Market! While we are all waiting to see if the hard data improves, let's update the deluge of strong survey data:

(1) *CEOs.* Not surprisingly, chief executive officers are exuberant about the pro-business leanings of the new administration in Washington. The Business Roundtable's CEO Economic Outlook Index—a measure of expectations for revenue, capital spending, and employment—jumped 19.1 points to 93.3 during Q1, according to the group's survey released last Tuesday (*Fig. 1*). The increase, the biggest since Q4-2009, left the gauge above its long-run average of 79.8 for the first time in seven quarters. Readings above 50 indicate economic expansion.

This index, which is available since Q4-2002, is highly correlated with the y/y growth rate in capital spending in real GDP, in general, as well as in spending on business equipment, structures, and intellectual property, in particular (*Fig. 2*, *Fig. 3*, and *Fig. 4*).

The survey, with responses from 141 member CEOs, was conducted from February 8 to March 1. In response to a special question, 52% of the participants said tax reform would be the single best policy change to create the most pro-growth environment for businesses. The CEOs project the economy will expand 2.2% in 2017, up from their December estimate of 2.0%. That's still a fairly soft projection for the hard data. So is the latest estimate by the Atlanta Fed's GDPNow for Q1-2017 real GDP growth at only 0.9% (saar)! On the other hand, the NY Fed's Nowcast estimate is 2.8%—go figure.

(2) *Consumers.* The Survey Research Center at the University of Michigan said Friday that its preliminary Consumer Sentiment Index (CSI) increased to 97.6 in mid-March from 96.3 in February. The index of current conditions jumped three points to 114.5, the highest reading since November 2000 (*Fig. 5*).

The gauge of expectations was little changed at 86.7 from a three-month low of 86.5 in February. Among Republicans, the expectations index was at 122.4, while it was 55.3 for Democrats. A whopping 87% of Republicans expect continued gains in the economy over the next five years, compared with 22% of Democrats, according to the survey.

Respondents expected the inflation rate in the next year will be 2.4%, compared with 2.7% in the February survey. Over the next five years, they project a 2.2% rate of price growth, the lowest reading on record, after 2.5% in the prior month.

Interestingly, the Conference Board's Consumer Confidence Index (CCI) rose 14.0 points from 100.8 during October of last year (before the election) to 114.8 last month, the highest reading since July 2001, while the somewhat less volatile CSI rose 9.1 points over this same period. The CCI is available by age cohorts (*Fig. 6*). The biggest jump has been for people 55 years and older, by 25.4 points from October through February.

Despite all the hoopla, retail sales growth has been slowing. On an inflation-adjusted basis (and excluding building materials, which is a component of residential investment in real GDP), it was up only 2.1% (saar) over the three months through February, based on the three-month average, the weakest since August 2015 (*Fig. 7*). Any way we slice and dice the data, we find a significant slowing in the growth of real consumer spending on goods since mid-2016 (*Fig. 8*).

Could it be that Republicans don't spend as much as Democrats? Or maybe happier Republicans don't spend enough more to more than offset the cutbacks by depressed Democrats. Maybe happier, mostly older Donald Trump supporters don't spend enough more to more than to offset the cutbacks of Bernie Sanders' unhappy, mostly younger supporters.

(3) *Homebuilders.* The National Association of Home Builders' confidence index surged 6 points to 71 this month, the highest level since June 2005. It was 63 during October, before the election (*Fig. 9*). The subcomponent tracking current sales conditions rose 7 points to 78, and the one tracking sales over the coming six months was up 5 points to 78.

The measure of prospective buyer traffic jumped 8 points to 54, also the highest since mid-2005. Any reading over 50 signals improvement, and the traffic component is only rarely higher than that. It broke above the 50 line in December after the election for the first time since the bubble era.

Housing starts increased 3.0% m/m to 1.29 million units (saar) last month. Unseasonably warm weather helped to boost the construction of single-family houses to near a nine-and-a-half-year high, but it remains closer to previous cyclical troughs than peaks (*Fig. 10*). A positive harbinger of still stronger starts is the recent jump in lumber prices (*Fig. 11*). All these developments are bullish for the S&P 500 Homebuilding stock price index, which is up 24.5% ytd, the third-best industry performance among the 100+ S&P 500 industries we track (*Fig. 12*).

(4) *JOLTS & SBOs.* Last Thursday's JOLTS report for January showed that total hires jumped to 5.4 million, remaining near the cyclical high during December 2015 (*Fig. 13*). Separations also rose, but to a new cyclical high of 5.3 million, led by a record high of 3.2 million quits (*Fig. 14*). Not surprisingly, quits are highly correlated with consumer confidence (*Fig. 15*). When the labor market is strong, workers will tend to feel more confident about searching for a better job and higher pay. If they succeed, then that will boost confidence some more. It's a virtuous cycle.

Last Wednesday, Debbie and I reviewed February's very strong survey of small business owners conducted by the National Federation of Independent Business. The survey's series on the percentage of firms with one or more job openings is highly correlated with the JOLTS job openings rate, both on a 12-month average basis. The former rose to a cyclical high of 28.4%, the highest since September 2001.

(5) *Regional business.* Incredibly, the March average of the new orders indexes available from the NY and Philly Fed regional business surveys rose from 7.1 during October to 30.0 this month, the highest since July 2004 (*Fig. 16*). The average of the two regional employment indexes jumped from -4.4 to 13.2 over the same period to the highest since July 2014. The average of the two regional composite indexes edged down from 31.0 last month to a still highly elevated 24.6 this month.

(6) *Purchasing managers.* Debbie and I reviewed February's strong M-PMI and NM-PMI reports at the beginning of March. The two available regional surveys suggest that both could come in as strong or stronger in March. The good news on the hard data is that manufacturing industrial production has been making new cyclical highs during the first two months of this year (*Fig. 17*).

(7) *LEI.* Finally, as Debbie reports below, the Index of Leading Economic Indicators—which is a mix of 10 soft and hard components—rose to a record high in February (*Fig. 18*). That augurs well for the Index of Coincident Economic Indicators, which consists of four hard data series on employment, personal income, business sales, and production.

The Fed: Word Play & Dot Plots. Fed officials spend a great deal of time fine-tuning how they communicate with the financial markets. All too often, they aren't fully in sync among themselves and add to the markets' confusion about the direction of monetary policy. However, they did a great job of communicating the latest rate hike, which was widely expected even though Fed officials only teed it up a couple of weeks before last week's FOMC meeting. Above, Melissa and I reviewed the frequency of a couple of key words in Yellen's press conference. Now let's turn to the actual FOMC statement, as well as the Fed's latest forecasts:

(1) *Symmetric semantics*. The word "symmetric" was added as an adjective to describe the FOMC's "inflation goal" in the latest statement. Presumably, it was to ease concerns that the FOMC might raise rates more quickly if inflation rises above 2%. During her 3/15 press conference, Yellen explained that "symmetric" means that 2% isn't a ceiling or a floor. It's a target that the FOMC has an equal degree of tolerance for "undershooting" or "overshooting." Further, however, she said that if an "overshoot" were to be "persistent," then the FOMC would "try to bring inflation back" down to 2%.

This isn't the first time that the word has been used in this context. As part of its annual organizational meeting actions on 1/26/16, the FOMC amended its "Statement on Longer-Run Goals and Monetary Policy Strategy," to clarify "that it views its inflation objective as symmetric." The statement was amended as follows (with our emphasis): "[The] Committee would be *concerned* if inflation were running *persistently* above or below" its 2% objective.

(2) *Delete "only*.*"* The word "only" was removed as a qualifier for "gradual increases in the federal funds rate." The FOMC thus conveyed that there could be moves other than "gradual" ones. In her 3/3 speech titled "From Adding Accommodation to Scaling It Back," Yellen said: "[G]iven how close we are to meeting our statutory goals, and in the absence of new developments that might materially worsen the economic outlook, the process of scaling back accommodation likely will not be as slow as it was in 2015 and 2016." Those were one-and-done years, as we had predicted. This year and next year could be three-a-piece.

When asked about the removal of the word "only" from the statement during her press conference, Yellen responded: "I think this is something that shouldn't be over-interpreted." She said it should be considered in the context that the economic projections were "unchanged" from December. Nevertheless, the wording change suggests that the FOMC is making room for upside surprises. "Our economic forecast can change," Yellen said.

(3) *Connecting the dots*. Along with the statement, the FOMC provided an update of the quarterly Summary of Economic Projections (SEP). The median forecast of the 17 participants of the FOMC for the federal funds rate hasn't changed from about two more hikes this year to reach 1.4%, with a longer-term target of 3.0%. However, for the 2017, 2018, and longer-run projections, there are notably fewer dots below the median forecast in the Fed's latest dot plot, which charts each participant's assumptions for the federal funds rate. For 2019, although one extra dot fell below it, the median drifted higher a touch. Overall, the upward drift in the dots indicates that more participants are more optimistic.

While we don't know which dot corresponds to which Fed participant, Fed Governor Lael Brainard exemplified a newfound optimism during a 3/1 speech titled "Transitions in the Outlook and Monetary Policy." She focused mostly on positive developments, concluding that there was a "favorable shift in the balance of risks at home and abroad."

(4) *Fiscal fudge*. Even though Fed officials seem to be increasingly optimistic, the median forecast for the longer-run change in real GDP included in the Fed's March SEP was just 1.8%. According to

Yellen, only some participants even "penciled in" fiscal policy changes to their projections. So it seems to us that participants may be underestimating the potential Trump fiscal boost.

Yellen conceded: "So, we have not discussed, in detail, potential policy changes that could be put into place, and we have not tried to map out what our response would be to particular policy measures. We recognize that there is great uncertainty about the timing, the size, the character of policy changes that may be put in place. And don't think that that's a decision, or a set of decisions, that we need to make until we know more about what policy changes will go into effect." It seems safe to speculate that if Trump's agenda is accomplished sooner rather than later, then the Fed may have to consider dropping the word "gradual."

CALENDARS

US. Mon: Chicago Fed National Activity Index, Evans. **Tues:** Current Account Balance -$128.1b. (Bloomberg estimates)

Global. Mon: None. **Tues:** UK Headline & Core CPI 2.1%/1.7% y/y, Canada Retail Sales 1.3%, Japan Merchandise Trade Balance (yen) 807.2b, BOJ January 30-31 Meeting Minutes, RBA March Meeting Minutes. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.3% last week, ranking 43rd of the 49 markets as 43 rose in US dollar terms—compared to 30th a week earlier, when it fell 0.4% as 25 markets moved higher. The AC World ex-US index outperformed the US MSCI for a second straight week and only the fifth time in the past 18 weeks, surging 2.4% for the week versus a 0.1% rise a week earlier. EM Eastern Europe was the best-performing region last week, with a gain of 5.0%, followed by EM Asia (4.5%), EMEA (3.6), BRIC (3.5), and EM Latin America (2.6). The week's worst-performing regions, albeit with gains: EMU (2.0) and EAFE (2.0). Last week's best-performing countries: South Africa (6.3), Korea (6.2), Poland (6.1), and Mexico (5.9). Pakistan (-2.4) was the worst performer, followed by Sri Lanka (-2.2), and Egypt (-0.5). The US MSCI is up 6.4% ytd, which ranks 28/49, and is now trailing the AC World ex-US (7.6) on a ytd basis for the first time in 10 weeks. Forty-five of the 49 markets are positive ytd, led by Argentina (29.0), Poland (23.5), Korea (16.1), India (15.7), China (14.3), and Mexico (14.1). The worst country performers ytd: Sri Lanka (-6.8), Russia (-5.3), Greece (-5.3), and Pakistan (-0.6). The best-performing regions ytd: EM Asia (13.5), BRIC (12.1), and EM Latin America (11.4). The worst-performing regions, albeit with gains: EM Eastern Europe (0.9), EMEA (1.9), EAFE (6.8), and EMU (7.2).

S&P 1500/500/400/600 Performance (*link*): LargeCap and MidCap rose last week for the seventh time in eight weeks, and SmallCap moved higher for the first time in four weeks. SmallCap surged 2.3% for its best gain in 14 weeks, easily ahead of MidCap (1.2%) and LargeCap (0.2). Thirty-one of the 33 sectors rose in the latest week, up from three rising a week earlier. LargeCap and MidCap ended the week 0.7% and 1.5% below their March 1 record highs, respectively, and SmallCap is 1.5% below its record high on February 21. The SmallCap sectors dominated last week's top five best performers: Telecom (5.7), Materials (3.7), Real Estate (3.5), Tech (3.1), and Utilities (3.0). LargeCap Financials (-0.9) was the worst sector performer last week, followed by LargeCap Health Care (-0.7). Twenty-two of the 33 sectors are positive ytd, with LargeCap (6.2) beating MidCap (4.2) and both easily ahead of SmallCap (1.4). The biggest sector gainers ytd: LargeCap Tech (11.9), MidCap Health Care (9.2), LargeCap Health Care (9.2), MidCap Materials (8.5), MidCap Tech (8.0), and SmallCap Health Care (8.0). The worst performers ytd: SmallCap Energy (-17.0), MidCap Energy (-16.2), MidCap Telecom (-8.7), and LargeCap Energy (-7.7).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 sectors rose last week, with an unusually high eight of them outperforming the S&P 500's 0.2% gain and one tying with the index. This compares to two sectors rising a week earlier, when five outperformed the S&P 500's 0.4% decline. Real Estate was the best-performing sector for the week with a gain of 1.7%, followed by Utilities (1.3%), Telecom (1.3), Materials (0.9), Consumer Discretionary (0.9), Tech (0.8), Consumer Staples (0.3), and Energy (0.3). Financials was last week's worst performer, with a decline of 0.9%, followed by Health Care (-0.7), and Industrials (0.2). So far in 2017, nine of the 11 sectors are higher and four have outperformed the S&P 500's 6.2% gain. The best performers in 2017 to date: Tech (11.9), Health Care (9.2), Consumer Discretionary (7.4), and Consumer Staples (6.5). The seven sectors underperforming the S&P 500: Energy (-7.7), Telecom (-2.4), Real Estate (1.2), Industrials (4.9), Financials (5.3), Utilities (5.4), and Materials (5.5).

Commodities Performance (*link*): Seventeen of the 24 commodities we follow rose last week, up from four rising a week earlier. The week's best performers: Zinc (6.6%), Cocoa (4.1), Nickel (3.7), and Copper (3.6). Last week's laggards: Natural Gas (-1.9), Wheat (-1.0), and GasOil (-0.7). The best performers in 2017 so far: Lean Hogs (16.9), Lead (13.9), Aluminum (13.1), Zinc (12.1), and Cotton (10.9). This year's laggards to date: Natural Gas (-19.3), Heating Oil (-12.3), GasOil (-9.2), and Brent Crude (-8.6).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 17/24 commodities, 6/9 global stock indexes, and 28/33 US stock indexes compared to 3/24, 3/9, and 1/33 rising a week earlier, respectively. Fourteen commodities trade above their 200-dmas, up from 13 a week earlier as Crude Oil and Feeder Cattle turned positive w/w and Natural Gas turned negative. Commodities' average spread rose to 2.6% from 1.2%. Among assets, Commodities walk away with all the prizes last week: Lean Hogs leads all commodities and indeed all assets at 23.9% above its 200-dma; next in line among Commodities are: Zinc (16.6%), Copper (13.5), Aluminum (11.7), and Lead (11.1). Zinc is the second-highest among all commodities and all assets relative to its 200-dma, and also performed the best of all assets last week, improving 6.4ppts relative to its 200-dma. At the other end of the spectrum, Commodities dominate the lowest-trading assets relative to 200-dmas, with Cocoa (-21.5) and Sugar (-11.0) at the steepest discounts of all. Finally, Natural Gas fell 2.3ppts w/w to -1.1% for the worst performance of all commodities and all assets last week. The global indexes trade an average of 7.5% above their 200-dmas, up from 6.5% above in the prior week. All nine of the global indexes trade above their 200-dmas, unchanged from a week earlier. Chile (12.0) leads the global indexes, followed by Germany (11.6) and Japan (10.4). Chile was also the group's best performer last week, with a gain of 3.6ppts. China (3.5) is trading at the lowest relative to its 200-dma of the global assets, but Brazil (6.8) had the weakest performance of its country peers last week, as it fell 1.4ppts. The US indexes trade at an average of 5.4% above their 200-dmas, with 27 of the 33 sectors above, up from a 4.1% average a week earlier when 22 sectors were above. Four turned positive last week: SmallCap Telecom, SmallCap Real Estate, MidCap Consumer Staples, and LargeCap Telecom. The US stock indexes still mostly dominate the top ten assets trading above their 200-dmas. LargeCap Financials leads all US stock indexes at 15.5% above its 200-dma—despite being the group's worst performer for the week, falling 1.9ppts. Next highest-trading relative to their 200-dmas are: MidCap Financials (13.5), SmallCap Tech (13.5), and SmallCap Financials (13.5). SmallCap Telecom rose 5.5ppts w/w to 3.2% for the biggest gain among US stock indexes. The following sectors trade at the deepest discounts to their 200-dmas among the US indexes: MidCap Energy (-8.9) and MidCap Telecom (-7.6).

S&P 500 Technical Indicators (*link*): The S&P 500 remained in a Golden Cross last week for a 47th week (after 17 weeks in a Death Cross) as the index's 50-day moving average (dma) improved relative to its 200-dma for a 15th straight week. Its 50-dma rose to a 25-week high of 5.3% above its 200-dma from 5.1% 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 March 2016. The S&P 500's 50-dma moved higher for an 18th week after six weekly declines, and the index closed the week above its 50-dma for an 18th week after nine weeks below. However, the S&P 500 weakened to 2.3% above its rising 50-dma from 2.6% 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% in March 2016 and a five-month low of -7.8% in January 2016. The S&P 500's bounce off its 200-dma in early November weakened again last week as the index closed the week at 7.8% above its rising 200-dma, down from 7.9% a week earlier and down from a 38-month high of 9.4% on March 1. The 50-dma and 200-dma both rose together for a 17th week after falling for eight weeks.

S&P 500 Sectors Technical Indicators (*link*): The short-term picture improved for six of the 11 S&P 500 sectors last week, and the long-term picture improved for 8/11. Ten of the 11 sectors trade above their 50-day moving averages (dmas), up from eight a week earlier, as Real Estate and Telecom turned positive, and Energy remained below for an eighth straight week. That's a big turnaround from the week before the election, when all 11 sectors traded below their 50-dmas for the first time since December 11, 2015. Nine of the 11 sectors were above their 200-dmas last week, up from eight a week earlier as Telecom turned positive and Energy and Real Estate remained below. Nine sectors are in a Golden Cross now, with 50-dmas higher than their 200-dmas, as Utilities joined the club in the last week for the first time since late October, leaving just Real Estate and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Eight of the 11 sectors have rising 50-dmas, unchanged from a week earlier, as these three continued falling: Energy, Real Estate, and Telecommunication Services. Ten sectors have rising 200-dmas, down from all 11 rising a week earlier, as Real Estate started falling again.

YRI Weekly Leading Index (*link*): Our Weekly Leading Index (WLI)—a good coincident indicator that can confirm or raise doubts about stock market swings—was little changed during the week of March 11 for the second week, after a ten-week surge totaling 10.1%, to a new record high. Our WLI is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI). Our BBB slumped 1.2% the past two weeks after rising eight of the prior ten weeks by 15.8% to a new record high, as jobless claims edged up for the second week to 237,250 (4-wa) after sinking to 234,250 two weeks ago—which was the lowest since April 1973. The CRB raw industrials spot price index—another BBB component—is moving higher again; meanwhile, the WCCI has surged six of the past seven weeks, by a total of 12.8%, to a new record high.

US ECONOMIC INDICATORS

Leading Indicators (*link*): "After six consecutive monthly gains, the U.S. LEI is at its highest level in over a decade. Widespread gains across a majority of the leading indicators points to an improving economic outlook for 2017, although GDP growth is likely to remain moderate," according to the Conference Board. February's Leading Indicators Index (LEI) jumped 0.6% for the third straight month; it was the eighth increase in nine months for a total gain of 2.9%. February's advance was broad-based, with only building permits (-0.19ppt) in the red; the remaining nine components all contributed positively, led by the new orders diffusion index (0.20), the interest-rate spread (0.20), jobless claims (0.16), stock prices (0.09), and consumer expectations (0.07).

Coincident Indicators (*link*): The Coincident Indicators Index (CEI) in February advanced to yet another record high. The CEI hasn't posted a decline in 11 months, up 0.3% m/m and 2.0% over the period. All four components contributed positively last month, with all but industrial production climbing to new record highs: 1) Nonfarm payroll employment climbed for the ninth month by 0.2% m/m and 1.3% 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 2.6% since declining 0.4% the first two months of 2016. 3) Real manufacturing & trade sales climbed 4.2% during the nine months ending February. 4) Industrial production continued its up-and-down pattern rebounding 0.6% after a 0.3% loss and a 0.6% gain the previous two months. It's slowly drifting higher.

Industrial Production (*link*): Weather depressed headline production for the second month, but manufacturing production climbed to its highest reading since July 2008. Manufacturing production advanced for the sixth straight month, by 0.5% in February and 1.7% over the period, with nearly 60% of the advance occurring the first two months of this year. (Factory output expanded 3.4% [saar] during the three months ending February, based on the three-month average, its strongest showing since summer 2014.) Business equipment output in February rose for the second time in three months, by a total of 1.5%, boosted by information processing and industrial equipment output. The former has increased for seven straight months, soaring by 5.7% over the period, while the latter has climbed two of the past three months by 2.4%; transit equipment remains volatile around recent lows. Consumer goods output is in a volatile flat trend, with durable goods production at a cyclical high and nondurable goods production bouncing around recent lows. Headline production was flat in February after a 0.1% decline in January, reflecting weather-related declines in utilities output of 5.8% and 5.7%, respectively. Mining output joined manufacturing in the plus column again last month, jumping 2.7%; it continues to expand after plummeting 16.9% from the end of 2014 through April of last year.

Capacity Utilization (*link*): The headline capacity utilization rate in February edged down for the second month to 75.4% from a five-month high of 75.6% in December. Last month's rate was 4.5ppts below its long-run (1972-2016) average. Manufacturing's capacity utilization rate, on the other hand, rose for the third month from 74.9% in November to a 16-month high of 75.6% in February—2.8ppts below its long-run average. February's mining utilization rate jumped to 80.5% last month—its highest reading since September 2015; it was as low as 73.2% last April. The utilities rate has plunged 9.1ppts the past two months to a new record low. Both the mining and utilization rates remain well below their long-run averages.

Regional M-PMIs (*link*): Two Fed districts so far have reported on manufacturing activity for March—New York and Philadelphia—and show the sector continued to expand at a robust pace, though not as fast as February's torrid pace. We average the composite, orders, and employment measures as data become available. The composite index slipped to 24.6 this month from 31.0 last month—which was the highest reading since July 2004. Both the Philadelphia (32.8 from 43.3) and New York (16.4 from 18.7) measures slowed slightly after improving dramatically in February. Meanwhile, the orders and employment gauges continued to pick up. The new orders index (30.0 from 25.8) accelerated for the seventh consecutive month, reaching its fastest pace since July 2004. The Philadelphia (38.6 from 38.0) and New York (21.3 from 13.5) measures showed the fastest growth since December 1987 and April 2010, respectively. The employment index (13.2 from 6.6) was positive for the third month—after negative readings the prior 15 months—at its highest level since July 2014. Philadelphia's (17.5 from 11.1) gauge showed job gains were the fastest in nearly two years, while New York's (8.8 from 2.0) showed manufacturers adding to payrolls for the second month after cutting jobs the previous seven.

JOLTS (*link*): Job openings in January remained stalled around record highs, rising 87,000 to 5.626 million after a 92,000 loss and a 44,000 loss the previous two months. It's within 347,000 of last July's record high of 5.973 million. Meanwhile, hirings rose for the fourth month, up 137,000 m/m and 261,000 over the period to 5.440 million; separations also rose for the fourth month, by 174,000 and 316,000, over the comparable periods to 5.258 million. The move up in separations is being driven by a growing number of people quitting their jobs—which is up 240,000 over the past seven months. The latest hirings and separations data yielded an employment advance of 182,000 for January, a 56,000 shortfall from January's payroll gain of 238,000—coming in below the payroll gain for the first time in four months. January's job-opening rate (4.0%) held just below its record high of 4.2% last March, while the total hires rate (4.1) also remained just below its cyclical high of 4.2%. The quit rate (2.5) reached a new cyclical high. The ratio of unemployed workers per job opening remained at 1.36, just above its cyclical low of 1.30 posted last July.

GLOBAL ECONOMIC INDICATORS

European Car Sales (*link*): EU passenger car registrations—a proxy for sales—rose in February at a slower pace of 2.2% y/y, after extra working days boosted sales by 10.2% y/y in January. Among the five major EU markets, only Italy (6.2% y/y) and Spain (0.2) saw demand increase from February 2016; sales in France (-2.9), Germany (-2.6), and the UK (-0.3) slumped, partially due to one less working day than last February. Monthly data show car sales increased 6.2%, with Italy (8.1%), Spain (4.8), Germany (3.5), France (3.2), and the UK (1.8) all rising during the month.

Contact us by email or call 480-664-1333. (L1)

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor & Webmaster, 570-775-6823