



MORNING BRIEFING

February 20, 2018

Living with Lowflation

See the [collection](#) of the individual charts linked below.

(1) The 60th panic attack. (2) The 60th relief rally. (3) Learning to live with slightly higher lowflation. (4) Inflation indicators mostly show mounting inflation pressures, or maybe not. (5) Liquidity is a fluid concept. (6) Combined balance sheets of Fed, ECB, and BOJ still expanding. (7) Chinese banks are flooding China with liquidity. (8) Flood of repatriated earnings heading back to US. (9) TCJA adding lots of bucks to earnings. (10) Watching out for inflation.

Strategy I: Another Relief Rally. The 60th panic attack spanned 13 trading days, with the S&P 500 closing at a record high of 2872.87 on Friday, January 26 and dropping 10.2% through Thursday, February 8. The index is up 5.9% since then, and only 4.9% below its record high ([Fig. 1](#)). Joe and I attribute the correction mostly to a flash crash in some cockamamie algorithm-driven ETF. The selloff was triggered by the release of higher-than-expected wage inflation data along with January's employment report on February 2. The fear was that might be the beginning of a rebound in inflation, which would force the Fed to raise interest rates more aggressively and push bond yields higher too.

The previous correction lasted 100 days and took the S&P 500 down by 13.3%. It occurred from November 3, 2015 through February 11, 2016. We were close when we called the bottom in that correction in our 1/25/16 [Morning Briefing](#). I wrote, "Joe and I believe that it may be too late to panic." In our 2/7 [Morning Briefing](#) titled "Panic Attack #60," Joe and I wrote that "[a]t the risk of pushing our luck, we'll try it again: 'It may be too late to panic.'"

Last week's significant 4.3% relief rally in the S&P 500 occurred as more data suggested an upturn in inflationary pressures. However, those pressures remained modest. Stock investors must have concluded that the latest flash crash was an opportunity to buy stocks cheaper rather than the start of a bear market. Let's review the inflation news that initially depressed stock prices and quickly revived them as investors chilled out about inflation heating up:

(1) *Wages (released February 2).* Wage inflation, as measured by the yearly percent change in average hourly earnings, jumped to 2.9% during January, the highest since June 2009 ([Fig. 2](#)). However, the same measure for production and nonsupervisory workers, who account for over 80% of payroll employment, rose 2.4%—more or less the same as it has been since the end of 2015.

(2) *CPI (released February 14).* January's CPI inflation rate was up 0.5% and 0.3% m/m with and without food and energy. Both were higher than expected. However, on a y/y basis, they were 2.1% and 1.8%, respectively ([Fig. 3](#)). Those rates are in line with the pace of increases for the past nine months.

(3) *PPI & import prices (released February 15 and 16).* The PPI for finished goods rose 3.0% y/y through January ([Fig. 4](#)). It's been running this hot for the past 13 months, mostly because energy prices have been recovering. Excluding food and energy, it has been very stable around 2.0% since the end of 2012.

As Debbie discusses below, import prices rose 3.6% y/y through January, the highest since last April. It's been boosted by rising oil prices and by the weaker dollar. Excluding petroleum, the import price index is highly correlated with the PPI for intermediate goods excluding food and energy, both on a yearly percentage change basis ([Fig. 5](#)). The good news is that there isn't much correlation between either one of these measures of inflation and the core PPI finished goods inflation rate ([Fig. 6](#)).

(4) *PMI & regional price indicators (released so far in February)*. The prices-paid component of the M-PMI rose to 72.7 during January, the highest since May 2011 ([Fig. 7](#)). In January, 11% of small businesses reported raising average selling prices ([Fig. 8](#)). That's a small number but the highest since July 2014. January's regional prices paid indexes for Dallas, Kansas City, Philadelphia, and New York were mixed, showing some upward bias, with the latter two continuing their recent upward moves in February ([Fig. 9](#)). These survey-based diffusion price indexes don't provide much insight into inflation except when they are at extreme values.

Strategy II: Liquidity Legends. The latest and previous corrections could be described as "tightening tantrums." Investors fretted that the Fed would be raising interest rates faster than had been widely perceived. That was not the case in 2016, when the federal funds rate was raised but only once at the end of the year. There were three widely expected rate hikes in 2017. At the start of this year, investors were anticipating three more rate hikes prior to the release of the wage numbers on February 2.

For stock investors, concerns about the rate hikes during 2017 were more than offset by strong earnings growth attributable to improving global economic growth. The recent correction occurred despite the huge boost to earnings provided by the Tax Cut and Jobs Act (TCJA) at the end of last year. The knee-jerk conclusion of knee-jerk market pundits was that the stock market is adjusting to a period of reduced "liquidity." This is a concept that Joe and I have yet to find a way to suitably quantify. Among the community of instant market pundits, liquidity is ample when stock prices are rising and scarce when stock prices are falling. Consider the following:

(1) *Central bank balance sheets*. The more thoughtful liquidity pundits have focused on the balance sheets of the Fed, ECB, and BOJ. They warned that stock prices would plunge once the Fed terminated QE, which happened at the end of October 2014 ([Fig. 10](#)). The S&P 500 is up 35.4% since then!

The Fed started to taper its balance sheet at the start of October last year by letting securities mature without replacing them ([Fig. 11](#)). The S&P 500 is up 6.1% since then, but the liquidity pundits can argue that the recent correction shows that the stock market is starting to worry about a dearth of Fed-given liquidity. Meanwhile, during January, the sum of the assets held by the Fed, ECB, and BOJ rose to a new record high of \$14.6 trillion, led by the ECB ([Fig. 12](#)).

(2) *Chinese bank loans*. Often overlooked by the liquidity pundits are developments in China. Debbie and I monitor the balance sheet of the PBOC. We give even more weight to Chinese commercial bank loans as a measure of liquidity in China. We are amazed, though not surprised, that these loans soared \$418 billion during January m/m and a record \$2.1 trillion y/y ([Fig. 13](#) and [Fig. 14](#)).

(3) *Repatriated earnings and buybacks*. We find it hard to believe that the stock market suddenly has a liquidity problem given that a couple of trillion dollars in corporate earnings retained abroad are about to be repatriated thanks to the TCJA. The cumulative total of such earnings of nonfinancial corporations since Q1-1986 through Q3-2017 is \$3.5 trillion ([Fig. 15](#)). A significant portion of these funds is expected to come back and be used for share buybacks and dividend payments, which have been the two major sources of funds driving the current bull market.

(4) *Earnings*. Last but not least is all the liquidity provided by the tax cuts at the end of last year. Joe reports that since then, over the past nine weeks through last week, industry analysts have raised their 2018 estimate for S&P 500 earnings per share by \$11.21 from \$146.26 to \$157.47. That's a 7.7% increase.

Inflation: On the Lookout. Debbie and I believe that inflation will remain subdued. However, we are on the lookout for trouble, as is everyone else in our business. We asked Jackie to report any signs of inflationary pressures from the various companies and industries that she regularly monitors. Here are a few recent examples:

(1) *Tax savings boost wages*. Some companies are using their tax savings to boost employees' paychecks. Most recently, CVS Health said it would raise its starting hourly pay to \$11 for US workers. That's up from \$9 an hour. The company also will increase the pay of its lower-wage retail workers and will freeze employee healthcare premiums for the coming year.

(2) *Pricier supply chain*. Higher prices have started to affect company supply chains, according to a 2/9 WSJ [article](#). B&G Foods has pointed to higher packaging and transportation costs. Harley-Davidson has noted its rising steel and aluminum costs. Sherwin-Williams has been seeing industrywide raw-materials inflation as high as 6%. At Whirlpool, the rising prices of steel and resin would dent profit.

Performance Food Group has called out higher inflation for meat, eggs, and produce. And Sysco, a foodservice distributor, saw overall food inflation of more than 3% in the most recent quarter.

(3) *Not enough truckers*. No one wants to be a trucker anymore. The level of employment in the truck transportation industry has remained flat since the middle of 2015, and is roughly in line with the peak the category hit at the top of the last economic cycle in 2006, reported a 2/9 Bloomberg [article](#).

The ripple effects could be widespread. The Bloomberg article opines: "The risk is that the economy of 'moving stuff' in the U.S. becomes like trying to hail a car from a ride-sharing service after midnight on New Year's Eve. We end up in a situation with freight demand—everything from companies trying to ship their products to big box stores, to Amazon deliveries, to fast food restaurants awaiting shipments, to homebuilders receiving building materials—far outstripping supply. In such a situation, prices adjust until they go high enough to kill sufficient demand. And some of the accompanying higher freight costs get passed on to consumers, raising inflation and making the Fed more aggressive in hiking rates."

(4) *No pilots either*. The US Air Force has seen its shortage of fighter pilots grow from 700 in late 2016 to 1,200 today. The Air Force faces competition from airlines, which themselves are looking to replace a wave of pilots reaching mandatory retirement age.

The Air Force has thrown money at the problem: "The Pentagon's main response thus far has been to spend more. Last summer, it offered retention bonuses of up to \$455,000 over 13 years to eligible officers. Monthly 'flight pay' for pilots also increased, while drone pilots were rewarded with a \$35,000 raise annually if they re-upped for five years," a 2/9 Bloomberg [article](#) reported. The Air Force also graduated its first class of noncommissioned officers from drone-flight school, which had previously been limited to officers with cockpit experience.

CALENDARS

US. Tues: None. **Wed:** C-PMI, M-PMI, and NM-PMI Flash Estimates 54.0/55.0/53.5, Existing Home Sales 5.65mu, MBA Mortgage Applications, FOMC Minutes.(*Wall Street Journal* estimates)

Global. Tues: Eurozone Consumer Confidence 1.0, Germany ZEW Survey Expectations 94.0, RBA February Minutes. **Wed:** Eurozone, Germany, and France C-PMI Flash Estimates 58.4/58.5/59.2, Eurozone, Germany, and France M-PMI Flash Estimates 59.2/60.5/58.0, Eurozone, Germany, and France NM-PMI Flash Estimates 57.6/57.0/59.0, UK Employment Change (3m/3m) 180k, UK ILO Unemployment Rate (3m) 4.3%, Japan M-PMI, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index surged 4.3% last week for its best gain since January 2013, but that was not enough to overcome its 5.1% decline a week earlier, which was its worst since January 2016. The index last week ranked 22nd out of the 49 markets in a week when 47 countries rose in US dollar terms. That compares to 18th a week earlier when all 49 countries moved lower. The AC World ex-US index rose for the eighth time in 10 weeks, as its 4.3% gain was the best since March 2016. All regions rose w/w for the seventh time in nine weeks. These two rose barely less than the AC World ex-US: EAFE (4.2%) and EM Asia (4.3). BRIC performed the best among regions with a gain of 5.6%, followed by EM Eastern Europe (5.6), EM Latin America (5.4), EMU (4.9), and EMEA (4.5). South Africa was the best-performing country with a gain of 11.9%, followed by Argentina (10.4), Finland (7.4), China (6.9), and Russia (6.7). Of the 27 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst, falling 1.2%, followed by Egypt (-0.9), Philippines (0.3), and India (0.3). On a ytd basis, the US MSCI improved to a 2.3% gain from a 2.0% decline, and improved in the performance ranking last week to 27/33 from 28/33. The US MSCI still leads the AC World ex-US (1.4) in a period when all regions and 38/49 countries are positive ytd. EM Latin America has risen 10.0% ytd and leads EM Eastern Europe (8.1), EMEA (6.2), BRIC (5.8), EMU (2.5), and EM Asia (2.0). EAFE (1.2) is the only laggard relative to the AC World ex-US's performance.

S&P 1500/500/400/600 Performance ([link](#)): All three market-cap indexes posted big gains last week after suffering their worst weekly declines in two years a week earlier. MidCap performed best with an increase of 4.4% for the week, barely ahead of the 4.3% gains for SmallCap and LargeCap. LargeCap is now down 4.9% from its record high in January, worse than the declines of MidCap (-4.7%) and SmallCap (-3.8) since then. All 33 sectors rose in the latest week, a reversal of the prior two weeks when all sectors fell. The biggest gains in the latest week were recorded by SmallCap Telecom (7.4), MidCap Materials (7.3), LargeCap Tech (5.8), SmallCap Energy (5.8), SmallCap Materials (5.8), and MidCap Telecom (5.7). The smallest gainers for the week: SmallCap Utilities (0.7, MidCap Utilities (1.4), SmallCap Real Estate (1.7), and LargeCap Real Estate (1.7). Despite the recent carnage, most indexes are positive ytd again. LargeCap is now up 2.2% so far in 2018, ahead of SmallCap (0.6) and MidCap (0.0). Fifteen sectors are positive to date in 2018, up from just three a week earlier. The best-performing sectors ytd: SmallCap Health Care (8.9), MidCap Health Care (6.5), LargeCap Consumer Discretionary (6.2), LargeCap Tech (5.5), and LargeCap Financials (3.6). The worst performers ytd: MidCap Energy (-11.1), SmallCap Real Estate (-10.8), SmallCap Utilities (-8.4), MidCap Real Estate (-8.2), MidCap Telecom (-7.6), and LargeCap Real Estate (-7.1).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors rose last week following two straight weeks when all 11 declined, but only three outperformed the S&P 500's 4.3% gain. That compares to all 11 sectors falling a week earlier, when six outperformed the S&P 500's 5.2% decline. Tech was the best-performing sector with a gain of 5.8%, ahead of Financials (4.7%) and Industrials (4.6). Real Estate (1.7) was the biggest underperformer, followed by Energy (1.9), Telecom (2.4), Utilities (2.9), Consumer Staples (3.4), Materials (3.5), Consumer Discretionary (3.9), and Health Care (4.0). Five sectors are in the plus column so far in 2018, up from just one a week earlier. These four sectors are ahead of the S&P 500's 2.2% ytd gain: Consumer Discretionary (6.2), Tech (5.5), Financials (3.6), and Health Care (3.2). The seven sectors that are underperforming the S&P 500 ytd: Real Estate (-7.1), Energy (-6.2), Utilities (-5.3), Telecom (-4.2), Consumer Staples (-2.7), Materials

(0.0), and Industrials (1.8).

Commodities Performance ([link](#)): The commodities markets rebounded last week: 20 of the 24 commodities we follow rose for the week as the S&P GSCI commodities index gained 3.5% for its biggest increase since July 2017. That compares to a 6.1% decline in the prior week, its worst since November 2014 as only 5/24 commodities rose. Last week's strongest performers were primarily industrial metals-related: Nickel (7.3%), Copper (7.1), Unleaded Gasoline (6.9), and Zinc (5.6). Last week's biggest decliners: Sugar (-2.3), Coffee (-2.1), Lean Hogs (-1.0), and Cotton (-0.1). The S&P GSCI commodities index is now up just 0.3% ytd after having been up by as much as 4.7% ytd on January 26. The best performers so far in 2018: Kansas Wheat (15.5), Cocoa (12.8), Wheat (10.4), and Nickel (9.1). The biggest laggards of 2018 to date: Sugar (-12.4), Natural Gas (-12.0), Heating Oil (-7.7), Lean Hogs (-5.1), and GasOil (-5.0).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 18/24 commodities, 9/9 global stock indexes, and 33/33 US stock indexes, compared to 6/24 commodities, 0/9 global stock indexes, and 0/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to 6.5% from 3.5%. Nineteen commodities trade above their 200-dmas, up from 18 a week earlier. Nickel leads all commodities and all assets at 25.2% above its 200-dma as it rose 7.4ppts w/w for the best performance of all commodities and all assets. Nickel is followed closely by Zinc (17.0%), Crude Oil (16.2), and Unleaded Gasoline (16.2). Natural Gas (-12.9) trades the lowest below its 200-dma of all assets and is followed by Sugar (-6.9), which fell 1.9ppts w/w for the worst performance all commodities and indeed all assets. The global indexes trade at an average of 3.8% above their 200-dmas, up from 1.5% in the prior week. Five of the nine global indexes trade above their 200-dmas, up from four a week earlier. Brazil (17.5) still leads the global indexes and rose 7.4ppts w/w for the best performance among global indexes. Germany (-2.4) trades the lowest among its country peers, but Chile (7.7) rose only 0.7ppt for the worst performance among global indexes. The US indexes trade at an average of 3.1% above their 200-dmas, with 24 of the 33 sectors above, down from an average of -0.8% a week earlier, when 18 sectors were above. SmallCap Health Care (16.2) still leads all US stock indexes relative to their 200 dmas, followed by LargeCap Consumer Discretionary (11.7), LargeCap Tech (11.6), and LargeCap Financials (11.0). MidCap Materials (7.6) rose 7.0ppts w/w for the best performance among the US indexes last week. MidCap Telecom trades at a sharp discount relative to its 200-dma of 14.3%, the lowest among not just the US stock indexes but all assets. SmallCap Utilities (-6.4) gained just 0.6ppts w/w, for the worst performance of the US stock indexes.

S&P 500 Technical Indicators ([link](#)): All 11 sectors rose last week following two straight weeks when all 11 declined, but only three outperformed the S&P 500's 4.3% gain. That compares to all 11 sectors falling a week earlier, when six outperformed the S&P 500's 5.2% decline. Tech was the best-performing sector with a gain of 5.8%, ahead of Financials (4.7%) and Industrials (4.6). Real Estate (1.7) was the biggest underperformer, followed by Energy (1.9), Telecom (2.4), Utilities (2.9), Consumer Staples (3.4), Materials (3.5), Consumer Discretionary (3.9), and Health Care (4.0). Five sectors are in the plus column so far in 2018, up from just one a week earlier. These four sectors are ahead of the S&P 500's 2.2% ytd gain: Consumer Discretionary (6.2), Tech (5.5), Financials (3.6), and Health Care (3.2). The seven sectors that are underperforming the S&P 500 ytd: Real Estate (-7.1), Energy (-6.2), Utilities (-5.3), Telecom (-4.2), Consumer Staples (-2.7), Materials (0.0), and Industrials (1.8).

S&P 500 Sectors Technical Indicators ([link](#)): Last week saw all 11 of the sectors strengthen relative to their 50-dmas and 200-dmas for the first time in three weeks. Four sectors (Consumer Discretionary, Financials, Health Care, and Tech) now trade above their 50-dmas, an improvement from the prior week when all 11 were below for the first time since November 2016. Utilities was below its 50-dma for a tenth week, and Real Estate was below for a ninth week. The longer-term picture—i.e., relative to

200-dmas—shows eight sectors trading above, up from six a week earlier as these two turned positive w/w: Consumer Staples and Telecom. Real Estate was below for a seventh week, and Utilities below for a ninth week. All 11 had been above in mid-December for the first time since mid-February 2017. Nine sectors are in a Golden Cross (50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Real Estate was out of the Golden Cross club last week for a second week and the first time since last April and Utilities was out for a fourth week and for the first time since last March. Seven sectors have rising 50-dmas, up from four a week earlier, which was the lowest since February 2017. These sectors started rising w/w: Health Care, Materials, and Telecom. Real Estate fell for a seventh time in nine weeks, and Utilities moved lower for a fifth straight week. Six sectors have rising 200-dmas, unchanged w/w and the lowest since May 2017. These three fell for a second week: Consumer Staples, Energy, and Telecom. The 200-dmas for Real Estate and Utilities fell for a sixth week.

US ECONOMIC INDICATORS

Industrial Production ([link](#)): Headline output in January dipped slightly from December's record high, as mining output sank 1.0% while manufacturing production remained stalled at its cyclical high. Industrial production slipped 0.1% last month after rising the prior four months by a total of 2.6%; revisions show December's (to 0.4% from 0.9%) increase was smaller than first reported, while November's (0.3 from -0.1) loss was revised to a gain. Manufacturing output was unchanged for the second month after climbing 1.8% the prior three months. Meanwhile, there was widespread strength in the market groups: both business equipment (0.9%) and consumer goods (0.3) output moved higher—the former to a new record high, the latter to a new cyclical high. Within business equipment, information processing (1.5) and industrial (1.0) equipment posted production gains of 1.0% or better, while transit equipment was 0.3% higher; consumer durable (0.4) and nondurable (0.2) goods production were both fractionally higher at new cyclical highs. At the same time, output of industrial supplies sank 0.6%, led by a 1.4% drop in construction supplies. On a year-over-year basis, headline production rose 3.7% y/y, holding near recent highs, while the growth rate in manufacturing output dropped back below 2.0%—to 1.8%—after moving above 2.0% in October for the first time since the start of 2015.

Capacity Utilization ([link](#)): The headline capacity utilization rate in January fell for the first time in five months, to 77.5%, after climbing the prior four months from 76.0% in August to 77.7% in December—which was the highest reading since February 2015. Still, it's 2.3ppts below its long-run (1972-2017) average. Manufacturing's capacity utilization rate was unchanged at 76.2% in January, 2.1ppts below its long-run average; it's been hovering between 76.2% and 76.3% the past four months. The operating rate for mines fell for the second month, to 83.2%, after reaching a 33-month high of 86.0% in November; the rate for utilities rose for the second month, from 77.2% to 81.1% over the period. The latest report includes preliminary estimates of industrial capacity for 2018. Measured on a Q4-to-Q4 basis, capacity is expected to accelerate across the board: Industrial capacity (to 2.3% from 1.1% in 2017), manufacturing (1.5 from 0.7), mining (6.3 from 2.7), and utilities (2.5 from 0.7).

Regional M-PMIs ([link](#)): Two Fed districts have reported on manufacturing activity for this month—New York and Philadelphia—and they show growth in the sector remains robust. We average the composite, orders, and employment measures as data become available. The composite index was little changed (to 19.5 from 20.0) this month, not too far from its recent high of 28.5 in October—which was the highest reading since July 2004. The Philadelphia (25.8 from 22.2) region showed a slight pickup in growth, while New York's (13.1 from 17.7) showed a slight easing. The new orders gauge (19.0 from 11.0) improved, driven by an acceleration in orders in the Philly (24.5 from 10.1) region; New York's (13.5 from 11.9) orders' growth nearly matched January's pace. The employment measure climbed from 10.3 to 18.1 this month, heading back toward its recent peak of 24.4 in October. Manufacturers in

both the Philadelphia (25.2 from 16.9) and New York (10.9 from 3.8) regions added to payrolls at a faster pace.

Housing Starts & Building Permits ([link](#)): Builders broke ground on the most units in over a year in January, while building permits soared to their highest level since 2007. Housing starts rebounded 9.7% last month to 1.326mu (saar), the highest level since October 2016; it followed a 6.9% plunge in December, which was preceded by a two-month surge of 11.8%. Single-family starts advanced for the third time in four months, by 3.7% m/m and 5.4% over the period to 877,000 units (saar); volatile multi-family starts rose for the fourth time in five months, up 23.7% m/m and 49.2% over the period to a 13-month high of 449,000 units. Building permits increased for the first time in three months, surging 7.4% last month to 1.396mu (saar), led by a 26.5% jump in multi-family permits to 530,000 units; single-family permits sank 1.7% to 866,000 units after reaching a new cyclical high in December. Meanwhile, builder confidence remained upbeat in February, according to the NAHB Housing Market Index. Builder confidence held at 72 this month, a slight dip from 74 in December, which was an 18-year high. The components were mixed: Sales expectations over the next six months climbed 2 points to a new cyclical high of 82, while the measure for current sales conditions dropped a point for the second month, to 78, after hitting a cyclical high of 80 at the end of last year; the index measuring buyer traffic held steady at 54.

Consumer Sentiment ([link](#)): Confidence in mid-February rebounded to its second highest reading in 14 years as the exhilaration over recent tax policies more than offset concerns about the volatility in the markets. Only 6% of consumers referenced stock prices negatively in the latest survey, while 35% referenced government policies favorably—the highest level recorded in half a century. The Consumer Sentiment Index rose for the first time in four months, to 99.9, after falling from 100.7 in October (the highest level since 2004) to 95.7 in January; consumers were more positive about both the present and the future. The present situation component recovered to 115.1 after sliding from a cyclical high of 116.5 in October to 110.5 in January; the expectations component improved for the second month, from 84.3 in December to 90.2 this month, just shy of October's 33-month high of 90.5.

Import Prices ([link](#)): Import prices in January accelerated to a nine-month high of 3.6% y/y, trending higher since reaching a recent low of 1.2% in July. The rate was at a five-year high of 4.7% last February after bottoming at -11.6% in September 2015. The yearly rate for petroleum prices was in double digits for the fourth month at 20.9% y/y, slowing from 26.8% in November; it was at a recent low of 3.2% last June. January's rate is considerably below last February's seven-year high of 74.1%. Nonpetroleum products advanced 1.9% in the 12 months through January, it's the fastest pace since January 2012; the yearly rate had turned positive in December 2016 (0.3% y/y) for the first time since November 2014. Total import prices increased 1.0% for the second time in three months; nonpetroleum import prices rose at an 18-month high of 0.5% last month, after no change in December.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): In January, EU passenger car registrations (a proxy for sales) rose 7.1% y/y, helped by one extra working day during the month, with nearly all the major markets performing well. Sales in Spain (20.3% y/y) and Germany (11.6) recorded double-digit gains, while sales in Italy (3.4) and France (2.5) were in the low single-digits. The UK was the only major market to show a decline, falling 6.3% y/y—its tenth consecutive yearly decline.

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