MORNING BRIEFING
March 8, 2018

Meet Peter Navarro

See the collection of the individual charts linked below.

(1) Navarro is a controversial fellow. (2) Trade as a national security issue rather than an economic one. (3) He is opposed to foreign direct investments fueled by US trade deficits. (4) Focusing on trade deficit in goods and ignoring surplus in services. (5) Free and fair trade is the goal. (6) Will Navarro get Cohn's job? (7) Jackie reviews the regulatory unshackling of the Financials. (8) The latest sensation among gamers: Fortnite.

Global Trade: Inside Navarro's Mind. It is not hard to find critics of Peter Navarro's protectionist views on trade, especially given the negative effects that they could have on the economy and the financial markets. Since the White House director of the National Trade Council seems to be gaining influence and may even be up for a promotion, Melissa and I have been trying to get into his head to understand his thinking.

From Navarro's perspective, the national security benefits of "fairer trade" outweigh the economic risks. Navarro is willing to accept any "modest inflationary effects" that might come along with US-imposed tariffs or barriers to trade.

During a 3/6 keynote address and panel discussion at the National Association for Business Economics (NABE) conference, the Harvard PhD explained his views to a mostly disagreeable crowd. Focusing on a few key takeaways from this speaking engagement, let's try to understand the unpopular economist's point of view:

(1) *Identity crisis*. To support his claim that trade deficits are bad, Navarro calls on the following economic identity: "any deficit in the current account caused by imbalanced trade must be offset by a surplus in the capital account, meaning foreign investment in the U.S." That's what Navarro wrote in a 3/5 *WSJ* op-ed adapted from his NABE speech. In other words, the dollars traded for America's imports will come back to the US in the form of foreign direct investment. For the markets, that's good because the demand for capital should push interest rates down and stocks and employment up. But for protectionists, that's bad because there will be more foreign owners of US assets.

(2) *Conquest by purchase*. Coined by Warren Buffet, "conquest by purchase" is Navarro's ultimate concern. The premise is that running "large and persistent trade deficits" facilitates a "pattern of wealth transfers offshore." Suppose a rival "buys up America's companies, technologies, farmland, food-supply chain"? That rival may ultimately control "much of the U.S. defense-industrial base," Navarro contends.

(3) *Trade deficit in goods.* Navarro focuses on the trade deficit in goods rather than in services. Navarro told the NABE conference attendees that "a strong manufacturing and defense industrial base is the very bedrock for America's national security." The economist noted that only one company in the US can repair Navy submarine propellers, and zero can create flat panel displays for our military aircraft. It's the goal of Trump's trade policy, he says, to "reclaim all of the supply chains and manufacturing capabilities that would otherwise exist if the playing field [were] level."

(4) *Trade motto.* "Free, fair, reciprocal trade" is the trade motto of the administration, according to Navarro, who repeated it at least four times during the NABE conference. As examples of unfair trade practices, Navarro cited non-tariff barriers on imported goods in Japan, tariffs on imports to India, unfairly biased rebates to German exporters, and the dumping of goods through Vietnam and Thailand by Chinese state-owned enterprises and Korean conglomerates. Navarro also criticized the practice in China of requiring foreign business owners to establish 50% Chinese ownership through joint ventures, putting domestic intellectual property at risk.

The silver lining for investors is that Navarro claims the intent of the administration's tough stance on trade is simply to "encourage our trading partners to lower" their tariffs and barriers to trade. So the latest tariffs slapped on our trading partners may be negotiable for the US. That now seems especially likely given the pushback that the President is getting for supporting Navarro's trade approach.

(5) *It's the principles*. On the other hand, the swift resignation of Gary Cohn following Trump's announced tariffs on aluminum and steel signifies the administration's commitment to Navarro's ideals. Navarro previously reported to Cohn. White House Chief of Staff John Kelly in September folded Navarro's Office of Trade and Manufacturing Policy into the Cohn-led National Economic Council, according to Politico. Reportedly, the move kept Navarro out of high-level meetings on the principles of trade and forced him to work under Cohn, with whom he has disagreed. With Cohn out of the picture now, it seems to us that Navarro may soon be sitting closer to Trump both figuratively and literally at the trade table, although *The Hill* reports that Navarro says he's not in the running to replace Cohn.

Financials: Unshackled. It took just over a decade, but the S&P Financials sector has almost erased the massive losses inflicted by the Great Recession. The sector's stock price index is just 5.8% off its peak 11 years ago on February 7, 2007 (*Fig. 1*). The most recent leg up in the sector owes much to the Trump administration's moves to unwind some of the regulations that the Obama administration had placed on banks and financial companies in the wake of the Great Recession. One year into President Trump's tenure, and those promises appear on the verge of delivery. Fewer regulations should boost the sector's bottom line, offsetting some of the drag that may come as loan losses start to edge higher in credit card and auto loans.

The S&P 500 Financials is one of only three sectors that are beating the S&P 500 ytd; the other eight lag the broader index. Here's the performance derby for the S&P 500 sectors ytd through Tuesday's close: Information Technology (7.9%), Consumer Discretionary (6.3), Financials (3.4), S&P 500 (2.0), Health Care (1.8), Industrials (0.4), Materials (-0.5), Consumer Staples (-5.1), Telecom Services (-5.8), Energy (-6.8), Utilities (-7.1), and Real Estate (-8.0) (*Fig. 2*).

As you'd expect, many of the top-performing S&P 500's industries so far this year hail from the Financials sector: Reinsurance (15.1%), Regional Banks (11.1), Financial Exchanges & Data (10.1), Investment Banking & Brokerage (6.5), Insurance Brokers (4.9), and Diversified Banks (3.1) (*Fig. 3*). I asked Jackie to take a look at what regulations are on the chopping block and how they may help financials' bottom lines. Here's what she reports:

(1) *Relieved regionals*. Only larger banks will need to abide by the regulations put in place under Dodd-Frank legislation if legislation moving through Congress gets the expected approval. Under the amended rule, Dodd-Frank will apply only to banks with more than $250 billion in assets vs the far larger set of those with $50 billion or more in assets under current law.

"While the bill will affect the entire industry, smaller banks will see the biggest changes, benefiting from eased compliance and paperwork requirements, particularly around mortgages," the 3/1 *WSJ* reported. In addition, "banks that have stayed under the $50 billion line to avoid enhanced oversight would be in play for mergers or acquisitions with other firms, possibly creating larger regional banks."

(2) *A less-stressful test*. Earlier this year, the Federal Reserve's annual bank stress test was amended so that 20 banks with between $50 billion and $250 billion in assets can skip the qualitative portion of the stress test. That qualitative section of the test evaluates the firms' risk-management systems. The firms will still be required to show they have enough capital to continue lending through, and survive, a recession.

The Fed's rule change became more restrictive, however, when it reduced the amount of capital a firm can distribute to shareholders to 0.25% of Tier 1 capital, down from 1% of Tier 1 capital. "The change is designed to make the [stress] tests less onerous, while allowing the Fed to dedicate more of its staff to focusing on the biggest firms," the 1/30 *WSJ* reported.

(3) *Volcker rule next?* The Volcker rule prevents banks from making certain investments and limits trading to transactions fulfilling their customers' demand, thereby prohibiting firms from investing for their own accounts. On Monday, Fed Vice Chairman for Supervision Randal Quarles indicated he'd like to see changes to the rule: "I believe the regulation implementing the Volcker rule is an example of a complex regulation that is not working well," Quarles said, according to a 3/5 *WSJ* article. The rule is implemented by five different agencies, and they'd have to work together to amend it.

Changes under consideration include which funds the banks are prohibited from investing in and how a bank calculates what its customers' demand is. Quarles also said he'd support legislation to exempt community banks and foreign banks from the rule.

(4) *Beyond lending.* There are also a bevy of rules that relate to business lines important to banks—but outside traditional lending—that may be loosened up as well. The Securities & Exchange Commission may allow all companies to have private discussions with potential investors before announcing an IPO. Currently, only small companies are allowed to hold such talks. The agency also may exempt small public companies from the requirement to have auditors opine on their internal controls.

Also under consideration: rolling back an Obama administration rule that requires mutual funds to disclose to shareholders large, illiquid investments. Fund assets need to be divided into four categories ranging from easy-to-sell to illiquid. The mutual fund industry argues the rule requires imperfect judgments about liquidity that could expose the funds to second-guessing and are costly to implement, the 2/22 *WSJ* reported. The rule was originally instituted in reaction to concerns that funds could face a run if shareholders want their money back faster than assets can be sold.

And lastly, legislation is moving through Congress that would broaden out the securities that would qualify as "quality liquid assets," which could be sold for cash in a crisis so banks could fund their operations for at least 30 days. Currently, cash, Treasury bonds, and corporate debt are considered quality liquid assets. Banks hope the rule will be amended so municipal bonds also are added to that list because they are safe and offer tax benefits, the 3/6 *WSJ* article reported.

(5) *Nightmare fading.* Banks have done a great job reducing their leverage and cleaning up their balance sheets over the past decade. Collectively, their debt as a percentage of total liabilities has fallen from 23.7% in October 2008 to 14.1% in February (*Fig. 4*). They will also collectively benefit from a wider net interest margin, which stands at 3.31%, up from 3.02% in Q1-2015. (*Fig. 5*). And the recent pickup in stock market volatility could help their trading operations.

Even though the S&P Financials stock price index is close to its 2007 highs, the sector's forward revenues are still 22% below the 2007 peak, while its forward profit margin of 18.5% is at a record high for the first time since 2005 thanks to the TCJA (*Fig. 6* and *Fig. 7*). As a result, Financials' earnings will be only a touch below the peak earnings of the last decade if the sector's bottom line grows 29.1% this year and 10.7% in 2019, as analysts forecast. Meanwhile, the sector's forward P/E, at 13.5, now matches 2007's top forward P/E of 13.6 prior to the Financial crisis (*Fig. 8*).

Some industries within Financials have surpassed their old stock price highs, including Asset Management & Custody Banks, Consumer Finance, Diversified Banks, Insurance Brokers, Life & Health Insurance, Property & Casualty Insurance, and Thrifts & Mortgage Finance.

The S&P 500 Regional Banks is one of the industries that stands to gain the most from looser regulations. The industry's stock price index has regained all of the ground it lost in the wake of the Great Recession, helped by its strong ytd performance (11.1%) (*Fig. 9*). Earnings are expected to return to pre-recession levels by next year (*Fig. 10*). Analysts expect earnings growth of 25.1% this year and 9.8% in 2019. The industry's forward earnings multiple has returned to 14.3, the highest it has been during an economic expansion since 2000 (*Fig. 11*). (The industry's multiple was higher when its earnings were depressed during the recession, however.)

(6) *Items to watch*. While the good times should continue, certain areas of the sector undoubtedly bear watching. Default rates on student loans have remained stubbornly high and default rates on motor vehicle loans and credit cards have ticked up recently (*Fig. 12*).

Meanwhile, on the margin, financial services companies have started to face a slew of new competitors that do the preponderance of their business over the Internet. Amazon is the most recent market interloper. News reports say the Internet giant wants to team up with a bank to offer checking accounts to customers, in addition to the credit cards that the company already pitches. Banks also have faced competition from Quicken Loans, which doesn't operate one branch but has passed Wells Fargo to become the number-one mortgage loan originator.

The payments space also has numerous new competitive entrants. Standard & Poor's published a report last month that concluded that the tech giants are likely to encroach on banks' payments business. Apple, Google, and Samsung already have launched payment offerings, and there are retail banks in the US and Europe that generate up to 15% of revenue from interchange and card transaction fees, the 1/16 Business Insider writeup of the study stated. We'll be watching closely while the good times roll on.

Tech: Gamers Turned Gawkers. Why aren't teenagers watching television? Because they are obsessed with playing—and now watching others play—video games. The latest sensation is Fortnite, a game that players can either stream for free over the Internet or purchase for $40. Gamers join with others, sometimes friends, to play together virtually online.

Obsession over a video game isn't anything new, as PAC-MAN addicts can attest. What's new is the hours that teens are spending watching other people play Fortnite (owned by Epic Games), almost as if it were a television show. And they don't have to be in the basement on a gaming console to watch. Kids can view others playing Fortnite on their phones or computers because it's being streamed on YouTube, which is owned by Google, and Twitch, which is owned by Amazon.

Here's where Amazon's brilliance shines through, as if we didn't already appreciate it. On Twitch, Prime members can subscribe to their favorite gamers' "channels" for free, saving $4.99 a month. Prime subscriptions also give members access to special rewards to use in their games, like free skins (costumes) for their Fortnite characters. Amazon bought Twitch for $970 million in 2014, and it has become just one more way to keep customers paying the annual Prime subscription fee.

There's big money involved with these games. Tyler Blevins, a.k.a. "Ninja," is a 26-year-old who streams his Fortnite games over Twitch, twice a day starting at 9 a.m. and at 7 p.m. On Tuesday morning at noon, he had 62,046 people watching him play Fortnite. Jackie's son and his friends watch Ninja on their phones around the school lunch table, and she's caught her son watching on his laptop instead of doing homework!

Ninja is on track to make $120,000 for the month of February, a 3/1 article on Heavy.com estimated. It explained: "Twitch has an agreement with partners where they receive a portion of the money made when people subscribe to their channels. For affiliated streamers, the split is 50/50, and that's usually more for partnered streamers. Ninja earns at least $2.50 per subscription, but that number is probably closer to $3.00. With 40,000 subscribers, Ninja is on track to earn $120,000 a month. That number does not include bit donations, other donations or different tiers of subscriptions, so the actual number is likely much higher."

Ninja is one of the most popular streamers, but there are many out there, playing all sorts of video games. It's a trend the NFL and other sports leagues should be watching closely.

CALENDARS

US. **Thurs:** Jobless Claims 220k, Weekly Consumer Comfort Index, Challenger Job-Cut Report, EIA Natural Gas Report. **Fri:** Total, Private, and Manufacturing Nonfarm Payroll Employment 205k/195k/17k, Unemployment Rate & Participation Rate 4.0%/62.7%, Average Hourly Earnings 0.2%m/m/2.9%y/y, Average Workweek 34.4hrs, Wholesale Trade Inventories 0.7%**.** (*Wall Street Journal* estimates)

Global. **Thurs:** Germany Factory Orders -1.6%m/m/11.4%y/y, Canada Housing Starts 220k, Japan Household Spending -0.8%, China Foreign Direct Investment, China Trade Balance -$8.45b, ECB Rate Decision 0.0%, ECB Marginal Lending Facility & Deposit Facility Rate 0.3%/-0.4%**.** **Fri:** Germany Industrial Production 0.6%m/m/6.0%y/y, Germany Trade Balance €18b, UK Total & Manufacturing Industrial Production 1.8%/2.8% y/y, UK Trade Balance £3150, UK NIESR GDP Estimate 0.4%, Canada Employment Change & Unemployment Rate 21k/5.9%, China CPI & PPI 2.4%/3.8% y/y, BOJ Rate Decision & Monetary Policy Statement. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): Our Bull/Bear Ratio (BBR) continued to move lower, falling to 3.14 this week—the lowest since last September. Seven weeks ago, the BBR was at 5.25, which was the highest since early April 1986. Bullish sentiment was little changed this week, at 48.6%, after plummeting the prior four weeks from 66.0% (most bulls since April 1986) to 48.1%—with most of the bulls moving to the correction camp, which rose from 21.4% to 37.5%. This week, the correction count fell to 35.9%, boosting bearish sentiment to 15.5%; bearish sentiment had fluctuated between 14.4% and 14.6% the prior three weeks, up from 12.6% five weeks ago—which was the fewest bears since early April 1986. The AAII Ratio fell for the second week last week, from 69.4% to 61.4% over the period, with bullish sentiment falling from 48.5% to 37.3% and bearish sentiment rising from 21.4% to 23.4% over the time span.

S&P 500 TCJA Earnings Leaders & Laggards (*link*): The 2018 earnings forecast for the S&P 500 has surged 7.9% in the 11 weeks since the TCJA was signed into law on December 22. This outstanding performance has no comparison over the years since consensus earnings forecasts were first derived in 1978. However, that gain is up only 0.1ppt from 7.8% a week earlier. With the Q4 earnings season

98% complete and companies nearly finished providing post-TCJA guidance, revisions are now likely to revert back to their usual historical pattern of declines throughout the rest of the year. Indeed, five of the 11 sectors had their 2018 consensus earnings estimate decline w/w. The top sector gainers since the TCJA was passed: Energy (23.9%), Telecom (16.8), Financials (11.4), Industrials (9.4), and Consumer Discretionary (7.9). Real Estate is the sole decliner, with a drop of 2.7%. Also underperforming the S&P 500 are Utilities (0.5), Consumer Staples (4.2), Tech (5.3), Health Care (5.4), and Materials (6.5). Higher oil prices, a.k.a. "animal spirits," have contributed heavily to the improvement in Energy's earnings.

S&P 500 Earnings, Revenues & Valuation (*link*): Last week saw S&P 500 consensus annual and forward revenues and earnings rise to new record highs. While the 2018 profit margin forecast was steady for a fourth straight week at 11.8%, the forward profit margin rose 0.1ppt for its first gain in four weeks to a record high of 12.0%, primarily due to an increased weighting on the 2019 forecast of 12.4%. With the Q4 earnings season essentially complete, we believe the positive impact of the TCJA on margins has been fully recognized. Prior to the passage of the TCJA, the forward profit margin had been steady at 11.1% since October, which was the highest since September 2015 and up from a 24-month low of 10.4% in March 2016. The easy growth comparisons are waning too: Forward revenue growth for the S&P 500 dropped w/w to 6.1% from 6.3%, which was its highest level since September 2011. That reading compares to a cyclical low of 2.7% in February 2016. Forward earnings growth fell 0.7ppt w/w to 16.2% from 16.9%, which had been the highest since October 2010. Still, that's up 5.1ppts from 11.1% prior to the passage of the TCJA, and 11.4ppts from the cyclical low of 4.8% in February 2016. Among the 11 sectors, Real Estate was the sole gainer with respect to the forward earnings growth forecast. Energy was the biggest decliner w/w, tumbling 7.0ppts to 55.6%. Energy's contribution to forward growth peaked at the start of 2017. Looking at last week's results, the S&P 500 ex-Energy's forward growth was down 0.1ppt to 5.4% for revenues and down 0.6ppt to 14.8% for earnings. However, the S&P 500 ex-Energy forward profit margin remained steady at a record high of 12.6%, which is up from 11.7% before the TCJA. The S&P 500's forward P/E edged down to 17.0 from 17.1, which compares to a 16-year high of 18.6 at the market's peak in late January and a 15-month low of 14.9 in January 2016. The S&P 500 price-to-sales ratio edged down to 2.03 from 2.04, which compares to late January's record high of 2.16.

S&P 500 Sectors Earnings, Revenues & Valuation (*link*): Consensus forward revenues and earnings forecasts rose last week for 10/11 sectors. Utilities was the sole forward revenue decliner and Telecom the only earnings decliner. Forward revenues and earnings are at or around record highs for 5/11 sectors: Consumer Discretionary, Consumer Staples, Health Care, Industrials, and Tech. Energy's forward revenues and earnings appear to be back on uptrends after stalling during 2016-2017, and earnings have nearly tripled from their 18-year low in April 2016. Forward P/S and P/E ratios are down from their highs for all sectors. However, Energy's valuations remain elevated relative to historical levels, but are normalizing now after soaring in 2016 when revenues and earnings collapsed. Energy's P/S ratio of 1.15 compares to a record high of 1.56 in May 2016, and its P/E of 18.7 is down from a record high of 57.5 then. Due to TCJA, higher margins are expected y/y in 2018 for all but Real Estate, but the sector's earnings includes gains from property sales and typically improves as the year progresses. The post-TCJA improvements in forward profit margins are waning now, as just five sectors improved marginally w/w. Here's how the sectors rank based on their current forward profit margin forecasts: Information Technology (22.3%), Financials (18.5), Real Estate (16.6), Telecom (13.2), S&P 500 (12.0), Utilities (11.9), Materials (11.3), Health Care (11.2), Industrials (10.1), Consumer Discretionary (8.1), Consumer Staples (7.1), and Energy (6.2).

S&P 500 Q4 Earnings Season Monitor (*link*): With nearly 98% of S&P 500 companies finished reporting earnings and revenues for Q4-2017, their revenue and earnings surprise metrics are mostly better than at the end of the Q3 earnings season. Q4-2017 will mark the sixth straight quarter of positive y/y earnings growth and the seventh straight quarter of positive y/y revenue growth, as well as the quarter with the highest y/y revenue and earnings growth since Q3-2011. Of the 489 companies in the S&P 500 that have reported through early Wednesday, 76% exceeded industry analysts' earnings estimates by an average of 4.8%; they have averaged a y/y earnings gain of an impressive 16.5%. At the same point during the Q3-2017 reporting period, a lower percentage of companies (73%) in the S&P 500 had beaten consensus earnings estimates by a higher 5.4%, and earnings were up a lower 8.1% y/y. On the revenue side, an impressive 77% beat sales estimates so far, with results coming in 1.2% above forecast and a whopping 8.2% higher than a year earlier. At this point in the Q3 season, a lower 68% had exceeded revenue forecasts by a higher 1.3%, and sales had risen by a lower 5.8% y/y. Q4 earnings results are higher y/y for 77% of companies vs a lower 69% at the same point in Q3, and revenues are higher y/y for an astounding 87% during Q4 vs a lower 79% a quarter ago. The percentage of companies growing revenues y/y is the highest since we first began tracking that metric during Q1-2009 and the percentage with rising y/y earnings is the highest since Q2-2011.

US ECONOMIC INDICATORS

ADP Employment (*link*): "The job market is red hot and threatens to overheat. With government spending increases and tax cuts, growth is set to accelerate," according to ADP. In February, private industries added 235,000 to payrolls—the fourth straight month of increases of 200,000 or more—following upward revisions to both January (to 244,000 from 234,000) and December (249,000 from 242,000), for a net gain of 17,000. Service-providing industries (198,000) accounted for 84% of February's gain, though goods-producing industries (37,000) registered another relatively strong performance, led by gains in both construction (21,000) and manufacturing (14,000) jobs, which have increased 276,000 and 206,000, respectively, the past 14 months. Within service-providing industries, the increase was broad based, with leisure & hospitality (50,000), professional & business services (46,000), trade, transportation & utilities (44,000), and health care & social assistance (38,000) all posting solid gains. By company size, medium-sized companies remained at the top of the leader board, adding 97,000 jobs—74,000 service-providing and 23,000 goods-producing. Large companies (70,000) held the number two spot, with a mix of 67,000 service-providing jobs and 3,000 goods-producing ones. Small companies was a close third, adding 68,000 to payrolls—56,000 service-providing and 12,000 goods-producing.

Productivity & Labor Costs (*link*): Revisions show nonfarm productivity was little changed from its initial estimate last quarter, while labor costs accelerated at a faster rate. Unit labor costs (to 2.5% from 2.0%, saar) rose at its best pace in three quarters during Q4, as hourly comp (2.4 from 1.8) was faster than first reported. Meanwhile, productivity was flat during Q4—a slight improvement from the 0.1% decline first reported—slowing from Q3's 2.6%. Both hours worked (3.3%, saar) and output (3.2) were unchanged from initial estimates, posting nearly identical gains; it was the biggest increase in three years for the former, while growth in the latter was below the 4.0% and 3.9% advances posted the prior two quarters. For all of 2017, nonfarm productivity rose 1.2%—matching the average gain from 2007 to 2017, though considerably below the 2.6% average rate from 2000 to 2007. Output (2.9) outpaced hours worked (1.6), while hourly comp rose 1.6%, with unit labor costs (0.4) little changed last year.

Merchandise Trade (*link*): Trade data for the first month of 2018 suggest that trade could once again be a drag on real GDP growth this quarter. The real merchandise trade deficit widened to -$69.7 billion in January—the largest since August 2006, deteriorating steadily from last June's -$60.8 billion gap. That's considerably steeper than last quarter's average monthly deficit of -$66.8 billion. January's report shows both real exports (-3.3%) and real imports (-1.5) fell, following strong growth in the final months of 2017 to new record highs. January's drop in real exports was driven by capital goods ex autos (-5.8), industrial supplies (-4.8), and food (-1.5%), which more than offset robust gains in consumer goods ex autos (6.5) and autos (3.3). The fall in real imports was across the board, led by capital goods ex autos

(-2.5), consumer goods ex autos (-1.5), and industrial supplies (-1.4); declines in food (-0.7) and auto (-0.5) imports were less than 1.0%.

GLOBAL ECONOMIC INDICATORS

Eurozone GDP (*link*): Real GDP was strong every quarter of 2017, posting its fastest growth in a decade last year. Eurozone GDP grew 2.4% (saar) during Q4—its fifth straight reading above 2.0%. From the expenditure side, trade was a big contributor to growth last quarter, as exports (7.8%, saar) grew at nearly twice the pace of imports (4.4), expanding at the fastest rate since Q1-2015. Real gross fixed capital investment was also a major contributor, accelerating 3.6% (saar), after a slight contraction during Q3, while real household spending rose only 0.7% (saar), slowing from gains of 1.3% and 2.1% the previous two quarters. Real government spending advanced 1.4% (saar), in line with prior quarters. During Q4, of the four largest economies, Spain (2.7%, saar), France (2.6), and Germany (2.5) exceeded the Eurozone's 2.4% pace, while Italy (1.3) continued to lag behind. For all of 2017, real GDP in the overall Eurozone grew 2.3%, the fastest rate since 2007's 3.0%.

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