



MORNING BRIEFING

March 26, 2018

Trade: War-Making or Deal-Making?

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

(1) US declares that China doesn't play fair. (2) USTR issues 215-page report on China's abusive trade practices, focusing on technology. (3) Trump likes to negotiate in public, which unnerves stock investors. (4) Trump aspires to be like Reagan, not Hoover, on trade. (5) "A treacherous path on trade." (6) Panic Attack #60 isn't over yet. (7) Remarkable divergence between forward earnings and forward P/E. (8) Not much happening in bond and commodity markets. (9) Major exporters already exempted from Trump's tariffs on steel and aluminum. (10) Reading Trump's temperament on trade: He likes to negotiate and win. (11) Like it or not, Trump is delivering on his campaign promises on trade.

Trade I: Stocks Overreacting? Is President Donald Trump starting a trade war with China? Or is he taking a tough stance on China's unfair trade practices with the aim of negotiating a better deal for the US? The 4.6% plunge in the S&P 500 in last week's final two days coincided with the Thursday release of a long report by the Office of the US Trade Representative (USTR) outlining China's abusive trade practices and a memo by the President directing the USTR and the Treasury secretary to propose measures to counter these abuses, as detailed below ([Fig. 1](#)).

The knee-jerk reaction of the stock market clearly reflects concerns that this all will lead to a trade war with adverse consequences for global growth. Melissa and I aren't convinced. We see this as all about making fairer trade deals rather than shutting off free trade, as discussed below. However, trade negotiations can take a while. They typically are conducted quietly without much fanfare. Trump seems to prefer trying to scare trade concessions out of our partners with public threats. That approach is obviously more unnerving for stock investors.

US trade history suggests that Trump could turn out to be another Hoover or another Reagan. Both were protectionists. Hoover signed the Smoot-Hawley Tariff into law and triggered the Great Depression. Reagan imposed a 100% tariff on semiconductor imports and negotiated a "voluntary" import quota on Japanese cars sold in the United States in the early 1980s. In a June 28, 2016 speech, Trump said, "President Reagan deployed similar trade measures when motorcycle and semiconductor imports threatened US industry. I remember. His tariff on Japanese motorcycles was 45%, and his tariff to shield America's semiconductor industry was 100%, and that had a big impact, folks. A big impact." Trump aspires to be Reagan, who did succeed in making trade fairer, especially with Japan. Today, Trump is aiming to do the same with China in particular.

Our opinion on Trump's approach is quickly turning into a minority view. Stock investors obviously fear that Trump "is walking a treacherous path on trade," as one of our accounts opined in an email message to me. Since we don't like to fight markets, Joe and I concede that there may be more downside in the stock market's correction. We don't think it will evolve into a bear market, though, because we don't expect a recession triggered by a trade war. We are still targeting 3100 on the S&P

500 by the end of this year, but we are considering pushing this target off into 2019.

Now let's have a closer look at the reaction of the various markets so far to the protectionist scare:

(1) *Panic Attack #60*. Previously, we identified the 10.2% selloff in the S&P 500 from its record high of 2872.87 on January 26 to 2581.00 on February 8 as Panic Attack #60 and the stock market's first correction since January 2016. We attributed the panic to January's higher-than-expected wage inflation in the employment report released on February 2—which aroused fears that the Fed would be forced to raise interest rates more aggressively. The selloff was worsened by a flash crash in some ETFs driven by some cockamamie algorithms.

On second thought, Joe and I are thinking that Panic Attack #60 isn't over, and might have more to do with fears of protectionism. The S&P 500 peaked four days after Trump imposed tariffs on imported solar panels and washing machines ([Fig. 2](#)). Then on March 1, he announced potential tariffs on steel and aluminum. Last week's move to impose tariffs on Chinese imports sent the S&P 500 back down to 2588.26, nearly matching the previous low of Panic Attack #60.

On Friday, the S&P 500 closed below its 200-day moving average for the first time since the week before the November 2016 election ([Fig. 3](#)). However, this time buyers might not jump in as readily as they did back then, since trade war talk is likely to persist for a while.

(2) *Stock market valuation*. We don't recall seeing anything like the divergence that is occurring between S&P 500 forward earnings and the index's forward P/E ([Fig. 4](#)). Obviously, industry analysts have yet to receive the Smoot-Hawley memo that investors received at the end of last week. We also don't recall any president's policies turning so quickly from bullish to bearish. Forward earnings is up 10.9% since enactment of Trump's tax reform—the Tax Cut and Jobs Act (TCJA)—on December 22 last year, from \$145.69 per share to \$161.51 during the week of March 16. The forward P/E peaked at 18.6 on January 26 and fell to a post-election low of 16.0 on Friday ([Fig. 5](#)).

(3) *Treasury bonds*. The 10-year Treasury bond yield soared from 2.40% at the end of last year to 2.94% on February 21 ([Fig. 6](#)). It did so on expectations that the TCJA would stimulate an economy that was already at full employment, possibly stoking higher inflation. That fear seemed to be confirmed by January's wage inflation, as mentioned above.

Then the bond yield proceeded to hover between 2.80% and 3.00%, even though the Fed raised the federal funds rate, as was widely expected, last Wednesday by 25bps to a range of 1.50%-1.75%. Subsequent CPI, PPI, PCED, and wage inflation reports showed that inflation remained subdued. The Atlanta Fed's [GNPNow](#) forecast for Q1 fell from over 5.0% earlier this year to 1.8% on Friday. Retail sales were surprisingly weak during January and February, suggesting that the cuts in individual tax rates weren't stimulating consumer spending as widely expected.

Trump's increasing focus on raising tariffs may be spooking some investors into buying bonds rather than stocks even as the Fed continues to raise the federal funds rate. Investors doing so must be relatively unconcerned that China might retaliate by selling US bonds.

(4) *High-yield bonds*. So far, Trump's saber-rattling on trade hasn't unnerved the high-yield corporate bond market. Yields on junk bonds are especially sensitive indicators of the business cycle ([Fig. 7](#)). So is the yield spread between high-yield bonds and Treasury bonds ([Fig. 8](#)). But so far, neither of these sensitive cyclical indicators seems to be anticipating that a trade war is coming.

(5) *Industrial commodity prices*. Also relatively calm is the CRB raw industrials spot price index, which

has been moving sideways so far this year, holding onto its gains of 2016 and 2017 ([Fig. 9](#)). There is weakness in one of the CRB index's more cyclically sensitive components that tends to be especially sensitive to developments in China's economy: The price of copper is down 9% ytd ([Fig. 10](#)). This may be the commodity to watch for signals that trade tensions are starting to weigh on the global economy in general and China in particular.

(6) *Oil price*. The price of oil is also a sensitive indicator of the global economy ([Fig. 11](#)). However, it can be buffeted by geopolitical developments more so than other commodities. It had a good week last week after President Trump replaced his National Security Adviser Gen. H.R. McMaster with John Bolton, a fellow who shares Trump's hostility toward Iran and the nuclear deal that the Obama administration signed on July 14, 2015. Iran's oil output has increased from 3.3mbd during the second half of 2015 to 4.4mbd during December 2017 ([Fig. 12](#)).

Trade II: Is Trump Negotiable? As discussed in the next section, Melissa and I read the USTR report, which is belligerent toward China's trade practices—rightly so, in our opinion. We also read the transcript of the President's comments about it. The White House [website](#) describes them as “Remarks by President Trump at Signing of a Presidential Memorandum Targeting China's Economic Aggression.” That sounds like a declaration of war, yet the remarks suggest a strong desire to make a deal on trade issues with our major trading partners, including China.

The President said: “So we're talking to [the] World Trade [Organization], we're talking to NAFTA, we're talking to China, we're talking to the European Union. And I will say, every single one of them wants to negotiate. And I believe that, in many cases—maybe all cases—we'll end up negotiating a deal.” Regarding China, he said, “So we've spoken to China, and we're in the midst of a very large negotiation. We'll see where it takes us. But in the meantime, we are sending a Section 301 action. I'll be signing it right here, right now.”

He added, “And I will say, the people we're negotiating with—smilingly, they really agree with us. I really believe they cannot believe they've gotten away with this for so long.”

After his brief comments at the memo-signing ceremony, Trump asked his USTR, Robert Lighthizer, to say a few words. He didn't pull any punches: “[W]e concluded that, in fact, China does have a policy of forced technology transfer; of requiring licensing at less than economic value; of state capitalism, wherein they go in and buy technology in the United States in non-economic ways; and then, finally, of cyber theft.”

US Commerce Secretary Wilbur Ross spoke too, saying, “We will end up negotiating these things, rather than fighting over them, in my view.”

In an exclusive [interview](#) with *Fox News Sunday* yesterday, Treasury Secretary Steve Mnuchin said, “We are going to proceed with our tariffs. We're working on that.” He added, “We're simultaneously having negotiations with the Chinese to see if we can reach an agreement.” Furthermore, he noted, “I'm cautiously hopeful we reach an agreement, but if not we are proceeding with these tariffs. We are not putting them on hold.”

Asked about the stock market's plunge last week and the possibility of a damaging trade war, Mnuchin said, “There's a lot of different things impacting the stock market, but I think the most important thing to focus on is the market will go up and down in the short-term, the real important issue is where will it be longer-term. And the market is still up an enormous amount since the since the election.” He added, “I don't expect to see a big impact on the economy. We've been very careful in how we're doing this and what we're doing.”

By the way, Canada, Mexico, the European Union, and South Korea have already been exempted from the tariffs on steel and aluminum.

Trade III: The Art of the Deal. A week ago today, Melissa and I [wrote](#): “Last August, the Office of the US Trade Representative (USTR) initiated an investigation into China’s unfair trade practices. It was announced in a USTR [memo](#) titled ‘Initiation of Section 301 Investigation; Hearing; and Request for Public Comments: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.’” We also noted that the USTR’s draft report may be publicly released shortly along with recommendations for retaliation.

Turns out, that happened last week on Thursday. The 215-page [report](#) is titled “Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974.” The report accuses the Chinese government of several unfair trade practices and estimates that the cost to the US is \$50 billion per year:

- (1) “China uses joint venture requirements, foreign investment restrictions, and administrative review and licensing processes to force or pressure technology transfers from American companies.”
- (2) “China uses discriminatory licensing processes to transfer technologies from U.S. companies to Chinese companies.”
- (3) “China directs and facilitates investments and acquisitions which generate large-scale technology transfer.”
- (4) “China conducts and supports cyber intrusions into U.S. computer networks to gain access to valuable business information.”

Also on Thursday, President Donald Trump [directed](#) the USTR to publish a proposed list of products and any tariff increases by April 6. Then, “[a]fter a period of notice and comment, the Trade Representative will publish a final list of products and tariff increases.”

Trump also instructed the USTR “to pursue dispute settlement in the World Trade Organization to address China’s discriminatory technology licensing practices.” Last but not least, the President directed the secretary of the Treasury “to address concerns about investment in the United States directed or facilitated by China in industries or technologies deemed important to the United States.”

Trade IV: Trump’s Campaign Promises on Trade. Stock investors were taken by surprise last week by Trump’s proposed tariffs on selected Chinese goods. However, he publicly listed his trade policies during a campaign [speech](#) on June 28, 2016, as mentioned above. You may or may not like our President, but you have to give him credit for delivering on his promises whether you like them or not. Here is his checklist:

“A Trump administration will change our failed trade policy—quickly. Here are seven steps I would pursue right away to bring back our jobs.

“One: I am going to withdraw the United States from the Trans-Pacific Partnership, which has not yet been ratified. [Check.]

“Two: I’m going to appoint the toughest and smartest trade negotiators to fight on behalf of American

workers. [Check.]

“Three: I'm going to direct the secretary of Commerce to identify every violation of trade agreements a foreign country is currently using to harm our workers. I will then direct all appropriate agencies to use every tool under American and international law to end these abuses. [Check.]

“Four: I'm going to tell our NAFTA partners that I intend to immediately renegotiate the terms of that agreement to get a better deal for our workers. And I don't mean just a little bit better, I mean a lot better. If they do not agree to a renegotiation, then I will submit notice under Article 2205 of the NAFTA agreement that America intends to withdraw from the deal. [Check.]

“Five: I am going to instruct my Treasury secretary to label China a currency manipulator. Any country that devalues their currency in order to take advantage of the United States will be met with sharply. [Pending.]

“Six: I am going to instruct the US Trade Representative to bring trade cases against China, both in this country and at the WTO. China's unfair subsidy behavior is prohibited by the terms of its entrance to the WTO, and I intend to enforce those rules. [Check.]

“Seven: If China does not stop its illegal activities, including its theft of American trade secrets, I will use every lawful presidential power to remedy trade disputes, including the application of tariffs consistent with Sections 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962.” [Check.]

CALENDARS

US. Mon: Dallas Fed General Activity Index 30.9, Chicago Fed National Activity Index 0.05, Dudley, Mester. **Tues:** Consumer Confidence 131.0, Richmond Fed Manufacturing Index 22, S&P CoreLogic Case-Shiller HPI, Bostic. (*Wall Street Journal* estimates)

Global. Mon: France GDP 0.6%q/q/2.5%/y. **Tues:** Eurozone Economic Confidence 113.3. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index tumbled 5.9% last week for its worst decline in nearly 27 months, ranking an abysmal 48th out of the 49 markets in a week when just six countries rose in US dollar terms and the AC World ex-US index fell 2.8%. That compares to a 1.2% decline a week earlier, which ranked 34th as 17 markets rose and the AC World ex-US index gained 0.2%. Nearly all regions fell w/w last week, but EM Eastern Europe eked out a 0.3% gain, beating EMEA (-0.1), EM Latin America (-1.2), and EAFE (-2.6). The underperforming regions were EM Asia (-4.3), BRIC (-4.2), and EMU (-2.8). Pakistan was the best-performing country as it rose 3.8%, followed by New Zealand (1.6), Russia (1.1), Malaysia (0.8), Peru (0.5), and the Czech Republic (0.3). Of the 14 countries that underperformed the AC World ex-US MSCI last week, China fared the worst, falling 6.2%, followed by the United States (-5.9), Hungary (-4.9), Korea (-4.7), and Sweden (-4.6). On a ytd basis, the US MSCI fell w/w to a 3.0% gain from a 3.1% gain, and tumbled in the performance ranking to 32/33 from 23/33. The US MSCI now trails the AC World ex-US (-2.3) in the ytd period. The emerging market regions and 20/49 countries are in positive territory ytd. EM Latin America has risen 6.1% ytd and leads EM Eastern Europe (5.7), EMEA (2.8), BRIC (2.4), EM Asia (0.4), and EMU (-1.7). EAFE (-3.0) 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 tumbled last week as SmallCap performed best with a drop of 4.8%, ahead of the decreases for MidCap (-5.0%) and LargeCap (-6.0). The declines were the worst in 26 months for LargeCap and SmallCap, and was MidCap's biggest in six weeks. LargeCap is now down 9.9% from its record high on January 26, worse than the declines of MidCap (-7.8) and SmallCap (-5.8) since then. Just one sector rose in the latest week, down from nine a week earlier and all 33 rising the week before that. The best performers in the latest week: MidCap Energy (0.4%), LargeCap Energy (-0.9), SmallCap Utilities (-2.4), LargeCap Utilities (-2.5), SmallCap Energy (-2.7), and MidCap Utilities (-2.7). The biggest underperformers for the week: LargeCap Tech (-7.9), LargeCap Financials (-7.2), LargeCap Health Care (-6.8), MidCap Materials (-6.6), and MidCap Financials (-6.4). LargeCap and MidCap are now down 3.2% ytd, worse than the 1.4% decline for SmallCap. Six sectors are still positive to date in 2018, up from just three in early February. The best-performing sectors ytd: SmallCap Health Care (12.1), MidCap Health Care (3.6), MidCap Tech (2.8), LargeCap Consumer Discretionary (1.6), LargeCap Tech (1.5), and SmallCap Tech (1.4). The worst performers ytd: SmallCap Real Estate (-14.9), LargeCap Telecom (-11.4), MidCap Real Estate (-11.0), LargeCap Consumer Staples (-10.9), and SmallCap Utilities (-9.3).

S&P 500 Sectors and Industries Performance ([link](#)): All 10 sectors fell last week as eight outperformed the S&P 500's 6.0% decline. That compares to two rising a week earlier, when seven outperformed the S&P 500's 1.2% decline. Energy was the best-performing sector, albeit with a decline of 0.9%, ahead of Utilities (-2.5%), Real Estate (-3.8), Consumer Staples (-4.6), Consumer Discretionary (-4.8), Industrials (-5.0), Materials (-5.3), and Telecom (-5.6). Tech (-7.9) was the biggest underperformer, followed by Financials (-7.2), and Health Care (-6.8). Just two sectors are in the plus column so far in 2018, down from five a week ago and from nine the week before that, but up from just one a month earlier. Only two sectors are ahead of the S&P 500's 3.2% ytd decline: Consumer Discretionary (1.6) and Tech (1.5). The nine sectors that are underperforming the S&P 500 ytd: Telecom (-11.4), Consumer Staples (-10.9), Real Estate (-8.7), Energy (-7.5), Materials (-7.4), Utilities (-7.0), Industrials (-4.0), Financials (-3.9), and Health Care (-3.5).

Commodities Performance ([link](#)): Paced by gains in the Energy-related commodities indexes, the S&P GSCI index rose 2.4% for its best increase in five weeks as eight of the 24 commodities we follow moved higher. That compares to a 0.1% gain in the prior week, when 9/24 commodities rose. Last week's strongest performers: Brent Crude (5.7%), Crude Oil (5.6), Heating Oil (5.4), GasOil (5.2), and Unleaded Gasoline (4.3). Last week's biggest decliners: Lean Hogs (-6.3), Nickel (-5.0), Live Cattle (-5.0), Kansas Wheat (-4.1), and Copper (-3.3). The S&P GSCI commodities index is now up 2.9% ytd, but that's down from its peak 4.7% ytd gain on January 26. The best performers so far in 2018: Cocoa (38.2), Unleaded Gasoline (13.7), Kansas Wheat (12.2), Crude Oil (9.0), and Wheat (7.8). The biggest laggards of 2018 to date: Sugar (-17.1), Live Cattle (-12.6), Natural Gas (-10.8), Aluminum (-9.9), and Copper (-8.1).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 8/24 commodities, 0/9 global stock indexes, and 1/33 US stock indexes, compared to 8/24 commodities, 4/9 global stock indexes, and 8/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 4.5% from 5.1%. Fifteen commodities trade above their 200-dmas, down from 16 a week earlier. Cocoa leads all commodities and all assets at 28.6% above its 200-dma, but Crude Oil (20.4) and Brent Crude (17.9) each rose 5.4ppts w/w for the best performances of all commodities and all assets. Sugar trades at 10.4% below its 200-dma, the lowest of all commodities and indeed all assets. Lean Hogs (7.5) tumbled 7.1ppts w/w for the worst performance among all commodities. The global indexes trade at an average of 0.4% below their 200-dmas, down from 2.7% in the prior week. Three of the nine global indexes trade above their 200-dmas, down from seven a week earlier. Brazil (12.9) still leads the global indexes, and its w/w drop of 1.5ppts was the best performance among global indexes. The UK (-6.7) trades the lowest among global assets,

but Japan (-3.7) dropped 5.1 ppts w/w for the worst performance among global assets. The US indexes trade at an average of 1.4% below their 200-dmas, with 15 of the 33 sectors above, down from 3.4% above a week earlier, when 21 sectors were above. SmallCap Health Care (15.2) still leads all US stock indexes relative to their 200 dmas, followed by LargeCap Consumer Discretionary (4.9). MidCap Energy (2.7) rose 0.3ppt for the only gain among US stock indexes last week. SmallCap Real Estate (-13.3) trades the lowest among all assets, but LargeCap Tech (4.4) tumbled 9.5ppts for the worst performance among US stock indexes and all assets.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index tumbled 6.0% last week and fell below its short-term 50-dma and long-term 200-dma trend lines. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 99th straight week (after 17 weeks in a Death Cross), yet the index's 50-day moving average (50-dma) relative to its 200-dma dropped for a seventh week to a 10-week low of 5.8% from 6.3%, 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 fell for the first time in five weeks and just the second time since mid-August, but fell at the fastest pace since February 2016. The 200-dma continued to rise, as it has done since May 2016, albeit at the slowest pace since October 2011. The index dropped to a 25-month low of 5.6% below its now-falling 50-dma from 0.1% above its rising 50-dma a week earlier, which compares to a two-year high of 6.2% above its rising 50-dma on January 29. The S&P 500 fell to 0.1% below its rising 200-dma from 6.4%, which is its first negative reading of Trump's presidency and the lowest since June 2016. That compares to a seven-year high of 13.5% on January 29, the 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 10/11 sectors (all but Energy) weaken relative to their 50-dmas, but all sectors fell relative to their 200-dmas. At the week's end, all 11 sectors traded below their 50-dma for the first time since February 2016, compared to 4/11 sectors above their 50-dma a week earlier. The longer-term picture—i.e., relative to 200-dmas—shows 8/11 sectors trading below, the lowest since January 2016, and compares to 5/11 below their 200-dmas a week earlier. These three remained above their 200-dmas: Consumer Discretionary (72 straight weeks), Financials (28 weeks), and Tech (90 straight weeks). Consumer Staples was below for a fifth week, Real Estate below for a 12th week, and Utilities below for a 14th 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. However, eight sectors are still in a Golden Cross (50-dmas higher than 200-dmas), but that's down from nine as Consumer Staples left the club in the latest week. 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 seventh week and the first time since last April, and Utilities was out for a ninth week and for the first time since March 2016. All 11 sectors have falling 50-dmas, the lowest since before the election in November 2016; that compares to 4/11 with rising 50-dmas a week earlier. Real Estate fell for the 12th time in 14 weeks, and Utilities moved lower for a tenth straight week. However, seven sectors still have rising 200-dmas, unchanged from a week earlier. That's up from six in early February, which was the lowest since May 2017. The 200-dmas for Real Estate and Utilities fell for an 11th week, and those for Consumer Staples and Telecom dropped for a fifth week.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): "The LEI points to robust economic growth throughout 2018. Its six-month growth rate has not been this high since the first quarter of 2011," according to the Conference Board. The LEI climbed for the fifth straight month, up 0.6% last month, and is now 6.2% above its previous record high posted in March 2006. It hasn't posted a decline in 22 months. In the six months ending February, the leading index has climbed 4.0%, nearly double the 2.4% growth during the prior six months. Of the 10 components, eight contributed positively, while building permits (-0.17ppt) and stock

prices (-0.12) were the only negative contributors. Most of the positive contributions were significant: the average workweek (0.20), jobless claims (0.18), new orders diffusion index (0.18), interest rate spread (0.16), and consumer expectations (0.12); the leading credit index (0.09) was also a notable contributor, while real consumer goods orders (0.03) and real core capital goods orders (0.02) were negligible contributors.

Coincident Indicators ([link](#)): February's Coincident Economic Indicators (CEI) index also continued to hit new record highs, not posting a decline since January 2014. The CEI advanced for the sixth month, climbing 0.3% in February and 1.5% over the six-month period; it's up 8.6% since January 2014. All four components contributed positively last month: 1) Industrial production, which was the only negative contributor in January, was the biggest positive contributor in February. Output rebounded 1.1% last month after falling 0.3% in January. February's increase was the fifth in the past six months, for a total gain of 3.5% to a new record high. 2) Nonfarm payroll employment continued to head straight up to new record highs, rising 313,000 last month—its biggest gain since July 2016. Payroll employment hasn't posted a decline since September 2010. 3) Real personal income—excluding transfer payments—rose for the sixth time in eight months by a total of 1.3% to another new high. 4) Real manufacturing & trade sales increased for the tenth straight month, by a total of 4.5%, setting new record highs along the way.

Durable Goods Orders & Shipments ([link](#)): Both core capital goods shipments and orders in February posted strong gains, the latter rebounding from back-to-back January and December declines. Nondefense capital goods orders ex aircraft (a proxy for future business investment) jumped 1.8%, more than reversing the 0.9% slide the prior two months; the comparable shipments measure (used in calculating GDP) climbed for the 13th straight month—up 1.4% m/m and 10.4% over the period. Core capital goods orders expanded 0.6% (saar) during the three months through February, based on the three-month average, slowing from double-digit gains from September through December; the comparable shipments measured grew 7.4% (saar), slowing steadily from its recent peak of 14.1% recorded in the three months through October. Headline durable goods orders rebounded 3.1% in February, led by a 25.5% jump in volatile commercial jet orders—after a 27.9% plunge in these orders pushed durable goods orders down 3.5% in January. Excluding transportation, orders expanded for the seventh time in eight months, by 1.2% m/m and 6.7% over the period—to within 1.3% of June 2008's record high.

Regional M-PMIs ([link](#)): Three Fed districts now have reported on manufacturing activity for March—New York, Philadelphia, and Kansas City—and they show growth in the sector remains strong. We average the composite, orders, and employment measures as data become available. The composite index accelerated (to 20.6 from 18.6) this month, not too far from its recent high of 26.3 in October—which was the highest reading since July 2004. The New York (22.5 from 13.1) region showed faster growth, while Philadelphia's (22.3 from 25.8) growth eased though remained robust. Meanwhile, growth in Kansas City (unchanged at 17.0) matched February's pace. The new orders gauge (17.2 from 18.0) was little changed from February, as an acceleration in orders in both the Philly (35.7 from 24.5) and New York (16.8 from 13.5) regions was more than offset by a big move down in Kansas City (-1 from 16)—which turned negative for the first time since August 2016. The employment measure (20.3 from 19.7) was also little changed. Kansas City (26 from 23) manufacturers added to payrolls at a record pace in March, while manufacturers in both the Philadelphia (25.6 from 25.2) and New York (9.4 from 10.9) regions added to their payrolls at about the same pace as in February—though the rate in Philadelphia was considerably faster than in New York and virtually matched Kansas City's pace.

New Home Sales ([link](#)): New home sales in February fell for the third time since reaching a new cyclical high in November—though remain at a high level. Some of the recent weakness has been weather related, though a shortage of lots and higher home prices have also challenged the housing market. Sales fell 0.6% last month to 618,000 units (saar) after a revised 4.8% drop in January, which

was smaller than the initial 7.8% decline. (New home sales are tabulated when contracts are signed, making new home sales a timelier barometer of the residential market than existing home sales.) Regionally, sales fell in the West (-17.6%) and Midwest (-3.7), but rose in the Northeast (19.4) and South (9.0). Both the West and Midwest have experienced rapid price growth amid a shortage of homes for sale. In February, there were 305,000 homes on the market—the most since March 2009, with the supply of homes at the current sales rate climbing for the third month, from 4.8 in November to 5.9 last month. Meanwhile, March builder confidence remained on solid footing, though eased for the third month. The NAHB Housing Market Index declined from an 18-year high of 74 in December to 70 in March, as builders remained hampered by a shortage of buildable lots. Of the three components: 1) the measure for current sales conditions remained at 77, just below December's cyclical high of 80; 2) sales expectations over the next six months ticked down 2 points to 78, after reaching a post-recession high of 80 in February; and 3) the index measuring buyer traffic dropped to 51 from 54 the prior two months.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US manufacturers reported the strongest growth in three years in March, according to flash estimates, while service-sector growth eased to a two-month low, holding around recent highs. While March's C-PMI fell to 54.3 from February's 15-month high of 55.8, the level remained elevated, supported by the fastest employment growth since May 2015. The M-PMI climbed for the third time in four months, from 53.9 in November to 55.7 this month—the best since March 2015—led by stronger contributions from employment, inventories, and supplier delivery times; both production and new orders growth slowed this month, but remained solid. The NM-PMI (54.1 from 55.9) eased from February's six-month high; service providers recorded another robust rise in new business this month, with the rate of expansion holding close to February's three-year high, while job creation was the strongest since September 2015.

Eurozone PMI Flash Estimates ([link](#)): Eurozone growth this month was the weakest since the start of 2017, according to flash estimates. March's C-PMI fell for the second month from January's 139-month high of 58.8 to a 14-month low of 55.3 this month, as both the M-PMI (to 56.6 from 59.6 in January) and NM-PMI (55.0 from 58.0) slowed dramatically from January highs. According to the report, "At least some of the slowing may be ascribed to bad weather in some northern regions and, perhaps more importantly, 'growing pains' resulting from the strength of the recent growth spurt." Output, production, and employment growth slowed in both sectors: Manufacturing production was the weakest since January 2017 this month and services the weakest since October, while manufacturing new orders grew at a 14-month low, depressed by a weakening in export demand due to the stronger euro. Meanwhile, strong job gains were reported for both the manufacturing and services sectors, though rates of creation were the slowest in seven and six months, respectively. By country, C-MPIs show that growth expanded at a seven-month low in France (to 56.2 from 57.3) and an eight-month low in Germany (55.3 from 57.6), with growth in both manufacturing and services sectors easing; the rest of the Eurozone registered the weakest growth in five months.

Japan M-PMI Flash Estimate ([link](#)): Japan's manufacturing sector this month expanded at its slowest pace since October 2017, according to its flash estimate. The M-PMI eased for the second month, from 54.8 in January to 53.2 in March, though the Q1 average of 54.0 is the best quarterly performance since Q1-2014. Weakness was widespread this month as growth eased for new orders, production, and employment, with orders growth the slowest in five months, and production and employment the weakest since July 2017.

Germany Ifo Business Climate Index ([link](#)): "Strong sentiment among German businesses weakened slightly this month," noted Ifo's president. "The threat of protectionism is dampening the mood in the

German economy," he added. The Ifo business climate index fell for the third month, from 117.6 in January (which matched November's record high) to an 11-month low of 114.7 this month. Nearly all of the recent weakness can be traced to the expectations component, which sank for the fourth consecutive month, from a seven-year high of 111.0 in November to a 14-month low of 104.4 this month—which is still a relatively high level. March's present situation component remained in record territory, at 125.9, only 1.9 points below January's record high of 127.8. Ifo's expectations component correlates closely with German factory orders and production; the overall index tracks exports more closely. Recent Ifo data suggest an easing of growth in both orders and output from their recent robust pace, given the recent weakness in the expectations component, while the headline number predicts there's still room for improvement in export growth.

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