



MORNING BRIEFING

April 16, 2018

Inflating Inflation

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

(1) The “fret level.” (2) Trade War Watch: Xi concedes a little, while Trump has second thoughts about TPP. (3) Trump channeling Reagan rather than Hoover on trade. (4) Our fearless leader is impetuous on trade as on other matters. (5) Next fret: Back to worrying about inflation? (6) Rising PPI costs likely to pinch profit margins fattened by tax cuts rather than getting pushed up into CPI. (7) Rising costs mostly attributable to rising commodity prices, particularly oil prices. (8) The Fed sends a memo about inflation to investors: Don’t fret. (9) Overshooting inflation target might not change Fed’s gradual pace of normalization. (10) “Beirut” (+).

YRI in the News. Last week, I discussed my bullish outlook for the stock market under Trump in a Yahoo Finance [video](#) you might be interested in checking out. Also, my new book [Predicting the Markets](#) was favorably [reviewed](#) on Seeking Alpha.

Strategy: Trade War Over Already. Investors have fretted over plenty of issues during the current bull market. Many of these were passing concerns. As a result, the bull market has been buffeted by panic attacks when the “fret level” got especially high only to be followed by relief rallies when the worries subsided.

The latest panic attack was mostly about Trump turning into a protectionist trade warrior. The relief rally may already be underway after Chinese President (for life) Xi Jinping last Tuesday responded in a conciliatory fashion to Trump’s complaints against China’s unfair trade practices. Xi said that tariffs on imported autos would be cut and more would be done to protect foreigners’ intellectual property rights. Then, last Thursday, Trump unexpectedly reversed course and directed his trade team to reconsider joining the Trans-Pacific Partnership trade agreement after having pulled out of it early last year.

I’ve frequently opined that Trump favors free trade as long as it is fair trade. I predicted that he would be much more like Ronald Reagan than Herbert Hoover on trade. In my new book, I wrote:

“Donald Trump won the presidential election on November 8, 2016. He did so to an important extent because he promised to bring jobs back to the United States by either renegotiating trade agreements or imposing tariffs if necessary. His policies could pose a threat to global trade. However, the threat level seems more like what it was during the Reagan years than the debacle of the Hoover administration. Reagan 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 United States.” I added:

“Trump might also succeed in forcing some of America’s trading partners to eliminate unfair trade practices. His approach is bilateral rather than multilateral, which is a different approach to negotiating free trade deals than the one that has prevailed since World War II. That’s alright by me as long as the result is free trade. All the better if it is also fair trade.”

Last Wednesday's [Morning Briefing](#) was titled "Trade War Over Already?" Today, I'm using the same title for this section, brazenly dropping the question mark. Am I being impetuous? No more so than our fearless leader! The S&P 500 rose 2.0% last week and is only 7.5% below its record high ([Fig. 1](#) and [Fig. 2](#)).

US Economy: Inflation Warming? The latest panic attack was initially triggered by concerns about inflation rather than trade. Recall that on February 2, January's employment report showed a higher-than-expected wage inflation rate of 2.9%. Subsequent inflation indicators quickly dissipated this concern only to be trumped by Trump's trade war rhetoric. If the trade war is over already, perhaps we'll start worrying about inflation again.

Debbie and I would like to assure you that there is nothing to worry about, but we can't. Inflationary pressures are building at the producer price level. The question is whether cost-push inflationary pressures will push consumer price inflation higher. We don't think so. Competitive pressures should keep a lid on the CPI inflation rate at the same time that PPI inflation is rising more rapidly. That means that either productivity will suddenly improve or, more likely, profit margins will erode. But don't fret: Profit margins have been boosted significantly by Trump's corporate tax cut. So there is room for companies to absorb cost increases by lowering profit margins rather than raising prices. Let's take a deep dive into the latest inflation data:

(1) *ISM surveys.* The monthly ISM survey of purchasing managers includes a prices paid index for manufacturing and nonmanufacturing companies ([Fig. 3](#)). The former jumped to 78.1, the highest reading since April 2011. That's a significant rebound from the second half of 2014 and all of 2015, when this index was below 50.0. The nonmanufacturing prices-paid index has been on a more muted uptrend since early 2016, rising to 63.0 in March.

(2) *NFIB survey.* The NFIB's March survey of small business owners found that 16.0% of them are raising their average selling prices ([Fig. 4](#)). That's not a lot, but it is the highest percentage since September 2008. The percentage planning to raise their average selling prices rose to 25.0% last month, also the highest since September 2008.

(3) *Regional Fed surveys.* Five of the 12 Federal Reserve district banks (FRBs) conduct monthly business surveys in their regions. All of them (Dallas, Kansas City, New York, Philly, and Richmond) ask questions about both prices paid and prices received ([Fig. 5](#)). Interestingly, the diffusion indexes for prices paid almost always exceed the diffusion indexes for prices received. As is the case with the ISM series, there have been noticeable upward trends in both indexes for the five districts since early 2016.

Not very surprising is that the average of the five FRBs prices-paid indexes is highly correlated with the ISM manufacturing prices-paid index ([Fig. 6](#)).

(4) *Producer prices.* Also not surprising is that the regional average prices-paid index is highly correlated with the PPI for final demand ([Fig. 7](#)). During March, the former was the highest since May 2011, while the latter matched its highest rate since January 2012.

(5) *Consumer prices.* The average prices-paid index based on the Fed's regional surveys seems to reflect pricing pressures in the goods sector more than in the services sector. That's evident from its high correlation with the ISM manufacturing prices-paid index and with the PPI for final demand. So far, the recent pricing pressures evident in those three prices-paid indicators are not showing up in the CPI for goods, neither including nor excluding food and energy ([Fig. 8](#)).

(6) *Import prices.* Also not showing up in the CPI for goods excluding food and energy is any pressure

from the weaker dollar, which is down 6.8% y/y through the end of March. That's because the index of imported consumer goods excluding food and energy has been hovering around zero on a y/y basis since early 2017 despite the weaker dollar ([Fig. 9](#)).

(7) *Services*. So far, our analysis has focused on various measures of goods inflation. In the goods CPI, most of the upward pressure has been energy related. This index is up 1.5% y/y through March, and slightly negative excluding food and energy commodities. The cost-push inflationary pressures evident in the ISM, FRB, and PPI prices-paid indexes may be mostly related to the rise in oil prices since early 2016.

On the other hand, the CPI services inflation rate is up 2.9% both with and without energy services ([Fig. 10](#)). The overall CPI services inflation rate was depressed last year by a sharp drop in wireless telephone service fees ([Fig. 11](#)). They are still falling this year on a y/y basis, but not as fast as last year. On the other hand, tenant rent in the CPI seems to have peaked during Q1-2017 at 3.9% y/y ([Fig. 12](#)). It was down to 3.6% during March. This development may be starting to weigh on owners' equivalent rent as well ([Fig. 13](#)).

(8) *Medical care*. Also helping to dampen inflationary pressures last year in the CPI was a sharp decline in medical care inflation, led by physician services and prescription drugs ([Fig. 14](#)). The same cannot be said for the PCED medical care component, which has maintained a more subdued inflation rate around 2.0% for the past couple of years.

The Fed: Sending the Inflation Memo. The FOMC sent a memo to investors last week. In effect, it stated that if inflation soon rises to the Fed's 2.0% inflation target, please don't freak out. The FOMC's policy path will most likely continue to be gradual. That was the important message contained in the March 20-21 meeting [minutes](#) of the Fed's policy-setting committee released last Wednesday.

The message seemed to be a response to the observation in the minutes that "a steep" albeit temporary "decline in equity prices and an associated rise in measures of volatility" resulted from market participants' reaction to "incoming economic data released in early February—particularly data on average hourly earnings—as raising concerns about the prospects for higher inflation and higher interest rates."

FOMC participants expect that inflation will soon rise as "transitory" factors that had weighed on inflation last year dissipate this year. Furthermore, the stronger economic growth is expected to push inflation up toward the FOMC's 2.0% objective, according to the minutes. But such an increase is not expected to change the FOMC's gradual course of raising interest rates. Nor would a temporarily overshoot of the inflation target.

If inflation should rise much faster than expected and stay consistently above 2.0%, however, then the FOMC might decide to raise rates at a "slightly" faster pace over the next few years. One risk to inflation discussed in the minutes could come from fiscal stimulus. Depending on the timing and magnitude of the effects of fiscal stimulus, it could push output above its potential and further tighten resource utilization.

Melissa and I spent some time studying the nuances of the latest minutes in the context of the Fed's likely response to inflation. Of course, we don't know for sure who said what, as the meeting attendees are referred to in the minutes as "participants" and "members." The latter is a subset of the former: While participants comprise the Fed chairman, governors, and all 12 presidents of the district FRBs, members comprise the Fed chairman and governors and the president of the FRB-NY but just four other district presidents, those with voting status in a particular year (11 of the 12 district presidents are

rotated into voting status on an annual basis, while one is a permanent voter, the FRB-NY president). Thus, all the members get to vote on policy decisions, but all the participants do not. Consider the following:

(1) *Transitory effect expected by all participants.* It's worth repeating that the gradual course of monetary policy is not expected to change if inflation continues to rise as the committee expects. The minutes noted that "all participants expected inflation on a 12-month basis to move up in coming months. This expectation partly reflected the arithmetic effect of the soft readings on inflation in early 2017 dropping out of the calculation; it was noted that the increase in the inflation rate arising from this source was widely expected and, by itself, would not justify a change in the projected path for the federal funds rate."

Supporting this view, "several participants noted that the 12-month PCE price inflation rate would likely shift upward when the March data are released because the effects of the outsized decline in the prices of cell phone service plans in March of last year will drop out of that calculation." (Last Wednesday, the Bureau of Labor Statistics reported that the core CPI inflation rate rose 2.1% y/y in March, after fluctuating between 1.7% and 1.8% the prior ten months.)

(2) *Progress to 2.0%, say most participants.* In addition to transitory effects, most participants believe that the stronger economy will contribute to rising inflation. The minutes read: "Most participants commented that the stronger economic outlook and the somewhat higher inflation readings in recent months had increased the likelihood of progress toward" the FOMC's 2.0% inflation objective.

(3) *Overshoot okay for a few participants.* "A few participants suggested that a modest inflation overshoot might help push up longer-term inflation expectations and anchor them at a level consistent with" the FOMC's 2.0% objective. According to the staff's economic outlook, inflation risks were viewed as balanced with the upside that inflation could rise more than expected in an economy that was "projected to move further above the potential." The downside risk was that "low core inflation readings" could "prove to be more persistent than the staff expected."

(4) *Above-potential output considered by a number of participants.* "A number of participants" discussed "the potential benefits and costs" of "an economy operating well above potential for a prolonged period while inflation remained low," according to the minutes. On the one hand, the "associated tightness in the labor market" might increase labor force participation and induce the return to the FOMC's 2.0% objective. On the other hand, "an overheated economy could result in significant inflation pressures or lead to financial instability."

(5) *Participants unsure about stimulus.* Fiscal stimulus was indicated as a potential source of the economy overheating. The minutes stated that "participants generally regarded the magnitude and timing of the economic effects of the fiscal policy changes as uncertain, partly because there have been few historical examples of expansionary fiscal policy being implemented when the economy was operating at a high level of resource utilization."

(6) *Differing views on wage inflation.* So how tight is labor resource utilization now? A "few participants" noted that the "moderate" pace of wage gains suggested that "there was room for the labor market to strengthen somewhat further." "Several participants" noted a "modest increase" in wage gains. "[B]ut most still described the pace of wage gains as moderate."

(7) *Several participants say gradual does it, others say slightly steeper.* If inflation makes a big comeback beyond just dropping the transitory effects noted above, then the policy path might be steeper, but it may be just "slightly" steeper. "Several participants" commented that continuing the

gradual approach to removing accommodation “was most likely to be conducive to maintaining strong labor market conditions and returning inflation to 2 percent on a sustained basis without resulting in conditions that would eventually require an abrupt policy tightening.”

However, a “number of participants indicated that the stronger outlook for economic activity, along with their increased confidence that inflation” would reach the FOMC’s 2.0% objective, “implied that the appropriate path for the federal funds rate over the next few years would likely be slightly steeper than they had previously expected.”

There you have the opinions of the few, several, and most FOMC meeting participants. Which of these are members who actually vote to make policy this year is anyone’s guess.

Movie. “Beirut” (+) ([link](#)) takes place in Lebanon during 1982, when the country was in a civil war and just before the Israeli invasion of southern Lebanon. Jon Hamm plays the part of Mason Skiles, who is brought into Beirut to negotiate the release of a kidnapped US operative. The movie is a good reminder of why the Middle East is so messed up. Today, Syria is in the throes of a similar mess, with many more casualties. It doesn’t seem the US can do much about it other than lob some cruise missiles into Syria every now and then when red lines are crossed.

CALENDARS

US. Mon: Retail Sales Total, Ex Autos, Ex Autos & Gas, and Control Group 0.4%/0.2%/0.5%/0.5%, Business Inventories 0.6%, Empire State Manufacturing Index 18.2, Housing Market Index 70, Treasury International Capital, Bostic. **Tues:** Headline & Manufacturing Industrial Production 0.4%/0.2%, Capacity Utilization 78.0%, Housing Starts & Building Permits 1.269mu/1.311mu, Williams, Quarles, Evans. (*Wall Street Journal* estimates)

Global. Mon: None. **Tues:** Germany ZEW Survey Expectations -1, UK Employment Change & Unemployment Rate (3M) 55K/4.3%, Japan Industrial Production, Japan Trade Balance ¥499.2b, China GDP 1.5%q/q/6.8%y/y, China Retail Sales 9.7% y/y, China Industrial Production 6.4% y/y, RBA April Minutes. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index rose 2.0% last week, ranking 17th out of the 49 markets in a week when 37 countries rose in US dollar terms and the AC World ex-US index rose 1.3%. That compares to the index’s 1.4% decline a week earlier, which ranked 39th as 21 markets rose and the AC World ex-US index gained 0.1%. EMU performed the best last week with a gain of 1.7%, ahead of EM Asia (1.5%) and EAFE (1.4). The underperforming regions were EM Eastern Europe (-6.8), EMEA (-5.1), EM Latin America (-0.1), and BRIC (0.3). Israel was the best-performing country as it rose 5.7%, followed by Colombia (4.7), Poland (3.5), Mexico (3.0), and Hong Kong (2.7). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Russia fared the worst as it tumbled 11.6% for its worst decline since December 2014. Also falling with big declines were Turkey (-5.2), Pakistan (-2.9), and Jordan (-2.8). On a ytd basis, the US MSCI improved w/w to a 0.5% decline from -2.4% a week ago, and improved in the performance ranking to 28/33 from 31/33. The US MSCI is now tied with the AC World ex-US (-0.5) in the ytd period. Most of the emerging market regions and 25/49 countries are in positive territory ytd. EM Latin America has risen 7.0% ytd and leads EMU (1.8), BRIC (1.4), EM Asia (1.2), and EAFE (-0.4). EMEA (-3.7) and EM Eastern Europe (-2.6) 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 rose last week as LargeCap

performed best with a gain of 2.0%, a whisker ahead of SmallCap (2.0%) and easily beating MidCap (1.6). LargeCap is now down 7.5% from its record high on January 26, worse than the declines of MidCap (-5.6) and SmallCap (-2.7) since then. Twenty-five of the 33 sectors rose in the latest week, up from eight rising a week earlier. Energy and Tech dominated the best performers in the latest week: MidCap Energy (10.1), SmallCap Energy (10.1), LargeCap Energy (6.0), SmallCap Tech (4.1), LargeCap Tech (3.7), and MidCap Tech (3.1). The biggest underperformers for the week: LargeCap Utilities (-1.3), SmallCap Utilities (-1.2), LargeCap Real Estate (-1.2), MidCap Utilities (-0.7), and MidCap Real Estate (-0.7). Nineteen sectors are now positive to date in 2018, up from six a week earlier and from just three in early February. The best-performing sectors ytd: SmallCap Health Care (15.9), MidCap Health Care (5.9), LargeCap Tech (4.6), MidCap Tech (4.4), and SmallCap Tech (3.7). The worst performers ytd: SmallCap Real Estate (-12.3), LargeCap Telecom (-9.4), MidCap Real Estate (-8.2), LargeCap Consumer Staples (-7.8), and LargeCap Real Estate (-7.5).

S&P 500 Sectors and Industries Performance ([link](#)): Eight sectors rose last week as four outperformed the S&P 500's 2.0% gain. That compares to all 10 falling a week earlier, when seven outperformed the S&P 500's 1.4% decline. Energy was the best-performing sector with a 6.0% surge, well ahead of Tech (3.7%), Materials (2.8), and Health Care (2.4). Utilities was the biggest underperformer with a drop of 1.3%, followed by Real Estate (-1.2), Telecom (-0.6), Consumer Staples (0.2), Consumer Discretionary (0.5), Financials (1.0), and Industrials (1.6). Just two sectors are in the plus column so far in 2018, down from nine in early March but up from just one a month earlier. In an unusual twist, only two sectors are ahead of the S&P 500's 0.6% ytd decline: Tech (4.6) and Consumer Discretionary (2.6). The nine ytd underperformers: Telecom (-9.4), Consumer Staples (-7.8), Real Estate (-7.5), Utilities (-5.6), Materials (-4.0), Industrials (-2.5), Financials (-1.8), Energy (-1.1), and Health Care (-1.0).

Commodities Performance ([link](#)): The S&P GSCI index soared 5.5% w/w for its biggest gain since December 2016 as 21 of the 24 commodities we follow moved higher. That compares to a 2.0% decline in the prior week, when 9/24 commodities rose. Last week's strongest performers: Aluminum (12.6%), Crude Oil (8.5), Brent Crude (7.3), and Heating Oil (6.8). Last week's biggest decliners: Lead (-3.8), Zinc (-3.5), and Sugar (-1.2). The S&P GSCI commodities index is up 5.8% ytd to its highest level since December 2014. The best performers so far in 2018: Cocoa (36.2), Kansas Wheat (20.5), Unleaded Gasoline (15.2), Wheat (14.6), Corn (12.5), Crude Oil (11.4), and Soybeans (10.7). The biggest laggards of 2018 to date: Sugar (-19.5), Live Cattle (-14.7), Lead (-7.4), Natural Gas (-6.4), and Zinc (-6.3).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 21/24 commodities, 8/9 global stock indexes, and 24/33 US stock indexes, compared to 11/24 commodities, 4/9 global stock indexes, and 8/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to 6.5% from 3.3%. Sixteen commodities trade above their 200-dmas, unchanged from a week earlier. Cocoa leads all commodities and all assets at 23.7% above its 200-dma, but Aluminum (8.9%) rose 11.8ppts w/w for the best performance of all commodities and all assets. Sugar trades at 12.5% below its 200-dma, the lowest of all assets. Zinc (-2.5) fell 3.9ppts w/w for the worst performance among all commodities and all assets. The global indexes trade at an average of 1.2% above their 200-dmas, up from 0.6% in the prior week. Five of the nine global indexes trade above their 200-dmas, up from four a week earlier. Brazil (10.4) still leads the global indexes, but fell 1.4ppts w/w for the worst performance among the global indexes. Germany (-1.8) improved 1.6ppts for the global assets' best performance. Canada (-2.3) trades at the lowest among global assets. The US indexes trade at an average of 1.4% above their 200-dmas, with 21 of the 33 sectors above, up from 0.2% below a week earlier, when 15 sectors were above. SmallCap Health Care (16.9) still leads all US stock indexes relative to their 200 dmas; MidCap Energy (12.0) rose 9.9ppts for the biggest gain among US stock indexes last week. SmallCap Real Estate (-9.8)

trades the lowest among all US stock indexes, but SmallCap Utilities (-3.9) fell 1.3ppts for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 2.0% last week and improved relative to 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 102nd 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 10th week to a 66-week low of 3.0% from 3.9%, 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 fell for a fourth straight week, the worst performance since it fell for seven weeks before the 2016 election. The 200-dma continued to rise, as it has done since May 2016, but near the slowest pace since October 2011. The index improved to 1.1% below its falling 50-dma from 3.6% below a week earlier, which compares to a 25-month low of 5.6% below near the end of March and a two-year high of 6.2% above its rising 50-dma on January 29. The S&P 500 appears to have successfully tested its 200-dma again, rising to 1.9% above its rising 200-dma from 0.1% above its rising 200-dma a week earlier and from 0.6% below on April 3, which was the lowest reading since June 2016. That compares to a seven-year high of 13.5% on January 29 and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators ([link](#)): Last week saw nine sectors improve relative to their 50-dmas and 8/11 rise relative to their 200-dmas. At the week's end, nine of the 11 sectors traded below their 50-dma (all but Energy and Utilities), unchanged from a week earlier. That compares to all 11 below at the end of March, which was the first time that has occurred since February 2016. Utilities was positive for a third week, and Energy turned positive for the first time in 11 weeks. The longer-term picture—i.e., relative to 200-dmas—shows 6/11 sectors trading below, up from 8/11 below a week earlier, which was the lowest since January 2016. Industrials reversed course again and moved above its 200-dma in the latest week, and Energy turned positive for the first time in five weeks. The other three sectors trading above their 200-dmas have had longer tenures: Tech (93 straight weeks), Consumer Discretionary (75 straight weeks), and Financials (31 weeks). On the other hand, Consumer Staples was below for an eighth week, Real Estate below for a 15th week, and Utilities below for a 17th 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, six sectors are still in a Golden Cross (50-dmas higher than 200-dmas), down from seven 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. Energy was out for the first time in 23 weeks, Telecom was out for a second week, Consumer Staples for a fourth, Real Estate for a tenth, and Utilities for a 12th. Energy's 50-dma began rising this week, leaving 10 sectors with falling 50-dmas. In the prior week, all 11 sectors had falling 50-dmas in the worst count since before the election in November 2016. Real Estate fell for the 15th time in 17 weeks, and Utilities moved lower for a 13th 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 a 14th week, and those for Consumer Staples and Telecom dropped for an eighth week.

US ECONOMIC INDICATORS

JOLTS ([link](#)): Job openings in February fell 176,000 to 6.053 million after rebounding 561,000 in January, reversing the 564,000 slide during the final three months of 2017. February's result is within 179,000 of September's record high of 6.231 million. Meanwhile, hirings continue to fluctuate around October's cyclical high of 5.609 million, falling 67,000 to 5.507 million in February after a 50,000 gain at the start of the year; separations fell 127,000 in February to 5.192 million, following a two-month dip of 65,000—215,000 below its cyclical high of 5.407 million last July. The latest hirings and separations data yielded an employment advance of 315,000 for February, 11,000 below February's payroll gain of

326,000—coming in below payroll employment for the first time since last August. February's job-opening rate slipped to 4.2%, just below its record high of 4.4% recorded late last year, while the total hires rate (4.1%) held just below its cyclical high of 4.2%; the quit rate (2.4) continued to fluctuate around its cyclical high of 2.5%. February's ratio of unemployed workers per job opening moved up to 1.11 after falling to a new record low of 1.07 in January.

Consumer Sentiment ([link](#)): Consumer sentiment dipped in mid-April after reaching its highest reading since January 2004 in March. The Consumer Sentiment Index (CSI) fell to 97.8 this month after rising from 95.7 to 101.4 the prior two months. "The small decline was widely shared by all age and income subgroups and across all regions of the country," Richard Curtin, director of the University of Michigan consumer survey, said in a statement. "Importantly, confidence still remains relatively high, despite the recent losses that were mainly due to concerns about the potential impact of Trump's trade policies on the domestic economy." According to the survey, the moves made by Trump on trade were mentioned spontaneously by nearly a third of respondents, with nearly all comments negative. For those who were negative on trade, the expectations index was 64.2 compared with 93.9 for those who didn't mention it. The present situation index slipped from a record high of 121.2 in March to 115.0 in mid-April, while the expectations component edged lower for the second month from 90.0 in February to 86.8 this month.

Import Prices ([link](#)): Import prices in March accelerated 3.6% y/y, up from a recent low of 1.2% last July, though remained below February 2017's five-year high of 4.7%. Prices for nonpetroleum products rose 2.1% in the 12 months through March, matching February's rate, which was the fastest pace since January 2012. Import prices for capital goods (1.4% y/y) are accelerating, while consumer goods ex autos are showing little change over the past year. The yearly rate for petroleum prices was in double digits for the fifth month at 19.4% y/y, down from 26.8% in November. March's rate remains considerably below February 2017's seven-year high of 74.1%. Monthly data show total import prices were flat in March, after increasing the prior seven months by 3.9%; nonpetroleum import prices ticked up 0.1%, slowing from gains of 0.4% and 0.6% the prior two months.

PPI ([link](#)): The PPI for final demand rose 0.3% in March, in line with gains the first two months of the year. Prices for final demand goods climbed 0.3% after a 0.1% loss and a 0.7% gain the previous two months, while final demand services rose 0.3% during every month of Q1. Over half of March's gain in final demand goods is attributable to a 31.5% jump in prices for fresh and dry vegetables; in contrast, gasoline prices fell 3.7%. Meanwhile, the increase in final demand services was led by an acceleration in outpatient care costs. The yearly inflation rate for the headline series accelerated 3.0%—matching its highest rate since January 2012. The goods rate was little changed at 3.2% y/y last month, hovering around 3.0% the first three months of this year; it was at 4.2% in November; the services rate (2.9% y/y) climbed to a new record high. Meanwhile, the core (2.7% y/y) rate jumped to its fastest pace since November 2011, while the core ex trade services (2.9) reached a record high.

GLOBAL ECONOMIC INDICATORS

Eurozone Industrial Production ([link](#)): Output in February contracted for the third month since reaching a cyclical high in November—the longest stretch of declines since the three months through November 2012. Industrial production (excluding construction) fell an unexpected 0.8% in February (the largest decrease since June 2017), while January's (to -0.6% from -1.0%) decline was smaller than first reported and December's (-0.1 from 0.4) gain was revised to a slight loss. February's decline was broad-based as capital (-3.6%), consumer durable (-2.1), intermediate (-0.8), and consumer nondurable (-0.5) goods production all fell; energy output surged 6.8% after tumbling 5.4% in January. Data available for the four top Eurozone economies were mixed, with production rising in Spain (1.4) and France (1.3) and falling in Germany (-1.5) and Italy (-0.5). The largest declines were recorded in Lithuania (-3.9), Estonia (-2.7), Portugal (-2.3), and Malta (-2.3), while the largest gains were posted in

the Netherlands and Latvia—both rising 3.9%. The Eurozone's M-PMI (56.6) for March—though solid—showed the slowest growth in the manufacturing sector in eight months as rates of expansion eased across all of the nations covered by the PMI survey.

Spain Industrial Production ([link](#)): Output rebounded in February, after posting its first loss in six months in January. Production, excluding construction, jumped 1.5% after sinking 2.9% in January—which was the steepest decline September 2012; it had soared 4.2% during the final five months of 2017, to a new cyclical high. Factory output ticked up 0.2% after slumping 0.9% in January; February's advance was the seventh in eight months, for a total gain of 2.3%, holding around its cyclical high. Over the eight-month period output of intermediate (4.0%), capital (2.4), and consumer durable (1.8) goods posted solid gains, while consumer nondurable goods (0.2) production was little changed; energy output rose 1.1% over the period. March's M-PMI (to 54.8 from 56.0) shows that manufacturing activity slowed last month, though remained at an elevated level, near recent highs. Output growth eased last month, but new orders continued to rise sharply.

Contact us by [email](#) or call 480-664-1333.

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

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).