



MORNING BRIEFING

January 23, 2019

The Latest Word from the Fed

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

(1) China has too much debt producing too much excess capacity. (2) One child to support two parents. (3) “Ghost” trains, airports, and highways? (4) Slowing growth despite record bank loan expansion. (5) Lowest number of births since 1961. (6) Capital outflows increasing again. (7) US frackers are moving US to oil independence. (8) “Patient” is the new word at the Fed, replacing “gradual.” (9) FOMC rotation gives the vote to more patient members.

China: Less Bang per Yuan. The Chinese government continues to rely on bank loans to finance China's economic growth. The Chinese seem to be getting less and less bang for their yuan borrowed from the banks. There is mounting evidence that too much of that debt has been used to create too much excess capacity.

There is also mounting evidence that China's one-child policy, implemented from 1979 through 2015, is now coming back to weigh on China's economy. The children born during that period are now 4-40 years old. The older ones must care for their old parents. There aren't enough young ones to offset the decline in workers who are retiring or passing away, so the working-age population is starting to decline.

YouTube has lots of videos showing China's impressive spending on infrastructure. There are also videos showing China's “ghost” cities with magnificent high-rise apartment buildings and shopping malls that are mostly empty. China's demographic profile suggests that the country is rapidly evolving into the world's largest nursing home. If so, then all those impressive bullet trains, airports, and highways may be for ghosts too.

Consider the following developments:

(1) *Bank loans.* Over the past 12 months through December, Chinese bank loans rose at a record 15.7 trillion yuan, or \$2.4 trillion ([Fig. 1](#)). Since December 2008, when the global financial crisis was at its worst, bank loans are up a staggering \$15.4 trillion to \$19.8 trillion ([Fig. 2](#)). The good news is that the Chinese owe all this debt to themselves since they have a very high savings rate, which has boosted M2 by \$19.6 trillion to \$26.5 trillion over this same period.

(2) *Economic growth.* The bad news is that bank loans have been growing faster than industrial production, suggesting that the Chinese are getting less bang per yuan of bank loans. The ratio of industrial production to bank loans has been on a steady downward trend since late 2008 ([Fig. 3](#)).

Industrial production growth has been hovering mostly between 6%-8% y/y from 2015 through mid-2018 ([Fig. 4](#)). It was just below 6% during the second half of last year. Real GDP growth slowed to 6.4% y/y during Q4-2018, matching its low for the series (going back to 1992), recorded in Q1-2009 ([Fig. 5](#)). Haver Analytics estimates that during both Q3 and Q4, growth was down to 6.0% (saar).

(3) *Retail sales*. The growth rate in nominal retail sales was flat at 8.2% y/y during December, while the CPI inflation rate edged down to 1.9% ([Fig. 6](#)). As a result, real retail sales growth edged up to 6.3%. However, the 12-month average of this growth rate remains on a steep downward trend ([Fig. 7](#)). I believe that this confirms that China's geriatric demographic profile is already weighing on the country's growth.

(4) *Demography*. On a yearly-percent-change basis, China's working-age population stopped growing during 2015, and is projected to be falling for the demographically foreseeable future ([Fig. 8](#)). From 1950-2014, this group rose 674 million to a peak of 1.01 billion. It is projected to decline by 200 million through 2050.

By the way, on Monday, China reported that there were 15.23 million births last year—the lowest since 1961, when 11.87 million births were reported. If you are a young married couple in China responsible for supporting four elderly parents, having even one child may be too much of a financial burden!

(5) *Trade and capital flows*. The Chinese reportedly have offered to buy \$1 trillion more in US goods over the next six years in an effort to placate the Trump administration's demand for fairer trade. It's not clear what they might want to buy from the US, especially if their population is rapidly aging. Healthcare supplies and other products used by seniors come to mind.

It's getting harder and harder to find upbeat data for China. The sum of Chinese imports plus exports (saar) took a dive at the end of last year ([Fig. 9](#)). This series is somewhat correlated with the more volatile series on railway freight traffic, which edged down last month from a record high during October.

Meanwhile, our monthly proxy for implied international capital flows shows that outflows were mounting again last year after a couple of years of diminishing ([Fig. 10](#)).

US Energy: Gushing Oil & Gas. Global demographic trends suggest that global growth will be slowing. That's not a wonderful outlook for commodity producers, but it's not stopping US frackers from fracking like mad. Consider the following:

(1) *Oil*. US oil field production jumped to a record 11.9mbd during the 1/11 week ([Fig. 11](#)). That's up 2.4mbd since the start of last year. Texans are leading the way, with a 1.2mbd increase over this period ([Fig. 12](#)).

US exports of crude oil and petroleum products rose to 7.8mbd during the 1/11 week, up 1.2mbd since the start of 2018 ([Fig. 13](#)). Net imports fell to just 1.8 mbd. The US is awfully close to energy independence.

(2) *Gas*. In the US, the 12-month sum of natural gas production has exceeded consumption (on the same basis) since early 2015 ([Fig. 14](#)). Both were at record highs through October.

The Fed: The Latest Word. Sometimes a [single word](#) can be a more powerful guide for turning over a new leaf than any New Year's resolution or goal. Fed officials seem to have embraced a new word to guide their monetary policy-setting: "patient."

During former Fed Chair Janet Yellen's era, the Fed's favorite word to characterize the pace of monetary policy normalization was "gradual." It suggests a slow progression and thus is less dovish than "patient," implying tolerance for delays. But "patient" doesn't necessarily mean that "gradual" hikes

won't occur at some point. Fed officials have been stressing the concept of data dependence to guide the path of policy, moving away from any sort of commitment to a particular policy path. Consider the following:

(1) *History of “gradual.”* The word “gradual” came into focus around year-end 2014. The Federal Open Market Committee’s (FOMC) 12/16-12/17 Summary of Economic Projections that accompanied the [Minutes](#) that year stated (italics ours) that “all but a couple of participants anticipated that it would be appropriate to begin raising the target range for the federal funds rate in 2015, with most projecting that it will be appropriate to raise the target federal funds rate fairly *gradually*.” True to its word, the Fed began raising the federal funds rate during December 2015 after keeping rates near zero for seven years. Since then, the Fed has increased rates nine times through December 2018.

“Gradual” remained the operative word through year-end 2018. The 11/7-11/8 FOMC [Minutes](#) stated that “*members* continued to expect that further *gradual* increases in the target range for the federal funds rate would be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective over the medium term.”

(2) *Introduction of “patience.”* “Patient” in reference to the pace of monetary policy tightening debuted in the FOMC Minutes last month. The 12/18-12/19 [Minutes](#) stated that “many *participants* expressed the view that, especially in an environment of muted inflation pressures, the Committee could afford to be *patient* about further policy firming.”

(3) *Participants to members.* Two words that are always important in the FOMC Minutes are “participants” and “members.” Participants contribute to the FOMC meeting discussions, whereas members contribute to discussions and get to vote on monetary policy-setting decisions. Note that the word “gradual” had been adopted by FOMC members in the Yellen administration, but the word “patient” was initiated by FOMC participants under Powell.

The December Minutes stated: “*Members* judged that some further *gradual* increases in the target range for the federal funds rate would be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective over the medium term.”

(4) *New voters in.* Such statements and similar ones in the December Minutes suggest possible discord among FOMC meeting participants and members—i.e., with voting members (whose opinions matters more) favoring faster rate increases than participants. Importantly, though, some officials who were members in December become nonvoting participants in January. The annual [rotation](#) of four of the FOMC Fed presidents means they won't be voting at the 1/29-1/30 FOMC meeting.

For 2019, the following 2018 FOMC members are now just meeting participants: Thomas I. Barkin (Richmond), Raphael W. Bostic (Atlanta), Mary C. Daly (San Francisco), and Loretta J. Mester (Cleveland). The following Fed district presidents will replace them on the FOMC, temporarily joining the six permanent voting members: James Bullard (St. Louis), Charles L. Evans (Chicago), Esther L. George (Kansas City), and Eric Rosengren (Boston).

The four folks rotating in all appear willing to be patient. In a 1/9 *WSJ* interview, Bullard [warned](#) that more rate rises could lead to a recession, adding that the Fed is aware of the “cross currents in the global economy and will be flexible and *patient* in implementing monetary policy.”

“Because inflation is not showing any meaningful sign of heading above 2 percent (target)...I feel we have good capacity to wait and carefully take stock of the incoming data and other developments,”

Evans [said](#) on 1/9.

“It seems to me that we should proceed with caution and be *patient* as we approach our destination,” George [said](#) in 1/15 prepared remarks.

In a 1/9 speech, Rosengren [said](#): “The Federal Reserve’s current monetary policy seems appropriate for now, and can *patiently* observe future economic developments.”

(5) *Powell’s patience matters*. Of course, what Fed Chair Jerome Powell says matters the most. Powell has recently run into some communication issues with the financial markets, as we discussed in our 1/7 [Morning Briefing](#). The Fed chair’s words have consequences. Powell upset markets when he said in a 10/3 off-the-cuff [interview](#) that the federal funds rate was a long way from neutral, suggesting a not-so-gradual approach to policy. The markets were also disturbed when Powell said during his 12/19 [press conference](#) that the Fed’s balance-sheet reduction is on “automatic pilot.”

Later, Powell walked back these comments, calming the markets by using the word “patient” on a 1/4 [panel](#) (at minute 5:30 on the video) with former Fed Chairs Janet Yellen and Ben Bernanke, adding that the Fed is open to changing the approach on the balance sheet if necessary.

Interestingly, however, Powell did not use the word “patient” in his 12/19 presser following the December FOMC meeting—a departure from the language of the “patient” participants that might suggest he’s in the “gradual” versus “patient” policy camp. However, it is possible that Powell is becoming more patient, consistent with what seems to be the emergent consensus on the FOMC for 2019.

(6) *Patient permanent voters*. In addition to Powell, the other five permanent members of the FOMC currently are the New York Fed President John C. Williams and the four standing Board of Governors: Michelle W. Bowman, Lael Brainard, Richard H. Clarida, and Randal K. Quarles. At this time, there are two Board vacancies.

Williams [told](#) bankers at a 1/18 forum: “The approach we need is one of prudence, *patience*, and good judgment.”

Brainard said in a 1/18 [interview](#) that “monetary policy is positioned to sustain the expansion, that it can be *patient*.”

In a 1/10 [speech](#), Clarida used the word “patient” twice. He concluded: “Speaking for myself, I believe we can afford to be *patient* about assessing how to adjust our policy stance to achieve and sustain our dual-mandate objectives.”

Quarles seems to be the only potentially impatient 2019 FOMC member aside from Powell, as he [said](#) that the “core base case remains very strong” on 1/17.

Bowman was sworn in to the Fed’s Board of Governors 11/26 and has yet to make public remarks on monetary policy in her new role.

(7) *Data dependence*. While Fed officials are increasingly committed to being “patient,” they are also becoming increasingly noncommittal regarding the course of policy. Here are just a few comments on data dependence from the permanent FOMC voting Board of Governors:

At the forum on 1/18, Williams said: “The motto of ‘data dependence’ is more relevant than ever.”

Brainard said in her 1/18 interview that “data is vital for business decision-making, for household decision-making, and of course for policy makers. So we certainly rely on it.”

Clarida said in his 1/10 speech that “at this stage of the business cycle and with the economy operating close to our dual-mandate objectives, it will be especially important for our policy decisions to continue to be data dependent.”

Quarles feels that data dependence is crucial to policy-setting too. However, he doesn't think that the Fed should be “reacting to every wavering of the needle across the dial,” he [said](#) in early December. That's not surprising given his inclination to be less patient than his counterparts, as discussed above.

(Kudos to Melissa, who did most of the brilliant analysis in this section. She has become a true Jedi Fed watcher since she joined YRI during May 2015.)

CALENDARS

US. Wed: Richmond Fed Manufacturing Index, FHFA House Price Index 0.3%, MBA Mortgage Applications. **Thurs:** Leading Indicators -0.1%, Jobless Claims 217k, Kansas City Manufacturing Index 2, C-PMI, M-PMI, and NM-PMI Flash Estimates 54.2/53.5/54.2, EIA Natural Gas Report. (Econoday estimates)

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STRATEGY INDICATORS

S&P 500/400/600 Forward Earnings ([link](#)): Forward earnings fell last week for all three of these indexes, continuing the declines that began during October. LargeCap's forward EPS is now 1.7% below its record high of \$175.48 in late October, while MidCap's and SmallCap's are now 1.4% and 4.3% below their mid-October highs, respectively. LargeCap's forward EPS is the most below its record high since July 2016, while MidCap and SmallCap have not been this far below since April 2016. The yearly change in forward earnings remains healthy compared to the past due to the boost from the Tax Cuts and Jobs Act (TCJA), but is tumbling now as y/y comparisons become more difficult. In the latest week, the rate of change in LargeCap's forward earnings fell to a 12-month low of 14.6% y/y from 14.6%. That's down from 23.2% in mid-September, which was the highest since January 2011 and compares to a six-year low of -1.8% in October 2015. MidCap's y/y change was down to a 15-month low of 14.2% from 15.6%, which compares to 24.1% in mid-September (the highest since April 2011) and a six-year low of -1.3% in December 2015. SmallCap's dropped to an 11-month low of 19.8% from 21.8%, which is down from an eight-year high of 35.3% in early October and compares to a six-year low of 0.3% in December 2015. Analysts had been expecting double-digit percentage earnings growth in 2019, but those forecasts have been dropping since October. Here are the latest consensus earnings growth rates for 2018, 2019, and 2020: LargeCap (22.4%, 6.1%, 11.1%), MidCap (21.3, 8.2, 11.1), and SmallCap (21.7, 13.3, 15.0).

S&P 500/400/600 Valuation ([link](#)): Forward P/E ratios rose for a fourth straight week from multi-year lows to seven-week highs. LargeCap's weekly forward P/E of 15.5 is up from 15.0 a week earlier and a

five-year low of 13.9 during December. That compares to a six-month high of 16.8 in mid-September, a multi-year high of 18.6 on January 26 (highest since May 2002), and of course is well below the tech-bubble record high of 25.7 in July 1999. Last week's level remains above the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap's forward P/E also gained 0.5 point last week, to 14.8 from 14.3. That's up from 13.0 during December, which was the lowest reading since November 2011. MidCap's P/E is down from a 15-year high of 19.2 in February 2017 and the record high of 20.6 in January 2002. MidCap's P/E has been at or below LargeCap's P/E for most of the time since August 2017—the first time that alignment has prevailed since 2009. SmallCap's P/E rose 0.4 point to 15.7 last week from 15.3. That's up from 13.6 during December, which had also marked its lowest reading since November 2011. That's well below its 51-week high of 20.2 in December 2017 (which wasn't much below the 15-year high of 20.5 in December 2016, when Energy's earnings were depressed). SmallCap's P/E was higher than LargeCap's P/E for a second week after being below for much of December for the first time since 2003.

S&P 500 Sectors Quarterly Earnings Outlook ([link](#)): With the books closed on Q4 and earnings reports set to pick up this week, analysts are starting to make adjustments to their Q1 forecasts as companies report. Last week, the S&P 500's Q4-2018 EPS forecast dropped 18 cents w/w to \$40.33. That's down 5.2% since the end of Q3, but up 3.7% since the beginning of 2018 ytd and 4.5% since the passage of the TCJA. The \$40.33 estimate represents a forecasted pro forma earnings gain for Q4-2018 of 14.2%, down from 14.5% a week earlier and 20.1% at the end of Q3. That marks the slowest growth since Q4-2017 and is down from 28.4% in Q3, which is sure to mark the peak of the current earnings cycle. Still, that y/y gain would be its tenth straight after four declines. Ten of the 11 sectors are expected to record positive y/y earnings growth in Q4-2018, with six rising at a double-digit percentage rate due to the lower corporate tax rate. That compares to all 11 positive during Q3, when 10 rose at a triple- or double-percentage rate. Four sectors are expected to beat the S&P 500's Q4 growth rate, the same as in Q3. However, Industrials and Real Estate are the only sectors expected to post improved growth on a q/q basis during Q4. Analysts expect Energy to report another large profit jump in Q4 relative to very low earnings a year ago, but its the pace is slowing substantially from Q3. Here are the latest forecasted blended Q4-2018 earnings growth rates versus their Q3-2018 growth rates: Energy (63.1% in Q4-2018 versus 114.2% in Q3-2018), Industrials (24.4, 18.9), Communication Services (17.9, 26.1), Financials (17.8, 44.8), S&P 500 (14.2, 28.4), Consumer Discretionary (13.0, 25.4), Health Care (11.2, 16.5), Tech (8.3, 29.1), Real Estate (6.5, 5.3), Materials (4.9, 30.1), Consumer Staples (3.0, 11.4), and Utilities (-10.0, 10.9). On an ex-Energy basis, analysts expect S&P 500 earnings to rise 12.2% y/y in Q4, well below the 25.0% in Q3. Looking ahead, the Q1-2019 earnings per share estimate has dropped 2.2% for the S&P 500 since the end of Q4, with 3/11 sectors rising and six falling. Materials is the best performer, with its Q1-2019 forecast rising 1.1%, ahead of Real Estate (0.9%) and Industrials (0.3). Energy is the biggest decliner, with its Q1-2019 forecast down 15.8% since the end of Q4, followed by Tech (-2.5), Financials (-2.3), and Consumer Discretionary (-1.4).

S&P 500 Sectors Net Earnings Revisions ([link](#)): The S&P 500's NERI was negative in January for a third straight month and at a 33-month low. That follows 18 months of positive readings through October, which had been its longest positive streak since a 26-month string ending August 2011. NERI fell to -5.8% from -4.1% in December, and is down from a record high of 22.1% in March. NERI improved m/m for 6/11 sectors and was positive for one sector (compared to two improving and one positive in December). Utilities has the longest positive NERI streak, of 10 months, its best since January 2015 when its 10-month streak ended. Consumer Staples has the worst track record, with nine months of negative NERI, followed by Materials (4). Nearly all sectors are down from their TCJA-boosted highs in February and March. Here are the sectors' January NERIs compared with their December readings: Utilities (5.2% in January, up from 4.8% in December), Health Care (-1.7 [13-month low], -0.7), Consumer Discretionary (-2.4, -3.4), Real Estate (-3.2, -5.9), Tech (-3.3 [33-month low], -1.1), Communication Services (-4.9, -5.4), Financials (-5.5 [28-month low], -0.4), Industrials (-7.3

[25-month low], -5.4), Consumer Staples (-8.3, -12.7), and Materials (-16.7, -17.5 [32-month low]), and Energy (-20.5 [16-month low], -9.4).

US ECONOMIC INDICATORS

Existing Home Sales ([link](#)): Home sales fell for the first time in three months during the final month of 2018, to its lowest level since November 2015. Lawrence Yun, NAR's chief economist, notes the current housing numbers are partly a result of higher interest rates during much of 2018: "The housing market is obviously very sensitive to mortgage rates. Softer sales in December reflected consumer search processes and contract signing activity in previous months when mortgage rates were higher than today. Now, with mortgage rates lower, some revival in home sales is expected going into spring." Existing-home sales—tabulated when a purchase contract closes—tumbled -6.4% last month to 4.99mu (saar), after a two-month jump of 3.5%; sales were 10.3% below a year ago. Regionally, sales fell in all regions in December—both on a monthly and yearly basis: Midwest (-11.2% m/m & -10.5% y/y), Northeast (-6.8 & -6.8), South (-5.4 & -8.7), and West (-1.9 & -15.0). December single-family sales sank -5.5% to 4.45mu (saar)—the slowest pace since November 2015; sales are down -11.9% from November 2017's cyclical high of 5.05mu. Multi-family sales tumbled -12.9% last month to 540,000 units (saar) after a two-month spike of 8.8%; sales are down -19.4% from November 2017's 670,000 units. The number of existing single-family homes on the market at the end of December slipped to 1.36mu, still 5.4% above a year ago. Unsold inventory is at a 3.7-months' supply at the current sales pace, falling from its recent high of 4.3 months recorded from June through September. Yun notes that "there is still a lack of adequate inventory on the lower-priced points and too many in upper-priced points." The median existing single-family home price was \$255,200 in December, up 2.9% from December 2017—the lowest increase since March 2012. (Note: According to NAR, "The partial shutdown of the federal government has not had a significant effect on December closings, but the uncertainty of a shutdown has the potential to harm the market.")

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S&P 500/400/600 Valuation ([link](#)): Forward P/E ratios rose for a fourth straight week from multi-year lows to seven-week highs. LargeCap's weekly forward P/E of 15.5 is up from 15.0 a week earlier and a five-year low of 13.9 during December. That compares to a six-month high of 16.8 in mid-September, a multi-year high of 18.6 on January 26 (highest since May 2002), and of course is well below the tech-bubble record high of 25.7 in July 1999. Last week's level remains above the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap's forward P/E also gained 0.5 point last week, to 14.8 from 14.3. That's up from 13.0 during December, which was the lowest reading since November 2011. MidCap's P/E is down from a 15-year high of 19.2 in February 2017 and the record high of 20.6 in January 2002. MidCap's P/E has been at or below LargeCap's P/E for most of the time since August 2017—the first time that alignment has prevailed since 2009. SmallCap's P/E rose 0.4 point to 15.7 last week from 15.3. That's up from 13.6 during December, which had also marked its lowest reading since November 2011. That's well below its 51-week high of 20.2 in December 2017 (which wasn't much below the 15-year high of 20.5 in December 2016, when Energy's earnings were depressed). SmallCap's P/E was higher than LargeCap's P/E for a second week after being below for much of December for the first time since 2003.

S&P 500 Sectors Quarterly Earnings Outlook ([link](#)): With the books closed on Q4 and earnings reports set to pick up this week, analysts are starting to make adjustments to their Q1 forecasts as companies report. Last week, the S&P 500's Q4-2018 EPS forecast dropped 18 cents w/w to \$40.33. That's down 5.2% since the end of Q3, but up 3.7% since the beginning of 2018 ytd and 4.5% since the passage of the TCJA. The \$40.33 estimate represents a forecasted pro forma earnings gain for Q4-2018 of 14.2%, down from 14.5% a week earlier and 20.1% at the end of Q3. That marks the slowest growth since Q4-2017 and is down from 28.4% in Q3, which is sure to mark the peak of the current earnings cycle. Still, that y/y gain would be its tenth straight after four declines. Ten of the 11 sectors are expected to record positive y/y earnings growth in Q4-2018, with six rising at a double-digit percentage rate due to the lower corporate tax rate. That compares to all 11 positive during Q3, when 10 rose at a triple- or double-percentage rate. Four sectors are expected to beat the S&P 500's Q4 growth rate, the same as in Q3. However, Industrials and Real Estate are the only sectors expected to post improved growth on a q/q basis during Q4. Analysts expect Energy to report another large profit jump in Q4 relative to very low earnings a year ago, but its the pace is slowing substantially from Q3. Here are the latest forecasted blended Q4-2018 earnings growth rates versus their Q3-2018 growth rates: Energy (63.1% in Q4-2018 versus 114.2% in Q3-2018), Industrials (24.4, 18.9), Communication Services (17.9, 26.1), Financials (17.8, 44.8), S&P 500 (14.2, 28.4), Consumer Discretionary (13.0, 25.4), Health Care (11.2, 16.5), Tech (8.3, 29.1), Real Estate (6.5, 5.3), Materials (4.9, 30.1), Consumer Staples (3.0, 11.4), and Utilities (-10.0, 10.9). On an ex-Energy basis, analysts expect S&P 500 earnings to rise 12.2% y/y in Q4, well below the 25.0% in Q3. Looking ahead, the Q1-2019 earnings per share estimate has dropped 2.2% for the S&P 500 since the end of Q4, with 3/11 sectors rising and six falling. Materials is the best performer, with its Q1-2019 forecast rising 1.1%, ahead of Real Estate (0.9%) and Industrials (0.3). Energy is the biggest decliner, with its Q1-2019 forecast down 15.8% since the end of Q4, followed by Tech (-2.5), Financials (-2.3), and Consumer Discretionary (-1.4).

S&P 500 Sectors Net Earnings Revisions ([link](#)): The S&P 500's NERI was negative in January for a third straight month and at a 33-month low. That follows 18 months of positive readings through October, which had been its longest positive streak since a 26-month string ending August 2011. NERI fell to -5.8% from -4.1% in December, and is down from a record high of 22.1% in March. NERI improved m/m for 6/11 sectors and was positive for one sector (compared to two improving and one positive in December). Utilities has the longest positive NERI streak, of 10 months, its best since January 2015 when its 10-month streak ended. Consumer Staples has the worst track record, with nine months of negative NERI, followed by Materials (4). Nearly all sectors are down from their TCJA-boosted highs in February and March. Here are the sectors' January NERIs compared with their December readings: Utilities (5.2% in January, up from 4.8% in December), Health Care (-1.7 [13-month low], -0.7), Consumer Discretionary (-2.4, -3.4), Real Estate (-3.2, -5.9), Tech (-3.3 [33-month low], -1.1), Communication Services (-4.9, -5.4), Financials (-5.5 [28-month low], -0.4), Industrials (-7.3 [25-month low], -5.4), Consumer Staples (-8.3, -12.7), and Materials (-16.7, -17.5 [32-month low]), and Energy (-20.5 [16-month low], -9.4).

US ECONOMIC INDICATORS

Existing Home Sales ([link](#)): Home sales fell for the first time in three months during the final month of 2018, to its lowest level since November 2015. Lawrence Yun, NAR's chief economist, notes the current housing numbers are partly a result of higher interest rates during much of 2018: "The housing market is obviously very sensitive to mortgage rates. Softer sales in December reflected consumer search processes and contract signing activity in previous months when mortgage rates were higher than today. Now, with mortgage rates lower, some revival in home sales is expected going into spring." Existing-home sales—tabulated when a purchase contract closes—tumbled -6.4% last month to 4.99mu (saar), after a two-month jump of 3.5%; sales were 10.3% below a year ago. Regionally, sales fell in all regions in December—both on a monthly and yearly basis: Midwest (-11.2% m/m & -10.5% y/y), Northeast (-6.8 & -6.8), South (-5.4 & -8.7), and West (-1.9 & -15.0). December single-family sales sank -5.5% to 4.45mu (saar)—the slowest pace since November 2015; sales are down -11.9% from November 2017's cyclical high of 5.05mu. Multi-family sales tumbled -12.9% last month to 540,000 units (saar) after a two-month spike of 8.8%; sales are down -19.4% from November 2017's 670,000 units. The number of existing single-family homes on the market at the end of December slipped to 1.36mu, still 5.4% above a year ago. Unsold inventory is at a 3.7-months' supply at the current sales pace, falling from its recent high of 4.3 months recorded from June through September. Yun notes that "there is still a lack of adequate inventory on the lower-priced points and too many in upper-priced points." The median existing single-family home price was \$255,200 in December, up 2.9% from December 2017—the lowest increase since March 2012. (Note: According to NAR, "The partial shutdown of the federal government has not had a significant effect on December closings, but the uncertainty of a shutdown has the potential to harm the market.")

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