



MORNING BRIEFING

March 5, 2018

Dow Vigilantes

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

(1) The 61st panic attack or more of the 60th? (2) Bearishness about monetary tightening and protectionism offset bullishness of TCJA. (3) One day, a panic attack will be followed by a bear market rather than a relief rally. (4) Trump-led protectionism is a cause for concern. (5) Is Trump going to be like Reagan or like Hoover on trade? (6) Whirlpool got taken to the cleaners. (7) The WTO might temper Trump's trade tantrum. (8) The Dow Vigilantes could do the same. (9) US economy is cruising so nicely. Why spoil it in time for the mid-term elections? (10) Fed Chairman Powell likely to pursue course of gradual normalization of monetary policy. (11) Movie: "Black Panther" (+).

Strategy: Another Panic Attack Already? Did last week's selloff mark the 61st panic attack since the start of the bull market or was it a continuation of the 60th panic attack and possibly the beginning of a bear market? Number 60 occurred during the 13 days from January 26 through February 8, when the S&P 500 fell 10.2%. The stock price index then rebounded 7.7% through February 26. It was pummeled by 3.7% from Tuesday to Thursday last week. Investors were unnerved on Tuesday by Fed Chairman Jerome Powell's congressional testimony suggesting the possibility of a more aggressive normalization of monetary policy. On Thursday, the selloff was mostly in reaction to President Donald Trump's stating that he plans to implement tariffs on aluminum and steel this week.

The S&P 500 is back to being nearly flat for the year, after rising to a record high of 2872.87 on January 26, which was up 7.5% ytd at that point ([Fig. 1](#)). It is also flat since December 22 of last year, when the Tax Cut and Jobs Act (TCJA) was enacted. All the bullishness that the TCJA provided for the earnings outlook was offset by a drop in the valuation multiple in early February, when investors feared that higher wage inflation might force the Fed to raise interest rates more aggressively, and now again at the start of March on fears of protectionism.

For now, Joe and I will characterize last week's selloff as Panic Attack #61 ([Fig. 2](#)). Panic attacks occur when investors fret that some new adverse development might cause a recession, sending the valuation multiple downward, even though industry analysts remain upbeat on earnings. A relief rally then pushes stock prices higher when the anticipated bad stuff doesn't happen. One day, there will be a legitimate panic attack that will correctly anticipate a recession and a bear market, with both the valuation multiple and earnings dropping.

The latest panic attack could be the beginning of a bear market if Trump turns increasingly protectionist. In my new book [Predicting the Markets](#), I recount how the Smoot-Hawley Tariff caused the Great Depression. I observe:

"The tariff triggered a deflationary spiral that had a deadly domino effect. Other countries immediately retaliated by imposing tariffs too. The collapse of world trade pushed commodity prices over a cliff. Exporters and farmers defaulted on their loans, triggering a wave of banking crises. The resulting credit crunch caused industrial production and farm output to plunge and unemployment to soar. In my narrative, the depression caused the stock market crash, not the other way around as is the popular belief."

My opinion on Trump's protectionist leanings has been that the threat level seems more like what it was during the administration of President Ronald Reagan than the debacle of the Hoover administration. Reagan imposed 100% tariffs on semiconductors and forced foreign car makers to abide by "voluntary" import quotas. He succeeded in promoting fairer trade and bringing back lots of jobs in the auto industry as foreign manufacturers moved some of their production facilities to the US.

The problem is that it is always hard to predict the scope and span of protectionist waves. Trump imposed tariffs on solar panels (duties of as much as 30%) on January 19. That same day, in response to a petition from Whirlpool, he ordered that the first 1.2 million washing machines imported each year face a 20% tariff, with additional imports facing a 50% tax. Under that announcement, parts also will be hit with a 50% tariff. Trump's protectionism is likely to get pushback from three sources:

(1) *Domestic industries.* Whirlpool's stock price jumped from \$166.65 on January 22 to \$185.97 on January 26. It was down to \$158.65 on Friday. While the company may get protection from foreign imports for washing machines, it will have to pay more for steel under Trump's plan. Lots of American companies and industries are likely to complain that the benefits they might receive from higher tariffs will be more than offset by both higher costs for the materials they need and retaliation by other countries that depresses their exports.

(2) *The WTO.* The 1/22 *Time* [reported](#), "While Trump has broad authority on the size, scope and duration of duties, the dispute may shift to a different venue. China and neighbors including South Korea may opt to challenge the decision [on solar panels] at the World Trade Organization—which has rebuffed prior U.S.-imposed tariffs that appeared before it."

The 164 member states of the WTO have agreed that if fellow members are violating the organization's trade rules, they will settle their grievances through the WTO's dispute-settlement system instead of taking unilateral action. A panel is set up to adjudicate each case, and member states are bound to accept its ruling.

(3) *The Dow Vigilantes.* The bears could make a comeback if President Donald Trump turns into an outright protectionist. More likely is that he will back off if the market continues to react badly to his protectionist pronouncements. After all, he clearly prefers the Dow Jones Industrial Average as a measure of his popularity over opinion polls. Last Thursday's sharp stock market selloff on news that Trump intends to slap tariffs on steel and aluminum imports might be the incipient formation of the Dow Vigilantes.

US Economy: Cruising for a Trump Bruising? Too bad that Trump is starting to stir up a hornets' nest over trade. That man just doesn't know when to stop. He seems to have a compulsive tendency to snatch defeat from the jaws of victory. He could have done a couple of victory laps on getting Congress to enact a major tax reform plan that slashes tax rates for corporations and lots of individual taxpayers. The economy is booming and was likely to continue to do so through the mid-term elections, which might have allowed the Republicans to hang onto their majorities in the House and the Senate. Yet he is risking all that by pandering to protectionists. There really aren't that many of them to pander to, so perhaps he is pandering to his own protectionist instincts.

When it comes to economic growth, we have nothing to fear other than Trump's misguided instincts. Trade wars aren't easy to win, as he recently tweeted. There are never any winners, in fact; everybody loses trade wars. Now consider all the good news about the US economy:

(1) *Labor market is tight.* Last week, initial unemployment claims fell to 210,000, the lowest since

December 1969 ([Fig. 3](#)).

(2) *Consumer confidence is buoyant.* Debbie and I average the monthly Consumer Sentiment Index and the Consumer Confidence Index (CCI) to derive the Consumer Optimism Index. This average rose during February to the highest reading since November 2000, led by the current conditions component, which was the highest since January 2001 ([Fig. 4](#)).

According to the CCI survey, the percentage of respondents saying jobs are plentiful rose to 39.4%, the highest since April 2001 ([Fig. 5](#)).

(3) *Manufacturing is booming.* Also on March 1, February's M-PMI was reported showing a gain to 60.8, the best reading since May 2004 ([Fig. 6](#)). The three-month average of the M-PMI employment index was at one of its highest readings since March 2011 ([Fig. 7](#)). Manufacturing employment has increased during every month but one since Trump was elected on November 8, 2016, by a total of 218,000 from November 2016 through January 2018 ([Fig. 8](#)). Trump took credit for creating these jobs with his jawboning. Now he could threaten all that with his jaw-dropping support for protectionism.

(4) *GDP growth is solid.* On March 1, the same day that Trump went rogue on trade, the Atlanta Fed's [GDPNow](#) model estimate for real GDP growth for Q1-2018 was increased to 3.5%, up from 2.6% on February 27. Q1 real consumer spending growth and real private fixed-investment growth increased from 2.0% and 2.7% to 2.9% and 4.4%, respectively.

(5) *Global trade is roaring.* The global economic boom is showing up in the exports component of the US M-PMI ([Fig. 9](#)). It rose to 62.8 in February, the highest since April 2011. The imports component rose to 60.5, the highest since February 2007. These two series are highly correlated, suggesting that US exports depend on US imports and vice versa. The sum of the two, which is probably a good proxy for global trade, rose to the highest reading in the history of the series, going back to October 1989 ([Fig. 10](#)). Trump should face powerful forces challenging his recent protectionist thrusts.

The Fed: New Sheriff. Jerome Powell has taken over the reins as Fed chair from Janet Yellen. Powell provided some clues as to how his leadership will and will not differ from Janet Yellen's in his debut [testimony](#) for the *Semiannual Monetary Policy Report* to the House on February 27 and the Senate on March 1. The big question for investors is: Will Powell normalize monetary policy faster than his predecessor did?

Our take: The Fed's course remains unchanged, with gradual small increases in the federal funds rate likely. The pace may be more gradual if Trump persists with his protectionist orders and less gradual if he backs off soon.

Powell made it a point during his debut testimony as the new Fed chair to signal that the change in leadership at the Fed won't significantly alter the course of monetary policy. Powell is currently content to continue a "gradual" pace of normalization unless the incoming data suggest otherwise. That is, the three or four 25-basis-point rate hikes that the Fed projected last December—pushing the federal funds rate up to as much as 2.60%—remains the likely scenario for 2018 pending possible new projections in March. While Powell said that he believes the economy has strengthened since December, he used the words "gradual" or "gradually" four times in reference to rate increases, suggesting to us a continuation of the previous regime's stance.

Powell's straight-shooter persona came strongly across in his tone during the testimony. For example, Powell wasn't afraid to admit to uncertainty. In response to a question from the House about whether unemployment could drop further (and wages could go higher) if sidelined workers decide to rejoin the

labor force, he honestly answered: “The only way to know is to ... find out.” The bottom line is that unless and until Powell tells us otherwise, it seems safe to assume that Fed’s path will continue to be gradual. I asked Melissa to scrutinize Powell’s prepared and Q&A remarks to the House and Senate for more clues to his thinking:

(1) *Not too hot.* On inflation, Powell told Congress: “We continue to view some of the shortfall in inflation last year as likely reflecting transitory influences that we do not expect will repeat.” But he explained: “In this environment, we anticipate that inflation on a 12-month basis will move up this year and stabilize around the FOMC’s 2 percent objective over the medium term.”

Importantly, Powell didn’t suggest that he expects inflation to overshoot that target, but he acknowledged that “the FOMC will continue to strike a balance between avoiding an overheated economy and bringing PCE price inflation to 2 percent on a sustained basis.” Taking on a bit more of a dovish tone during the Senate [Q&A](#) than the House session, Powell plainly said: “There’s no evidence that the economy is currently overheating.” Powell also touched on the “global phenomenon” that inflation has remained subdued, attributing it partially to the “Amazon effect.”

(2) *Fiscal tailwind.* Powell highlighted that fiscal policy is an important new variable for the US economy: “While many factors shape the economic outlook, some of the headwinds the U.S. economy faced in previous years have turned into tailwinds: In particular, fiscal policy has become more stimulative ...” Powell [told](#) the Senate that he would “expect that fiscal policy is going to add meaningfully” to demand, putting upward pressure on inflation and downward pressure on unemployment. But he added that fiscal policy wouldn’t be the most significant factor doing so in an already robust US economy.

(3) *Rules based.* One of the most widely followed rules for setting monetary policy is the Taylor Rule, which establishes a target for the federal funds rate based on a variety of variables and a specific formula. Right now, the Taylor Rule “prescription” is substantially higher than the actual level of the federal funds rate, using the [Atlanta Fed’s Taylor Rule Utility](#) and its default variables. That could mean that if Powell is a rules-based fellow, he might be inclined to close that gap faster than his predecessor, who often questioned the utility of theoretical formulas.

In his words: “In evaluating the stance of monetary policy, the FOMC routinely consults monetary policy rules that connect prescriptions for the policy rate with variables associated with our mandated objectives. Personally, I find these rule prescriptions helpful. Careful judgments are required about the measurement of the variables used, as well as about the implications of the many issues these rules do not take into account.” In other words, while Powell finds the rules helpful, he’s left the door open to a lot of variability depending on the formula inputs. Powell’s comments suggest to us that he’ll take his time before intersecting policy decisions with Taylor’s baseline result.

Movie. “Black Panther” (+) ([link](#)) is an action hero flick that takes inspiration from other types of movies in the action genre, including the “Star Wars” and “Bond” series. Good triumphs over evil, and undoubtedly will continue to do so in sequels and prequels. I’ve tended to stay away from action hero films because they are so cookie-cutter, but I wanted to see what the hype over this one was all about. It is one of the better action hero films, but it was predictable.

CALENDARS

US. Mon: ISM & Markit NM-PMIs 58.8/55.9, Quarles. **Tues:** Factory Orders -1.2%, Dudley, Brainard. (*Wall Street Journal* estimates)

Global. Mon: Eurozone Retail Sales -0.1%/m/2.0%/y/y, Eurozone, Germany, France, and Italy C-

PMIs 57.5/57.4/57.8/57.9, Eurozone, Germany, France, and Italy NM-PMIs 56.7/55.3/57.9/57.0, UK C-MPI & NM-PMI 53.6/53.3, China NM-PMI 54.3. **Tues:** RBA Cash Rate Target 1.5%, Lowe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index fell 2.0% last week, ranking 20th out of the 49 markets in a week when eight countries rose in US dollar terms and the AC World ex-US index fell 2.9%. That compares to a 0.5% gain a week earlier, which ranked 15th as 20 markets rose and the AC World ex-US index was unchanged. All regions fell w/w last week, but EM Asia's 2.5% decline was smaller than EAFE's (-2.9%). The worst-performing regions were EM Eastern Europe (-3.7), EMEA (-3.5), BRIC (-3.3), EMU (-3.3), and EM Latin America (-3.0). Thailand was the best-performing country with a gain of 1.1%, followed by Sri Lanka (1.0), Austria (0.6), Hong Kong (0.5), and Peru (0.4). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst, falling 7.1%, followed by South Africa (-5.3), Argentina (-5.2), Greece (-5.0), and Sweden (-4.8). In February, the US MSCI fell 3.9%, ranking 22/44 and ahead of the 4.9% decline for the AC World ex-US index as all regions fell. That compares to a 5.6% gain in January, when it ranked 29/44, slightly ahead of the 5.5% gain for the AC World ex-US in a month when all regions rose. The best regions in February, albeit with declines: EM Eastern Europe (-2.5), EMEA (-3.3), EM Latin America (-4.1), and EAFE (-4.7). February's worst-performing regions: EMU (-5.9), BRIC (-5.4), and EM Asia (-5.4). On a ytd basis, the US MSCI fell w/w to a 0.8% gain from 2.8%, but rose in the performance ranking to 21/33 from 22/33. The US MSCI still leads the AC World ex-US (-1.5) in the ytd period, with most regions and 27/49 countries in positive territory. EM Latin America has risen 8.4% ytd and leads EM Eastern Europe (6.2), BRIC (4.3), EMEA (3.8), and EM Asia (1.0). EAFE (-2.2) and EMU (-1.7) are the only laggards relative to the AC World ex-US's performance.

S&P 1500/500/400/600 Performance ([link](#)): All three market-cap indexes fell last week as MidCap performed best with a drop of 1.3%, ahead of the declines for SmallCap (-1.5%) and LargeCap (-2.0). LargeCap is now down 6.3% from its record high on January 26, worse than the declines of MidCap (-5.8) and SmallCap (-4.8) since then. Five sectors rose in the latest week, down from 18 rising in the prior week. The biggest gains in the latest week were recorded by MidCap Telecom (4.3) and SmallCap Health Care (1.4). The biggest decliners for the week: SmallCap Energy (-4.3), LargeCap Materials (-4.0), MidCap Utilities (-3.9), SmallCap Telecom (-3.8), and SmallCap Utilities (-3.7). All three market-cap indexes moved lower in February for the first time since March 2017. LargeCap's 3.9% decline was a hair ahead of SmallCap's (-4.0) as MidCap fell 4.6%. That was the biggest decline in 16 months for SmallCap and in 25 months for LargeCap and MidCap. Just one of the 33 sectors advanced in February, the lowest since August 2015 and down from 23 rising in January. February's best performers: MidCap Telecom (2.2), LargeCap Tech (-0.1), SmallCap Tech (-1.2), SmallCap Health Care (-2.4), SmallCap Financials (-2.6), and MidCap Financials (-2.6). Energy dominated February's biggest laggards: SmallCap Energy (-13.4), MidCap Energy (-11.4), and LargeCap Energy (-11.3), and SmallCap Real Estate (-9.6). Despite the recent declines, LargeCap is still up 0.7% so far in 2018, ahead of the slight declines for SmallCap (-0.4) and MidCap (-1.2). Eleven sectors are positive to date in 2018, up from just three in early February. The best-performing sectors ytd: SmallCap Health Care (11.8), LargeCap Tech (6.6), MidCap Tech (4.9), MidCap Health Care (4.7), LargeCap Consumer Discretionary (4.4), and MidCap Telecom (4.1). The worst performers ytd: SmallCap Real Estate (-13.3), SmallCap Utilities (-11.2), MidCap Real Estate (-10.4), MidCap Energy (-10.0), LargeCap Real Estate (-9.6), and MidCap Utilities (-9.4).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 sectors fell last week, but only four outperformed or matched the S&P 500's 2.0% decline. That compares to seven rising a week earlier, when four outperformed the S&P 500's 0.6% increase. Telecom was the best-performing sector, albeit

with a decline of 0.7%, ahead of Tech (-0.8%), Consumer Staples (-1.3), and Health Care (-2.0). Materials (-4.0) was the biggest underperformer, followed by Industrials (-3.3), Utilities (-2.9), Energy (-2.7), Real Estate (-2.7), Consumer Discretionary (-2.7), and Financials (-2.3). The S&P 500 fell 3.9% in February for its first decline in 11 months and its worst performance since January 2016 as all 11 sectors moved higher and four beat or matched the index. That compares to eight sectors rising and four beating the S&P 500's 5.6% surge in January, which had been its best month since October 2015. The leading sectors in February, albeit with declines: Tech (-0.9), Financials (-4.5), Consumer Discretionary (-4.5), and Utilities (-4.7). Energy was the biggest laggard in February as it tumbled 11.1%, followed by Real Estate (-7.8), Consumer Staples (-7.4), Materials (-6.7), Telecom (-6.6), Industrials (-6.2), and Health Care (-5.2). Just four sectors are in the plus column so far in 2018, down from six a week ago and up from just one sector three weeks earlier. These sectors are ahead of the S&P 500's 0.7% ytd gain: Tech (6.6), Consumer Discretionary (4.4), Financials (1.6), and Health Care (1.1). The seven sectors that are underperforming the S&P 500 ytd: Real Estate (-9.6), Energy (-7.8), Utilities (-7.6), Telecom (-7.2), Consumer Staples (-6.1), Materials (-2.9), and Industrials (-1.2).

Commodities Performance ([link](#)): The commodities markets reversed course last week: Nine of the 24 commodities we follow moved higher for the week as the S&P GSCI commodities index fell 2.2%. That compares to a 1.8% gain in the prior week when 12/24 commodities rose. Last week's strongest performers: Kansas Wheat (10.1%), Wheat (7.7), Cocoa (5.4), Corn (2.9), and Soybeans (2.2). Last week's biggest decliners: Lean Hogs (-5.3), Heating Oil (-4.7), GasOil (-4.6), Unleaded Gasoline (-4.4), and Zinc (-4.4). February saw 12 of the commodities climb as the S&P GSCI Commodities index fell 2.9%, compared to 18 rising in January when the index rose 3.2%. February's best performers were led by Kansas Wheat (11.8), Cocoa (11.1), Wheat (9.6), and Cotton (7.3). February's laggards: Natural Gas (-11.0), Heating Oil (-7.9), Lean Hogs (-7.0), Brent Crude (-6.0), and GasOil (-5.5). The S&P GSCI commodities index is now down 0.2% ytd after having been up by as much as 4.7% ytd on January 26. The best performers so far in 2018: Kansas Wheat (24.9), Cocoa (22.3), Wheat (17.1), Soybeans (11.4), and Corn (9.8). The biggest laggards of 2018 to date: Sugar (-11.5), Heating Oil (-9.1), Natural Gas (-8.7), GasOil (-6.1), and Lean Hogs (-5.9).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 10/24 commodities, 0/9 global stock indexes, and 4/33 US stock indexes, compared to 12/24 commodities, 7/9 global stock indexes, and 16/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 5.9% from 6.8%. Eighteen commodities trade above their 200-dmas, down from 19 a week earlier. Nickel leads all commodities and all assets at 18.5% above its 200-dma, but Kansas Wheat (17.4%) rose 10.3ppts w/w for the best performance of all commodities and all assets. Natural Gas trades at 8.6% below its 200-dma, the lowest of all commodities. Unleaded Gasoline (13.2) fell 5.8ppts w/w for the worst performance all commodities and indeed all assets. The global indexes trade at an average of 2.2% above their 200-dmas, down from 4.8% in the prior week. Four of the nine global indexes trade above their 200-dmas, down from seven a week earlier. Brazil (17.5) still leads the global indexes, but Indonesia (8.8) fell just 1.0ppt w/w for the best performance among them. Germany (-6.5) trades the lowest among its country peers as it dropped 4.4ppts for last week's worst performance among global indexes. The US indexes trade at an average of 1.2% above their 200-dmas, with 18 of the 33 sectors above, down from 3.2% a week earlier, when 21 sectors were above. SmallCap Health Care (17.6) still leads all US stock indexes relative to their 200 dmas, followed by LargeCap Tech (11.6). MidCap Telecom (-2.1) rose 4.7ppts for the best performance among US stock indexes. SmallCap Real Estate (-12.5) trades the lowest among all assets, followed by SmallCap Utilities (-9.3) and MidCap Real Estate (-9.2). LargeCap Materials (2.1) fell 4.6ppts for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index weakened relative to its short-term 50-dma and long-term 200-dma trend lines last week. While the index remained in a Golden Cross (50-

dma higher than 200-dma) for a 96th straight week (after 17 weeks in a Death Cross), the index's 50-day moving average (50-dma) relative to its 200-dma dropped for a fourth week to a six-week low of 6.6% from 6.9%, and is down from a 55-month high of 7.2% in early February. This Golden Cross reading compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma rose w/w for a second week after falling a week earlier for the first time since mid-August, but the 200-dma continued to rise as it has done since May 2016. The index fell to 1.7% below rising 50-ma from 0.4% above a week earlier, which compares to a two-year low of 3.8% below its falling 50-dma in early February and is down from a two-year high of 6.2% on January 29. The S&P 500 dropped to 4.7% above its rising 200-dma from 7.2%, which is up from 2.9% in early February (the lowest since the election). However, it's still down from a seven-year high of 13.5% on January 29. That compares to a prior post-election low of 3.0% in mid-August and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Last week saw all 11 sectors weaken relative to their 50-dmas and 200-dmas. Just one sector (Tech) trades above its 50-dma, down from four a week earlier as these three turned negative w/w: Consumer Discretionary, Financials, and Industrials. Utilities was below its 50-dma for a 12th week, and Real Estate was below for an 11th week. The longer-term picture—i.e., relative to 200-dmas—shows six sectors trading above, down from seven a week earlier, as Energy turned negative w/w. Real Estate was below for a ninth week, and Utilities below for an 11th week. All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December for the first time since July 2016. The six sectors still trading above their rising 200-dmas: Consumer Discretionary, Financials, Health Care, Industrials, Materials, and Tech. 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 fourth week and the first time since last April, and Utilities was out for a sixth week and for the first time since last March. Four sectors have rising 50-dmas, down from six a week earlier, as Industrials and Materials turned lower w/w. That's still better than early February when just four had a rising 50-dma, which was the lowest since February 2017. Real Estate fell for the ninth time in 11 weeks, and Utilities moved lower for a seventh straight week. Six sectors have rising 200-dmas, down from seven a week earlier, as Energy turned lower. That's up from six in early February, though, which was the lowest since May 2017. The 200-dmas for Real Estate and Utilities fell for an eighth week.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): Real disposable personal income (DPI) in January rose at its fastest clip since September 2015, while real spending was stalled around December's record high. Real DPI jumped 0.6% after modest gains, from 0.1% to 0.2%, during the final three months of last year. The recent jump pushed the three-month growth rate up to 2.0% (saar) through January, based on the three-month average, accelerating steadily from near zero in October; real wages & salaries accelerated 2.5% (saar) over the comparable period. Real consumer spending ticked down 0.1% from December's record high, its first decline in a year. Its three-month growth rate still shows a robust gain of 3.5% (saar). Our Earned Income Proxy, which tracks consumer spending and wages & salaries closely, continues to set new highs, indicating the consumer will continue to be a major contributor to economic growth.

Auto Sales ([link](#)): Motor vehicle sales barely budged in February after falling sharply in January. Total sales edged down to 17.1mu (saar) after sinking from 17.9mu to 17.2mu in January. Sales reached a 12-year high of 18.6mu last September—boosted by consumers' replacement of flood-damaged vehicles in areas hit by the hurricanes. Light-truck sales ticked down from 9.2mu to 9.1mu (saar) last month, not far from September's 9.7mu peak, which was the strongest showing since the summer of 2005. Sales of imports edged up from 3.8mu to 3.9mu (saar), back up at September's peak, which was

the fastest pace since August 2009. Domestic car sales was unchanged at 4.1mu (saar) after falling steadily from last year's high of 5.0mu in September to 4.1mu in January, which was its lowest sales pace since August 2011.

Construction Spending ([link](#)): January construction spending held at December's record high as an increase in public construction spending was offset by a decline in private construction expenditures. Public construction spending advanced for the sixth straight month, climbing 1.8% in January and 12.0% over the period, to its highest reading since August 2015. Private construction investment slipped 0.5% after rising three of the prior four months by 2.3%. January's decline was led by the first decline in nonresidential investment in five months, sinking 1.5%, after a four-month jump of 3.9%; private residential spending continued its up-and-down pattern, rising 0.3% after a 0.5% shortfall in December. Within residential construction, investment in single-family homes continues to soar to new record highs, rising 15 of the past 16 months by a whopping 17.1%, while multi-family investment remains volatile around record highs, falling 1.3% in January. Meanwhile, home-improvement spending has stalled around its record high in recent months.

Consumer Sentiment ([link](#)): Confidence in February rebounded to its second highest reading in 14 years on "favorable assessments of jobs, wages, and higher after-tax pay," according to Richard Curtin. Last month, the biggest share of households since 1998 said their finances had improved the past year and expected continued gains in the year ahead. The Consumer Sentiment Index (CSI) rose for the first time in four months, to 99.7, 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 114.9 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 90.0, just shy of October's 33-month high of 90.5. (All three measures were little changed from their preliminary estimates.)

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs ([link](#)): Global manufacturing activity eased for the second month in February, but was still one of the best readings since early 2011. February's JP Morgan M-PMI ticked down for the second month to 54.2 from 54.4 in January and 54.5 in December, which was near a seven-year high. Developed nations (55.7 from 56.3) continued to record much stronger growth than emerging markets (unchanged at 52.0). According to the report, February data indicated that growth was broad-based in nature, with M-PMIs signaling expansion across the consumer, intermediate, and investment sectors, and in nearly all the nations covered by the survey. Most of the larger industrial nations saw a slight easing in growth, including the Eurozone (58.6 from 59.6), US (55.3 from 55.5), UK (55.2 from 55.3), and Japan (54.1 from 54.8). Within the Eurozone, M-PMIs accelerated in the Netherlands (63.4, record high) and Greece (56.1, 212-month high), while they decelerated in Germany (60.6), Austria (59.2), Italy (56.8), Ireland (56.2), Spain (56.0), and France (55.9), though all remained at elevated levels. China (51.6), Brazil (53.2), and Vietnam (53.5) all saw their growth rates improve, while Indonesia's (51.4) returned to expansionary territory after contracting for two months. The exception was a slight contraction in Malaysia (49.9).

US Manufacturing PMIs ([link](#)): Manufacturing activity in February accelerated at its fastest rate in nearly 14 years according to ISM's survey, while the growth indicated by Markit's measure virtually matched January's robust pace. The ISM M-PMI (to 60.8 from 59.1) climbed to its highest reading since May 2004, on widespread strength. The employment (59.7 from 54.2) measure rebounded back near 60.0 again, while the supplier deliveries' (61.1 from 59.1) gauge moved back above to its second highest reading since 2010; inventories (56.7 from 52.3) were at their best level since March 2010. Both the production (62.0 from 64.5) and orders (64.2 from 65.4) indexes edged down, though remained well

above 60.0—with both above that reading for the ninth consecutive month. Sub-indexes show new export orders (62.8 from 59.8) accelerated at the fastest rate in nearly seven years, while orders' backlog (59.8 from 56.2) was the highest in more than 13 years. Markit's M-PMI (55.3 from 55.5) barely budged from January's reading, which was the fastest in nearly three years. New orders expanded at their best pace in 13 months, while output eased a bit; factory job creation increased at the third-fastest rate since June 2015.

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