



MORNING BRIEFING

July 18, 2018

Happy World Revenues

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

(1) Staying ahead of the pack in the technology race. (2) More frequent mentions of trade concerns in Fed's *Beige Books* since early this year. (3) Trade also mentioned as a worry in June ISM report, yet M-PMI remained strong. (4) Same old story: Industry analysts raising estimates for 2018 and 2019 S&P 500 revenues. (5) Outperforming SmallCaps: Not just more immune to trade; revenues and earnings outlooks are strong too. (6) US leading MSCI forward revenues recovery since early 2016. (7) EMU and Japan have been catching up since 2017, but are still lagging.

YRI Tech Reminder. At Yardeni Research, we are committed to staying ahead of the pack in the technology race. We were early adopters of faxing as a way to rapidly disseminate our research to our accounts during the 1980s. We were the first economics department on Wall Street with our own website in the mid-1990s. In addition to our research commentaries, we loaded up the website with hundreds of publications featuring thousands of charts. The publications are organized by key topics such as "Consumer Price Inflation" and "Forward Earnings and the Economy." We continue to add more publications on a regular basis.

During the previous decade, we designed a system to automatically update all those charts in all our publications as soon as new data are released. For example, within a few seconds after the release of the monthly employment report, all the relevant publications are updated! We also moved from a server farm to Amazon Web Services, which is a much faster and more stable platform. At the beginning of the current decade, we added an iPad app to disseminate our research to accounts on their iPhones and iPads.

More recently, we have reconfigured our website so that it also functions as an app for both Apple and Android devices. Give it a try: Access www.yardeni.com with your device's browser. Save the site to your homepage screen for easy access. You should see our familiar logo. Click on it. Insert your email address into our security system to access the website app. You'll be able to integrate our treasure trove of data into your investment decision process on a 24x7 basis. Have fun!

Global Economy I: From Green to Beige. The escalation of the trade war by the Trump administration since the start of this year has yet to depress global economic activity. The Fed's 5/30 [Beige Book](#) mentioned concerns that it might do so. The word "trade" appeared 20 times in the review of current economic conditions, up from 14 and 11 times in the 4/18 and 3/7 issues. The latest issue reported: "Contacts noted some concern about the uncertainty of international trade policy. Still, outlooks for near term growth were generally upbeat." Here are some of the other comments:

(1) *National manufacturing.* "The major concern manufacturers expressed was trade policy. Some worried about the effects of tariffs on their costs, while a maker of testing equipment said they might move some production to Europe to avoid Chinese retaliation against the United States."

(2) *Cleveland manufacturing.* "Because of trade-related price increases, most contacts did not believe

that this strong demand would continue during the remainder of 2018.”

(3) *Atlanta manufacturing*. “However, while uncertainty over trade policy had not negatively impacted capital projects already underway, a number indicated that they have tapped the brakes on projects in the planning phases. Even so, the majority of contacts expect activity over the next 12 months to increase.”

(4) *Chicago agriculture*. “The outlook for farm income for 2018 brightened again, with improvements concentrated in the crop sector. Nonetheless, several contacts expressed unease over the potential impact of international trade policies on the farming sector.”

(5) *Kansas City manufacturing*. “Despite rising trade concerns, production, shipments, and new orders grew moderately, and activity was higher than a year ago. Manufacturers’ capital spending plans remained solid, and optimism remained high for future activity.”

(6) *Dallas nonfinancial services*. “Courier and sea cargo volumes expanded as well, with growth in the latter being boosted by marked increases in steel shipments as shippers rushed to bring them in before the new tariffs were implemented. ... Outlooks improved, although uncertainty surrounding trade policies and rising interest rates negatively impacted some firms’ expectations.”

The next Beige Book will be out today. We bet that the trade issue will be mentioned even more often with mounting concerns.

By the way, recall that the Institute for Supply Management’s (ISM) June [Report on Business](#) was very strong, with ISM’s overall PMI index rising to 60.2 from 58.7 during May ([Fig. 1](#)). Nevertheless, the report noted: “Respondents are overwhelmingly concerned about how tariff related activity is and will continue to affect their business.”

There were lots of specific comments from respondents that spelled out these fears. In the Electrical Equipment, Appliances & Components industry, one respondent said: “U.S. tariff policy and lack of predictability, along with [the] threat of trade wars, [is a] causing general business instability and [is] drag on growth for investments.” In the Food, Beverage & Tobacco Products industry, another said: “We export to more than 100 countries. We are preparing to shift some customer responsibilities among manufacturing plants and business units due to trade issues (for example, we’ll shift production for China market from the U.S. to our Canadian plant to avoid higher tariffs). Within our company, there is a sense of uncertainty due to potential trade wars.”

There are no signs of trouble yet in the M-PMI indexes for new exports (56.3) and imports (59.0) ([Fig. 2](#)). But we will be watching these components closely as long as the trade issue remains a major concern.

Global Economy II: Revenues Remain Revved Up. Meanwhile, industry analysts are raising their S&P 500 revenues expectations for both 2018 and 2019 to record highs ([Fig. 3](#)). Revenues are expected to grow 7.9% this year and 5.1% next year. Forward earnings (the time-weighted average of the estimates for the current year and coming year) rose to yet another record high during the 7/2 week. It remains on the same steeply ascending trendline that it has been on since early 2016. There is no hint of a global slowdown, as there was from the second half of 2014 through the end of 2015. The same can be said of the forward revenues of the S&P 400 and S&P 600.

Not surprisingly, this is trickling down to forward earnings for the S&P 500/400/600, all of which are at record highs ([Fig. 4](#)). The uptrends in the forward earnings and forward revenues of the S&P 600

SmallCaps have been particularly steep so far this year, which explains why they have been outperforming the LargeCaps and MidCaps stock price indexes ([Fig. 5](#), [Fig. 6](#), and [Fig. 7](#)).

Could it be that Trump's deregulatory policies are benefitting small companies more than large ones? That makes sense to us since regulations often are designed to protect big companies (that can afford high-priced lobbyists) from smaller upstarts. According to the monthly survey conducted by the National Federation of Independent Business, the percentage of small business owners concerned about government regulation and taxes has dropped sharply since Trump's inauguration at the start of last year ([Fig. 8](#)).

Now let's have a look at the forward revenues picture outside the US. We won't keep you in suspense: It confirms the rosy global economic outlook provided by the US data. We focus on the forward revenues of the major global MSCI stock price indexes, all in local currencies:

(1) *All Country World ex-US*. The forward revenues of the All Country World ex-US MSCI has been lagging behind the US ([Fig. 9](#)). The latter has been making new record highs since June 5, 2014. The former has been rising in new high ground only since May 4, 2018. The US series is up 16.7% since the start of 2016, while the overseas one is up 8.9%. Nevertheless, both remain at record highs, providing an upbeat assessment of the current global economic outlook. Of course, that could quickly change for the worse if the current round of trade skirmishes escalates into a broad trade war.

(2) *EMU, Japan, and UK*. The forward revenues of both the EMU and Japan remain well below their previous highs ([Fig. 10](#)). However, both started to recover at the start of 2017, rising 3.2% and 6.8% since then. The UK series is surprisingly strong, rising 6.9% since the start of 2016, almost back to its previous record high in mid-2013.

(3) *Emerging Markets*. The forward revenues of the Emerging Markets MSCI is up 18.3% since mid-2016, only recently rising to slightly above its 2014 record high ([Fig. 11](#)).

(4) *World*. The forward revenues of the All Country World (in local currencies) is dominated by the US ([Fig. 12](#)). Like the US, the estimates for 2018 and 2019 have been moving higher since late last year into record-high territory. The World's forward revenues has been doing the same since late 2017.

From the perspective of industry analysts, the outlook remains bullish. The usual hedge clause applies: "barring an all-out trade war."

CALENDARS

US. Wed: Housing Starts & Building Permits 1.320mu/1.333mu, MBA Mortgage Applications, EIA Petroleum Status Report, Beige Book, Fed Chair Powell Appears Before House Panel. **Thurs:** Leading Indicators 0.4%, Jobless Claims 220k, Philadelphia Fed Manufacturing Index 22.0, Weekly Consumer Comfort Index, EIA Natural Gas Report, Quarles. (*Wall Street Journal* estimates)

Global. Wed: Eurozone Headline & Core CPI 2.0%/1.0% y/y, UK Headline & Core CPI 2.6%/2.1% y/y, Japan Merchandise Trade Balance ¥155.0b. **Thurs:** UK Retail Sales Excluding & Including Auto Fuel 3.7%/3.5% y/y, Japan CPI Total, Core, & Core-Core 0.8%/0.8%/0.4% y/y, Australia Employment Change & Unemployment Rate 16.5k/5.4%. (DailyFX estimates)

STRATEGY INDICATORS

YRI Weekly Leading Index ([link](#)): Our Weekly Leading Index (WLI)—a good coincident indicator that

can confirm or raise doubts about stock market swings—remains stalled around its record high. Our WLI, which is the average of our Boom-Bust Barometer (BBB) and Bloomberg's Weekly Consumer Comfort Index (WCCI), edged up 0.2% during the week of July 7 after slipping -0.8% during the two weeks ending June 30; it's only 2.1% below early May's record high. Our BBB ticked up 0.3% following a two-week decline of -1.8%; it's within 4.7% of its record high. Jobless claims—one of the components of our BBB—moved down to 223,000 (4-wa) after climbing the prior two weeks from 221,000 to 224,750; it's not far from its recent low of 213,500 eight weeks ago, which was the lowest reading since December 13, 1969. Meanwhile, the CRB raw industrial spot price index, another BBB component, is bouncing around recent lows. The WCCI climbed 5.8% over the past five weeks, closing in on a new cyclical high.

S&P 500 Q2 Earnings Season Monitor ([link](#)): With 8% of S&P 500 companies finished reporting earnings and revenues for Q2-2018, the percentage of companies with positive earnings surprise results is higher compared to the same point during the Q1 earnings season, but companies' overall percent surprise for Q2 and their y/y growth rate metrics are a tad lower. Of the 40 companies in the S&P 500 that have reported through mid-day Tuesday, 88% exceeded industry analysts' earnings estimates by an average of 5.0%; they have averaged a y/y earnings gain of 26.9%. At the same point during the Q1-2018 reporting period, a lower percentage of companies (74%) in the S&P 500 had beaten consensus earnings estimates by a higher 5.4%, and earnings were up a higher 31.6% y/y. On the revenue side, 80% of companies beat their Q2 sales estimates so far, with results coming in 1.3% above forecast and 10.2% higher than a year earlier. At this point in the Q1 season, a higher 81% had exceeded revenue forecasts by a higher 1.7%, and sales rose a higher 10.9% y/y. Q2 earnings results are higher y/y for 98% of companies, vs a lower 93% at the same point in Q1, and Q2 revenues are higher y/y for 93% vs 93% also a quarter ago. These figures will change markedly as more Q2-2018 results are reported in the coming weeks. The early results on revenues are very encouraging, particularly the percentage of companies growing revenues y/y. Q2-2018 should mark the eighth straight quarter of positive y/y earnings growth and among the highest since Q4-2010. The strong results are mostly due to lower tax rates and improved business conditions, with a small benefit due to currency translation.

US ECONOMIC INDICATORS

Industrial Production ([link](#)): Headline production in June climbed for the fourth time in five months to a new record high, while growth last quarter was more than double Q1's pace. Total production recovered 0.6% last month following a -0.5% drop in May, steeper than the -0.1% initial decline—as utility output was revised to a decline from a slight increase. Manufacturing production rebounded 0.8% last month, following a revised -1.0% (vs a -0.7%) drop in May, as auto makers stepped up production of cars & trucks (7.7%)—after a fire at a major parts supplier temporarily disrupted supply chains in May. The remaining two industry groupings show mining (1.2) output continued to boost headline production, while utilities (-1.5) usage continued to detract. Last quarter, total production accelerated 6.0% (saar), more than double Q1's 2.4% rate, while manufacturing output grew only 1.9% (saar), little changed from Q1's 1.7%, reduced by an -8.2% drop in auto parts production, due to the temporary plant shutdown during the quarter. Consumer goods production expanded 3.2% (saar) last quarter, as a 5.4% gain in nondurable goods production more than offset a -4.0% drop in consumer durable goods output. Meanwhile, business equipment production rebounded 2.1% (saar) last quarter from a small dip into negative territory during Q1, led by gains in information processing (6.5%, saar) and industrial (2.0) equipment, which more than offset the decline in transit (-1.4) equipment output.

Capacity Utilization ([link](#)): The headline capacity utilization rate in June climbed from 77.7% to 78.0%, back near April's 78.2%—which was the highest reading since February 2015. Still, it's 1.8ppts below its long-run (1972-2017) average. Manufacturing's capacity utilization rate rebounded to 75.5% after

sinking from a 32-month high of 75.8% in April to 75.0% in May. June's rate was 2.8ppts below its long-run average. The utilization rate for mining rose for the fifth month from 87.4% in January to a cyclical high of 92.7% in June—which is 6.0ppts above its long-run average—while the capacity utilization rate for utilities fell for the second month, from 80.9% in April to 78.9% last month, well below its long-run average.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): In June, EU passenger car registrations (a proxy for sales) increased 5.2% y/y, after flattening out in May, totaling almost 1.6 million new cars last month—the highest June total on record. Results were mixed among major EU markets, with car sales increasing from a year ago in France (9.2% y/y), Spain (8.0), and Germany (4.2), while contracting in Italy (-7.3) and the UK (-3.5). During the first six months of this year, sales increased 2.9% y/y, with the strongest performance, once again, from the new EU member states, which saw an 11.4% y/y advance. Among the major markets, sales rose in Spain (10.1 y/y), France (4.7), and Germany (2.9) and fell in the UK (-6.3) and Italy (-1.4).

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