



MORNING BRIEFING

February 11, 2019

Donald Trump & Gwyneth Paltrow

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

(1) Can the US economy decouple from China and Europe? (2) January's payroll gain was boosted by government shutdown. (3) No sign of recession in US employment indicators. (4) Will tighter lending standards derail US expansion? (5) China needs a trade deal with US. (6) Trump wants supply chains to leave China. (7) More disintegration than integration in EU. (8) Europe on the edge of a recession. (9) Raise taxes on the wealthy, and they will leave. (10) Movie review: "The Invisibles" (+ + +).

US Economy: Constructive Decoupling? In my book *Predicting the Markets*, I wrote: "On a regular basis, my accounts ask me to assess whether the US economy can decouple from adverse economic developments overseas. The answer I give is: there is no such thing as 'constructive decoupling' in the global economy. Some countries are more coupled than others through their trade accounts."

Since mid-2018, the global economy has been slowing significantly, while US economic growth has been relatively strong. The major European economies may be on the verge of falling into a recession. China's economic growth has slowed significantly, causing distress for workers and social unrest.

Yet the Atlanta Fed's [GDPNow](#) model was tracking Q4 real GDP in the US at a solid 2.7% (saar) pace following robust gains during Q3 (3.4%) and Q2 (4.2%). Debbie and I continue to predict that the US economy will grow and won't fall into a recession this year or next year, notwithstanding the weakness overseas.

This has happened before, specifically during the second half of the 1990s. European economies were said to be suffering from "Eurosclerosis" back then. (That term referred to the continent rather than the currency, which was introduced at the start of 1999.) Most people were still riding bicycles to work in China during the 1990s. China's economy didn't really emerge until after the country was admitted to the World Trade Organization on December 11, 2001.

Fears that the US economy may be falling into a recession have been recurring since the last one, triggering 62 panic-attack selloffs in the stock market since March 2009, when the current bull market started. They were all followed by relief rallies, as was the latest panic attack ([Fig. 1](#)).

Of course, it's too soon to declare that the latest one is definitely over. Stock prices swooned last Thursday and Friday morning on fears of a renewed government partial shutdown, slowing global growth, an impasse in the US-China trade talks, and weakness in some US economic indicators. Let's consider these issues one by one, starting with the US economy:

(1) *US economy*. Late last week, I had an interesting phone conversation with Doug Tengdin, the chief investment officer of Charter Trust Company, about the latest employment report. We agreed that the government shutdown may have boosted January's surprisingly large payroll gain of 304,000. It lasted

for 35 days, from December 22 through January 25. It affected hundreds of thousands of federal workers and contractors. But because of a 1/16 bill signed into law by President Trump, federal employees who were furloughed or required to work without pay were guaranteed back pay after the shutdown ended. Those workers were counted as employed by the Bureau of Labor Statistics (BLS).

Meanwhile, the household survey of employment showed that the number of people employed part time who wanted to work full time jumped by about 500,000, to 5.1 million, in January ([Fig. 2](#)). Nearly all of this increase occurred in the private sector and may reflect the impact of the partial federal government shutdown, according to the BLS.

Nevertheless, there are numerous employment-related indicators that confirm that the US labor market continued to boom during January. For example, the “jobs-hard-to-get” series, compiled monthly by The Conference Board, was 12.9% last month, holding around August’s cyclical low of 12.1%, while the “jobs-plentiful” percentage, at 46.6%, was just shy of November’s cyclical high of 46.8% ([Fig. 3](#)). The average of the M-PMI and NM-PMI employment indexes remained elevated at 56.7 during January ([Fig. 4](#)).

One of Doug’s favorite indicators is the y/y growth rate in payroll employment ([Fig. 5](#)). He uses not seasonally adjusted data because seasonal factors are regularly revised. He observes that this growth rate started moving higher again since October 2017 through January. In the past, it typically peaked several months prior to a recession. So it certainly doesn’t support the imminent recession scenario.

Yes, but what about the reduced willingness to lend shown by the Fed’s latest loan officers’ survey ([Fig. 6](#), [Fig. 7](#), and [Fig. 8](#))? The survey released a week ago showed banks tightened lending standards over the last three months at the fastest rate since the middle of 2016. The survey was conducted from December 21 to January 7, a period of unusual market volatility. So the results were probably skewed by the markets. Meanwhile, commercial and industrial loans rose to yet another record high during the 1/30 week at \$2.3 trillion ([Fig. 9](#)). Consumer credit rose to a record \$4.0 trillion during December ([Fig. 10](#)).

(2) *US-China trade talks*. Melissa and I expect a trade deal between the US and China by the end of this month. The Chinese need a deal badly to placate Trump’s demands for fairer trade so that he won’t impose another round of tariffs on US imports from China. One tipoff is that the Chinese could have responded to US criminal charges against Huawei by walking away from the talks, but they didn’t do so.

Furthermore, social unrest is rising in China, as reported in a 2/6 NYT [article](#) titled “Workers’ Activism Rises as China’s Economy Slows. Xi Aims to Rein Them In.” It notes: “With economic growth in China weakening to its slowest pace in nearly three decades, thousands of Chinese workers are holding small-scale protests and strikes to fight efforts by businesses to withhold compensation and cut hours. The authorities have responded with a sustained campaign to rein in the protests, and most recently detained several prominent activists in the southern city of Shenzhen late last month.”

(3) *Government shutdown*. As a general rule, the stock market likes gridlock. Controversial legislation promoted by extreme partisans on either side of the aisle usually isn’t enacted thanks to our system of checks and balances. However, it’s hard to find anything good to say about the failure of our government to function when shutdowns occur. There was one from December 22, 2018 until January 25, 2019. It ended with a temporary agreement that set up a bipartisan committee to work on a compromise on how much to spend on the border wall and the number of beds at ICE detention centers. The February 15 deadline could trigger another shutdown, or another extension, or a last-minute deal. We pick Door #3. In any event, a curse on both their Houses!

Global Economy: Conscious Uncoupling? What do Donald Trump and Gwyneth Paltrow have in common? Both believe in conscious uncoupling. In my book, *Predicting the Markets*, I wrote the following on this topic:

“Actress Gwyneth Paltrow announced in March 2014 that she was divorcing musician Chris Martin. She described the breakup as an amicable ‘conscious uncoupling.’ Perhaps countries that exit from economic and financial unions should issue a gracious statement like the one Gwyneth shared with the world when she announced her split: “It is with hearts full of sadness that we have decided to separate. We have been working hard for well over a year, some of it together, some of it separated, to see what might have been possible between us, and we have come to the conclusion that while we love each other very much[,] we will remain separate.”

Trump’s trade wars with America’s major trading partners seem aimed primarily at China. The message to all companies is clear: If you have most of your supply chain in China, move it elsewhere. In other words, decouple from China even if the Chinese do a trade deal with the US because they simply can’t be trusted to play fair. Accompanying that implicit message has been top US officials’ very explicit call for countries around the world not to do business with Huawei, China’s telecom giant.

In Europe, decoupling is also in fashion. There was much talk and angst about a potential Grexit from 2010-2012. Now the question is whether Brexit will be a hard or soft exit. All of a sudden, a hissing match has started between France and Italy. In Spain, Catalan separatist parties are threatening to upend the government’s 2019 budget proposal, a move that could potentially prompt snap elections in the country. In Germany, anti-immigration populists have ended Angela Merkel’s reign as de facto leader of the European Union (EU). In other words, there are more signs of disunion than union in the EU these days. These developments, along with depressed exports to emerging markets such as China, all are weighing on Europe’s major economies. Consider the following:

(1) *UK*. Markit data showed that January’s M-PMI for the UK held up reasonably well at 52.8, but the NM-PMI dropped to 50.1, showing virtually no growth at all ([Fig. 11](#)). Last Thursday, the Bank of England (BOE) cut its real GDP forecast for 2019 from 1.7% to 1.2%, the weakest growth since 2009. The BOE is assuming a soft, rather than a hard, Brexit.

(2) *Germany*. Late in January, the German government cut its real GDP growth forecast for 2019 from 1.8% to 1.0%. The volume of German retail sales (excluding autos) took a dive during December, falling 4.3% m/m ([Fig. 12](#)). So did industrial production of consumer goods, which plunged 7.8% during the last four months of 2018, though orders for these goods rebounded 4.2% m/m during December ([Fig. 13](#)). Over the past 12 months through January, German passenger car output fell to 5.0 million units, the lowest since January 2010 ([Fig. 14](#)). More broadly, German factory orders and production (excluding construction) are down 7.0% and 3.9% y/y through December.

(3) *France*. France’s real GDP grew 1.5% in 2018, a significant slowdown from 2.3% in 2017, Insee statistics agency said in a first estimate. In recent months, antigovernment protests damped consumer spending and business investment. France’s composite purchasing managers index (C-PMI) fell to 48.2 during January led by a drop in the NM-PMI to 47.8, with the M-PMI rising slightly to 51.2 after edging below 50.0 in December for the first time since September 2016 ([Fig. 15](#)).

(4) *Italy*. Italy may have slipped into a recession toward the end of last year after a fall in manufacturing and exports spilled over into the services sector. Italy’s C-PMI fell to 48.8 during January with the M-PMI at 47.8 and the NM-PMI at 49.7 ([Fig. 16](#)).

Socialism 101: Tax the Rich, Watch Them Leave. Are the rich paying their fair share of taxes? New

York State (NYS) is finding out that the only way to know is to raise taxes on them high enough until they leave. According to a 2/4 *New York Post* [article](#): “One percent of the state’s top income earners provide 46 percent of the state’s personal income tax revenues ...” Starting last year, Trump’s tax act capped at \$10,000 the amount of state and local taxes (SALT) that can be deducted from income taxes. NYS income tax revenues dropped \$2.3 billion during December and January.

The article reported that a preliminary analysis by Governor Andrew Cuomo’s office “claims much of the impact is coming from a drop in revenues from the state’s highest income earners most impacted by the loss of write-offs of state and local tax deductions ...” The governor, a liberal Democrat who warned against raising NYS taxes on millionaires, said, “I don’t believe [in] raising taxes on the rich. That would be the worst thing to do. You would just expand the shortfall.” He added, “God forbid if the rich leave.”

Movie. “The Invisibles” (+ + +) ([link](#)) is a docudrama about four Jewish individuals who managed to survive in Berlin during World War II by hiding in plain sight. They tell their own stories, and are portrayed by actors in the film. While Goebbels infamously declared Berlin “free of Jews” in 1943, more than 1,500 of them managed to survive in the Nazi capital. They were helped by decent German citizens, who have earned a place as “The Righteous Among the Nations,” honored by Israel’s Yad Vashem: The World Holocaust Remembrance Center. The Righteous are non-Jews who took great risks to save Jews during the Holocaust. The movie weaves the accounts of the survivors and their protectors very effectively, reminding us that the human spirit has an amazing capability to resist and overcome evil.

CALENDARS

US. Mon: None. **Tues:** NFIB Small Business Optimism Index 103.0, Job Openings 6.95m, George, Mester. (Econoday estimates)

Global. Mon: UK GDP 0.0%/m/m/0.3%/q/q/1.4%/y/y, UK Headline & Manufacturing Industrial Production -0.5%/-1.1% y/y, UK Trade Balance -£3100m, China New Yuan Loans ¥2970.5b, China Aggregate Financing ¥3000.0b. **Tues:** Japan Machine Tool Orders, Australia Business Confidence, Carney. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index edge up 0.1% for its sixth gain in seven weeks. That performance ranked ninth of the 49 global stock markets we follow in a week when 10/49 countries rose in US dollar terms. That compares to the prior week’s 21/49 ranking, when the US MSCI gained 1.6% and 38 markets rose. The AC World ex-US index fell for the first time in seven weeks, dropping 1.3% compared to a 1.2% rise a week earlier. EM Asia was the best-performing region, albeit with a decline of 0.7%, ahead of BRIC (-1.1%). EM Latin America was the worst performer with a decline of 3.4%, followed by EMU (-2.4), EM Eastern Europe (-2.0), EMEA (-1.9), and EAFE (-1.4). Egypt was the best-performing country, rising 6.1%, followed by Hong Kong (1.4), Australia (1.3), Malaysia (1.0), and Finland (0.8). Of the 23 countries that underperformed the AC World ex-US MSCI last week, Hungary fared the worst, falling 4.7%, followed by Brazil (-4.6), South Africa (-4.3), Germany (-3.7), and Poland (-3.5). The US MSCI ranks 16/49 so far in 2019, with its 8.3% ytd gain ahead of the AC World ex-US (6.0). 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 (11.1), BRIC (9.0), EM Eastern Europe (8.7), EMEA (7.5), and EM Asia (6.7). Regions underperforming the AC World ex-US: EMU (4.1) and EAFE (4.9). The best country performers ytd: Argentina (18.0), Egypt (17.4), Colombia (14.6), Turkey (14.4), and Pakistan (14.2). The worst-performing countries so far in 2019: India (-1.2), Morocco (0.6), Sri Lanka (0.6), Hungary (0.6), and Poland (1.6).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week, but LargeCap missed out registering a gain. MidCap rose 0.6% and exited a correction as it extended its gains to a seventh straight week. That was ahead of SmallCap (0.1%) and LargeCap (0.0%). All these indexes remain well below their record highs. LargeCap ended the week 7.6% below its record high on September 20, while MidCap and SmallCap are 9.6% and 14.9% below their August 29 records, respectively. Among the 33 sectors, 18 moved higher last week compared to 28 rising a week earlier. The biggest gainers in the latest week: MidCap Tech (2.7%), MidCap Communication Services (2.2), LargeCap Utilities (2.0), MidCap Real Estate (1.9), and LargeCap Tech (1.8). MidCap Energy (-7.1) was the biggest decliner last week, followed by SmallCap Energy (-6.8), LargeCap Energy (-3.3), and SmallCap Materials (-2.2). In terms of 2019's ytd performance, all three indexes are off to a great start: MidCap (11.4), SmallCap (10.6), and LargeCap (8.0). All 33 sectors are positive ytd, with Energy no longer dominating the top performers: MidCap Tech (15.0), SmallCap Materials (14.9), SmallCap Real Estate (14.9), SmallCap Tech (13.6), and MidCap Real Estate (13.6). The biggest underperformers so far in 2018: LargeCap Health Care (3.9), LargeCap Materials (4.3), SmallCap Utilities (4.4), MidCap Utilities (4.9), and LargeCap Utilities (5.1).

S&P 500 Sectors and Industries Performance ([link](#)): Five of the 11 of the sectors rose last week, and five outperformed the S&P 500's less than 0.1% gain. That compares to 10 rising a week earlier, when seven outperformed the 1.6% gain for the S&P 500. Utilities was the best-performing sector with a gain of 2.0%, ahead of Information Technology (1.8%), Industrials (1.5), Real Estate (1.4), and Consumer Staples (1.1). Energy (-3.3) was the biggest decliner, followed by Materials (-1.5), Financials (-1.5), Health Care (-0.9), Communication Services (-0.3), and Consumer Discretionary (-0.3). 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 six sectors are outperforming the S&P 500's 8.0% rise ytd: Industrials (13.3), Real Estate (11.5), Information Technology (9.4), Energy (9.4), and Communication Services (9.3). The ytd laggards, albeit with gains: Health Care (3.9), Materials (4.3), Utilities (5.1), Consumer Staples (5.9), Financials (7.5), and Consumer Discretionary (7.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index fell 1.3% as nine of the 24 commodities moved higher. That compares to a 0.9% gain a week earlier, when 13 commodities moved higher. The index is still in a correction with a drop of 18.8% from its high in early October after being down as much as 26.9% on December 24. Unleaded Gasoline was last week's strongest performer, rising 5.6%, followed by Cocoa (2.0%), Feeder Cattle (1.6), Live Cattle (1.3), and Copper (1.2). Natural Gas was the biggest decliner, with a drop of 5.2%, followed by Crude Oil (-4.3), Zinc (-3.1), and Lean Hogs (-2.8). The S&P GSCI commodities index is up 9.0% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Nickel (17.7), Unleaded Gasoline (16.6), Crude Oil (16.4), Brent Crude (15.4), and Heating Oil (13.5). The biggest laggards in 2019: Natural Gas (-11.9), Cocoa (-8.5), Lean Hogs (-4.2), and Feeder Cattle (-1.3).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index was up less than 0.1% last week and improved relative to its short-term 50-day moving average (50-dma), but slipped slightly relative to its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma also slipped for the 17th time in 18 weeks and was in a Death Cross for a tenth week; it had been in Golden Cross for 137 weeks through late November. 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 down from -5.1% a week earlier, and matches the lowest reading since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma dropped after rising a week earlier for the first time in 17 weeks, which had ended its worst downtrend since before the 2016 election. The index closed above its 50-dma for a fourth week after being below for 14 weeks, improving to a 12-month high of 4.1% above its now-falling 50-dma

from 4.0% above its rising 50-dma a week earlier. 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 during January 2018. The 200-dma rose for a second week, but has been falling during 11 of the past 17 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 dropped to 1.3% below its rising 200-dma from a nine-week high of 1.2% below rising 200-dma 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](#)): Five of the 11 S&P 500 sectors improved last week relative to their 50-dmas and their 200-dmas: Consumer Staples, Industrials, Real Estate, Tech, and Utilities. All 11 sectors traded above their 50-dmas for a second straight week, and for the first time since early August. That's a dramatic improvement from five weeks ago when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows six sectors trading above currently, up from five 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. They're still out, but Industrials rose above its 200-dma last week for the first time in 18 weeks, joining these five sectors: Communication Services, Consumer Staples, Health Care, Real Estate, and Utilities. Just two sectors remain in the Golden Cross club (with 50-dmas higher than 200-dmas), down from three a week earlier, as Health Care left the club for the first time in 31 weeks. Still in the club are Real Estate (31 straight weeks) and Utilities (27). 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 17 straight weeks and during 29 of the past 33 weeks, Materials has been out for 41 straight weeks, Energy for 13 weeks, and Industrials for 12 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). Five sectors joined Consumer Staples this week as the only sectors with a falling 50-dma. However, eight sectors had rising 200-dmas at the end of last week, up from six a week earlier as Communication Services turned up for the first time in 21 weeks and Industrials in 18 weeks. They joined Consumer Discretionary, Energy, Health Care, Information Technology, Real Estate, and Utilities. That's up from just two sectors with a rising 200-dma in early January in what was then the lowest count in two years, when all 11 sectors had falling 200-dmas.

US ECONOMIC INDICATORS

Consumer Credit ([link](#)): Consumer credit expanded \$16.5 billion during December and \$64.8 billion during the three months through December—the fastest three-month pace since May 2016. For all of 2018, borrowing increased \$186.7 billion, not far from 2017's \$183.5 billion. However, the breakdown is mixed: Non-revolving credit, which includes student and auto loans, rose \$158.3 billion during the 12 months through December, from \$129.4 billion for all of 2017. Meanwhile, the yearly gain in revolving credit was nearly cut in half, slowing from \$54.2 billion during 2017 to \$28.5 billion last year. Still, the level of consumer credit ended 2018 at record highs for both revolving and non-revolving credit.

GLOBAL ECONOMIC INDICATORS

Germany Industrial Production ([link](#)): Output fell six of the last seven months of 2018, sinking to its lowest level since March 2017, as the German economy continues to face headwinds from trade frictions and Britain's possible departure from the EU. Germany's headline production—which includes construction—fell 0.4% m/m and 4.6% during the seven months through December. (Excluding construction, output ticked up 0.2% in December after plunging 4.2% the previous six months.) A 4.1%

drop in construction output dragged overall production lower in December; manufacturing production rose for the first time in four months, by 0.2%, boosted by the largest monthly increase in motor vehicle production (7.2%) in 16 months. Over the 12 months through December, total production fell 3.9%, with manufacturing (-4.0% y/y) and construction (-4.1) both in the red. The comparable figures for 2017 were 6.3%, 7.7%, and 2.9%, respectively. Here's a look at how the main industrial groupings did on a y/y basis for both 2018 and 2017, based on December data: Intermediate goods (-4.7% & 7.9%), consumer goods (-4.0 & 4.5), and capital goods (-3.3 & 8.7). A 4.7% drop in consumer nondurable goods production accounted for 2018's decline in the consumer goods category—consumer durable goods production was basically flat with a year ago. Meanwhile, Germany's M-PMI (to 49.7 from 51.5) for January contracted for the first time in more than four years—led by the steepest decline in new orders in over six years; production increased only marginally and matched its weakest performance since the current upturn began in May 2013.

France Industrial Production ([link](#)): December production remained in a volatile flat trend—near the bottom of the range. Headline production, which excludes construction, rose 0.8% after a 1.5% loss and a 1.4% gain the previous two months. Manufacturing production followed a similar pattern, rebounding 1.0% in December after a 1.6% decrease and a 1.5% increase the prior two months. Overall production in December was down 1.4% y/y—with factory production 1.0% lower. Consumer nondurable goods (2.7% y/y) production was the only major industrial grouping in the black, while consumer durable goods (-10.8) production was the hardest hit—impacted by car registration issues. Energy, intermediate goods, and capital goods output fell 3.9%, 3.0%, and 0.9% y/y in December. France's M-PMI (to 51.2 from 49.7) showed a moderate improvement in business conditions compared to December. According to the report, output and new orders continued to decline in January, but panelists were encouraged to see softer rates of contraction for both. Meanwhile, employment grew at the fastest pace since last September. However, the report warned, “with the 'gilets jaunes' protests still ongoing and an anticipated global economic slowdown during 2019, the sector will continue to be tested in the coming months.”

Italy Industrial Production ([link](#)): Italy has been hit with a rash of bad news—one example being December's industrial production report. Production fell the final four months of 2018, sinking 2.9%, pushing the y/y rate down 5.5% y/y in December—the steepest decline since December 2002. Consumer (-7.2% y/y) and intermediate (-6.4) goods output were the weakest y/y in December, though energy (-4.4) and capital goods (-3.5) output also contracted. Istat warned it foresees “serious difficulties” in carrying on the country's economic activity levels. Meanwhile, IHS Markit's M-PMI (to 47.8 from 49.2) for January showed manufacturing activity contracted at the fastest pace since early 2012, as a sharp drop in new orders caused a big decline in output. Furthermore, workforce numbers declined for the first time in over four years. Last Thursday, the European Commission slashed its 2019 growth forecast for Italy by a full percentage point to 0.2%.

Spain Industrial Production ([link](#)): Output ended 2018 at its lowest level since October 2016, contracting sharply the last two months of the year. Production, excluding construction, sank 3.2% during the two months ending December—the steepest two-month decline since January 2009. It's down 6.2% from December 2017's cyclical peak. Manufacturing production fell 2.1% the final two months of 2018 and 3.3% on a December/December basis. Looking at output growth for the main industrial groupings, all contracted y/y in December, led by consumer durable goods (-12.7% y/y) and energy (-11.2)—with both posting double-digit declines. Capital, intermediate, and consumer nondurable goods production fell 5.7%, 4.3%, and 1.7%, respectively, from a year ago. Meanwhile, Spain's IHS Markit M-PMI (to 52.4 from 51.1) showed a slight acceleration in manufacturing activity at the start of 2019—recording faster gains in output, new orders, and employment. There were reports of firmer demand from both national and international markets, encouraging firms to boost their

inventories of purchases and finished goods in January. Optimism about the future strengthened to its highest in six months.

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