



MORNING BRIEFING

January 28, 2019

The Next Recession

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

(1) The boom-bust cycle. (2) Might fear of a recession cause a recession? (3) Bad news sells newspapers. (4) WSJ article suggests QT will soon be off autopilot. (5) Both US and China need to end trade war. (6) Stock market climbing walls. (7) The next recession could start November 4, 2020. (8) Leading indicators index stalls, while jobless claims remain upbeat. (9) Regional Fed surveys remained downbeat in January, but Markit M-PMI was happier. (10) Europe has a bunch of woes weighing on economy. (11) Movie review: "Serenity" (+).

Strategy: Climbing the Wall. Joe and I have often observed that the current bull market is the most widely hated one ever because the next recession has been the most widely anticipated downturn ever. Recessions tend to be preceded by periods when growth is very strong and widely expected to remain so for the foreseeable future. As a result, speculative excesses develop, fueled by rapidly rising debt. Inflationary pressures mount in consumer prices and/or asset prices. The Fed responds by raising interest rates, which triggers a financial crisis, followed by a credit crunch and a recession. In the current business cycle, fears of a recession have reduced the likelihood of a boom, which reduces the likelihood of a bust.

Notwithstanding our "no-boom-no-bust" hypothesis, we suppose it's possible that fears of a recession could cause one. In the next section, we acknowledge that the stock market's "flash crash" during December might have caused a "flash downturn" in economic activity during the month. The next recession is a good story for the financial media to cover because bad news tends to grab attention. For example, on Friday, CNBC posted a [story](#) titled "Five financial heavyweights weigh in on whether the next recession is nearing."

The stock market rally since the day after Christmas suggests that investors are a bit more relaxed about an impending recession than they were earlier last month ([Fig. 1](#)). Helping to bolster confidence are the following developments:

(1) *Taking QT off autopilot.* Stock prices rose on Friday in response to a WSJ [article](#) titled "Fed Officials Weigh Earlier-Than-Expected End to Bond Portfolio Runoff." The story suggests that Fed Chairman Jerome Powell is preparing to back off from his 12/19 [presser](#) statement about the pace of quantitative tightening (QT): "So we thought carefully about this, on how to normalize policy, and came to the view that we would effectively have the balance sheet runoff on automatic pilot and use monetary policy, rate policy, to adjust to incoming data."

A careful reading of the article suggests a more nuanced interpretation of the Fed's adjustment in the pace of QT: "The Fed's decision about the size of its portfolio is being driven by a technical debate inside the central bank about reserves in the banking system, not over whether officials want to provide more or less stimulus to the economy." In any event, news that the Fed is likely to pause its rate hiking

and balance-sheet tapering is certainly viewed as bullish by stock market investors ([Fig. 2](#) and [Fig. 3](#)).

(2) *Ending the trade war.* Stock prices fell last Thursday after Commerce Secretary Wilbur Ross said that trade negotiations with China were far from complete. “We would like to make a deal but it has to be a deal that will work for both parties,” Ross told CNBC. “We’re miles and miles from getting a resolution.” A few hours after Ross spoke, Treasury Secretary Steve Mnuchin told Reuters that both sides were “making a lot of progress” in the talks. He added that he is looking forward to speaking with Chinese Vice Premier Liu He next week when the representative visits the US. It’s been my view that both President Xi Jinping and President Donald Trump need a deal to end their escalating trade war. The market seems to agree.

(3) *Opening the government.* On Friday, there were widespread flight delays out of several major eastern US airports owing to a shortage of air-traffic controllers, who weren’t getting paid during the partial government shutdown. That most likely convinced Trump and congressional leaders to reach a deal later that day to reopen the government for three weeks. Trump said that, as part of the deal, the parties would set up a conference committee to put together a Department of Homeland Security appropriations bill. He backed off from his demand for a down payment on his wall along the Mexican border, but he still wants to build it.

Since the day after Christmas, stock prices have been doing a great job of scaling both the Great Wall of China and the wall along the Rio Grande.

US Economy: Is the Flash Recession Over? So is there nothing to fear but fear itself? As noted above, it’s possible that fear of a recession could cause a recession. Debbie and I don’t expect that will happen, but there is some evidence that fear depressed the economy during December and January. Before we take a dive into the data, allow us to predict when the next recession is most likely to occur.

In our opinion, it might start the day after Election Day, November 3, 2020. We see this happening if Trump is defeated in his bid for a second term by a Democratic candidate, who promises during the campaign season to undo Trump’s deregulations and tax cuts. The Democratic party continues to move to the left on all sorts of issues, including higher taxes on high incomes, a wealth tax, and lots of regulations under the so-called “Green New Deal” (GND).

Don’t misunderstand: We aren’t making a political judgment call or opining on the merits of the GND. All we are saying is that an abrupt reversal of Trump’s relatively stimulative policies could trip up the economy and trigger a bear market. For now, let’s review the economy’s recent hits and misses:

(1) *Leading indicators.* As Debbie discusses below, the Index of Coincident Economic Indicators (CEI) rose to yet another record high during December, gaining 2.1% y/y ([Fig. 4](#) and [Fig. 5](#)). Back in 2014, we projected that the next recession might start during March 2019 based on the average length of post-recovery expansions ([Fig. 6](#)). Now we are thinking that this expansion is likely to be the longest one on record, hitting that mark in July of this year, and might not end until late 2020.

The Index of Leading Economic Indicators (LEI) stalled in record-high territory during the last three months of 2018. The biggest negative contributor to the LEI was the S&P 500 ([Fig. 7](#)).

(2) *Jobless claims.* Initial unemployment claims is also a component of the LEI. It fell to 199,000 during the 1/19 week—the lowest reading since mid-November 1969—confirming that the labor market remains hot ([Fig. 8](#)). We derive our Boom-Bust Barometer (BBB) by dividing the CRB raw industrials spot price index by the four-week average of jobless claims ([Fig. 9](#)). Our BBB fell late last year and may be starting to recover.

(3) *Regional business surveys*. January data are available for four surveys of business activity conducted by five of the 12 Federal Reserve Banks—New York, Philadelphia, Richmond, and Kansas City. The average of the general business indexes edged up from 4.7 to 6.0—only one-quarter the pace of May's 24.0 peak rate ([Fig. 10](#)). The average of the new orders indexes showed the slowest growth since September 2016, sinking to 3.7; it was as high as 26.0 in May. The average of the employment indexes show hirings were the slowest since July 2017, falling from 15.2 to 10.8 this month—still a respectable rate.

The average of the general business indexes tends to be highly correlated with the ISM M-PMI, which will be released through January at the start of February. Meanwhile, the Markit estimate for the US M-PMI climbed from 53.8 to 54.9 this month, boosted by the strongest growth in production since May 2018 ([Fig. 11](#)).

(4) *Trucking*. Another sign of a flash downturn during December is the ATA truck tonnage index, which fell 4.3% m/m during the month but remains in record-high territory ([Fig. 12](#)).

Europe: Edging Toward a Downturn. If you are looking for a recession, there is more compelling evidence that Europe is heading in that direction than the US.

Sandra Ward, our contributing editor, and I have been monitoring the European region's slowdown in recent months. Brexit, the "Yellow Vest" protests in France, anti-immigration reactions in Germany, and anti-unification movements in Italy and Eastern Europe all are weighing on European economies. Trump's trade war is also a drag. European companies are more exposed to the weakness in emerging market economies than are American ones. A geriatric demographic profile poses yet another challenge for the health of European economies.

Consider the following recent developments:

(1) *ECB*. Following last Thursday's meeting of the European Central Bank's (ECB) Governing Council, the bank's president, Mario Draghi, said: "The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility."

That explains why the ECB took no action on Thursday, leaving its official deposit rate at -0.40%. That's after the central bank ended its bond-buying program last month. So such purchases fell from €15 billion per month to zero, though cash from maturing bonds will be reinvested for an extended period of time beyond its next interest-rate hike, which is looking less and less likely anytime this year.

(2) *GDP growth*. Eurostat last month reported that the 19-member Eurozone grew at its slowest pace in four years during Q3-2018. In its latest economic outlook report, the International Monetary Fund lowered its 2019 forecast for the region's economy from 1.9% to 1.6%, led by a downward revision for Germany from 1.9% to 1.3%.

Real GDP in the Eurozone rose 1.6% y/y during Q3-2018 ([Fig. 13](#)). This growth rate is highly correlated with the region's Economic Sentiment Indicator, which deteriorated last year from 115.2 at the end of 2017 to 107.3 at the end of 2018.

(3) *Industrial production*. After rising 5.0% from December 2016 through December 2017, Eurozone industrial production fell 2.7% during the first 11 months of 2018, led by a 4.7% decline in Germany ([Fig. 14](#)).

January's M-PMI for the region was down from 59.6 a year ago to only 50.5 based on the Markit survey's flash estimate ([Fig. 15](#)). Over this same period, the NM-PMI dropped from 58.0 to 50.8. During January, the M-PMI fell below 50 for Germany (49.9), while the NM-PMI for France plunged to 47.5. *Sacré bleu!*

(4) *Germany*. As Debbie discusses below, Germany's Ifo business confidence index fell for a fifth month in a row through January, led by a big drop in expectations ([Fig. 16](#)).

Movie. "Serenity" (+) ([link](#)) is a controversial movie. Some reviewers loved it, while others hated it. I thought it was interesting. The first hour is slow and quirky. But then it starts to make sense, though it remains somewhat contrived. The fun is seeing how early on you can figure out the premise of the movie. On a remote island, Matthew McConaughey plays a fishing boat captain who is obsessed with catching a big fish he calls "Justice." His ex-wife, played by Anne Hathaway, tracks him down over the Internet and begs him to kill her current abusive husband for the sake of their son, who is a computer geek. The movie is reminiscent of "Body Heat," "Moby Dick," "Tron," and "Key Largo" (with Bogart and Bacall).

CALENDARS

US. Mon: Dallas Fed General Activity Index -4.6, Chicago Fed National Activity Index 0.15. **Tues:** Consumer Confidence 124.8, S&P CoreLogic Case-Shiller HPI 0.3%*m/m*/4.9%*y/y*, FOMC Meeting Begins. (Econoday estimates)

Global. Mon: Germany Retail Sales. **Tues:** Japan Retail Trade, Australia Business Confidence. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index drop 0.2% for its first decline in five weeks. That performance ranked 39th of the 49 global stock markets we follow in a week when 36/49 countries rose in US dollar terms. That compares to the prior week's 4/49 ranking, when the US MSCI gained 2.9% for its best gain in seven weeks and 45 markets rose. The AC World ex-US index rose for a fifth straight week, gaining 0.7% compared to a 1.3% rise a week earlier. EM Asia was the best-performing region with a gain of 1.6%, ahead of EMU (1.4%), EMEA (1.2), EM Eastern Europe (1.2), and BRIC (1.0). EM Latin America was the worst performer, albeit with a gain of 0.3%, followed by EAFE (0.5). Pakistan was the best-performing country, rising 6.0%, followed by Turkey (3.6), Korea (3.2), Finland (2.6), and the Netherlands (2.6). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Denmark fared the worst, falling 1.9%, followed by Norway (-1.7), Hungary (-1.2), and India (-1.0). The US MSCI ranks 26/49 so far in 2019, with its 6.5% ytd gain slightly ahead of the AC World ex-US (6.2). All regions and nearly all countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: EM Latin America (12.2), EM Eastern Europe (9.4), EMEA (8.1), and BRIC (7.6). Regions underperforming the AC World ex-US: EAFE (5.5), EM Asia (5.7), and EMU (6.1). The best country performers ytd: Argentina (15.2), Pakistan (15.1), Brazil (14.0), Turkey (13.2), and Russia (11.5). The worst-performing countries so far in 2019: India (-2.4), Sri Lanka (-2.1), Morocco (0.4), Jordan (1.6), and Malaysia (1.6).

S&P 1500/500/400/600 Performance ([link](#)): MidCap rose w/w for a fifth straight week, but LargeCap and SmallCap edged down after rising for four weeks. However, all these indexes remain well below their record highs. MidCap rose 0.1% last week, ahead of the small drops for SmallCap (-0.1%) and LargeCap (-0.2). LargeCap ended the week 9.1% below its record high on September 20, while

MidCap and SmallCap are 11.3% and 16.0% below their August 29 records, respectively. Among the 33 sectors, 16 moved higher last week compared to 32 rising a week earlier. Real Estate and Tech dominate the biggest gainers in the latest week: SmallCap Tech (2.4%), LargeCap Real Estate (1.5), MidCap Tech (1.4), SmallCap Real Estate (1.3), LargeCap Tech (1.0), and MidCap Real Estate (0.7). MidCap Consumer Staples (-2.9) was the biggest decliner last week, followed by MidCap Energy (-2.7) and SmallCap Energy (-1.7). In terms of 2019's ytd performance, all three indexes are off to a great start: MidCap (9.4), SmallCap (9.2), and LargeCap (6.3). All 33 sectors are positive ytd, with Energy dominating the top performers: MidCap Energy (19.2), SmallCap Energy (18.6), SmallCap Materials (13.6), MidCap Communication Services (10.5), MidCap Tech (10.5), and MidCap Financials (10.2). Utilities dominate the biggest underperformers so far in 2018: LargeCap Utilities (0.8), LargeCap Consumer Staples (1.7), SmallCap Utilities (1.8), MidCap Utilities (2.7), and LargeCap Health Care (2.8).

S&P 500 Sectors and Industries Performance ([link](#)): Three of the 11 of the sectors rose last week, and six outperformed the S&P 500's 0.2% drop. That compares to ten rising a week earlier, when three outperformed the 2.5% gain for the S&P 500. Real Estate was the best-performing sector with a gain of 1.5%, ahead of Information Technology (1.0), Utilities (0.4), Financials (0.0), Consumer Discretionary (0.0), and Industrials (-0.1). Energy (-1.5) was the biggest decliner, followed by Consumer Staples (-1.4), Health Care (-1.3), Communication Services (-0.7), and Materials (-0.7). All 11 sectors are also higher so far in 2019, compared to just two sectors rising during 2018 when the S&P 500 fell 6.3%. These seven sectors are outperforming the S&P 500's 6.3% rise ytd: Energy (9.6), Financials (9.0), Industrials (8.8), Consumer Discretionary (8.4), Communication Services (7.2), Real Estate (6.9), and Information Technology (6.4). The ytd laggards, albeit with gains: Utilities (0.8), Consumer Staples (1.7), Health Care (2.8), and Materials (5.1).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 0.8% for its first decline in four weeks as 13 of the 24 commodities moved higher. That compares to a 2.5% rise a week earlier when 17 commodities moved higher. However, the index is still in a correction with a drop of 18.5% from its high in early October after being down as much as 26.9% on December 24. The Industrial Metals dominated last week's strongest performers: Lead (5.8%), Zinc (3.8), Aluminum (2.4), and Silver (1.9). Lean Hogs was the biggest decliner with a drop of 6.3%, followed by Natural Gas (-5.2), Sugar (-4.5), and Unleaded Gasoline (-4.2). The S&P GSCI commodities index is up 9.4% ytd following a decline of 15.4% in 2018. Energy Commodities dominate the top-performing commodities so far in 2019: Crude Oil (18.2%), Brent Crude (14.5), Heating Oil (12.3), Nickel (12.0), and GasOil (11.2). The biggest laggards in 2019: Cocoa (-7.9) and Feeder Cattle (-2.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index fell 0.2% last week, and was mixed relative to its moving averages—improving slightly relative to its short-term 50-day moving average (50-dma) and weakening relative to its long-term 200-day moving average (200-dma). However, the index's 50-dma relative to its 200-dma fell for a 16th straight week, and was in a Death Cross for an eighth week; it had been in Golden Cross for 137 weeks. It was last in a Death Cross for 17 weeks through April 2016 when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016. The current Death Cross reading of -5.2% is now the lowest since November 2011; it's down from -4.9% a week earlier and a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma fell for a 16th week following 19 straight weekly gains, which compares to declines during eight of the 10 weeks from mid-March to late May in what was then the worst performance since before the 2016 election. However, the index closed above its 50-dma for a second week after being below for 14 weeks, improving to 2.5% above its slower-falling 50-dma. That compares to a seven-year low of 12.0% below at the end of December and is down from a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma barely edged down w/w after rising slightly a week earlier for the first time in eight weeks. The 200-dma has dropped in 11 of the past 15 weeks in the first downtrend since May 2016,

when it had been slowly declining for nine months. The S&P 500 dropped to 2.8% below its falling 200-dma from 2.6% below a week earlier, and remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): Six of the 11 S&P 500 sectors improved last week relative to their 50-dmas, and five improved relative to their 200-dmas. Nine of the 11 sectors traded above their 50-dmas, a dramatic improvement from three weeks earlier when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows three sectors trading above currently, down from four a week earlier. When Utilities was the only sector above its 200-dma during December, that had been the lowest count since all 11 were below in January 2016, and was a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. During the recent correction, two long-term 200-dma leaders left the building: Tech fell below its 200-dma for the first time in 121 weeks, and Consumer Discretionary fell below its 200-dma for the first time in 102 weeks. Four sectors remain in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier: Health Care and Real Estate (29 straight weeks), Utilities (25), and Consumer Staples (20). At the end of November, Consumer Discretionary and Tech left the club for the first time since April 2016. Among the laggards, Financials has been out of Golden Cross territory for 15 straight weeks and during 27 of the past 31 weeks, Materials has been out for 39 straight weeks, Energy for 11 weeks, and Industrials for 10 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). Consumer Discretionary has a rising 50-dma now, joining Communication Services as the only members of that club. Six sectors had rising 200-dmas at the end of last week: Consumer Discretionary, Energy, Health Care, Information Technology, Real Estate, and Utilities. That's up from two sectors rising in early January in what was then the lowest count since January 2016, when all 11 sectors had falling 200-dmas.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): The Leading Economic Index (LEI) is stalled at record highs, edging down for the second time in three months at the end of last year. The LEI slipped 0.1% in December after a 0.2% gain and a 0.3% loss the previous two months. Before the recent declines, the LEI hadn't posted a loss since May 2016. The LEI is up 4.3% y/y, slowing from September's 7.1%—which was the strongest since September 2010. "The recent moderation in the LEI suggests that the US economic growth rate may slow down this year," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "While the effects of the government shutdown are not yet reflected here, the LEI suggests that the economy could decelerate towards 2 percent growth by the end of 2019." Six of the 10 LEI components contributed positively in December, with the largest contributions coming from jobless claims (0.13ppt), leading credit index (0.07), consumer expectations (0.06), and the interest rate spread (0.06). Stock prices (-0.23) was the biggest negative contributor, with the new orders diffusion index (-0.09) and building permits (-0.01) the only other drags on the index. Orders contributed negatively for the first time since November 2016; the average workweek was unchanged. (The Conference Board noted: "Due to the government shutdown, data for manufacturers' new orders for consumer goods and materials for November and December and building permits were not published for December. The Conference Board has forecasted these series in order to publish a preliminary Leading Economic Index. Data for manufacturers' new orders for nondefense capital goods excluding aircraft for November are from the advance report for Manufacturers' Shipments, Inventories & Orders.")

Coincident Indicators ([link](#)): December's Coincident Economic Index (CEI) continued to reach new record highs, posting only one decline since January 2014, and that was at the start of 2018. The CEI advanced 0.2% for the third consecutive month in December, and is up 2.1% since January's 0.1% dip. Once again, all four components contributed positively last month—and all continued to reach new

record highs: 1) Nonfarm payroll employment was the biggest positive contributor to December's CEI. Payroll employment jumped 312,000 last month—a 10-month high; it averaged monthly gains of 254,000 the last three months of 2018. 2) Real personal income—excluding transfer payments—rose for the 16th time in 18 months, by 0.3% m/m and 3.7% over the period. 3) Industrial production finished 2018 on an upnote, climbing for the seventh straight month—to a new record high—with manufacturing output the strongest in 10 months. Total production climbed 0.3% in December as sizeable gains in manufacturing (1.1%) and mining (1.5) output (1.5) more than offset a 6.3% weather-related plunge in utilities. 4) Real manufacturing & trade sales increased for the 10th time in 11 months, by a total of 2.4% over the period. The yearly growth rate slowed to 1.4% y/y—slowing fairly steadily from November 2017's peak rate of 4.2%.

Regional M-PMIs ([link](#)): Four Fed districts have now reported on manufacturing activity for January—Philadelphia, New York, Richmond, and Kansas City—and show growth remained depressed. We average the composite, orders, and employment measures as data become available. The composite (to 6.0 from 4.7) index showed growth remained near December's pace this month—running at a third of the rate of the summer months. 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) contracted for the second month, though is nearing the breakeven point; Kansas City's (5 from 6) virtually matched December's rate. The new orders gauge (3.7 from 6.2) eased to a 28-month low, as the New York (3.5 from 13.4) and Kansas City (1 from 7) measures showed growth slowed to a standstill, while Richmond's (-11 from -9) contracted at the fastest pace since June 2016. Meanwhile, Philly's (21.3 from 13.3) accelerated at the fastest pace in six months. According to the employment (10.8 from 15.2) measure, hirings were the slowest since July 2017, 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, while Richmond's (7 from 10) held fairly steady. Meanwhile, Kansas City (19 from 14) factories hired at a faster pace—not far from August 2018's peak rate of 25. In the meantime, inflationary pressures continue to ease, according to the prices-paid and -received indexes for the four regions. Here's a look at the prices-paid indexes for January versus their respective peaks during 2018: Philadelphia (to 32.7 from 60.0), New York (35.9 from 54.0), Richmond (3.3 from 5.7), and Kansas City (23.0 from 52.0). Here's the same drill for the prices-received indexes: Philadelphia (24.8 from 35.0), New York (13.1 from 23.3), Richmond (2.3 from 2.8), and Kansas City (23 from 27)—with the latter holding near its high. (Note: Richmond prices are not diffusion indexes but rather average annualized inflation rates.)

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US private-sector companies reported a solid start to 2019, according to flash estimates, as the manufacturing sector regained momentum. The C-PMI (to 54.5 from 54.4) grew at a rate considerably above the 50.0 breakeven point—2.1 points below May's 37-month high of 56.6—holding around Q4-2018's average. The improvement in January's M-PMI (54.9 from 53.8) was driven by the strongest escalation in production since May 2018, while new orders, employment, and inventories also increased at faster rates than December. Meanwhile, the January's NM-PMI eased for the third month, to 54.2 from 54.8 in October, still a respectable pace; it peaked at 56.8 in May. According to the report, new business growth for the service sector remained subdued compared to the first half of 2018, increasing at one of the weakest rates in the past 18 months.

Eurozone PMI Flash Estimates ([link](#)): Eurozone business activity at the start of 2019 was at a near standstill, growing at its weakest rate in 66 months, according to the flash estimates. Brexit worries, trade wars, ongoing auto sector weakness, and the protests in France again were widely cited as factors dampening growth, though the survey responses indicate that a deeper uneasiness has set in at

the start of the year. According to the report, “Companies are concerned about a wider economic slowdown gathering momentum, with rising political and economic uncertainty increasingly affecting risk appetite and demand.” The Eurozone’s C-PMI slowed for the 10th time since reaching a 139-month high of 58.8 just one year ago, slumping to 50.7 this month—the weakest since July 2013. The M-PMI sank to a 50-month low of 50.5, as new orders for goods fell for a fourth straight month, declining at the fastest rate since April 2013—led by a continued deterioration in exports. The NM-PMI dropped to a 65-month low of 50.8, as inflows of new business in the service sector contracted for the first time since July 2013. The Eurozone’s M-PMI and NM-PMI peaked at 60.6 and 58.0, respectively, in December 2017 and January 2018. Across the region, France’s private sector contracted for the second month, with its C-PMI sinking to a 50-month low of 47.9, as France’s NM-PMI (to 47.5 from 49.0) fell further below 50.0—to its lowest rate in 59 months; meanwhile, the M-PMI (51.2 from 49.7) moved back up into expansionary territory. Growth in Germany’s private sector recovered slightly in January, according to the flash estimate, though was still among the weakest seen over the past four years, with the C-PMI ticking up from 51.6 to 52.1; it was at 59.0 last January. In contrast to France, Germany’s manufacturing sector moved from expansion to contraction, with its M-PMI at a 50-month low of 49.9, while the NM-PMI advanced from 51.8 to 53.1. Meanwhile, aside from the Big Two, the report noted: “The rate of output growth sank to its lowest since November 2013, slowing to only weak rates in both manufacturing and services. New order growth was likewise the weakest since November 2013, led by the first fall in manufacturing for five-and-a-half years.”

Japan M-PMI Flash Estimate ([link](#)): Japan’s manufacturing sector showed no growth at the start of 2019, according to the flash estimate, ending its longest expansionary run for over a decade. The M-PMI dropped to the breakeven point of 50.0 this month from 52.6 last month; it peaked at 54.8 last January. According to the report, exports contracted at the fastest pace in 2.5 years, while production scaled back for the first time since July 2016. Meanwhile, business confidence was the weakest in over six years.

Germany Ifo Business Climate Index ([link](#)): “Disquiet is growing among German businesses,” Ifo President Clemens Fuest said in a statement. “The German economy is experiencing a downturn.” Sentiment among German firms weakened for the fifth month, with company executives the most pessimistic about future business since 2012. Overall business confidence has dropped steadily from August’s six-month high of 104.0, sinking to 99.1 this month—the weakest since February 2016. Businesses are facing headwinds from trade tensions, a slowdown in the Eurozone, and weaker demand from China and emerging markets. Since reaching a cyclical high of 108.8 last February, the present situation index has dropped to 104.3—the lowest reading since May 2017, while the expectations component has slumped from a recent high of 101.0 in September to 94.2 this month—the lowest since November 2012. All four sectors—manufacturing, trade, services, and construction—continued to deteriorate this month, though the latter two remain at relatively high levels. The German economy is weakening along with confidence. Last week, the German government slashed its economic growth forecast for 2019 to 1.0% from 1.8% due to slower global economic growth and uncertainty about Britain’s exit from the European Union.

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