Yardeni Research

MORNING BRIEFING
January 24, 2019

Analysts Cutting Earnings Estimates

See the collection of the individual charts linked below.

(1) Analysts scrambling to cut 2019 earnings estimates, but not doing so for revenues. (2) IMF shaves world GDP growth, led by Europe, with no change for US and China. (3) Q1-Q3 consensus earnings growth down to low single digits. (4) Valuation multiples may have more upside in a world of slow growth with low inflation and interest rates. (5) Two downbeat, and one upbeat, earnings conference calls. (6) Preparing for a recession reduces likelihood it will happen. (7) Will batteries be the next New, New Thing?

Video Podcast: China Getting Less Bang per Yuan. In this podcast, I review the latest batch of Chinese economic indicators. I argue that the downward trend in China's economic growth is probably attributable to its increasingly geriatric demographic profile. In other words, China's economic problems are mostly homegrown—all the more reason for the Chinese to do a trade deal that placates the Trump administration's demand for fairer trade.

Strategy I: Downward Earnings Revisions. Industry analysts are getting the message. The global economy is slowing. They are hearing more about that from company managements. On Tuesday, the International Monetary Fund (IMF) lowered its outlook for 2019's global real GDP from 3.7% to 3.5%. The European growth rate was lowered from 1.9% to 1.6%, led by a cut in the German growth rate from 1.9% to 1.3%. China's growth forecast remained at 6.2%. The IMF's forecast for US growth for this year was also unchanged at 2.5%, although a continuation of the partial government shutdown poses a risk.

The Atlanta Fed's GDPNow model is still focusing on Q4-2018, for which it estimates that real GDP rose 2.8%. That estimate is as of January 16, but the website notes that the timing of future estimates will be affected by the partial government shutdown, as the model depends on economic releases from the Census Bureau and Bureau of Economic Analysis.

The latest estimate is likely to be lowered by Tuesday's report that existing home sales fell 6.4% during December to 4.99mu (saar), the lowest pace since November 2015 (*Fig. 1*). That unexpectedly large drop contributed to the stock market selloff on Tuesday. On the other hand, mortgage applications for new purchases jumped 24% during the first three weeks of 2019 (*Fig. 2*).

Joe and I are puzzled to see that while industry analysts have been scrambling to lower their earnings estimates for this year, they aren't doing the same for their revenues estimates, notwithstanding all the downbeat news about the prospects for global economic growth. So their revisions imply that they expect pressure on profit margins this year. Consider the following:

(1) *Revenues*. Forward revenues is down just 0.8% from its record high in early January (*Fig. 3*). Remarkably, the consensus revenues growth forecast for 2019 has remained steady at 5.5% since the end of October (*Fig. 4*).

(2) *Earnings*. Since we lowered our earnings forecasts in late October, analysts have followed suit.

Forward earnings has dropped 1.7% from its record high at the end of October, much faster than the decline in forward revenues (*Fig. 5*). The consensus 2019 growth forecast is down from 10% then to 6% as of January 17 (*Fig. 6*). Analysts now figure quarterly earnings growth will slow to rates in the low single digits during Q1-Q3, with a return to double-digit percentage growth in Q4 (*Fig. 7*). We think, however, Q4 earnings growth more likely will drop into the single digits too; we wouldn't rule out the possibility of a y/y decline in earnings sometime during Q1-Q3.

(3) *Profit margins*. With the decline in earnings forecasts in the face of steady revenues, the implied profit-margin forecast for 2019 has dropped from 12.4% in October to 12.0%, which is expected to be unchanged from the 2018 level (*Fig. 8*).

(4) *Valuation multiples*. We were surprised by the ferocity of the valuation meltdown during Q4, but believe the December 24 low P/E of 13.5 marked the bottom. The P/E was back up to 15.3 as of Tuesday's close, up from around 16.0 prior to the selloff. We expect inflation and interest rates to remain low, which should continue to aid the valuation recovery (*Fig. 9*).

(5) *Undertow in Q4 earnings surprise.* With the Q4 reporting season kicking into high gear, the results so far show a smaller earnings surprise than the substantial ones in Q1-Q3 of 2018. However, the early reports are dominated by the banks and brokers, which were hurt by the market's turmoil at year-end 2018. The Financials sector accounts for half of the S&P 500's earnings total through Wednesday morning, and has the weakest surprise so far, beating estimates by only 0.6% compared to 4.3% for S&P 500 ex-Financials.

Strategy II: Mixed Guidance. CEOs are often an optimistic bunch, but in their Q4 conference calls the folks at Capital One and Stanley Black & Decker sounded like they were battening down the hatches. Conversely, executives at United Technologies extolled the continued strength of the aerospace cycle. In all, it's enough to be moderately concerned that CEOs planning for a recession could actually cause one. On the other hand, since the next recession has been the most widely anticipated downturn in world history, it is probably less likely to happen given my "no-boom-no-bust" working hypothesis. In any event, read on:

(1) *Warnings about cycle's old age*. Capital One's shares fell more than 5% after the market closed on Tuesday because its Q4 results missed Wall Street analysts' forecasts. The company reported adjusted earnings of $1.87 a share, while the Street was calling for $2.39. While the company acted offensively in Q4, its executives spoke defensively on the conference call.

Playing offense, Capital One agreed in July to be the exclusive issuer of Wal-Mart credit cards, beating out Synchrony Financial. During the Q4 conference call, Capital One announced it had also purchased Wal-Mart's credit card receivables. Separately, the company sharply increased the amount spent on marketing to $831 million in Q4, up from $460 million in Q4-2017. The increased marketing spending funded the launch of a national marketing campaign and helped grow the number of its new accounts.

However, company executives repeatedly mentioned in the Q4 conference call their caution about extending credit lines given the late stage of the credit cycle. CEO Rich Fairbank explained: "While our credit numbers are great … we're deep into the credit cycle and nobody knows when this thing is going to turn. … [W]e believe that the prudent thing to do is have our foot on the gas of account originations and our foot a little bit on the brake with respect to credit line extension."

Of further concern, Capital One's net interest margin narrowed by seven basis points y/y. The company noted upward pressure on deposit rates from rising interest rates, increasing competition, and changing product mix. Conversely, "strong increasing competition from non-banks continues to drive less favorable lending terms in the marketplace."

(2) *Playing defense*. While several headwinds faced by Stanley Black & Decker in 2018 will be anniversaried by H2-2019 (specifically, increased commodity prices, a rising dollar, and tariffs), executives do believe the economy is slowing. They noted on their Q4 conference call that as the Fed increased interest rates, the auto and housing markets slowed in Q3 and Q4. And the company seems to be preparing for the end of the economic cycle.

CEO James Loree explained: "I think the reality is setting in. Hopefully, not just us but most industrial companies are facing slower economic growth in …essentially the whole world except for a few bright spots like India … [T]he reality is that economic growth that we see for 2019 … is probably a good point lower than it has been in the recent couple of years. … [I]t's no secret that the construction markets in the United States have slowed as well. So baked into our guidance is a reality check on the slowing markets."

The company plans to improve its operating margin and pay down debt as insurance against a possible economic downturn in the back half of 2019 or in 2020. "We have redirected our capital allocation in the short term to a deleveraging posture, keeping the balance sheet in a prudent place, as is appropriate for this stage of the cycle," said Loree. By doing so, the company aims to be in a position to act proactively in the wake of any potential slowdown.

Stanley Black & Decker reported a 4.9% increase in Q4 net sales and adjusted earnings of $2.11 a share, which beat analysts' estimates by one cent. Stanley forecast 2019 adjusted EPS growth of 4%-6% to $8.45-$8.65, below analysts' forecast of $8.79.

(3) *Aerospace still flying high*. United Technologies reported strong Q4 earnings and projected 2019 results that beat analysts' expectations. Q4 adjusted earnings came in at $1.95 a share, above the $1.55 Wall Street estimate. And the company forecast 2019 adjusted EPS of $7.70-$8.00 versus the consensus estimate of $7.80.

Earnings benefitted from a 24% revenue increase at Pratt & Whitney, which makes aircraft engines, and a 29% revenue increase at Rockwell Collins, the airplane parts manufacturer UTC acquired last year.

"We are seeing really solid trends in aerospace across the board, with continued (airline traffic) growth and production increases at both Boeing and Airbus," CEO Greg Hayes said according to a 1/23 Reuters article. The company is doubling down on aerospace this year as it aims to spin off the Otis elevator operation, which had flat sales in Q4, and the Carrier air conditioner business, which had a 3% increase in sales.

By the way, one of our favorite airline statistics is the number of passengers arriving at and departing from Las Vegas's McCarran International Airport. In November, the figure was up 4.4% y/y following last year's 1.3% y/y increase in November, according to the airport's data.

Tech: Batteries Charging Ahead. Tesla's plans to lay off 7% of its workforce rightly concerned investors last week. The company has yet to sell the Model 3 for the promised $35,000 price tag, and an upcoming debt payment means the company's bottom line is of growing concern.

In addition to cutting labor costs, Tesla undoubtedly is looking at how it can continue reducing the cost of its cars' batteries. Electric vehicles' batteries have come a long way in recent years, but only continued improvement in the cost, power, and stability of batteries will ensure the broad future adoption of electric vehicles.

Lithium ion batteries hold a lot of energy in a small space, so they're great for powering cell phones or watches. However, they have drawbacks. Under certain conditions, lithium ion batteries have caught fire. Also, the ingredient cobalt is expensive and in short supply. Scientists are exploring making batteries with more plentiful and less combustible materials. Here are some of the latest breakthroughs that may determine whether we're all driving electric vehicles in the future:

(1) *Look to the sky.* For years, scientists have been working on a battery that uses lithium and air. Such a battery would be much lighter than a lithium ion battery and hold five times as much energy. The problem: The reaction in a lithium air battery has historically caused the production of materials that "gummed up" the cathode, preventing the battery from working soon after.

Researchers at the University of Illinois at Chicago and at Argonne National Laboratory have figured out how to avoid this, by coating the lithium anode with a thin layer of lithium carbonate, according to a 3/21 article in *UIC Today*.

Separately, MIT researchers have been investigating how to use the carbon dioxide released by power plants in the electrolyte solution of a battery. "Currently, power plants equipped with carbon capture systems generally use up to 30 percent of the electricity they generate just to power the capture, release, and storage of carbon dioxide," a 9/21 article in *MIT News* explained. In experiments, the carbon-dioxide battery produced as much energy as a lithium-gas battery but stopped working sooner, after only 10 charge-discharge cycles.

(2) *Rock solid*. Scientists are also working on solid-state batteries, which replace the liquid electrolyte in a traditional lithium-ion battery with solid material. Benefits include longer battery life (500% more capacity), faster charging (one-tenth of the time), greater safety, and smaller size than a traditional battery, according to an 11/9 Howtogeek.com article. The problem: Solid-state batteries are extremely expensive to produce ($15,000 each) because there are no economies of scale.

That may change. A Chinese startup, Qing Tao Energy Development, says that "it started a production line of solid state batteries that will lead to volume production," according to an 11/20 article in Electrek. The batteries currently are used in special equipment and high-end digital products, but the company says several automakers may consider using the batteries in electric vehicles. "The executive claims that they have achieved an energy density of 'over 400 Wh/kg' compared to the new generation Li-ion battery cells having a capacity of 250 to 300 Wh/kg."

On Tuesday, Toyota and Panasonic announced a joint venture to produce traditional lithium ion batteries for electric vehicles and also to develop solid-state lithium ion batteries, according a 1/22 Green Car Reports article.

(3) *Batteries that live forever*. Researchers from the University of California Irvine have developed a battery made with nanowires that can be charged thousands of times without degrading. The gold nanowires, which are thousands of times thinner than a human hair, are coated in manganese dioxide shells encased in an electrolyte of jell, according to a 4/21/2016 article in Pocket-lint.com. It explains: "The result is no loss of power even when recharged 200,000 times over three months. Now we simply need nanowires to get manufactured en masse, while advancing capacity and there could be a viable alternative to current battery options. We say simply."

(4) *Silicon to the rescue*. Sila Nanotechnologies has partnered with BMW to put silicon on the anode of a lithium battery instead of graphite in order to make the battery much more powerful.

Using silicon to enhance a battery's power has historically been problematic because when silicon bonds with lithium ions, its volume expands, and it can crumble and reduce the battery's performance. But the rigid silicon-based nanoparticles Sila produces can accommodate significant volume changes, a 4/11 article in *MIT Technology Review* explained. The company hopes to see its battery used in consumer electronics this year and in cars around 2023.

Sila believes that the new material will boost battery capacity by 20% initially and 40% or more eventually, according to a 1/6 article in IEEE Spectrum. It also reduces the thickness of the anode by 67%, which may allow the battery to be charged nine times faster than current batteries. The battery is less likely to be flammable than traditional lithium ion batteries and can perform well for 400-1,000 full charge cycles. Another company, Enovix, is working on a similar battery.

CALENDARS

US. 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. **Fri:** Baker-Hughes Rig Count. (Econoday estimates)

Global. Thurs: Eurozone, Germany, and France C-PMI Flash Estimates 51.4/51.9/51.0, Eurozone, Germany, and France M-PMI Flash Estimates 51.3/51.4/50.0, Eurozone, Germany, and France NM-PMI Flash Estimates 51.5/52.2/50.5, Japan M-PMI Flash Estimate, Japan CPI Headline, Core, and Core-Core 0.2%/0.9%/0.6% y/y, ECB Rate Decision 0.00%, ECB Marginal & Deposit Facility Rates 0.25%/-0.40%. **Fri:** Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 100.6/104.2/97.0. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) climbed above 2.00 this week for the first time since early December; it was at 0.86 three weeks ago—which was the lowest since mid-February 2016. Bullish sentiment has jumped 15.5ppts the past three weeks, to 45.4% from 29.9%—which was the fewest bulls since February 2016; bullish sentiment was as high as 61.8% in early October. Meanwhile, bearish sentiment dropped -13.3ppts over the same period, to 21.2% from 34.6%—which was the most bears since March 2016; it's back down near the narrow band (below 20.0%) it fluctuated within for most of H2-2018. The correction count edged up to 33.3% this week after falling from 39.3% to 32.7% the previous three weeks; it was at 41.1% seven week ago—which was the highest percentage since late September 2015. The AAII Ratio slipped to 48.1% last week after climbing the prior four weeks from 30.0% to 56.7%. Bullish sentiment fell from 38.5% to 33.5% last week, while bearish sentiment rose from 29.4% to 36.3%.

AC World ex-US MSCI (*link*): This index is up 4.8% ytd in dollar terms after tumbling 16.4% in 2018. In local-currency terms, the index is up 4.5% ytd compared to a 13.0% decline for all of 2018. The US-dollar price index is down 18.2% since its cyclical high in January 2018; it has been in a correction since mid-June and was down as much 23.5% in late December. The local-currency price index is down 12.9% from its record high on in January 2018 after being down as much as 17.9% on December 26. Local-currency forward revenues edged up 0.2% m/m, and had risen 15.2% from a five-year low in March 2016 to record highs since May for the first time since October 2014. Local-currency forward earnings fell 1.0% m/m and is down 2.6% from its record high in early November, but had risen as much as 35.3% from its six-year low in March 2016 to its first record highs since 2008. Revenues are expected to rise 3.9% in 2019 and 4.2% in 2020 following an expected gain of 6.9% gain in 2018, and earnings are expected to rise 6.3% (2019) and 8.8% (2020) after rising 7.3% (2017). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 4.1%, down from 4.5% a month ago. Their STRG forecast compares to a seven-year high of 6.8% in March 2017 and is up from a cyclical low of 2.3% in March 2016. Their short-term 12-month forward earnings growth (STEG) forecast of 6.5% is down from 7.4% a month earlier, and compares to a four-year-high forecast of 14.1% in March 2017 and a seven-year low forecast of 6.3% in January 2016. The profit margin estimate implied by analysts' earnings and revenue estimates rises to 8.1% in 2019 and to 8.4% in 2020 from a forecasted 7.9% in 2018. The forward profit margin forecast of 8.1% is down from a nine-year high of 8.3% in October. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in January for a tenth straight month following six positive readings, and dropped to a 33-month low of -8.8% from -8.3% in December. That compares to a 76-month high of 2.7% in May 2017 and a 51-month low of -11.3% in March 2016. The forward P/E of 12.0 is up from a five-year low of 11.4 in late December, which was the lowest reading then since June 2013. That compares to a 31-month high of 14.8 in January 2018, a six-year high of 15.3 in April 2015, and a cyclical bottom of 12.3 in January 2016. The index's current 12% discount to the World MSCI P/E is up from its record-low 15% discount during early November.

EMU MSCI (*link*): The EMU's MSCI price index has gained 3.9% ytd in dollar terms after tumbling 18.8% in 2018 for the worst performance of all the MSCI regions. In euro terms, the price index is up 4.6% ytd following a decline of 14.7% last year. The US-dollar price index is down 21.8% since its cyclical high on January 25, 2018; it has been in a correction since late May and a bear market since late October—hitting bottom on December 27 with a 26.5% decline. However, its local-currency price index is down only 15.1% from its record high in January 2018 after being down as much as 25.7% on December 27. Euro-based forward revenues edged down 0.1% m/m and is down 1.2% from its five-year high in early November. That's still 5.1% above its six-year low in May 2016, but remains 6.1% below its record high (September 2008). Euro-based forward earnings had stalled from 2011 to 2016 before reaching its highest level in 10 years during early November. It dropped 0.3% m/m and is now 1.3% below its 10-year high and 16.6% below its record high (January 2008). Analysts expect revenues to rise 3.3% in 2019 and 3.1% in 2020, above the forecasted gain of 3.0% for 2018. They're also looking for faster earnings growth. Earnings are expected to rise 8.6% in 2019 and 8.9% in 2020 following an expected gain of 4.0% in 2019. Forecasted STRG of 3.3% is down from 3.4% a month earlier, which compares to a six-year high of 5.0% in April 2017 and a cyclical low of 2.0% in May 2016. Forecasted STEG of 8.7% has dropped m/m from 9.3%, which compares to a 78-month high forecast of 21.0% (February 2017) and a seven-year low of 5.7% (April 2016). STEG had been higher than LTEG (currently 9.9%) from July 2016 to May 2017, but is trailing now. The forward profit margin was steady m/m at a nine-year high of 7.9%, which is up from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.8% in 2019 and 8.3% in 2020 from 7.4% in 2018. NERI was negative in January for a fourth straight month and in 15 of the past 18 months. However, NERI improved m/m to -7.5% from a 31-month low of -8.7% in December. That compares to an 11-year high of 8.1% in May 2017 and a 24-month low of -13.2% in April 2016. The P/E of 11.8 is up from 11.3 in early January, which was then its lowest reading since July 2013. That's down from a nine-month high of 14.9 in January 2018 and compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. The current valuation represents a 14% discount to the World MSCI's P/E now, the lowest since August 2016. That compares to a record-low 25% discount during 2011 and is well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI (*link*): The EM MSCI price index is up 4.7% ytd in US dollar terms after falling 16.6% in 2018. In local-currency terms, EM has risen 4.3% ytd compared to a drop of 12.3% in 2018. The index's US-dollar price index is down 20.6% since its cyclical high in January 2018; it has been in a correction since early February and entered a bear market in late October. On October 29, the US-dollar price index had been down as much as 26.6% from its cyclical high. Its local-currency price index has been in a correction since June 19, and is now down 15.3% from its record high in January 2018 after being down as much as 20.9% on October 29. Local-currency forward revenues rose 0.5% m/m and is up 19.6% from a four-year low in June 2016; it's just 0.2% below its record high in early January. However, local-currency forward earnings fell 1.7% m/m and is down 4.8% from its record high in early October. Still, it's up an impressive 33.8% from its six-year low in April 2016. Revenue growth is expected to slow markedly to 6.5% in 2019 and 7.0% in 2020 from an expected gain of 11.4% in 2018. That's expected to lead to earnings gains of 7.4% in 2019 and 11.7% in 2020, following a 10.8% gain in 2018. Forecasted STRG was down to a 30-month low of 6.6% in January from 7.3% in December and down from a four-year high of 9.6% in January 2017. STEG fell to a 35-month low of 7.6% from 8.9% a month earlier, and is down from a cyclical peak of 17.5% in March 2017 and below LTEG (14.0%) again. The implied profit margin is expected to be 6.8% in 2018 and remain steady in 2019 before improving to 7.1% in 2020. The forward profit margin dropped 0.2ppt m/m to 6.8%, and is down from a six-year high of 7.4% in May. It remains 3.5ppts below its 10.3% record high in December 2007 and compares to a record low of 6.0% in February 2016. NERI was negative for a 12th month in January as it fell to a 33-month low of -9.4% from -8.7% in December. NERI had been positive for only three months through January 2018 after 80 months of negative readings through October 2017, and compares to an 83-month low of -10.2% in March 2016. Emerging Markets' forward P/E of 11.0 is up from a 56-month low of 10.0 at the end of October and compares to an eight-year high of 13.1 in January 2018. The index is only trading at a 19% discount to the World MSCI P/E, which is near the best levels since early 2013. That's up from a four-year-low 27% discount in late October, and compares to a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through January suggest continued pessimism about profits across most of the world, with most of the NERI readings falling to 33-month lows. The AC World MSCI's NERI was negative for a fourth month following 20 straight positive readings through September, and fell to a 33-month low of -7.9% from -7.1% in December. That's down from a 93-month high of 7.1% in February 2018. EM Eastern Europe remains in the lead among all regions, but was negative in January for the first time in five months. The US was negative for a third month following 18 straight positive readings, as its NERI fell to a 33-month low of -6.2% from -4.4% in December, and is down from a corporate-tax-rate-cut-boosted record high of 21.8% in March. However, NERI managed to improve m/m for regions outside of Asia and North America. January's scores among the regional MSCIs: EM Eastern Europe (-0.7% in January, down from 1.8% in December), EM Latin America (-3.5, -3.6 [15-month low]), United States (-6.3 [33-month low], -4.4), EMU (-7.5, -8.7 [31-month low]), AC World (-7.9 [33-month low], -7.1), Europe (-8.2, -8.9 [32-month low]), EAFE (-8.4, -8.5 [32-month low]), Europe ex-UK (-8.6, -9.3 [32-month low]), AC World ex-US (-8.8 [33-month low], -8.3), Emerging Markets (-9.4 [33-month low], -8.7), and EM Asia (-10.2 [33-month low], -9.4).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 3/44 MSCI countries in January, the lowest count since March 2016 and down from four in December. However, NERI improved m/m in January for 19/44 countries, the most since August and up from 8/44 countries improving in December, which was then the lowest count since April. Among the countries with improving NERI in January, the Philippines was at an 11-month high and Indonesia was at a 10-month high. Among countries with weaker NERI m/m, Finland was at a 75-month low, followed by Korea (57), Taiwan (39), Australia (35), Hong Kong (34), and China (33). The 20-month positive NERI streak for the Czech Republic is the best among countries, followed by Russia (16) and Hungary (5). South Africa's NERI has been negative for 56 straight months, followed by the negative streaks of New Zealand (32-months), Mexico (27), Pakistan (26), Denmark (18), and Germany (18). NERI turned negative in January for Austria for the first time in eight months. The highest NERI readings in January: the Czech Republic (10.9%), Russia (2.0), Hungary (1.4), Indonesia (-0.7), the Philippines (-1.4), Brazil (-1.5), and Italy (-1.6). The weakest NERIs occurred this month in Norway (-16.1 [33-month low]), Switzerland (-14.8), Peru (-14.3 (17-month low]), Korea (-14.3 [57-month low]), and Taiwan (-14.1 [39-month low]).

US ECONOMIC INDICATORS

Regional M-PMIs (*link*): Three Fed districts have now reported on manufacturing activity for January—Philadelphia, New York, and Richmond—and show growth remained sluggish. We average the composite, orders, and employment measures as data become available. The composite (to 6.3 from 4.2) index showed growth remained near December's rate this month—running at less than a third of the pace from May through October. The Philadelphia region's composite index (17.0 from 9.1) shows growth was almost double the pace of last month, though considerably below last year's high of 32.2. Meanwhile, New York's (3.9 from 11.5) gauge shows the slowest pace of growth since May 2017, while Richmond's (-2 from -8) continued to contract, though is nearing the breakeven point. The new orders gauge (4.6 from 5.9) fell to a 27-month low, as New York's (3.5 from 13.4) measure showed growth slowed to nearly a standstill, while Richmond's (-11 from -9) contracted at the fastest pace since June 2016. Meanwhile, Philly's (21.3 from 13.3) barometer accelerated at the fastest pace in six months. According to the employment (12.0 from 16.9) gauge, hirings were the slowest since January 2018, as manufacturers in both the Philly (9.6 from 19.1) and New York (7.4 from 17.5) regions added to payrolls at the slowest pace since September 2017 and January 2018, respectively. Kansas City (19 from 14) factories, however, hired at a faster pace—not far from August 2018's peak rate of 25.

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