Yardeni Research

MORNING BRIEFING
June 11, 2018

Tuning Out the Noise

See the collection of the individual charts linked below.

(1) The most bullish and bearish President ever. (2) S&P 500 cyclical sectors performing best ytd despite protectionism. (3) S&P 500 defensive sectors notch worst performance ytd because of rising bond yield. (4) SMidCaps outperforming LargeCaps on fears about global economic outlook. (5) Yet Dr. Copper may be turning more bullish on global economy. (6) Q1 data for nonfinancial corporations shows a 36% drop in effective tax rate. (7) A short users' guide for the GDPNow model. (8) Mary Meeker's excellent slide show.

Strategy: Finding the Signal. Joe and I were struck by a 6/6 Bloomberg article titled "Trade War Yanked $1.25 Trillion From U.S. Stocks, JPMorgan Says." According to this story, "Derivatives analysts at the firm devised a technique [to] plot the approximate impact of newsflow in the trade saga, which began in March. They found that weeks of back-and-forth have pushed stocks down by a net 4.5 percent, nixing $1.25 trillion from the S&P 500's market value."

I guess we can blame Trump for that loss thanks to his protectionist saber-rattling. On the other hand, he deserves credit for enacting a HUGE corporate tax cut at the end of last year. We don't recall a President who has been simultaneously so bullish and bearish for stocks. That might explain why the S&P 500 has been zigging and zagging since the start of this year (*Fig. 1*).

Joe and I aren't going to quibble with the quants at JP Morgan. However, it is interesting to note that most of the cyclical sectors of the S&P 500 have significantly outperformed the interest-rate-sensitive ones so far this year (*Fig. 2*). Here is the ytd performance derby: Information Technology (13.6%), Consumer Discretionary (11.2), Energy (5.9), S&P 500 (3.9), Health Care (2.7), Industrials (0.4), Materials (0.2), Real Estate (-3.2), Utilities (-8.4), Telecom Services (-9.6), and Consumer Staples (-11.5). Now consider the following:

(1) *Growth beating Value.* The S&P 500 Growth Index, which has been outperforming the S&P 500 Value Index since roughly mid-2007, has been doing so at a faster pace so far this year (*Fig. 3* and *Fig. 4*).

We think the market is telling us that the signal is earnings that have been supercharged by the tax cut, while the noise is protectionist saber-rattling. That's been great for cyclical and growth stocks. The weakness in interest-rate-sensitive stocks is obviously related to the Fed's ongoing normalization of monetary policy, which has boosted the bond yield back to 3.00% recently. The Fed is doing so because the US economy is doing well, which is bullish for cyclical and growth stocks.

From our perspective, protectionism hasn't weighed on the market as much as the Fed has. Meanwhile, the global economy seems to be doing well enough to boost cyclical and growth stocks, notwithstanding protectionist saber-rattling.

(2) *SMidCaps outperforming LargeCaps.* Perversely, protectionism is actually providing a tailwind for the stocks of some companies. They are the ones that have relatively little exposure to the global economy. For example, the Russell 2000 SmallCap stock price index rose to yet another record high. It is up 8.9% ytd vs a gain of 4.2% for the Russell 1000 Large Caps ytd (*Fig. 5* and *Fig. 6*).

(3) *Copper heating up.* Dr. Copper, the commodity with a PhD in economics, has been zigzagging since late 2017 (*Fig. 7*). However, it zagged higher last week. What it isn't doing is taking a dive, confirming that the global economy continues to grow and that protectionism isn't likely to become a significant drag on growth.

(4) *Effective corporate tax rate takes a dive.* The Fed updated its quarterly *Financial Accounts of the United States* last week through Q1-2018. Melissa and I immediately focused on Table 1.03 for nonfinancial corporations (NFCs). We calculated their effective tax rate and found that it had plunged 35.8% from 21.5% during Q4-2017 to 13.8% during Q1-2018 (*Fig. 8*).

The statutory corporate tax rate was cut 40.0% from 35.0% to 21.0%. You might be wondering why Q1's effective tax rate was so much lower (at 13.8%) than the statutory rate (at 21.0%). The answer is that the pretax profits of NFCs (in both the Fed's and the Bureau of Economic Analysis' [BEA] accounts) includes the profits of nonfinancial S corporations. With an S corporation, income and losses are passed through to shareholders and included on their individual tax returns. So their profits are included in pretax profits, while their taxes are excluded from the taxes paid by NFCs.

(5) *Forward earnings flying high.* Meanwhile, analysts' consensus expectations for S&P 500 revenues and earnings this year and next year continued to rise to record highs through the May 31 week (*Fig. 9* and *Fig. 10*). The forward earnings of the S&P 500/400/600 all rose to record highs at the end of May (*Fig. 11*). They've been driven to new heights by the tax cut at the end of last year. They show no signs of flinching in reaction to protectionist saber-rattling.

(6) *Bottom line.* All of the above suggests that, despite the zigs and zags, the market has been picking up the strong signal of earnings for stocks in general and growth stocks in particular. It has also been tuning in to the signal that the Fed is sending about higher interest rates. The market has managed to tune out most of the protectionist noise, in our opinion.

US Economy: What Is GDPNow? The Atlanta Fed's (FRB-ATL) GDPNow forecast for real GDP growth during the current quarter was an impressive 4.8% as of June 1, which was lowered slightly to 4.5% by June 6, and then raised to 4.6% on June 8. However, many monthly data releases have yet to be incorporated into the overall forecast before the first official estimate by the BEA is released on July 27. Debbie and I don't give much weight to the GDPNow estimates until about four weeks before the release, when they start becoming more accurate instead of skewing high. However, we do follow the trend of the revisions. Here's more:

(1) *GDPNow 101.* About six or seven times a month, the FRB-ATL releases its GDPNow forecast for the next quarter's real GDP. The forecast is based on 13 subcomponents of GDP. As macroeconomic data are released during the month, the GDP components are updated in the forecast. Econometric techniques are used to fill the gap when the next quarter's data are not yet available for any of the subcomponents.

GDPNow is an entirely mathematical model, and as such, does not include any subjective components. It provides a very short-term view, becoming more accurate as more economic data are released and incorporated into the model. The FRB-ATL likes to think of GDPNow as a "nowcast," or forecasting tool, rather than a forecast, an FRB-ATL economist explained in a video on the FRB-ATL's GDPNow webpage. The FRB-ATL president issues a separate GDP forecast that is included in the FOMC's quarterly Summary of Economic Projections, though his forecast is informed by the nowcast. Accordingly, the nowcast may influence the FOMC consensus forecast, since the committee's policy meetings tend to occur prior to the release of the advance GDP estimate.

(2) *More accurate later*. We do not place a lot of weight on the accuracy of the GDPNow until about four weeks ahead of the BEA's advance GDP release. That's about when the accuracy of the nowcast stops improving, according to the FRB-ATL's July 2014 white paper on the model (see the last chart in Section 4 titled "Root Mean Square Forecast Error of GDP Growth [SAAR]").

The paper states that "it is probably safe to say that the GDPNow model forecasts are not as accurate as the best judgmental forecasts." We are particularly mindful that, based on our observation, the initial GDPNow tends to be higher than the last one released for the quarter. On its website, the FRB-ATL displays its nowcasts by quarter for each of the release dates from initial to final.

For Q1-2018, for example, one of our accounts questioned why the nowcast released on February 2 seemed incredibly high at over 5.0%. That turned out to be a good observation. The first BEA GDP estimate released on April 27 was 2.3%, less than half the initial projection. Given the above, however, the inaccuracy isn't surprising. On April 26, the final Q1 GDPNow was released at 2.0%, not far from the BEA's advance estimate. The GDPNow forecast done a few weeks prior to the final release, on April 2, was also relatively accurate at 2.5%.

(3) *Subcomponent insights*. The GDPNow releases are accompanied by a breakout of the subcomponent contributions, which we find to be very useful: It can provide some early insight behind the expectations for the overall figure. Looking at these data for Q1-2018, the first chart on the website linked above shows that consumer spending was largely responsible for the adjustment to the GDPNow from early January to late April. The forecast's accuracy substantially improved once retail sales data were released on February 14 and again on March 14.

Tech: Everything's for Rent. Mary Meeker, a general partner at Kleiner Perkins, earned her chops as an analyst at Morgan Stanley, where she was dubbed "Queen of the Net." Last week, she came out with her renowned annual report *Internet Trends*. It confirms the continuation of some old trends and shines a light on some interesting new ones. Here's a quick look:

(1) *Talking is the new typing.* Google's machines are getting smarter. Their recognition of English words has hit 95% accuracy, a vast improvement from the 2013 level close to 75%. Adoption of Amazon Echo has been rapid, with the installed base hitting roughly 30 million units in Q4-2017, up from about 10 million a year earlier.

The older Amazon's Echo gets, the smarter it gets: Alexa, the virtual assistant that comes with Echo, has 30,000 "skills," up from none just two years ago. Some of the skills expected to come this year: Alexa will be able to remember information you ask her to remember and retrieve it later, reported a 4/26 TechCrunch article. In addition, third-party developers are creating apps that will let you check your credit card account information, order an Uber, play games, and more.

(2) *Tech spending on tech.* Six of the top 15 US public companies spending the most on R&D and capital expenditures are technology companies, according to Meeker's slides. The biggest spender: Amazon, at roughly $35 billion, followed by Alphabet, Intel, Apple, and Microsoft; down the list a bit is Facebook.

Moreover, the Tech sector broadly has been outpacing other US sectors in terms of R&D and capex spending growth. The Tech sector increased its spending on R&D and capex by 18% y/y in 2017. The next fastest spender has been the Health Care sector, which increased its spending by 8% y/y last year. Along the same lines, US Tech sector companies spent 18% of their revenue on R&D and capex last year, up from 13% in 2007. That leaves us wondering whether this spending will abate once the mass move to the cloud is finished. Alexa, remind us to look into that.

(3) *Getting social*. Online shopping normally begins by searching for a product on Amazon (49% of the time) or by using a search engine (36% of the time). But increasingly, purchases are being made after browsing social media sites like Facebook, Instagram, or Pinterest. Fifty-five percent of survey respondents said they purchased an item after discovering it on social media. Along those lines, social media's referrals to e-commerce sites have climbed to 6% from 2% at the beginning of 2015.

(4) *Everything's for rent.* Subscription services are taking over our lives. We subscribe to watch videos from Netflix and Amazon. We subscribe to listen to music from Spotify and to play games on Sony PlayStation Plus. We subscribe to store files with Dropbox and to get our news from the *New York Times*. Clothes shopping has been subscriberfied at Stitch Fix, as has legal consultation on Legal Zoom. And those looking to get in shape can subscribe to Peloton. These subscriptions increased anywhere from 25% to 173% y/y last year.

Along the same lines, people are renting more than they are owning. Short-term rentals of homes (Airbnb) and cars (Uber, Zipcar) are commonplace. Freelancers are proliferating. Their number in the US has increased by 8.1% since 2014 compared to total workforce growth of 2.5%. Technology has made freelance work easier to find, and the desire for work/life flexibility makes it popular.

(5) *Basic stats*. The shipment of new smartphones was flat last year, and global Internet penetration hit 49%. However, the number of Internet users continued to climb last year (up about 7% y/y), and so did the amount of time spent on digital media (up 4% y/y).

How we consume that media is changing, with most of it accessed via mobile phone and less of it by sitting at personal computers. Advertisers have yet to fully adjust their ad dollars; more ad dollars should be spent on mobile advertising and less on print and radio, according to Meeker's metrics.

We've only scratched the surface of Meeker's deck. It's worth a read, as always.

CALENDARS

US. Mon: None. **Tues:** NFIB Small Business Optimism Index 105.3, Headline & Core CPI 2.8%/2.2% y/y, Treasury Budget -$144.0b, FOMC Meeting Begins. (*Wall Street Journal* estimates)

Global. Mon: UK Headline & Manufacturing Industrial Production 2.7%/3.1% y/y, UK NIESR GDP Estimate 0.3%, Japan Machine Tool Orders. **Tues:** Germany ZEW Survey Current Situation & Expectations 85.0/-14.0, UK ILO Employment Change & Unemployment Rate (3-month) 120k/4.2%, UK Jobless Claims Change & Claimant Count Rate, Australia Business Confidence, Lowe. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 1.6% last week, ranking 15th out of the 49 markets in a week when 35 countries rose in US dollar terms and the AC World ex-US index rose 0.8% for its second gain in seven weeks. That compares to the US MSCI's 0.5% rise a week earlier, which ranked eighth as 13 markets rose and the AC World ex-US index fell 0.9%. Most regions rose last week, but EM Asia performed best with a gain of 1.3%, followed by EAFE (0.9%). The underperforming regions relative to the AC World ex-US were: EM Latin America (-3.7), EM Eastern Europe (-0.4), EMEA (0.5), BRIC (0.5), and EMU (0.7). Argentina was the best-performing country as it rose 7.5%, followed by New Zealand (6.2), Pakistan (5.2), Poland (4.4), and Norway (3.5). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Brazil fared the worst for a second straight week as it tumbled 6.1%, followed by South Africa (-2.8), Italy (-2.8), and Russia (-2.3). On a ytd basis, the US MSCI improved w/w to a 4.2% gain from 2.5% a week ago, but dropped a spot in the ytd performance ranking to 8/49. The US MSCI is ahead of the AC World ex-US (-2.1) in the ytd period as few regions and just 18/49 countries are in positive territory ytd. EM Asia leads all regions with a gain of 1.2% so far this year and is ahead of BRIC (0.3), and EAFE (-2.0). EM Latin America (-12.6) is biggest laggard relative to the AC World ex-US's performance, followed by EMEA (-7.2), EM Eastern Europe (-4.3), and EMU (-2.3). The best country performers ytd: Peru (10.6), Colombia (10.5), Finland (10.2), China (6.2), and Israel (5.3). The worst-performing countries ytd: Turkey (-30.7), Argentina (-25.8), Brazil (-16.9), the Philippines (-14.9), and Indonesia (-14.5).

S&P 1500/500/400/600 Performance (*link*): All three of these market-cap indexes rose for a third straight week. SmallCap performed the best with a gain of 2.3%, ahead of MidCap (2.2%) and LargeCap (1.6). SmallCap is down negligibly from its record high on Wednesday, by just 0.1%, but MidCap was at a record high on Friday for the first time since late January. LargeCap remains 3.3% below its late-January record high. Twenty-eight of the 33 sectors rose in the latest week, up from 24 rising a week earlier. The best performers in the latest week: SmallCap Consumer Discretionary (5.6), MidCap Consumer Discretionary (5.5), MidCap Telecom (3.8), and LargeCap Telecom (3.4). Utilities dominated the biggest underperformers for the week: SmallCap Utilities (-3.6), LargeCap Utilities (-3.2), MidCap Utilities (-3.1), SmallCap Energy (-1.8), and MidCap Energy (-0.7). LargeCap is now up 3.9% ytd, trailing MidCap's 5.3% and SmallCap's 10.9% gains. Twenty-four sectors are now positive to date in 2018, up from 20 a week earlier and just three in early February. The best-performing sectors ytd: SmallCap Health Care (29.8), MidCap Health Care (19.1), MidCap Energy (13.9), LargeCap Tech (13.6), and SmallCap Financials (11.5). The worst performers ytd: LargeCap Consumer Staples (-11.5), LargeCap Telecom (-9.6), LargeCap Utilities (-8.4), SmallCap Utilities (-4.4), MidCap Telecom (-4.1), and SmallCap Real Estate (-4.1).

S&P 500 Sectors and Industries Performance (*link*): Ten sectors rose last week, six of them outperforming the S&P 500's 1.6% gain. That compares to five rising a week earlier, when three outperformed the S&P 500's 0.5% rise. Telecom was the best-performing sector with a 3.4% gain, ahead of the performances of Consumer Discretionary (3.2%), Materials (2.9), Consumer Staples (2.4), Financials (2.2), and Health Care (2.0). Utilities was the biggest underperformer with a drop of 3.2%, followed by gains for Energy (0.7), Tech (0.7), Real Estate (1.1), and Industrials (1.6). Seven sectors are in the plus column so far in 2018, up from four a week earlier and down from nine in early March. These three sectors are ahead of the S&P 500's 3.9% ytd gain: Tech (13.6), Consumer Discretionary (11.2), and Energy (5.9). The eight ytd underperformers: Consumer Staples (-11.5), Telecom (-9.6), Utilities (-8.4), Real Estate (-3.2), Materials (0.2), Financials (0.3), Industrials (0.4), and Health Care (2.7).

Commodities Performance (*link*): The S&P GSCI index fell 0.2% w/w as 11 of the 24 commodities we follow moved higher. That compares to last week's 1.0% drop when 12/24 commodities rose. Last week's strongest performers: Copper (6.2%), Zinc (3.5), Live Cattle (2.1), Silver (2.0), and Lead (0.9). Last week's biggest decliners: Soybeans (-4.3), Coffee (-3.7), Corn (-2.6), Natural Gas (-2.4), and Cocoa (-2.1). The S&P GSCI commodities index is up 7.6% ytd and near its highest level since December 2014, but remains 46.5% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (27.6), followed by Cocoa (27.2), Wheat (23.3), Nickel (20.8), and Cotton (19.6). The biggest laggards of 2018 to date: Sugar (-18.5), Live Cattle (-

13.0), Coffee (-6.4), Zinc (-3.6), and Silver (-2.2).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 10/24 commodities, 7/9 global stock indexes, and 28/33 US stock indexes, compared to 10/24 commodities, 1/9 global stock indexes, and 20/33 US stock indexes rising a week earlier. Commodities' average spread fell w/w to 6.0% from 6.5%. Seventeen commodities trade above their 200-dmas, up from 16 a week earlier. Cotton now leads all commodities at 20.8% above its 200-dma followed closely by Nickel (20.1%). Copper (6.4) rose 6.0ppts w/w for last week's best performance among commodities and all assets. Sugar trades at 8.6% below its 200-dma, the lowest of all commodities and all assets. Soybeans (-2.5) tumbled 4.5ppts last week, for the worst w/w performance among commodities. The global indexes trade at an average of 0.7% below their 200-dmas, down from 0.5% below in the prior week. Four of the nine global indexes trade above their 200-dmas, unchanged from a week earlier. The UK (3.3) leads the global indexes, but Japan (3.0) gained 2.0ppts for the best w/w improvement among global assets. Brazil (-8.1) is now the biggest laggard among global indexes, as it dropped 5.6ppts w/w for the biggest decline among global indexes and all assets. The US indexes trade at an average of 5.4% above their 200-dmas, with 27 of the 33 sectors above, up from 4.1% a week earlier, when 24 sectors were above. SmallCap Health Care (22.3) leads the US stock indexes and all assets, but SmallCap Consumer Discretionary (13.7) rose 5.4ppts w/w for the biggest gain among US stock indexes last week. LargeCap Utilities (-7.0) now trades the lowest among all US stock indexes, but SmallCap Utilities (-2.1) fell 3.5ppts w/w for the worst performance among US stock indexes.

S&P 500 Technical Indicators (*link*): The S&P 500 price index rose 1.6% last week and improved relative to both its short-term 50-dma trend line and its long-term 200-dma for a third straight week. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 110th straight week (after 17 weeks in a Death Cross) as the index's 50-day moving average (50-dma) relative to its 200-dma improved for the first time in 18 weeks to 1.2% from a 25-month low of 1.0%. That Golden Cross reading is still well below its 55-month high of 7.2% in early February and compares to a four-year low of -4.5% in March 2016. The S&P 500's 50-dma rose for a second week, but has fallen in eight of the past 12 weeks. It had fallen for four weeks through mid-April for its worst performance since before the 2016 election. The index rose to an 18-week high of 3.4% above its rising 50-dma from 1.1% above its 50-dma a week earlier. That compares to a 25-month low of 5.6% below its falling 50-dma near the end of March and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise, as it has done since May 2016, but near the slowest pace since October 2011. The S&P 500 appears to have successfully tested its 200-dma again recently, and improved to an 11-week high of 4.6% above its rising 200-dma from 3.3% a week earlier. That compares to 0.6% below its rising 200-dma on April 3 (the lowest reading since June 2016), a seven-year high of 13.5% above its 200-dma on January 29, and a four-year low of -10.1% in August 2015.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 S&P 500 sectors, last week saw eight improve relative to their 50-dmas and 10 relative to their 200-dmas. Energy and Industrials weakened relative to their 50-dmas, and Utilities dropped relative to both. Ten sectors now trade above their 50-dmas, up from seven a week earlier as Consumer Staples, Financials, and Telecom moved above in the latest week. Utilities remained below its 50-dma for a fourth week. Ten sectors trading above their 50-dmas is impressive given that all 11 sectors had been trading below their 50-dmas at the end of March (a first since February 2016). The longer-term picture—i.e., relative to 200-dmas—shows 8/11 sectors trading above, up from six a week earlier, as Materials and Real Estate flipped back into positive territory. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Telecom remained below its 200-dma in the latest week, where it's been for most weeks since April 2017, and Utilities was below for a 25th straight week. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 101 straight weeks), Consumer Discretionary (83 straight weeks), Financials (39 weeks), and Energy (nine weeks). Those trading below for a long time include: Consumer Staples was below for a 16th week, Telecom below for a 13th week, and Utilities below for a 25th 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, just four sectors are in a Golden Cross (with 50-dmas higher than 200-dmas), the lowest count since March 2016. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Telecom was out for a tenth week, Consumer Staples for a 12th, Real Estate for an 18th, and Utilities for a 20th. Health Care was out for only a fourth week, but for the first time since February 2017. Eight sectors have rising 50-dmas now, down from nine a week earlier as Utilities turned down in the latest week and joined Consumer Staples and Telecom in the declining 50-dmas club. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Consumer Staples' 50-dma fell for an 18th straight week and Telecom's for a 16th week. Nine sectors have rising 200-dmas, up from seven a week earlier as Materials and Real Estate turned up in the latest week. That's up from six in early February, which was the lowest since May 2017. The 200-dma for Utilities fell for a 22nd week, Consumer Staples' dropped for a 16th week, and Telecom's fell for a fifth week, though it has been mostly declining since December 2016.

US ECONOMIC INDICATORS

Consumer Credit (*link*): Consumer credit slowed in April, expanding at the slowest pace in seven months. Credit advanced $9.3 billion, easing steadily from a $14.5 billion gain at the start of the year; it had spiked $30.3 billion in November. Nonrevolving credit, which includes student and auto loans, climbed a subdued $7.0 billion—a downshift from the first three months of the year, when it averaged gains of $13.5 billion per month, likely reflecting the moderation in auto sales. Meanwhile, revolving credit climbed $2.3 billion in April, after contracting (-$1.1 billion) in March for the first time since November 2013. It was the best rate this year, but roughly a quarter of the average $8.4 billion during the final three months of last year.

GLOBAL ECONOMIC INDICATORS

Eurozone GDP (*link*): Real GDP in the Eurozone reached a new record high last quarter, though expanded at its slowest pace in nearly two years, as exports fell for the first time since Q4-2012. The economy grew 1.5% (saar) during Q1, after fluctuating between 2.7%-3.0% the previous five quarters. Real domestic demand accelerated for the second month, advancing 2.3% (saar), from 1.2% and 0.8% the prior two quarters. Real household spending grew 1.9% (saar), nearly three times Q4's 0.7%, matching its best pace in five quarters. Growth in real gross fixed capital investment slowed to 2.0% (saar) from 5.5% at the end of last year. Real government spending was flat last quarter, easing steadily from Q2's 1.9% (saar). Trade was a big negative to growth as exports (-1.6%, saar) contracted at the fastest pace in nine years; imports (-0.5) were little changed. Of the four largest economies, only Spain (2.8%, saar) exceeded the Eurozone's 1.5% gain; growth in Germany (1.2), Italy (1.1), and France (0.7) lagged behind.

Germany Manufacturing Orders (*link*): German factory orders unexpectedly fell in April for the fourth month, after reaching a new record high in December. Billings contracted -2.5% in April and -7.1% ytd to a nine-month low. April domestic orders sank -4.8%, while foreign billings were -0.8% lower; so far this year, these orders are down -6.8% and -7.3%, respectively. Within foreign orders, a decline in billings from inside (-9.9%) the Eurozone more than offset an increase in billings from outside (5.4) the Eurozone; ytd, these orders have contracted -13.9% and -3.0%, respectively. The -13.9% ytd drop in billings from within the Eurozone was driven by a double-digit decline in capital goods (-20.6) orders, with intermediate goods (-5.7) orders also in the red; consumer goods orders were flat ytd as a decrease in durable goods orders was offset by an increase in nondurable goods billings. Meanwhile, the ytd decline in orders from outside the Eurozone was led by capital (-7.7) and consumer (-5.5) goods orders, which was partially offset by a rebound in intermediate (10.1) good orders. Breaking down domestic orders, both capital (-7.9) and intermediate (-7.1) goods orders are down sharply ytd, while consumer (3.2) goods orders were in the black, led by durable (8.1) goods orders.

Germany Industrial Production (*link*): German industrial production contracted in April, though remained in a volatile flat trend around November's record high. The Economy Ministry noted that the timing of public holidays affected output in April, though did acknowledge that the growth outlook for industries has cooled. Germany's headline production—which includes construction—slipped -1.0% after an upwardly revised gain in March (to 1.7% from 1.0%), and is within 1.3% of November's high. Excluding construction, the pattern is similar—output sank -1.7% after a revised 1.7% (from 1.1) rebound in March, and is 2.0% below November's reading. Manufacturing output contracted -1.7% after a 1.6% rise and a -1.7% fall the prior two months, hovering around record highs. April's decline was widespread, with consumer (-2.2), intermediate (-2.0), and capital (-1.3) goods production all slumping; capital (3.1) and consumer (1.1) goods production expanded in March, while intermediate goods output was unchanged. Looking forward, Germany's M-PMI for May dropped to a 15-month low of 56.9—still a solid reading—though has steadily declined from the 63.3 reading at the end of 2017. According to Markit's report, "The slower increase in production was in line with the trend recorded for new orders, which likewise continued to rise at a solid rate by historical standards, but one that was the weakest for 21 months."

France Industrial Production (*link*): Headline industrial production contracted for the second time in April on weak mining activity. Headline production, which excludes construction, fell an unexpected 0.5% in April, after a 0.4% decline in March and a 1.2% rebound in February. Meanwhile, manufacturing output rose for the second month, by a total of 0.8%, after sliding 2.6% during the four months through February. Production of consumer nondurable (1.5%), consumer durable (1.3), capital (1.2), and intermediate (0.3) goods all moved higher over the two-month period. May's M-PMI (to 54.4 from 53.8) showed manufacturing activity improved last month, remaining strongly above the long-run series average, though was weaker than the 57.5 average monthly reading during the final quarter of last year. Stronger jobs growth drove May's rise—output growth was the weakest in over a year, and new orders rose only modestly.

Spain Industrial Production (*link*): Output retreated in April for only the second time in nine months—fluctuating around cyclical highs. Production, excluding construction, sank 1.8% in April after a 2.3% jump during the two months through March; output had contracted 2.9% in January—which was the first decline in six months. Factory production fell for the third time in four months, slipping 0.5% in April and 1.1% since December's cyclical high. In April, production of consumer (-2.4%), capital (-1.6), and intermediate (-0.7) goods all were in the red. Meanwhile, May's M-PMI fell for the third month, dropping from 56.0 in February to a nine-month low of 53.4 last month. The report noted that while growth shifted into a lower gear in recent months, the expansion in output and new orders remained solid in May; the latest employment data showed job creation rebounding and business confidence remaining elevated.

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