



MORNING BRIEFING

February 19, 2019

Recharging Bull

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

(1) Rational buying follows irrational selloff. (2) V-shaped rebound in stock prices. (3) Bull will get big prize in early March. (4) New record high? Toga! Toga! Toga! (5) Flash recession? (6) Temps and truckers remain upbeat. (7) Earnings recessions aren't always bearish. (8) Who's to blame for Panic Attack #62? (9) Naming names: The falsely and justly accused. (10) Quiet time ahead for Fed's QT? (11) Movie review: "Capernaum" (+ + +).

Video Podcast. In my latest video podcast, titled "[Lipstick on a Pig: US Federal Government Debt](#)," I review the latest developments in the US federal government's budget. I also explain why I disagree with the proponents of Modern Monetary Theory, who claim that deficits and debt don't matter as long as the government borrows in its own currency and inflation remains subdued.

Strategy I: Retreating Bear. Remember irrational exuberance? We experienced the mirror opposite of that during last year's stock market correction from September 20 through the Christmas Eve massacre on December 24. Joe and I curbed our enthusiasm for earnings at the end of October, not our enthusiasm for the bull market. The 19.8% plunge in the S&P 500 late last year suggested that some investors might have lost their minds and turned irrationally bearish, once again fearing an imminent recession. We reckoned it was just another panic attack that would pass.

So far, so good. Stocks continued to rally last week, with the S&P 500 now back above its 200-day moving average and up 18.1% from its 12/24 low ([Fig. 1](#)). It is up 10.7% ytd and 3.8% since the start of last year ([Fig. 2](#)).

At the 12/24 close last year, six of the 11 S&P 500 sectors were in bear market territory, i.e., with losses of 20% or more from the 9/20 record high ([Fig. 3](#)). As of this past Friday, none of them were there anymore. Only two sectors were in correction territory, i.e., with losses between 10% and 20%: Materials (-10.4%) and Energy (-12.0%).

All of the sectors are up solidly from the 12/24 low: Industrials (25.3%), Energy (22.0), Information Technology (20.6), Consumer Discretionary (19.6), Financials (18.2), S&P 500 (18.1), Communication Services (17.1), Real Estate (16.9), Materials (15.1), Health Care (14.9), Consumer Staples (11.6), and Utilities (7.6) ([Fig. 4](#)). There's certainly no recession in this performance derby.

Strategy II: Ready for a Big Birthday Bash? The bull is already singing, "Happy birthday to me!" The second-longest bull market in history will be 10 years old on March 6 on an intraday basis and on March 9 on a closing basis. In celebration of the historic event, the bull only needs to climb another 5.6% to make a new record high. By the way, this bull market will be the longest on record if it continues through June 29, 2021.

The bull has gotten lots of support from the economy, which will have experienced the longest

economic expansion on record as of July 2019. The bull has continued to charge through 62 panic attacks, by our count, triggered by fears of an imminent recession that didn't pan out. Now consider the following:

(1) *Flash recession*. What about the 1.2% drop in December retail sales reported on Thursday and the 0.6% drop in January industrial production reported on Friday? The [GDPNow model](#) estimate for real GDP growth in Q4-2018 was 1.5% on February 14, down from 2.7% on February 6. After the retail sales and retail inventories releases, the “nowcast” of Q4 real personal consumption expenditures growth fell from 3.7% to 2.6%, and the “nowcast” of the contribution of inventory investment to Q4 real GDP growth fell from -0.27ppts to -0.55ppts. Below, Debbie explains that December retail sales was depressed by a few temporary factors that should be reversed in coming months.

In any case, the S&P 500 jumped 1.1% on Friday, after edging down 0.3% on Thursday, suggesting that investors agree with us that last December's flash crash in the stock market might have caused a “flash recession” in the economy for a month or two.

(2) *Temps and truckers*. While the bears continue to sniff around for bearish scraps of economic data, Debbie and I have found a couple more to add to the bullish cornucopia. We will be paying close attention to monthly payroll employment in the temporary help industry ([Fig. 5](#)). It is highly correlated with the Index of Leading Economic Indicators (LEI). It rose to a record high during January, while the LEI stalled at a record high during the final three months of 2018.

Payroll employment in truck transportation also rose to a record high during January, despite lots of chatter about a shortage of such workers ([Fig. 6](#)). This series is highly correlated with the Index of Coincident Economic Indicators (CEI), which also hit a record high at the end of last year. There's no flash recession in these indicators.

(3) *Earnings recession*. When we curbed our enthusiasm for earnings at the end of last October, we lowered our 2019 growth rate for S&P 500 earnings per share from the high- to the mid-single-digit percentages. We wrote that an earnings recession was possible if the profit margin fell more than revenues grew.

Now there's lots of chatter about the likelihood of a mild earnings recession this year. Yet stock prices continue to recover. That's because the bulls are noting that there have been previous earnings recessions that weren't associated with economic recessions, and didn't end bull markets ([Fig. 7](#) and [Fig. 8](#)).

Last week, we explained: “So why are stock prices continuing to rebound from last year's Christmas Eve low now that everyone is curbing their enthusiasm for earnings—with some alarmists predicting that that low will be tested once companies confirm how bad earnings are this year? Good question. Why are we still aiming for 3100 on the S&P 500 by year-end? We've previously acknowledged that was our forecast for year-end 2018.

“We feel like investors were robbed of a good year. Earnings rose about 24% last year, but the S&P 500 index fell 6.2%. So there should be some catch-up this year even if earnings are flat now that fears of an economic recession have dissipated.”

(4) *Roundup*. Joe and I continue to round up and interrogate the suspects behind last year's irrational selloff. We may have to release long-only investors as well as computer algorithms trading systems. Equity mutual funds did see net outflows of \$54.2 billion during the final three months of 2018 ([Fig. 9](#)). But the monthly outflows were steady and a continuation of comparable outflows during the previous

three months.

The outflows appear more related to the ongoing shift away from managed to passive investing. Sure enough, equity ETFs attracted net inflows of \$73.2 billion during the last three months of 2018, up from \$68.0 billion during the previous three months. This also suggests that if algos were programmed to sell stocks late last year, they didn't do it by selling ETFs.

The most likely suspects for last year's plunge remain hedge funds. As we wrote in the 2/4 [Morning Briefing](#): "When rounding up the suspects for last year's selloff, we might have overlooked hedge funds. The 1/13 *FT* [reported](#), 'Data from the consultancy eVestment indicated that the hedge fund industry registered its third worst year. The 10 largest hedge funds delivered an average loss after fees of 4.5 per cent, a weaker performance than the S&P 500.'" Many hedge funds allow their investors to bail out only in the final weeks of any year, which might have contributed to the intensity of the year-end selloff."

Fed I: Fear Not QT. Quantitative tightening (QT) has been making investors anxious. Back in 2010, then Fed Chairman Ben Bernanke [said](#) that he would prefer the Fed's quantitative easing program be referred to not as "QE" but simply as "securities purchases"—this from the father of modern-day QE. Melissa and I surmise that he didn't like to refer to the program as "easing" because then its inevitable reversal would call to mind the word's opposite, "tightening"—which might cause a drastic unintended reversal of QE's effects.

Indeed, at the first hint of a slowdown in the Fed's purchases, the financial markets responded with the infamous "taper tantrum" of May 2013. The markets experienced another QT tantrum last year on December 19 when Fed Chairman Jerome Powell said at his [press conference](#) that paring the Fed's balance sheet was on "automatic pilot."

The perma-bears had been growling that the latest bull market was driven by QE. Their Exhibit A was a chart showing the apparently strong correlation between the S&P 500 and the Fed's assets ([Fig. 10](#)). The bears warned that stock prices would plunge once the Fed terminated QE and started QT. They were overjoyed with their prescience late last year when stock prices took a dive. They claimed that the drying up of the liquidity provided by the Fed was finally working as they had predicted.

So why have stock prices rebounded so dramatically since December 24? The answer is obvious if you are a bear: The Fed caved in to the Dow Vigilantes. Our response is: So what's their point? We anticipated that the Fed would do so, so we didn't turn bearish, and have remained bullish. In any event, we never bought the bears' story about the relationship between the stock market and the Fed's assets.

Interestingly, the market's reaction to the Fed's June 2017 announcement that it would begin to allow the assets acquired following the financial crisis of 2008 to roll off the balance sheet effective during October 2017 wasn't so pronounced ([Fig. 11](#), [Fig. 12](#), and [Fig. 13](#)).

However, apparently in response to the stock market selloff late last year, Fed officials started signaling a more "patient" approach to monetary normalization—involving a pause in rate-hiking and a likely slowing in the pace of QT, with termination at a much higher level of asset holdings than implied by the Fed's autopilot trajectory. The details of the new trajectory are likely to be announced soon.

Fed II: Dudley's View. We agree with Bill Dudley, former head of the New York Fed, that the Fed's balance sheet is nothing to worry about. In a 2/5 opinion [piece](#) for Bloomberg titled "Stop Worrying About the Fed's Balance Sheet—It's not the threat that people seem to think it is," Dudley wrote:

“Financial types have long had a preoccupation: What will the Federal Reserve do with all the fixed income securities it purchased to help the U.S. economy recover from the last recession? The Fed’s efforts to shrink its holdings have been blamed for various ills ... I’m amazed and baffled by this. It gets much more attention than it deserves.”

It’s worth noting that as a retired Fed official, Dudley has no communication bias or agenda. He can share his insider experience on the FOMC from 2009 to 2018—including during the initial discussions about winding down the Fed’s balance sheet (announced in June 2017 and effective in October 2017)—simply for the public good. And we think his logic for discrediting the balance-sheet blame game makes a lot of sense:

(1) *On course*. Dudley began by saying that the stock market’s December decline during the Fed’s \$50 billion per-month run-off was merely coincidental. We see it as an overreaction to the Fed’s communication that the balance-sheet wind-down was on auto-pilot. Nonetheless, we agree that the “balance sheet contraction had been underway for more than a year, without any modifications or mid-course corrections. Thus, this should have been fully discounted.”

(2) *No yield reaction*. Dudley further observed: “Longer-term Treasury yields remained low, and the spread between them and the yields on agency mortgage-backed securities didn’t change much. It’s hard to see how the normalization of the Fed’s balance sheet tightened financial conditions in a way that would have weighed significantly on stock prices.” That makes sense.

(3) *Just a reminder*. He closed by saying: “The concept of using the balance sheet as a monetary-policy tool isn’t new, either. It has always been part of the Fed’s toolkit. The shift is merely in emphasis. When the Fed was clearly on a tightening path, the attention was on interest rates. The Fed has made it clear that this is the primary tool of monetary policy and that hasn’t changed a whit. However, now that the balance sheet is getting more attention and the direction of short-term interest rates is less certain, the Fed is simply reminding people that the balance sheet is still available in circumstances where its primary tool might be insufficient.”

Movie. “Capernaum” (+ + +) ([link](#)) is an amazing movie about kids growing up in a ghetto in Beirut. The Lebanese filmmaker Nadine Labaki depicts how they spend most of the day simply trying to survive. Their goal is to eventually die of natural rather than unnatural causes. Sadly, many do not do so, partly because they are exploited by other adults, including their parents—if their parents are still alive. None of the kids in the cast is a professional actor, but their performances are compelling because they are living lives like those depicted in the film. The lead actor is only 12 years old. He plays his part with a remarkable moral compass that puts the adults in the movie to shame. While the film has a story line, it feels like a gritty documentary.

CALENDARS

US. **Mon:** Housing Market Index 59, Mester. **Tues:** MBA Mortgage Applications, E-Commerce Retail Sales, FOMC Minutes. (Econoday estimates)

Global. **Mon:** Germany ZEW Survey Current Situation & Expectations 21.0/-13.7, UK Employment Change & Unemployment Rate (3-month) 152k/4.0%, RBA Meeting Minutes. **Tues:** Eurozone Consumer Confidence -7.7. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 2.5% for its

seventh gain in eight weeks. That performance ranked 11th of the 49 global stock markets we follow in a week when 31/49 countries rose in US dollar terms. That compares to the prior week's 9/49 ranking, when the US MSCI gained 0.1% and nine markets rose. The AC World ex-US index rose 1.3%, recovering from a 0.6% decline a week earlier, its first in seven weeks. EMU was the best-performing region with a gain of 2.8%, ahead of EAFE (2.0%). EMEA was the worst performer with a decline of 2.0%, followed by EM Eastern Europe (-1.5), EM Asia (-0.5), BRIC (-0.4), and EM Latin America (1.1). Italy was the best-performing country, rising 3.5%, followed by Norway (3.4), Sweden (3.4), France (3.1), and Egypt (3.1). Of the 27 countries that underperformed the AC World ex-US MSCI last week, Indonesia fared the worst, falling 4.6%, followed by South Africa (-2.6), India (-2.5), and the Philippines (-2.5). The US MSCI ranks 9/49 so far in 2019, with its 11.0% ytd gain ahead of the AC World ex-US (7.4). 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 (12.3) and BRIC (8.5). Regions underperforming the AC World ex-US: EMEA (5.3), EM Asia (6.2), EAFE (7.0), EM Eastern Europe (7.1), and the EMU (7.1). The best country performers ytd: Egypt (21.1), Argentina (17.1), Colombia (15.7), Brazil (15.4), and Turkey (14.3). The worst-performing countries so far in 2019: India (-3.6), Sri Lanka (-1.2), Poland (-0.2), Morocco (0.6), and Hungary (1.6).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week. SmallCap rose 4.3%, ahead of the gains for MidCap (3.3%) and LargeCap (2.5). MidCap extended its gains to eight straight weeks, while LargeCap and SmallCap were up for a third week. All these indexes remain below their record highs. LargeCap ended the week 5.3% below its record high on September 20, with MidCap and SmallCap 6.6% and 11.2% below their August 29 records, respectively. Among the 33 sectors, 31 moved higher last week compared to 18 rising a week earlier. The biggest gainers in the latest week: SmallCap Energy (10.4), MidCap Energy (7.8), SmallCap Materials (6.6), SmallCap Industrials (5.6), and SmallCap Consumer Discretionary (5.1). LargeCap Utilities (-0.2) and SmallCap Utilities (-0.1) were the sole decliners last week. In terms of 2019's ytd performance, all three indexes are off to a great start. SmallCap is up 15.4% ytd, and is now ahead of MidCap (15.1) and LargeCap (10.7). All 33 sectors are positive ytd, with Energy starting to appear back among the top performers: SmallCap Energy (22.5), SmallCap Materials (22.5), MidCap Tech (19.6), SmallCap Tech (18.7), and MidCap Energy (18.4). Utilities dominates the biggest underperformers so far in 2019: SmallCap Utilities (4.3), LargeCap Utilities (4.9), MidCap Utilities (5.3), LargeCap Consumer Staples (7.0), and LargeCap Health Care (7.2).

S&P 500 Sectors and Industries Performance ([link](#)): Ten of the 11 of the sectors rose last week, and six outperformed the S&P 500's less than 0.1% gain. That compares to five rising a week earlier, when five outperformed the S&P 500's 2.5% gain. Energy was the best-performing sector with a gain of 4.8%, ahead of Industrials (3.5%), Materials (3.4), HealthCare (3.2), Financials (2.9), and Consumer Discretionary (2.6). Utilities (-0.2) was the sole decliner, followed by these underperforming sectors: Communication Services (1.0), Real Estate (1.1), Consumer Staples (1.1), and Information Technology (2.4). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These four sectors are outperforming the S&P 500's 10.7% rise ytd: Industrials (17.3), Energy (14.6), Real Estate (12.7), and Information Technology (12.1). The ytd laggards, albeit with gains: Utilities (4.9), Consumer Staples (7.0), Health Care (7.2), Materials (7.8), Communication Services (10.4), Financials (10.6), and Consumer Discretionary (10.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 3.8% as 13 of the 24 commodities moved higher. That compares to a 1.3% decline a week earlier, when eight commodities moved higher. The index is still in a correction with a drop of 15.7% 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, soaring 14.5%, followed by Brent Crude (6.7%), Crude Oil (5.9), Heating Oil (5.8), and Cocoa (5.8). Kansas Wheat was the biggest decliner, with a drop of 2.5%, followed by Wheat (-2.2),

Coffee (-2.1), and Zinc (-1.8). The S&P GSCI commodities index is up 13.1% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (33.5), Crude Oil (23.3), Brent Crude (23.1), Heating Oil (20.1), and GasOil (19.7). The biggest laggards in 2019: Natural Gas (-9.7), Cocoa (-3.2), Lean Hogs (-2.4), and Feeder Cattle (-1.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index was up 2.5% last week and improved relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma improved for the second time in three weeks, but was in a Death Cross for an 11th 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 -5.0% is up from -5.2% a week earlier, which had matched 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 rose for the second time in three weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index closed 6.5% above its rising 50-dma, the highest since October 2011 and up from 4.1% above its falling 50-dma a week earlier. That compares to a seven-year low of 12.0% below at the end of December and has just exceeded January 2018's two-year high of 6.2%. The 200-dma rose for a third week after falling in 12 of the prior 15 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 improved to 1.2% above its rising 200-dma. That's its first positive reading in 14 weeks and up from 1.3% below its rising 200-dma a week earlier. However, it 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](#)): Utilities was the only one of the 11 S&P 500 sectors that did not improve last week relative to their 50-dmas and their 200-dmas. All 11 sectors traded above their 50-dmas for a third straight week, and for the first time since early August. That's a dramatic improvement from six weeks ago when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows eight sectors trading above currently, up from six a week earlier as Consumer Discretionary turned positive for the first time in 14 weeks and Tech in 17 weeks. 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. These three sectors still trade below their 200-dma: Energy, Financials, and Materials. Just two sectors remain in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. Still in the club are Real Estate (32 straight weeks) and Utilities (28). 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 18 straight weeks and during 30 of the past 34 weeks, Materials has been out for 42 straight weeks, Energy for 14 weeks, and Industrials for 13 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). Utilities joined Consumer Staples this week as the only sectors with a falling 50-dma. However, seven sectors had rising 200-dmas at the end of last week, down from eight a week earlier as Tech turned negative again and joined Energy, Financials, and Materials in the falling 200-dma club. Still, 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

Retail Sales ([link](#)): Retail sales in December posted the biggest monthly decline in more than nine years, while core retail sales—which exclude autos, gasoline, building materials, and food services—

contracted the most since September 2011. December's weakness was validated by the National Retail Federation's report last week that showed holiday spending last year grew 2.9%—with sales in December dropping 1.5%. Retailers faced an abundance of headwinds at the end of 2018, including a stock-market meltdown, recession fears, a partial government shutdown, and a stretch of unusually bad weather. Headline and core retail sales tumbled 1.2% and 1.7%, respectively, from November's record highs. (The BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) We estimate real retail sales sank 0.7% in December, after a two-month gain of 1.0%, with Q4 sales slowing to 2.4% (saar), less than half Q2's 5.8% pace; we estimate real core sales also expanded 2.4% last quarter, slowing from 5.0% during Q2. In December, 11 of the 13 major nominal sales categories fell, with only autos (1.0%) and building materials (0.3) in the black. The biggest declines were recorded by gasoline (-5.1), sporting goods (-4.9), miscellaneous (-4.1), and nonstore (-3.9) retailers, while sales fell by 1.0% or more for health & personal care (-2.0) and furniture (-1.3) stores. Following December's retail sales report, the Atlanta Fed slashed its real GDP Q4 estimate by 1.2ppts—from 2.7% to 1.5% (saar)—and real personal consumption expenditures by 1.2ppt, from 3.7% to 2.6%. They rose 3.4% and 3.5% (saar), respectively, during Q3.

Consumer Sentiment Index ([link](#)): Consumer sentiment bounced back in mid-February, led by a big jump in expectations. The end of the government shutdown was a key factor, though long-term inflation expectations also played a role—falling to the lowest level recorded in the past half century—with the expected inflation rate for the next five years falling to 2.3% from 2.6%. The overall Consumer Sentiment Index rebounded to 95.5 in mid-February after sinking to 91.2 in January—which was the lowest since October 2016; it was at a 14-year high of 101.4 11 months ago. The expectations component rebounded to 86.2 after falling steadily from 90.5 in September to a 27-month low of 79.9 in January. The present situation component ticked up to 110.0 after sinking from 116.1 to 108.8 in January; it was at a record high of 121.2 just 11 months ago.

Business Sales & Inventories ([link](#)): Both nominal business sales in November and real business sales in October edged lower after reaching new record highs the prior month. Nominal manufacturing & trade sales (MTS) ticked down 0.3% after climbing 4.4% the prior nine months; inflation-adjusted MTS slipped 0.4% in October after rising 2.3% the previous eight months. Real sales of retailers climbed to a new record highs in October, while wholesalers' were stalled around record highs and manufacturers' around cyclical highs. Except for a temporary blip in early 2018, the real inventories-to-sales ratio has been on a fairly steady downtrend since reaching a cyclical high of 1.47 in early 2016, though ticked up to 1.43 in October after holding at 1.42 for five months. November's nominal inventories-to-sales ratio was at 1.35 for the second month, up from 1.34 the previous three months; it was at 1.33 in June—which was the lowest since November 2014.

Industrial Production ([link](#)): Industrial production in January contracted for the first time in eight months, led by a sizeable drop in manufacturing output. Total production sank 0.6% last month, after a seven-month surge of 3.1% to a new record high at the end of 2018, as factory output dropped 0.9% from December's cyclical high. January's decline in manufacturing output was driven by an 8.8% plunge in the motor-vehicle sector; excluding autos, factory output slipped 0.2%. By market grouping, business equipment output dropped 1.5% after a seven-month jump of 6.5%. Within business equipment, production of transit equipment output plunged 5.3% last month, while information processing's was 1.8% lower; output of industrial equipment rose for the seventh time in eight months, by 0.6% m/m and 5.1% over the period. Consumer goods production fell 1.6% during the two months ending January, with durable and nondurable goods output down 2.6% and 1.4% over the period, though the latter ticked up in January.

Capacity Utilization ([link](#)): The headline capacity utilization rate fell in January, for the second month, to 78.2% after rising the prior two months from 78.5% to 78.9%. It was 1.6ppts below its long-run

(1972-2018) average. Meanwhile, the manufacturing capacity utilization rate slipped to a six-month low of 75.8% after rebounding to 76.5% at the end of last year—which was highest since November 2014; it was roughly 2.5ppts below its long-run average. The utilization rate for mining sank from 95.3% to 94.8% in January—well above its long-run average of 87.1%. Meanwhile, the utilities rate ticked up to 75.4% after sinking by 5.7ppts to 75.2% at the end of 2018 as warmer-than-usual temperatures lowered the demand for heating in December; January's rate is 10.0ppts below its long-run average.

Regional M-PMI ([link](#)): The New York Fed—the first district to report on manufacturing for February—showed business activity accelerated for the first time in three months, though at a significantly slower pace than for much of last year; meanwhile, the six-month outlook improved noticeably. The composite index climbed to 8.8 this month after falling from 21.4 in November to a 20-month low of 3.9 in January. The new orders (to 7.5 from 3.5) measure picked up slightly from January's 20-month low of 3.5, while the shipments (10.4 from 17.9) gauge eased for the third straight month to its lowest rate since year-end 2016. Delivery times (5.0 from -2.1) were longer, and inventories (-1.4 from -7.6) contracted at a slower pace. Labor market indicators pointed to only a slight increase in employment (4.1 from 7.4) and hours worked (2.5 from 6.8) in February. The prices paid index continued to ease from its recent peak of 54.0 last May, though remained at an elevated level of 27.1, while the prices received index jumped 9.8ppts to 22.9—its highest level since last June—indicating a pickup in selling price increases.

Import Prices ([link](#)): Import prices in January posted another decline, led by a drop in nonpetroleum imports, while the yearly rate showed the biggest decline in 29 months. Total import prices sank 0.5% last month after declines of 1.0% and 1.7% the prior two months. Nonpetroleum import prices decreased for the first time in five months, by 0.7%, following a 0.3% increase in December and no change in November. Meanwhile, petroleum prices edged down 0.1% last month following double-digit declines of 10.7% and 15.1% the previous two months. Import prices fell 1.7% y/y—the biggest yearly decline since August 2016. The yearly rate for petroleum imports dropped from a recent peak of 44.6% last July to -14.6% y/y at the start of this year—the biggest drop since July 2016; the rate for nonpetroleum prices turned negative for the first time since November 2016, slipping 0.4% y/y. The rate for capital goods imports (-0.1% y/y) remained slightly negative, after falling below zero in October for the first time since May 2017, while the rate for industrial materials & supplies (-6.4) has dropped dramatically from its recent high of 21.1% last July, posting its second negative reading since September 2016. Meanwhile, the yearly rate for consumer goods ex autos (0.3) continued to bounce around recent highs just below 1.0%, while autos' (-0.4) rate remained in a volatile flat trend around zero; the rate for food prices (-2.0) turned negative last June for the first time in two years, and continued to fall in January—though has narrowed from last July's 3.6% decline.

GLOBAL ECONOMIC INDICATORS

European Car Sales ([link](#)): EU passenger car registrations (a proxy for sales) for January fell y/y for the fifth straight month, continuing the downtrend that began with the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in September. Sales fell 4.6% y/y in January, though the report notes: "Nevertheless, with nearly 1.2 million units registered in total, this still represents the second-highest January volume on record since 2009." Sales fell in all of the five top European markets, with the steepest declines in Spain (-8.0% y/y) and Italy (-7.5) and more modest ones in the UK (-1.6), Germany (-1.4), and France (-1.1).

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