



MORNING BRIEFING

February 25, 2019

Stocks Go from Doom to Vroom!

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

(1) Birthday bull. (2) Lots of corrections followed by lots of relief rallies. (3) V-shaped rebound. (4) In the spring, there should be more growth. (5) Cap on SALT could weigh on economy. (6) Another reason why Millennials would rather rent than own a home. (7) Explaining the plunge in existing home sales. (8) More weakness than strength in latest batch of economic indicators. (9) Another record high in trucking index. (10) FOMC coop now full of doves.

Strategy: Bull's Birthday Bash? Joe reminds me that on March 9, we may not know for sure whether the bull who started charging ahead 10 years ago can rightfully celebrate his birthday. We'll only know that if a new record high has been achieved by then. If a new record high is reached after March 9, then that date will have marked his 10th birthday, though we won't know to celebrate that day. If no more record highs are hit, and the next big move is a 20%+ drop, then the current bull market ended last year on September 20, at age 9 1/2. We are rooting for the old bull to keep charging ahead.

The bull market's 62 panic attacks, including the outright corrections and mini-corrections, have tended to revitalize the bull. There is a widespread notion that corrections are normal and healthy occurrences in a bull market. If so then, we reckon that the bull has been recharged more often than any other, though we don't have a diary of the panic attacks during previous bull markets as we do for the current one. (See [S&P 500 Panic Attacks Since 2009](#).)

Of course, we do know how many corrections of 10%-20% have occurred since 1928. We keep track of them in [Appendix 15.4](#) of my book *Predicting the Markets*. There have been six such selloffs so far during the current bull market ([Fig. 1](#)). There was only one during the previous bull market and five during the bull market of the 1990s.

The main cause of corrections tends to be fears of recessions that don't pan out. Bear markets usually occur when the fear is realized. In any event, the latest relief rally hasn't completely relieved anxiety about an impending recession. With the exception of very strong labor market indicators, many of the economic indicators released for December and January have been weak, as discussed in the next section.

The V-shaped rebound in stock prices since December 24 suggests that investors agree with us that there might have been a "flash recession" during those two months attributable to the flash crashes in stock prices, the partial government shutdown, and bad weather ([Fig. 2](#)). Yet the bull has been recharged since the Christmas Eve massacre:

(1) *Since record high*. The S&P 500 is now down just 4.7% since its 9/20 record high of last year ([Fig. 3](#)). Here is the performance derby by sector since then through Friday's close: Utilities (7.5%), Real Estate (5.6), Consumer Staples (-0.8), Health Care (-1.8), Communication Services (-1.9), Industrials (-4.3), Information Technology (-6.0), Consumer Discretionary (-6.6), Materials (-8.4), Financials (-8.6),

and Energy (-12.5).

(2) *Since Xmas Eve.* The 18.8% rebound from the 12/24 close has been widespread ([Fig. 4](#)). Here's the sector derby: Industrials (26.1%), Information Technology (22.3), Energy (21.3), Consumer Discretionary (20.8), Financials (18.3), Communication Services (17.9), Materials (17.7), Real Estate (17.1), Health Care (14.5), Consumer Staples (12.0), and Utilities (10.2).

(3) *Year to date.* The S&P 500 has risen 11.4% ytd through Friday. That's the index's best start to a year since 1987, when it was up 17.9%; it ranks as the sixth best start of the 91 years since 1929, according to Joe. The S&P 500 has been up for seven of the eight weeks so far this year.

(4) *50-day moving averages.* Nearly 92% of the S&P 500 companies are currently trading above their 50-dmas ([Fig. 5](#)). That just about matches the highs seen over the last 10 years. On the other hand, only 60% of the S&P 500 companies were trading above their 200-dmas on Friday.

US Economy: Rubbing SALT. Not surprisingly, the Citigroup Economic Surprise Index was weak late last year ([Fig. 6](#)). It rebounded a bit following January's strong employment report released at the beginning of February, and weakened again in recent days on disappointing retail sales for December and industrial production for January.

We expect a spring thaw in the economy with the weather improving and stocks now having recovered much of what they lost late last year. Also, there's little likelihood of another government shutdown anytime soon. The payroll data certainly suggest that consumers have plenty of purchasing power to drive economic activity to new highs.

Nevertheless, we aren't oblivious to where the risks might be hiding in plain sight. First and foremost, three of us YRlrs own homes in the New York City metro area. The tax cuts we received from the Tax Cuts and Jobs Act (TCJA) were more than offset by the TCJA's \$10,000 limit on the deductibility of state and local taxes (SALT) on income and real estate. The negative economic impact on states with high taxes could weigh on the national economy. Secondly, the effective increase in the real estate taxes on houses is just one more reason for Millennials to prefer renting over owning their homes anywhere in the country.

So if you are looking for trouble, it's there in existing home sales, which tend to drive housing-related retail sales. Sales of single-family existing homes have been rolling over for the past year, dropping 8.5% y/y through January ([Fig. 7](#)). It's widely believed that the problem is the supply of, not the demand for, these homes.

Baby Boomers are "aging in place." So they aren't providing enough homes for the Millennials to buy at affordable prices, which are at record highs. Over the past 12 months through January, the median price of an existing single-family home rose to \$260,100, and the average rose to \$298,000 ([Fig. 8](#)). However, the rates of appreciation have slowed to 2.9% for the average and 4.6% for the median. Both are the lowest paces of price increases since fall 2012 ([Fig. 9](#)).

The shortage of supply may be starting to meet some resistance from weaker demand resulting from high home prices and the jump in mortgage rates last year. While borrowing rates have come down a bit in recent weeks, the current tax-filing season may already be depressing consumers in states with high taxes as their accountants give them the bad news about their SALT hits.

The big risk is that the Baby Boomers will be stuck in their big homes because Millennials don't want to buy them. That would be evidenced by falling home prices, which would put salt on the financial

wounds of the Boomers, who are stuck paying higher after-tax bills for SALT. In this scenario, Millennials never get around to reprising the Baby Boomers housing-led boom that boosted the economy from the early 1990s through the housing-led financial calamity of 2007-2008.

For now, Debbie and I are inclined to expect that these developments will weigh on economic growth without pushing the economy into a recession. Now, consider the following:

(1) *The Index of Leading Economic Indicators* (LEI) has stalled at a record high during the past four months through January, as Debbie discusses below ([Fig. 10](#)).

(2) *The Index of Coincident Economic Indicators* (CEI) rose to another record high during January. The LEI leads the CEI by three to six months. If the former starts heading down over the next few months (which we don't expect will happen), then that could spell trouble for the economy during the second half of this year.

(3) *Real nondefense capital goods orders excluding aircraft* is one of the 10 components of the LEI. It's an odd duck since it is available through only December, i.e., with a one-month lag, requiring the Conference Board to estimate it to construct the LEI. It hit a cyclical peak during July, and is down 1.0% through December ([Fig. 11](#)). This important indicator of capital spending may have been depressed in recent months not only by the plunge in stock prices but also by uncertainty about US trade talks with China. Both issues certainly weighed on the Small Business Optimism Index, which plunged during December and January ([Fig. 12](#)).

(4) *Regional business surveys* suggest that notwithstanding the rebound in stock prices during January, recessionary headwinds continued to blow during February. The Philly Fed's business conditions index contracted, dropping to the lowest reading since May 2016, while the comparable NY Fed index edged up slightly after January's tumble ([Fig. 13](#)).

(5) *Trucking indicators* are much more upbeat about the economy. The ATA Truck Tonnage Index rose to a record high during January ([Fig. 14](#)). Doing the same was payroll employment in the trucking industry ([Fig. 15](#)).

The Fed: No Lonesome Doves. The above suggests to Melissa and me that the Fed may pause its rate-hiking through midyear at least or even year-end, depending on incoming data. Also, we expect the Fed soon to announce that it will be ending its balance-sheet reduction by year-end, if not sooner.

Stock and bond markets barely reacted to Thursday's release of the Federal Open Market Committee's (FOMC) 1/29-30 meeting [Minutes](#) because investors got what they expected—confirmation of the Fed's current "patient" approach to monetary policy. "Patient" or "patience" in reference to the pace of monetary tightening appeared 14 times in the latest Minutes versus just once in the 12/18-19 [Minutes](#).

The emphasis on patience was no surprise, as lots of Fed officials used the word during their January and February public comments to describe their new attitude toward normalizing interest rates. The latest Minutes also confirmed—as various Fed officials have suggested—that the Fed soon will announce a less aggressive approach to balance-sheet normalization. Here's more:

(1) *Who's in, and who's out.* Importantly, the January meeting was the first for the newly appointed 2019 voting members. Annually, four of the regional Fed presidents rotate out of the FOMC as voting members, becoming non-voting participants in the discussion, and four rotate into the vote. ("Participants" is a broad term, including both voting members and just contributors to the meeting discussion.)

For 2019, James Bullard (St. Louis), Charles Evans (Chicago), Esther George (Kansas City), and Eric Rosengren (Boston) are “in,” while Thomas Barkin (Richmond), Raphael Bostic (Atlanta), Mary Daly (San Francisco), and Loretta Mester (Cleveland) are “out.” Each of the four new voters on separate occasions in January expressed willingness to be “patient” on rate hikes.

They join six permanent voting members (two seats are open): John Williams (New York Fed president), Jerome Powell (Fed chairman), and Fed Governors Michelle Bowman, Lael Brainard, Richard Clarida, and Randal Quarles. Four of this group (Williams, Bowman, Brainard, and Clarida) likewise indicated prior to Thursday’s Minutes release (in either January or February) that they can be “patient.”

Leading into the meeting, only Quarles hadn’t identified as “patient,” while Powell seemed undecided—just recently having come around to the consensus “patient” view, as discussed below. (See our [1/23 Morning Briefing](#) for “patient” comments through that point; newly appointed Bowman’s first “patient” words came on 2/11.)

(2) *New members, new stance.* December’s Minutes suggested divergence along status lines, with “participants” supporting a pause in rate hikes while some “members” advocated a continued “gradual” approach to policy. Not so in January, as we show below (*italics in quotes are ours for emphasis*):

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

From January: “In light of global economic and financial developments and muted inflation pressures, the Committee [i.e., members] could be *patient* as it determined what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.”

(3) *Lots of uncertainty (with a caveat).* Uncertainties and risks to the outlook—which Powell dubbed “crosscurrents” during his January presser—were repeated several times in the Minutes, focusing on US-China trade and global growth. Nevertheless, the January Minutes suggested that Fed participants see the US economy as chugging along, with strong labor market conditions and inflation near the Fed’s 2% target—despite some lowered growth outlooks among them, owing mainly to waning fiscal stimulus. Inflation pressures they view as muted despite some signs of wage growth and input price increases.

Also, the January Minutes noted that financial conditions have tightened, and financial conditions matter a lot to the Fed’s rate-setting policy, Powell said during his January presser. Fed officials were clearly spooked by the financial markets’ reaction to their hawkishness late last year. Nevertheless, the Minutes stressed an important caveat voiced often by Fed officials: The Fed remains data dependent. If these risks should “abate” or if inflation unmutes (which we doubt), then Fed officials may become less patient.

(4) *End to balance-sheet reduction soon.* The latest Minutes noted: “Almost all participants thought that it would be desirable to announce before too long a plan to stop reducing the Federal Reserve’s asset holdings later this year. Such an announcement would provide more certainty about the process for completing the normalization of the size of the Federal Reserve’s balance sheet. A substantial majority expected that when asset redemptions ended, the level of reserves would likely be somewhat larger than necessary for efficient and effective implementation of monetary policy.”

Ahead of the Minutes, Williams and Brainard both recently said that the Fed would likely end the balance-sheet reduction soon, with Williams suggesting timing that's slightly further out than Brainard's later this year. Both see the balance sheet ending higher than before the recession, as the Minutes confirmed. Quarles once again confirmed similar points on Friday.

So far, assets on the balance sheet have been reduced from a peak of \$4.45 trillion to \$4.00 trillion over the period from February 2016 to January 2019. Officials are more focused on ensuring that the banking system has an efficient level of reserves than on how the balance sheet will impact monetary stimulus or tightening. We expect the reduction to continue at its \$50 billion-per-month pace, which would amount to another \$500 billion if Fed stops at year-end.

Fed officials don't think that the balance-sheet reduction will impact financial conditions, and neither do we.

CALENDARS

US. Mon: Dallas Fed General Activity Index 3.0, Chicago Fed National Activity Index 0.13, Wholesale Inventories 0.2%. **Tues:** Consumer Confidence Index 124.5, Housing Starts & Building Permits 1.256mu/1.280mu, Richmond Fed Manufacturing Index 1, S&P Corelogic Cash-Shiller HPI 4.5%, FHFA Price Index 0.4%, Powell. (Econoday estimates)

Global. Mon: Japan Leading & Coincident Indexes, Mexico GDP, BOE's Carney, FCA's Bailey, and US's Giancarlo Press Conference. **Tues:** Germany GfK Consumer Confidence 10.8, Carney, Ramsden, Vlieghe, Haskel at Parliament Committee. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 0.6% for its eighth gain in nine weeks. That performance ranked 37th of the 49 global stock markets we follow in a week when 41/49 countries rose in US dollar terms. That compares to the prior week's 11/49 ranking, when the US MSCI gained 2.5% and 31 markets rose. The AC World ex-US index rose 1.9% compared to a 1.3% gain a week earlier, and has also risen in eight of the nine past weeks. EM Asia was the best-performing region with a gain of 3.1%, ahead of BRIC (2.9%), EM Eastern Europe (2.0), and EMEA (1.9). EM Latin America was the worst performer, albeit with a gain of 0.7%, followed by EMU (1.5) and EAFE (1.6). China was the best-performing country, rising 4.4%, followed by Hong Kong (4.2), South Africa (3.8), and Chile (3.7). Of the 32 countries that underperformed the AC World ex-US MSCI last week, Argentina fared the worst, falling 3.1%, followed by Morocco (-1.4), Turkey (-1.2), and Israel (-0.8). The US MSCI ranks 14/49 so far in 2019, with its 11.7% ytd gain ahead of that of the AC World ex-US (9.4). 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 (13.1), BRIC (11.7), and EM Asia (9.5). Regions underperforming the AC World ex-US: EMEA (7.3), EMU (8.7), EAFE (8.7), and EM Eastern Europe (9.1). The best country performers ytd: Egypt (21.6), Colombia (17.7), Canada (15.8), China (15.2), Brazil (14.7), and Hong Kong (14.4). The worst-performing countries so far in 2019: India (-2.5), Sri Lanka (-0.9), Morocco (-0.8), and Poland (1.2).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week. SmallCap rose 1.2%, ahead of the gains for MidCap (1.0%) and LargeCap (0.6). MidCap extended its gains to nine straight weeks, while LargeCap and SmallCap were up for a fourth week. MidCap's winning streak is its best in 20 years. However, all these indexes remain below their record highs. LargeCap ended the week 4.7% below its record high on September 20, with MidCap and SmallCap 5.7% and 10.1% below

their August 29 records, respectively. Among the 33 sectors, 26 moved higher last week compared to 31 rising a week earlier. The biggest gainers in the latest week: SmallCap Materials (4.3), SmallCap Utilities (2.9), MidCap Utilities (2.6), MidCap Materials (2.4), and LargeCap Utilities (2.4). MidCap Energy (-1.9) was the biggest decliner last week, followed by MidCap Real Estate (-1.0), SmallCap Consumer Discretionary (-0.5), LargeCap Energy (-0.5), and LargeCap Health Care (-0.3). In terms of 2019's ytd performance, all three indexes are off to a great start. SmallCap is up 16.8% ytd, followed closely by MidCap (16.3) and well ahead of LargeCap (11.4). All 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: SmallCap Materials (27.7), SmallCap Energy (23.9), MidCap Tech (21.9), SmallCap Tech (21.3), SmallCap Industrials (19.4), and MidCap Materials (18.3). The "stable" sectors are dominating the biggest underperformers so far in 2019: LargeCap Health Care (6.9), SmallCap Utilities (7.3), LargeCap Utilities (7.3), LargeCap Consumer Staples (7.5), MidCap Utilities (8.1), and MidCap Consumer Staples (8.6).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 of the sectors rose last week, and six outperformed the S&P 500's 0.6% gain. That compares to 10 rising a week earlier, when six outperformed the S&P 500's 2.5% gain. Utilities was the best-performing sector, with a gain of 2.4%, ahead of Materials (2.3%), Information Technology (1.4), Consumer Discretionary (1.0), Communication Services (0.7), and Industrials (0.6). Energy (-0.5) was the biggest decliner, following by these underperforming sectors: Health Care (-0.3), Financials (0.1), Real Estate (0.2), and Consumer Staples (0.4). 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 five sectors are outperforming the S&P 500's 11.4% rise ytd: Industrials (18.0), Energy (14.0), Information Technology (13.7), Real Estate (12.9), and Consumer Discretionary (11.8). The ytd laggards, albeit with gains: Health Care (6.9), Utilities (7.3), Consumer Staples (7.5), Materials (10.3), Financials (10.7), and Communication Services (11.2).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.4% as 18 of the 24 commodities moved higher. That compares to a 3.8% gain a week earlier, when 13 commodities moved higher. The index is still in a correction with a drop of 14.5% from its high in early October after being down as much as 26.9% on December 24. Copper was last week's strongest performer, rising 4.9%, followed by Nickel (4.8%), Natural Gas (3.1), Aluminum (3.1), and Zinc (3.0). Lean Hogs was the biggest decliner, with a drop of 6.8%, followed by Kansas Wheat (-3.8), Wheat (-3.0), Cocoa (-2.2), and Coffee (-1.6). The S&P GSCI commodities index is up 14.7% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Unleaded Gasoline (35.7), Crude Oil (26.1), Brent Crude (25.0), Nickel (21.7), and GasOil (21.3). The biggest laggards in 2019: Lean Hogs (-9.1), Natural Gas (-6.8), Cocoa (-5.3), and Kansas Wheat (-4.7).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index was up 0.6% 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 third time in four weeks, but was in a Death Cross for a 12th 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 -4.6% is up from -5.2% in early February, 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 third time in four weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index closed 6.6% above its rising 50-dma, the highest since October 2011 and up from 6.5% a week earlier. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for a fourth week after falling in 11 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 a 16-week high of 1.7% above its rising 200-dma from 1.2% a week earlier. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. 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](#)): All 11 of the S&P 500 sectors traded above their 50-dmas for a fourth straight week, and for the first time since early August. That's a dramatic improvement from seven weeks ago when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows eight sectors trading above currently, unchanged from 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. 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: Real Estate (33 straight weeks) and Utilities (29). 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). All 11 sectors now have rising 50-dmas after Utilities' and Consumer Staples' turned up this week. Eight sectors have rising 200-dmas, up from seven a week earlier as Tech's has turned positive again. Energy, Financials, and Materials are the only members of the falling 200-dma club. That compares to just two sectors with a rising 200-dma in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): The Leading Economic Index (LEI) remained stalled at record highs for the fourth month. The LEI slipped 0.1% in January after no change in December, a 0.1% uptick in January, and a 0.3% downtick in November. Before the recent declines, the LEI hadn't posted a loss since October 2016. The LEI is up 3.5% y/y, slowing from September's 6.7%—which was the strongest since September 2010. Seven of the 10 LEI components contributed positively in January, with strengths in the financial components—stock prices (0.06ppt), leading credit index (0.06), and interest-rate spread (0.04)—offset by the weaknesses in the labor market components, jobless claims (-0.09) and average workweek (-0.07); consumer expectations (-0.08) was also a drag on the LEI. (The Conference Board noted: "Due to the recent government shutdown, data for three US LEI components—manufacturers' new orders for consumer goods and materials, manufacturers' new orders for nondefense capital goods excluding aircraft, and building permits—were not available for several of the recent months. The Conference Board has used its standard procedure of statistical imputations to fill in the missing data in order to publish a preliminary Leading Economic Index. The Conference Board will be issuing an interim release on March 4th, once these data are published.")

Coincident Indicators ([link](#)): January's Coincident Economic Index (CEI) continued to reach new record highs, posting only one decline since July 2013, and that was at the start of 2018. The CEI advanced 0.1% last month after recording gains of 0.2% in each of the prior three months; it's up 2.3% since last January's 0.1% monthly dip. Three of the four components contributed positively last month—with each continuing to reach new record highs: 1) Nonfarm payroll employment blew past forecasts, up 304,000, after a downwardly revised 222,000 gain in December. January marked the 100th straight month of employment growth. 2) Real personal income—excluding transfer payments—rose for the 16th time in 19 months, by 0.3% m/m and 4.0% over the period. 3) Real manufacturing & trade sales increased for the 11th time in 12 months, by 0.3% m/m and 2.7% y/y—roughly double December's 1.4% y/y gain. 4) 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%.

Durable Goods Orders & Shipments ([link](#)): Core capital goods orders fell during four of the final five months of 2018, while core capital goods shipments rose two of the final three months to a new record high. Nondefense capital goods orders ex aircraft (a proxy for future business investment) sank 0.7% in December and 2.0% from July's cyclical high, while the comparable shipments measure (used in calculating GDP) advanced 1.1% during the three months through December. Core capital goods orders contracted 3.5% (saar) during Q4, the weakest quarterly performance since Q4-2016 and down from Q2's double-digit gain of 10.6%. The comparable shipments measure expanded 2.3% (saar) last quarter, one-third Q3's 6.8% pace. Total durable goods orders climbed 1.2% in December, boosted by a 28.4% jump in very volatile civilian aircraft orders and a 2.1% advance in motor vehicle billings. That followed an upwardly revised 1.0% increase in November—first reported up 0.7%. However, excluding transportation, orders remained stalled at record highs the final five months of 2018; December orders eked out only a 0.1% advance following a 0.2% loss and a 0.4% gain the prior two months.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for February so far—Philadelphia and New York—show growth at a near standstill, as the Philly area contracted for the first time since May 2016. We average the composite, orders, and employment measures as data become available. The composite (to 2.4 from 10.5) index showed growth was the slowest since October 2016 this month; the index averaged 22.8 during H1-2018. The Philadelphia region's composite (-4.1 from 17.0) index shows growth collapsed this month, down from a recent peak of 32.3 just nine months ago. New York's (8.8 from 3.9) gauge shows activity accelerated from January's pace, which was the slowest pace since May 2017. The new orders gauge (2.6 from 12.4) fell toward the breakeven point of zero—expanding at the slowest pace since September 2016. The pattern was similar to the composite index, with new orders in the Philadelphia (-2.4 from 21.3) region contracting for the first time since summer 2016, while New York's (7.5 from 3.5) showed a slight acceleration. Meanwhile, the employment (9.3 from 8.5) measure shows hirings nearly matching January's pace, with Philadelphia (14.5 from 9.6) factories adding to payrolls at a faster pace this month and New York's (4.1 from 7.4) at a slower pace.

Existing Home Sales ([link](#)): Home sales fell for the third consecutive month in January, to the lowest level since November 2015, though may be finding a bottom. Lawrence Yun, NAR's chief economist, noted: "Existing home sales in January were weak compared to historical norms; however, they are likely to have reached a cyclical low. Moderating home prices combined with gains in household income will boost housing affordability, bringing more buyers to the market in the coming months." Existing-home sales—tabulated when a purchase contract closes—slumped 5.4% during the three months ending January to 4.94mu (saar). Regionally, sales fell in three of the four regions last month, while all four were below year-ago levels. Here's a tally: Northeast (2.9% m/m & -1.4% y/y), South (-1.0 & -8.4), Midwest (-2.5 & -7.9), and West (-2.9 & -13.8). December single-family sales fell for the second month, by a total of 5.6%, to 4.37mu (saar)—the slowest pace since November 2015; sales are down 13.5% from November 2017's cyclical high of 5.05mu. Multi-family sales rebounded 3.6% in January to 570,000 units (saar) after a two-month slide of 8.3%; sales are down 14.9% from November 2017's 670,000 units. The number of existing single-family homes on the market at the start of this year, rose to 1.41mu from 1.34mu at the end of 2018—3.7% above a year ago. Unsold inventory was at a 3.9-months' supply at the current sales pace, falling from its recent high of 4.3 months' supply recorded from June through September.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): US private-sector companies reported the fastest growth in eight months this month, according to flash estimates, as the service sector regained momentum. The C-PMI (to 55.8 from 54.4) grew at a rate considerably above the 50.0 breakeven point—only 0.8 point below May’s 37-month high of 56.6. February’s NM-PMI (56.2 from 54.2) shows growth accelerated for the first time in four months, highlighted by the strongest overall expansion of incoming new work since last September and the steepest increase in backlogs of work in just over four years. Job creation benefitted, posting its sharpest increase in five months. In contrast to the stronger trends reported by service providers, the M-PMI (53.7 from 54.9) flash estimate indicates the manufacturing sector expanded at its slowest pace since September 2017. Businesses that experienced a soft patch for production cited a range of factors holding back growth, including adverse weather, worries about the global economic outlook, and ongoing international supply-chain uncertainty.

Eurozone PMI Flash Estimates ([link](#)): Eurozone business activity accelerated slightly this month, according to flash estimates, supported by a pickup in the service sector; manufacturing activity contracted for the first time since mid-2013. The Eurozone’s C-PMI ticked up to 51.4 in February after falling fairly steadily from a 139-month high of 58.8 last January to 51.0 this January. The M-PMI sank to a 68-month low of 49.2 as manufacturing new orders decreased at the fastest pace in almost six years, with new export orders also deteriorating this month. Meanwhile, the NM-PMI rose to a three-month high of 52.3 from a cyclical low of 51.2 in both January and December, amid an improving picture in Germany and stabilization in France. Across the region, France’s private sector contracted for the third month, though its C-PMI (to 49.9 from 48.2) rose to a three-month high, just shy of the 50.0 breakeven point. France’s M-PMI (51.4 from 51.2) rose further above 50.0 this month, after sinking below at the end of last year, while the NM-PMI (49.8 from 47.8) is nearing expansion territory again. Growth in Germany’s private sector improved for the second month, with its C-PMI climbing from 51.6 in December to a four-month high of 52.7 this month, as the NM-PMI (55.1 from 53.0) climbed to a five-month high. Meanwhile, Germany’s M-PMI (47.6 from 49.7) dropped to a 74-month low. Outside the Eurozone’s two largest economies, growth slowed for the second month, to its weakest rates since November 2013—easing in both the manufacturing and service sectors.

Japan M-PMI Flash Estimate ([link](#)): Japan’s manufacturing sector contracted for the first time since August 2016, according to the flash estimate. The M-PMI sank to a 32-month low of 48.5 from 50.3 in January and 52.6 in December, reflecting sharper reductions in demand and production. According to the report, “This was further highlighted by output expectations turning negative for the first time in over six years, which comes as no surprise given the international headwinds Japanese manufacturers are facing such as a China slowdown and the global trade cycle losing further steam.”

Germany Ifo Business Climate Index ([link](#)): Sentiment among German firms weakened for the sixth 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 98.5 this month—the weakest since the end of 2014. Businesses are facing headwinds from trade tensions, a slowdown in the Eurozone, and weaker demand from China and emerging markets. Since reaching a record high of 108.0 last January, the present situation index has dropped to 103.4, the lowest reading since February 2017, while the expectations component has slumped from a recent high of 101.1 in August to 93.8 this month, the lowest since November 2012. Sentiment in three of the four sectors—manufacturing, services, and construction—continued to deteriorate this month, while confidence among wholesalers & retailers improved slightly from January’s four-year low.

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