



MORNING BRIEFING

February 27, 2019

Fed Heads Galore

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

(1) Frustrated bears. (2) More recessionary indicators. (3) Chauncey Gardiner predicts: "There will be growth in the spring." (4) Industry analysts on verge of calling an earnings recession for H1-2019, yet they are turning more upbeat on 2020. (5) A sunnier disposition for consumers. (6) A funny thing happened on the way to the forum. (7) Fed officials pontificate on Fed's balance sheet and inflation targeting.

Strategy: The Sun Will Come Out Tomorrow. There are lots of explanations for why stock prices plunged late last year. The most plausible is that investors feared an imminent recession caused by tightening monetary conditions and a possible US trade war with China. Exacerbating the selloff were the activity of algorithm-driven computer trading systems and a bunch of hedge funds that had to liquidate holdings before shutting down after a year of bad performance. The relief rally since the Christmas Eve massacre has been driven by the Fed's pivot to a more "patient" approach to monetary policy and mounting signs that there will be a China-US trade deal.

Frustrating the bears is that the rally comes as the batch of economic indicators for December and January confirms their recession alarms. The latest one came out for housing starts yesterday. As Debbie discusses below, starts fell 11.2% m/m during December, with declines of 6.7% and 20.4% in single-family and multi-family units ([Fig. 1](#)). On the other hand, housing building permits rose 0.3%. Debbie and I blame bad weather for the weakness in starts and see a spring rebound, as evidenced by the uptick in permits.

In any event, as Joe and I observed in our Valentine's Day missive: "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."

Meanwhile, industry analysts continue to lower their expectations for S&P 500 revenues and earnings growth rates this year while raising them for next year:

(1) *Revenues growth* for this year has been lowered to 4.8% during the 2/14 week from 5.6% at the start of this year. Next year's consensus estimate has increased from 4.9% to 5.5% ([Fig. 2](#)).

(2) *Earnings growth* expected in 2019 has been slashed from 7.6% at the start of this year to 4.4% as of the 2/14 week, while growth estimated for next year has increased from 10.8% to 11.3% ([Fig. 3](#)). As of the 2/21 week, consensus estimates for S&P 500 earnings are \$168.37 this year and \$188.30 next year ([Fig. 4](#)).

(3) *Quarterly earnings* consensus estimates for this year continue to be cut by analysts as they respond to company guidance during the latest earnings reporting season for Q4-2018 ([Fig. 5](#) and [Fig. 6](#)). The bears can declare that the earnings recession has started because the 2/21 week showed a decline of 0.8% y/y for the Q1-2019 estimate. The Q2 and Q3 estimates are down to only 1.5% and 2.9%, respectively. They could turn negative in coming weeks. But the stock market must be looking beyond these dismal numbers, as analysts are predicting that earnings will be growing again during Q4, with a current estimated growth rate of 9.8%.

We agree with the analysts: The sun will come out tomorrow, and the stock market will continue to shine. Consumers seem to be in the same sunny camp now too. As Debbie reports below, the Consumer Confidence Index jumped 9.7 points during February, reversing nearly two thirds of its decline during the previous two months ([Fig. 7](#)).

Fed I: Monetary Policy Forum. Since the release of the Federal Open Market Committee's (FOMC) 1/29-30 meeting [Minutes](#) on Wednesday (2/20), Fed officials have been keeping very busy giving speeches. They've kept Melissa and me fully employed reading and analyzing their commentaries on monetary policy.

On Friday (2/22), five Fed officials spoke in NYC at the 2019 US Monetary Policy Forum. Several of them also appeared on TV late last week. And yesterday, Fed Chairman Jerome Powell gave his [semi-annual testimony](#) before a Senate committee. The five Fed forum speeches were divided into two main topics:

(1) *Balance-sheet reduction exit strategy.* Since October 2017, the FOMC has been allowing maturing securities to roll off the Fed's balance sheet, reducing the massive level of assets accumulated following the 2008 financial crisis. Fed officials have been mulling over how best to reduce the balance sheet further without disturbing financial markets and the economy.

Powell caused an adverse stock market reaction following the Fed's December meeting when he suggested that the balance-sheet reduction was on "automatic pilot." At the beginning of this year, he walked back that comment, saying that he was willing to be more "flexible." Since then, several Fed officials have further suggested that the balance sheet will be reduced to levels higher than they were preceding the crisis.

Specifically, FRB-SL President James Bullard and FRB Governor Randal Quarles (both 2019 FOMC voters) gave speeches at Friday's forum, respectively titled "[When Quantitative Tightening Is Not Quantitative Tightening](#)" and "[The Future of the Federal Reserve's Balance Sheet](#)." FRB-PHL President Patrick Harker (a 2019 FOMC non-voting alternate) [opened](#) the discussion with some background on the subject. We review these two speeches below.

(2) *Lower for longer inflation.* During November 2018, the Fed [announced](#) that it would be reevaluating its approach to achieving its dual objectives of stable inflation and maximum employment. Currently, stable inflation is taken to mean a y/y rate that is persistently around 2.0%. Since 2009, multiple measures of inflation have run fairly consistently below the 2.0% target while unemployment has remained historically low; the sustained coexistence of those two conditions presents a conundrum for monetary policymakers.

On this topic, FRB Governor Richard Clarida and FRB-NY President John Williams (both permanent FOMC voters) gave speeches at the forum, respectively titled "[The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices](#)" and "[Discussion of 'Prospects for](#)

[Inflation in a High Pressure Economy: Is the Phillips Curve Dead or Is It Just Hibernating'? by Peter Hooper, Frederic S. Mishkin, and Amir Sufi.](#)" We further discuss these below.

By the way, Powell gave his semi-annual testimony on the economy before the Senate Banking, Housing and Urban Affairs Committee yesterday. If his goal was to make it as boring as possible so as to not disturb markets, he succeeded. That's a compliment because Powell's previous off-the-cuff style caused a lot of market havoc. Powell has learned during his short tenure as Fed chairman that consistent messaging is key.

For now, the message is that the Fed will be patient with rates, cautious and flexible with the balance sheet, and mindful of global risks.

Fed II: Balance-Sheet Neutrality Theorem. Bullard presented the "neutrality theorem" in his speech. Based on a 2010 paper by Vasco Cúrdia and Michael Woodford titled "[Conventional and Unconventional Monetary Policy](#)," Bullard explained that in "ordinary" times, temporarily running up a larger level of reserves on the Fed's balance sheet than is needed to "sate" banks would have no direct effect on the economy. Bullard takes "ordinary times" to mean times at which the Fed's policy rate is above zero, as it is now.

So the reverse of the paper's thesis could be true today, according to Bullard. Specifically, he proposes that "the size of the balance sheet could be reduced without important macroeconomic consequences." The reason for that, Bullard explained, is that the current balance-sheet reduction does not signal anything about the future of monetary policy. Maybe so, but we have a simpler explanation for why the balance-sheet reduction hasn't impacted markets or the economy much. Consider the following:

(1) *The unordinary.* December 2008 to December 2015 was an unordinary time when the Fed ran a zero interest-rate policy (ZIRP) ([Fig. 8](#)). Yet another unconventional policy was the Fed's decision to begin building its massive balance sheet following the global financial crisis of 2007-08. Bullard argues that the Fed's asset purchase program was successful because times were not normal.

(2) *The signal.* The asset purchases were effective because they provided a signal to markets about the future of the policy rate, i.e., the Fed's commitment to ZIRP. Now that the Fed has gradually increased the policy rate to more normal levels in 2017 and 2018, the signaling effect of the balance-sheet reduction may not be as effective, says Bullard. The Fed put an [end](#) to its balance-sheet purchases during October 2014 and has allowed maturing securities to roll off the balance sheet since October 2017.

(3) *The reality.* It's undeniable that bond yields have not risen as much during the "tightening" phase as they fell during the "easing" phase. Bullard's rationale might explain it. But the simplest reason may be hiding in plain sight: The "tightening" phase hasn't been as significant as the "easing" phase. Further, the market expects that the "tightening" will continue to be less aggressive than the "easing."

The 10-year Treasury bond yield fell 267 basis points from 4.04% at the start of 2008 to a low of 1.37% during July 8, 2016. Since then, the yield has climbed 127 basis points to 2.64% ([Fig. 9](#)).

Total assets on the Fed's balance sheet increased \$3.6 trillion from \$0.9 trillion at the start of 2008 to a peak of \$4.5 trillion during February 2016. Since then, assets have fallen by \$0.5 trillion to \$4.0 trillion ([Fig. 10](#)).

Several officials have suggested that the balance-sheet reduction will end with assets at a level higher than before the 2008 financial crisis, but there hasn't been an official announcement on that yet.

Fed III: Phillips Curve Theory, Again. The Phillips Curve is the “connective tissue” between the Fed’s “dual mandate goals of maximum employment and price stability,” observed Williams at the forum. It posits an inverse relationship between unemployment and inflation. With both subdued at present, monetary policymakers are grappling with the counter-intuitive fact that this curve has flattened.

New Fed leadership has revived discussions over the usefulness of the theory. Former Fed Chair Janet Yellen believed in it, but Powell has questioned it from day one in the role. Fed officials have been waiting for inflation to reappear, but seem now to be realizing that may be a long wait. Here’s what Clarida and Williams had to say about that at the forum:

(1) *The reality.* Clarida took the forum as an opportunity to discuss the Fed’s undertaking of a “broad review of the Federal Reserve’s monetary policy framework.” The main motivation for the review is that inflation appears less responsive to the tightness of the labor market, he said. Indeed, unemployment has fallen from a peak of 10.0% to 4.0% from October 2009 through January of this year, while the Fed’s preferred measure of inflation has remained mostly below 2.0% during that time ([Fig. 11](#)).

During the forum, both Williams and Clarida pegged structural changes in the US economy as causes of the flattening, and we agree. The flatter curve is good because it “permits the Federal Reserve to support employment more aggressively during downturns,” suggested Clarida. But it’s bad because it “increases the cost, in terms of economic output, of reversing unwelcome increases in longer-run inflation expectations.”

(2) *The alternate reality.* Williams, however, countered the concept of a flatter curve, presenting an alternate view: “[The] Phillips curve is alive and kicking when inflation is measured using categories that are cyclically sensitive, rather than buffeted by supply and other shocks.” That may well be, but it doesn’t change the reality that the Fed’s preferred measure of inflation suggests the curve is dead. Whether or not the Fed changes its inflation strategy after its policy review remains to be seen.

(3) *The questions.* Clarida asked officials to consider: (1) “Can the Federal Reserve best meet its statutory objectives with its existing monetary policy strategy, or should it consider strategies that aim to reverse past misses of the inflation objective?” (2) “Are the existing monetary policy tools adequate to achieve and maintain maximum employment and price stability, or should the toolkit be expanded? And, if so, how?” (3) “How can the FOMC’s communication of its policy framework and implementation be improved?”

(4) *The timeline.* Clarida outlined the event timeline for the monetary policy review: Fed town halls throughout the year, a system research conference on June 4-5, and the Fed’s final assessment in early 2020. We patiently await the outcomes.

Fed IV: Getting Technical. Quarles got more technical on the balance sheet than Bullard, stating: “In January, the FOMC announced its intent to [maintain] ample reserves [whereby] active management of the reserve supply is not needed. The [Fed] controls the level of ... short-term interest rates primarily through the use of administered rates. ... The announcement was an important step in our normalization process. And we are now set up to make further decisions on the eventual size and composition of our balance sheet.”

Reserves are now around \$1.6 trillion. Quarles sees them being reduced to an estimate of efficient reserves based on a bank survey of about \$800 billion *plus* a buffer against supply shocks.

CALENDARS

US. Wed: Factory Orders 0.6%, Advanced Merchandise Trade, Pending Home Sales 0.9%, MBA Mortgage Applications, EIA Petroleum Status Report. **Thurs:** Real GDP & GDP Price Deflator 2.2%/1.7%, Jobless Claims 225k, Richmond Fed Manufacturing Index, Chicago PMI 56.1, EIA Natural Gas Report, Clarida, Harker, Kaplan. (Econoday estimates)

Global. Wed: Canada CPI 0.1%*m/m*/1.4%*y/y*, Japan Industrial Production -2.5%*m/m*/1.3% *y/y*, Japan Retail Trade -0.9%*m/m*/1.5%*y/y*, Trump-Kim Summit. **Thurs:** Germany CPI 0.5%*m/m*/1.5%*y/y*, France GDP 0.3%*q/q*/0.9%*y/y*, UK Gfk Consumer Confidence -15, Japan Headline, Core, and Core-Core CPI 0.4%/1.0%/0.7% *y/y*, Japan Jobless Rate 2.4%, Japan Housing Starts 953k, China M-PMI & NM-PMI 49.5/54.5, Trump-Kim Summit. (DailyFX estimates)

STRATEGY INDICATORS

AC World ex-US MSCI ([link](#)): This index is up 10.0% ytd in dollar terms after tumbling 16.4% in 2018. In local-currency terms, the index is up 9.6% ytd compared to a 13.0% decline for all of 2018. The US dollar price index is up 12.2% since its December low and has improved to 14.2% below its cyclical high in January 2018. It had been down as much as 23.6%, and in a bear market, in December. The local-currency price index is up 11.5% since its December low to 8.6% below its record high in January 2018. It had been down as much as 18.1% on December 26. Local-currency forward revenues edged up 0.2% *m/m*, and is now up 15.5% from a five-year low in March 2016 to record highs since May for the first time since October 2014. Local-currency forward earnings fell 0.9% *m/m* and is down 3.4% from its record high in early November. Revenues are expected to rise 3.2% in 2019 and 4.7% in 2020 following a gain of 7.3% gain in 2018, and earnings are expected to rise 5.4% (2019) and 9.3% (2020) after rising 6.4% (2018). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 3.6%, down from 4.1% a month ago. Their STRG forecast compares to a seven-year high of 6.8% in March 2017 and is up from a cyclical low of 2.3% in March 2016. Their short-term 12-month forward earnings growth (STEG) forecast of 6.0% is down to a 10-year low now from 6.5% a month earlier, and compares to a four-year-high forecast of 14.1% in March 2017. The profit margin estimate implied by analysts' earnings and revenue estimates rises to 7.9% in 2019 and to 8.3% in 2020 from 7.8% in 2018. The forward profit margin forecast of 8.0% is down from 8.1% in January and a nine-year high of 8.3% in October. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in February for an 11th straight month following six positive readings, but improved to -7.5% from a 33-month low of -8.4% in January. That compares to a 76-month high of 2.7% in May 2017 and a 51-month low of -11.3% in March 2016. The forward P/E of 12.6 is up from a five-year low of 11.4 in late December, which then was the lowest reading since June 2013. That compares to a 31-month high of 14.8 in January 2018, a six-year high of 15.3 in April 2015, and a cyclical bottom of 12.3 in January 2016. The index's current 13% discount to the World MSCI P/E is up from its record-low 15% discount during early November.

EMU MSCI ([link](#)): The EMU's MSCI price index has gained 9.1% ytd in dollar terms after tumbling 18.8% in 2018 for the worst performance of all the MSCI regions. In euro terms, the price index is up 9.9% ytd following a decline of 14.7% last year. The US dollar price index is up 11.7% since its December low and has improved to 17.9% below its cyclical high in January 2018. It had been down as much as 26.5% and in a bear market in December. The local-currency price index is up 12.3% since its December low to 10.7% below its cyclical high in January 2018. It had been down as much as 20.5% on December 27. Euro-based forward revenues edged up 0.2% *m/m* and is now down just 1.1% from its five-year high in early November. That's still 5.2% above its six-year low in May 2016, but remains 5.9% below its record high (September 2008). Euro-based forward earnings had stalled from 2011 to 2016 before reaching its highest level in 10 years during early November. It dropped 1.0% *m/m* and is

now 2.2% below its 10-year high in November and 17.5% below its record high (January 2008). Analysts expect revenues to rise 3.1% in 2019 and 4.3% in 2020, above the 2.8% in 2018. They're also looking for faster earnings growth. Earnings are expected to rise 9.6% in 2019 and 7.0% in 2020 following a gain of 3.5% in 2019. Forecasted STRG of 3.4% is up from 3.3% a month earlier, which compares to a six-year high of 5.0% in April 2017 and a cyclical low of 2.0% in May 2016. Forecasted STEG of 7.5% has dropped m/m from 8.7%, which compares to a 78-month high forecast of 21.0% (February 2017) and a seven-year low of 5.7% (April 2016). STEG had been higher than LTEG (currently 9.3%) from July 2016 to May 2017, but is trailing now. The forward profit margin edged down to 7.8% from a nine-year high of 7.9%, which is up from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.7% in 2019 and 8.1% in 2020 from 7.4% in 2018. NERI was negative in February for a fifth straight month and in 16 of the past 19 months. NERI improved m/m to -8.2% from -7.5%, and remains above December's 31-month low of -8.7%. That compares to an 11-year high of 8.1% in May 2017. The P/E of 12.3 is up from 11.3 in early January, which was then its lowest reading since July 2013. That's down from a nine-month high of 14.9 in January 2018 and compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. The current valuation represents a 14% discount to the World MSCI's P/E now, the lowest since August 2016. That compares to a record-low 25% discount during 2011 and is well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI ([link](#)): The EM MSCI price index is up 10.5% ytd in US dollar terms after falling 16.6% in 2018. In local-currency terms, EM has risen 9.6% ytd compared to a drop of 12.2% in 2018. The US dollar price index is up 14.2% since its October low and has improved to 16.1% below its cyclical high in January 2018. It had been down as much 26.6% and in a bear market in October. The local-currency price index is up 12.4% since its October low to 11.1% below its cyclical high in January 2018. It had been down as much as 20.9% on October 29. Local-currency forward revenues rose 0.3% m/m to a record high and is up 20.0% from a four-year low in June 2016. However, local-currency forward earnings fell 0.9% m/m and is now down 5.7% from its record high in early October. Still, it's up an impressive 32.6% from its six-year low in April 2016. Revenue growth is expected to slow markedly to 5.4% in 2019 and 7.5% in 2020 from an 11.9% gain in 2018. That's expected to lead to earnings gains of 5.9% in 2019 and 12.4% in 2020, following a 7.6% gain in 2018. Forecasted STRG was down to a 34-month low of 5.8% in February from 6.6% in January and down from a four-year high of 9.6% in January 2017. STEG has improved to 7.0% from a 10-year low of 6.6% in late January but remains well below its cyclical peak of 17.5% in March 2017 and is below LTEG (14.2%) again. The implied profit margin is expected to remain steady at 6.7% in 2019 before improving to 7.0% in 2020. The forward profit margin dropped 0.1ppt m/m to 6.7%, and is down from a six-year high of 7.4% in May. It's now 3.6ppts below its 10.3% record high in December 2007 and compares to a record low of 6.0% in February 2016. NERI was negative for a 13th month in February, but improved to -7.1% from a 33-month low of -9.0% in January. NERI had been positive for only three months through January 2018 after 80 months of negative readings through October 2017, and compares to an 83-month low of -10.2% in March 2016. Emerging Markets' forward P/E of 11.6 is up from a 56-month low of 10.0 at the end of October and compares to an eight-year high of 13.1 in January 2018. The index is only trading at a 20% discount to the World MSCI P/E, which is near the best levels since early 2013. That's up from a four-year-low 27% discount in late October, and compares to a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions ([link](#)): Analysts' recent earnings revisions through February suggest continued pessimism about profits across most of the world, but less so than previously, as most of the emerging market's NERI readings have improved from 33-month lows in January. The AC World MSCI's NERI was negative for a fifth month following 20 straight positive readings through September, but improved to -7.5% in February from a 33-month low of -8.4% in January. EM Latin America is now in the lead among all regions, but was negative for a 13th straight

month. The US was negative for a fourth month following 18 straight positive readings, as its NERI fell to a 34-month low of -7.6% from -6.2%, and is down from a corporate-tax-rate-cut-boosted record high of 21.8% last March. Here are February's scores among the regional MSCIs: EM Latin America (-2.2% in February, up from -3.4% in January), EM Eastern Europe (-3.9 [34-month low], -0.7), Emerging Markets (-7.1, -9.4 [33-month low]), AC World (-7.3, -7.6 [33-month low]), EM Asia (-7.5, -9.8 [33-month low]), AC World ex-US (-7.5, -8.4 [33-month low]), United States (-7.6 [34-month low], -6.3), EMU (-8.2, -7.5), Europe (-8.6, -8.2), EAFE (-8.8 [34-month low], -8.4), and Europe ex-UK (-9.3 [34-month low], -8.7).

MSCI Countries Net Earnings Revisions ([link](#)): NERI was positive for 3/44 MSCI countries in February, unchanged from January's lowest count since March 2016 and down from four in December. However, NERI improved m/m in February for 22/44 countries, the most since July and up from 19/44 countries improving in January. That compares to 8/44 improving in December, which was then the lowest count since April. Among the countries with improving NERI in February, the following were all at 11-month highs: Belgium, Brazil, Indonesia, and the Philippines. Among countries with weaker NERI m/m, Finland was at a 77-month low, followed by Korea (58), Hungary (48), Thailand (39), Austria (36), Peru (36), and Norway (34). The 21-month positive NERI streak for the Czech Republic is the best among countries, followed by Russia (17). South Africa's NERI has been negative for 57 straight months, followed by the negative streaks of New Zealand (33-months), Mexico (28), Pakistan (27), Denmark (19), and Germany (19). NERI turned positive in February for Brazil for the first time in nine months, but Hungary was negative for the first time in six months. The highest NERI readings in February: Brazil (1.6% [11-month high]), Russia (1.4 [16-month low]), the Czech Republic (1.0 [13-month low]), Indonesia (-0.1 [11-month high]), the Philippines (-0.5 [11-month high]), Argentina (-1.1), and Israel (-1.6). The weakest NERIs occurred this month in Peru (-20.6 [36-month low]), Hungary (-17.1 [48-month low]), Norway (-16.8 [34-month low]), Korea (-14.8 [58-month low]), Switzerland (-14.4), and Finland (-13.1 [77-month low]).

US ECONOMIC INDICATORS

Consumer Confidence ([link](#)): The Consumer Confidence Index (CCI) in February improved for the first time in four months, as the recovery in the stock market, the end of the government shutdown, and diminished worries about recession boosted consumer expectations. The CCI rebounded to 131.4 this month, after sliding from 137.9 in October to a 16-month low of 121.7 at the start of this year, as expectations surged to 103.4 after falling to a 27-month low of 89.4 in January. Meanwhile, the present situation reached a new cyclical high of 173.5 this month, after barely budging from November's prior cyclical high of 172.7 in prior months. Most of this enthusiasm reflects a very favorable job market: The percentage of respondents saying that jobs are plentiful (to 46.1% from 46.7%) continues to fluctuate around November's peak rate of 46.8%—which was the highest since January 2001—while those saying jobs are hard to get (11.8 from 12.6) fell to a new cyclical low this month. Meanwhile, the six-month jobs outlook shows a much brighter picture than it did last month—with the spread between the percentage expecting more jobs (to 18.5% from 15.3%) and the percentage expecting less jobs (12.2 from 16.2) positive again, after turning negative in January for the first time since August 2016.

Regional M-PMIs ([link](#)): Four Fed districts now have reported on manufacturing activity for February—Philadelphia, New York, Dallas, and Richmond—and collectively show only modest growth; 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 8.5 from 5.0) index accelerated for the second month since falling to a 26-month low of 1.9 at the end of last year; this index peaked at 26.7 a year ago. 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, while Richmond's (16 from -2) moved from contraction to expansion. Meanwhile, gauges for both New York (8.8 from 3.9) and Dallas (13.1 from

1.0) accelerated—with the latter continuing to rebound from its dip into negative territory at the end of last year. The new orders gauge (7.8 from 6.4) has averaged 7.4 the past three months, roughly one-third the pace of the prior six months. Billings in the Philadelphia (-2.4 from 21.3) region contracted for the first time since summer 2016, while Richmond's (19 from -11) rebounded sharply after contracting in both December and January. New York's (7.5 from 3.5) measure showed a slight acceleration this month, and Dallas' (6.9 from 11.6) posted its slowest growth since November 2016. Meanwhile, hiring was close to January's pace, according to the employment (10.7 from 11.6) index, with factories in Philadelphia (14.5 from 9.6) and Dallas (12.6 from 6.6) adding to payrolls at a faster pace this month, and New York's (4.1 from 7.4) and Richmond's (15 from 19) at a slower pace. In the meantime, inflationary pressures remained on an easing trend according to prices-paid indexes for the four regions, while the prices-received measures were a mixed bag. Here's a look at the prices-paid indexes for February versus their respective peaks during 2018: Philadelphia (to 21.8 from 60.0), New York (27.1 from 54.0), Dallas (21.8 from 54.4), and Richmond (3.0% from 5.7%). Meanwhile, Dallas' prices-received index continued to ease from June 2018's peak of 26.2, falling to 5.2 this month, while New York's measure accelerated for the second month from 12.8 in December to 22.9 this month—nearly matching its recent peak of 23.3 last June. The prices-received index for the Philly region has hovered in a flat trend around 27.5, still below its peak of 35.0 last July. Richmond's rate eased to 2.1%, not far from October's 2.8% peak. (Note: Richmond prices are not diffusion indexes but rather average annualized inflation rates.)

Housing Starts & Building Permits ([link](#)): The underlying trend in housing activity remained weak again in December—likely weather-related—while builders' optimism recovered for the second month in February. Housing starts tumbled 11.2% in December to 1.078mu (saar), the weakest since September 2016. Single-family starts fell the final four months of 2018, by 14.8%, to 758,000 units (saar), the lowest since August 2016. Volatile multi-family starts sank 20.4% after a 16.2% increase and a 3.4% decrease the prior two months; the level fell to a 16-month low of 320,000 units (saar). Meanwhile, housing completions fell to more than a one-year low. Building permits ticked up 0.3%, boosted by a 4.9% jump in multi-family permits to 497,000 units (saar); single-family permits slumped for the second time in three months, by a total of 2.9%, to a four-month low of 829,000 units. Meanwhile, the National Association of Home Builders Housing Market Index (HMI) recovered for the second month to 62, after falling from a cyclical high of 74 at the end of 2017 to 56 at the end of 2018. All three measures rose over the two-month period: current sales conditions (to 67 from 61), expected sales (68 from 61), and buyer traffic (48 from 43).

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