MORNING BRIEFING
March 25, 2019

Sense of Humor

See the collection of the individual charts linked below.

(1) The yield inversion show-and-tell. (2) A funny thing happened on the way to the next recession. (3) Lots of good material for Seinfeld. (4) Two-ring circus under the bond tent. (5) Trump is half right. (6) Meet Steve Moore, a fan of Abbott & Costello. (7) Comparing the yield curve to the business, monetary, and stock-market cycles. (8) Flat world, flat yield curve. (9) Fed study on yield curve yields less fear about a recession. (10) The secrets behind Powell's pivot. (11) Movie review: "The Mustang (+ +).

Video Podcast. In my latest video *podcast*, I discuss why the stock market is freaking out over the inversion of the yield curve.

Strategy: Standup Comedy. Standup comics must have a good sense of comedy. Similarly in our business, it helps to have a good sense of humor or at least a strong sense of irony. Consider the following recent hilarities:

(1) *Funny Fed.* Last Wednesday, the FOMC statement and Fed Chairman Jerome Powell's comments during his press conference suggested that Fed officials would be "patient" for longer than signaled in January. Instead of pausing rate-hiking until mid-year, they might keep it paused until next year. Instead of two to three hikes this year—as shown in the prior, 12/19 dot plot of FOMC meeting participants' individual rate projections—the 3/20 dot plot released on Wednesday shows no increase until next year and just one hike at that! (Find the dot plots on page three of the linked "Summary of Economic Projections," or "SEP," which the Fed releases after every other FOMC meeting.)

What's changed? Not much other than the funny morphing of the Fed's hawkish stance into a dovish one, as Melissa and I discuss below. We criticized the Fed for being too hawkish last year; now we think that the Fed may be too dovish. Talk about slapstick comedy. (See Abbott and Costello's "Who's on First.")

(2) *Seinfeld's statement.* The S&P 500 fell 0.3% last Wednesday in response to the Fed's decision to do nothing anytime soon (*Fig. 1*). (Did Jerry Seinfeld—master of making something from nothing—write the FOMC statement?) The standup pundits on the financial news channels wisecracked that the market's adverse reaction meant that investors fear that the Fed knows that the economy is in worse shape than we realize. (Let's see who has the last laugh.)

(3) *Throwing a curve.* Investors seemed to abandon any such concerns the very next day: On Thursday, all was well again as the S&P 500 jumped 1.1%. Then came Friday with a sliver of possibly portentous news, and the index dropped 1.9%—all because the US yield curve inverted ever so slightly as the 10-year Treasury bond yield fell to 2.44%, 2bps below the three-month T-bill rate; but it was still 7bps above the federal funds rate (*Fig. 2*). That raised fears of a recession, reinforced by some weak Purchasing Managers Index data out of Europe (*Fig. 3*).

That's not funny, but for a bit of comic relief, get this: The credit-quality yield spread between high-yield and Treasury bonds continued to narrow from a recent peak of 530bps to 379bps on Thursday (*Fig. 4*). So there's no recession visible in this ring of the two-ring bond circus, even though there might be in the other ring—and both under the same tent! (Plenty of clowns are competing for our attention.)

(4) *Court jesters.* Last year, there was lots of chatter about the likelihood that the 10-year Treasury bond yield was likely to rise toward 4.00% or even 5.00% as a result of Trump's deficit-widening tax cuts and the Fed's anticipated "normalization" of monetary policy. Some commentators warned that when the yield rose above 3.00%, that could spell trouble for stocks.

The yield moved decisively above that level on September 18 (*Fig. 5*). A sharp correction in the stock market ensued later that month. Now that the bond yield is down to 2.44%, the new worry is that such a low yield might be a bad omen for the economy and stocks. (Can't make this up, folks!)

(5) *Trump's jokers.* Last week, in an interview with Maria Bartiromo, President Donald Trump claimed that real GDP would have grown by more than 4.0% last year rather than 3.1% (Q4/Q4) but for the Fed's rate-hiking and quantitative tightening. At the risk of having the President tweet something about me, I'll share that I was quoted in the *Washington Post* on Friday as follows:

"Ed Yardeni, president of Yardeni Research, said 'Trump is half right' in his assertion that Powell is responsible for holding back the economy. The Fed's monetary tightening helped weaken global growth by strengthening the dollar, he said.

"'At the same time, Trump's trade wars probably offset much of the stimulative impact of his tax cuts on capital spending,' Yardeni said. 'The good news is that if the Fed is done raising rates for a while and if the U.S. and China agree on a trade deal, both the U.S. and global economies could benefit from the resulting 'peace dividend.'"

I guess that blows my chances of being nominated by the President for the remaining open seat on the Federal Reserve Board of Governors. On Friday, Trump chose Stephen Moore to fill one of the two open positions, which should liven things up on the FOMC. Steve is a visiting fellow at the Heritage Foundation, the conservative think tank. He is also a supply-sider and a close friend of both Larry Kudlow and Art Laffer. All of them have been critical of the Fed's obsessive fear of inflation and monetary tightening.

On Friday, CNBC reported: "Earlier this week, Trump spoke to National Economic Council Director Larry Kudlow. The president had seen a column in The Wall Street Journal, co-written by Moore, with the headline: 'The Fed Is a Threat to Growth.' In it, Moore argued that the 'last major obstacle to staying on this path [of economic growth] is the deflationary monetary policy of the Federal Reserve.' Trump asked his top economic advisor whether he had seen the column. Kudlow replied that he had and 'liked it a lot.'

"'Why isn't [Moore] the Fed chairman?' Trump asked rhetorically."

By the way, I've met Steve, and I like him. He has a good sense of humor. This is what he wrote in a commentary titled "Fire the Fed" at the end of last year:

"In one of the most remarkable Abbott and Costello routines in modern times, the economic wizards at the Fed again raised interest rates on Tuesday. Their crackerjack logic for doing so is to steer America on a course toward recession so they have the tools in hand to end the recession that they themselves created. Can anyone tell us who's on first?"

(6) *Brexit capers.* Last but not least, folks, see the YouTube Seinfeld segment in which George Costanza, in a fit of rage, resigns from his job and then regrets his actions. If the Brits are having regrets about voting to exit the European Union, maybe they could pick up some tips from this "Seinfeld" show. It's hilarious even though it's about nothing.

Yield Curve: The World Is Flat. In the video podcast linked above, I discuss why the stock market freaked out on Friday when the yield curve inverted. We at YRI didn't freak out because we aren't convinced that the fixed-income markets are unambiguously signaling that a recession is coming, especially given the narrowing of credit-quality yield spreads, as mentioned above.

In any event, the yield-curve spread between the 10-year Treasury bond yield and the federal funds rate is only one of the 10 components of the Index of Leading Economic Indicators (LEI). This spread fell to 15bps last week, based on weekly data, remaining slightly positive. Though it is down from last year's peak of 149bps in February, it doesn't actually weigh on the LEI until it turns negative.

As Debbie discusses below, the LEI edged up 0.2% during February (*Fig. 6*). It's been essentially flat for the past five months, though it is still on an uptrend. At a record high is the Index of Coincident Economic Indicators. It was up 2.5% y/y during February, suggesting that real GDP is growing by at least that pace (*Fig. 7*).

Here are a few more reasons not to freak out about the yield curve:

(1) *Lead time.* Prior to the last seven recessions, the yield curve inverted with a lead time of 55 weeks on average, with a high of 77 weeks and a low of 40 weeks (*Fig. 8*). Along the way, it gave a few false, though short-lived, signals during the 1980s and 1990s. The signal seems to work better the longer the curve has been inverted. It hasn't actually been negative so far.

The S&P 500 is also one of the LEI components. Not surprisingly, therefore, the yield curve has a tendency to start inverting at the same time as the start of bear markets in stocks (*Fig. 9*). If the yield curve inverts more decisively in coming days and if the stock market's dive on Friday continues, we might turn more concerned about an impending recession. We don't expect to have to do so.

(2) *Monetary cycle.* The yield curve tends to increasingly flatten and subsequently to invert during periods when the Fed is raising the federal funds rate (*Fig. 10*). That makes sense, since rising short-term rates increasingly raise the odds of a recession, which makes Treasury bonds increasingly attractive.

Just before the Fed starts lowering the federal funds rate is when the yield-curve spread is most negative; it starts moving toward positive territory as the Fed lowers interest rates faster than bond yields are falling. Once it starts ascending again, the yield curve's slope tends to steepen as the Fed stops lowering the federal funds rate and starts to slowly raise it again.

Where are we now in the monetary cycle? The tightening phase may be over for a while. This may be a pause before the Fed moves again later this year or not until next year, and with only one rate hike, assuming that the Fed's latest forecast is on the money (though its forecasts haven't been in quite some time). Or, we may be in the early phase of another easing cycle. Either way, the yield-curve spread may stay right around zero for a while, without clearly signaling a recession.

(3) *Net interest margin.* Previously, we observed that the widely held notion that a flat or an inverted yield curve causes banks to stop lending doesn't make much sense. The net interest margin has been

solidly positive for banks since the start of the data in 1984 (*Fig. 11*).

Inverted yield curves tend to be associated with periods of monetary tightening, which often trigger financial crises and credit crunches (*Fig. 12*). There's certainly no credit crunch today. Short-term business credit rose to a record high during the 3/13 week (*Fig. 13*).

(4) *Global spin.* The US bond market has become more globalized. It is not driven exclusively by the US business cycle and Fed policies. Not only is the rate of inflation low in the US but it also is around the world. However, evidence of an economic slowdown is more apparent in other parts of the world than in the US. The negative-interest-rate policies of the European Central Bank (ECB) and the Bank of Japan (BOJ) have been a major contributor to the flattening of the US yield curve, in our opinion. Low global yields make comparable US Treasury bonds attractive to investors, especially when investors turn to a risk-off mode (*Fig. 14*). Perhaps the flattening of the US yield curve reflects that the world is flat.

(5) *Fed study*. Last year, during the 6/12-13 FOMC meeting, Fed staff presented an alternative "indicator of the likelihood of recession" based on research explained in a 6/28 FEDS Notes titled "(Don't Fear) The Yield Curve" by Fed economists Eric C. Engstrom and Steven A. Sharpe. Sharpe recently forwarded to us a version updated last month.

The research finds that longer-term spreads (such as the spread between the 10-year yield and the yield on a shorter maturity security) are not as accurate in predicting recessions as a more intuitive alternative, a "near-term forward spread." The authors explain: "The latter can be interpreted as a measure of the market's expectations for the near-term trajectory of conventional monetary policy rates."

"Its predictive power suggests that, when market participants expected—and priced in—a monetary policy easing over the subsequent year and a half, a recession" was likely forthcoming. The near-term spread "predicts four-quarter GDP growth with greater accuracy than survey consensus forecasts. Furthermore, "it has substantial predictive power for stock returns," find the Fed economists. In contrast, yields on bonds "maturing beyond 6-8 quarters are shown to have no added value for forecasting either recessions, GDP growth, or stock returns."

That's a very significant statement. There's no recession warning in the near-term spread, according to the Fed study.

Fed: 'In a Good Place.' It wasn't long ago that Fed Chairman Powell's monetary policy stance was extremely hawkish (see his 10/3 interview and 12/19 press conference). He since has pivoted 180 degrees to a remarkably dovish approach, evidenced by his 1/30 press conference, as Melissa and I discussed in our 2/4 *Morning Briefing*.

In January, Powell justified his switch in stance with a watch list of downside risks to the outlook. While he turned even more dovish during his 3/20 press conference, this watch list, oddly, remained the same. More surprising to us than Powell's pivot, however, was the significant downshift in the Fed's March dot plot.

"The U.S. economy is in a good place and we will continue to use our monetary policy tools to help keep it there," Powell said in the March presser. He used the phrase "in a good place" four times. Okay, we're in a good place—but is it a different enough place than a few months ago to justify such an extreme policy reversal? Consider the following:

(1) *Falling dots*. Powell told us in a recent speech not to look too closely at the SEP's dot plot of FOMC meeting participants' estimates of the federal funds rate and other key economic variables. Powell reemphasized this during his March press conference: "[T]he interest rate projections in the SEP are not a Committee decision. They are not a Committee plan." But Melissa and I can't take our eyes off it! It seems so odd to see the federal funds rate median forecast change as much as it did, from two hikes to zero hikes for 2019. Other variables admittedly turned more dovish, but the story they tell hasn't changed much: federal funds (2.9% in December, 2.4% in March), unemployment rate (3.5, 3.7), personal consumption expenditures (PCE) deflator headline inflation (1.9, 1.8), core PCE (2.0, 2.0), and GDP (2.3, 2.1).

(2) *Five downgrades*. Powell repeatedly has stressed that the Fed remains data dependent versus tied to a set plan, and that the Fed Statement is more indicative of the policy path than the SEP's dot plot—including during his March presser. Indeed, the wording of the 3/20 statement used downgraded language versus the prior statement for the following data: slowed economic growth, slower growth of household spending and business fixed investment, continued low market-based measures of wage inflation and survey-based measures of longer-term inflation expectations. Duly noted, but the question remains: Is the data deterioration commensurate to the policy change?

(3) *Patient list.* Beyond the data, Powell listed the same uncertainties the Fed has been watching for a while: slowed growth in Europe and China, unresolved policy issues including Brexit and global trade, tighter domestic financial conditions, muted global inflation, and weak domestic labor force participation among prime age workers. The two newer items also mentioned—"mixed" US data (such as the downgrades listed above) and slower domestic growth than expected—don't justify a drastic policy change. Growth isn't all that much slower, according to the dot plot.

(4) *Secret list*. So why has the data-dependent Fed turned so much more dovish if the data suggest the outlook hasn't changed much? We have our suspicions. For starters, it seems that Powell may have succumbed to his critics, particularly more dovish FOMC voters (who took their seats in January), the stock market (that freaked out over his hawkish comments late last year), and President Donald Trump (with whom he had an "informal" dinner on 2/4). Most importantly, the Fed may hesitate to raise short-term rates when the yield curve is so flat, as discussed above, and before the balance-sheet normalization plan is complete.

Movie: The Mustang (+ +) (*link*) is about Roman Coleman, a tough inmate in a Nevada prison. He participates in a rehabilitation program that trains wild horses so they can be auctioned off to farmers and the border patrol rather than put to death. The spirited mustang Roman has been assigned seems to do a better job of taming Roman than Roman does of taming the horse. I have to admit that in movies with animals pitted against humans, I more often than not root for the animals. This is probably my reaction to the increasing incivility in human society.

CALENDARS

US. Mon: Dallas Fed Manufacturing Index 9.6, Chicago Fed National Activity Index -0.25. **Tues:** Consumer Confidence 132.0, Housing Starts & Building Permits 1.220k/1.300k, S&P CoreLogic 20-City Composite 0.3%m/m/4.0%y/y, Richmond Fed Manufacturing Index. (DailyFX estimates)

Global. Mon: Germany Ifo Business Climate, Current Situation, and Expectations Indexes 98.5/102.9/94.0, Japan All Industry Activity Index -0.4%. **Tues:** Germany GFK Consumer Confidence 10.8, France GDP 0.3%q/q/0.9%y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index drop 0.8%, ranking 27th of the 49 global stock markets we follow in a week when 20/49 countries rose in US dollar terms. That compares to the prior week's 24/49 ranking, when the US MSCI rose 2.9% for its biggest gain of the year as 40 markets rose. The AC World ex-US index fell 0.3%; that performance compares to a 2.7% gain a week earlier. Among the regions, EM Asia rose 1.1% for the best performance, ahead of EM Eastern Europe (0.9) and EMEA (0.2). EM Latin America was the worst performer with a drop of 4.8%, followed by EMU (-2.4), BRIC (-0.8), and EAFE (-0.4). The Philippines was the best-performing country, rising 3.5%, followed by Taiwan (2.8), Indonesia (2.5), Japan (2.5), and Korea (2.4). Of the 24 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 7.5%, followed by Brazil (-7.3), Argentina (-5.9), Chile (-3.9), and Ireland (-3.6). The US MSCI's ytd ranking improved to 11/49 from 13/49 a week earlier, with its 12.0% ytd gain ahead of that of the AC World ex-US (9.9). All regions and nearly all countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (12.9), EM Asia (11.3), and EM Eastern Europe (10.1). Regions underperforming the AC World ex-US: EM Latin America (5.7), EMEA (6.8), EMU (9.0), and EAFE (9.5). The best country performers ytd: Colombia (26.8), China (16.9), Egypt (15.8), Canada (14.3), and Belgium (14.1). The worst-performing countries so far in 2019: Morocco (-4.4), Sri Lanka (-3.1), and Argentina (-0.5).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes fell last week as MidCap and SmallCap slipped for the third time in four weeks. LargeCap's 0.8% drop was smaller than the declines posted for MidCap (-2.2%) and SmallCap (-3.1). LargeCap ended the week 4.4% below its record high on September 20, with MidCap and SmallCap 9.5% and 16.4% below their August 29 records, respectively. Among the 33 sectors, just nine moved higher last week compared to 30 rising a week earlier. The biggest gainers in the latest week: LargeCap Consumer Discretionary (1.2%), SmallCap Energy (1.0), and LargeCap Real Estate (0.9). SmallCap Financials (-6.4) was the biggest decliner last week, followed by MidCap Financials (-5.9) and LargeCap Financials (-4.8). In terms of 2019's ytd performance, all three indexes are still off to a good start. LargeCap now leads with an 11.7% gain ytd, ahead of MidCap (11.5) and SmallCap (8.7). All 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: SmallCap Energy (21.0), MidCap Tech (19.4), LargeCap Tech (18.2), SmallCap Materials (16.7), and MidCap Energy (16.6). SmallCap Financials (2.3) is the biggest underperformer so far in 2019, followed by LargeCap Health Care (4.8), SmallCap Consumer Staples (6.1), and SmallCap Health Care (6.1).

S&P 500 Sectors and Industries Performance (*link*): Five of the 11 of the S&P 500 sectors rose last week, and seven outperformed the S&P 500's 0.8% decline. That compares to all 11 rising a week earlier, when four outperformed the S&P 500's 2.9% gain. Consumer Discretionary was the best-performing sector, with a gain of 1.2%, ahead of Real Estate (0.9%), Consumer Staples (0.7), Utilities (0.4), Tech (0.4), Energy (0.0), and Communication Services (-0.1). Financials was the biggest underperformer, with a drop of 4.8%, followed by these underperforming sectors: Materials (-2.0), Industrials (-1.5), and Health Care (-1.5). 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 six sectors have outperformed the S&P 500's 11.7% rise ytd: Information Technology (18.2), Real Estate (15.5), Energy (14.3), Communication Services (14.2), Industrials (13.4), and Consumer Discretionary (13.2). The ytd laggards, albeit with gains: Health Care (4.8), Financials (6.4), Materials (7.5), Consumer Staples (9.5), and Utilities (10.4).

Commodities Performance (*link*): Last week, the S&P GSCI index rose 0.4% as 15 of the 24 commodities moved higher. That compares to a 2.5% gain a week earlier, when 16 commodities moved higher. The index is still in a correction with a drop of 13.6% from its high in early October after being down as much as 26.9% on December 24. Lean Hogs was the strongest performer for a third straight week as it rose 10.6%, ahead of Feeder Cattle (3.8%) and Unleaded Gasoline (2.4). Coffee was the biggest decliner, with a drop of 4.0%, followed by Copper (-1.8) and Cocoa (-1.7). The S&P GSCI commodities index is up 16.0% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (56.9), Unleaded Gasoline (45.2), Crude Oil (30.0), Brent Crude (24.1), and Nickel (21.7). The biggest laggards in 2019: Cocoa (-10.6), Kansas Wheat (-9.0), Coffee (-7.8), Wheat (-7.4), and Natural Gas (-5.9).

S&P 500 Technical Indicators (*link*): The S&P 500 price index fell 0.8% last week and weakened relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). While the index's 50-dma relative to its 200-dma improved for a sixth straight week, it remained in a Death Cross for a 16th week. It had been in a Golden Cross for 137 weeks through late November, and 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 -0.4% is at a 16-week high and 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 seventh time in eight weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. However, the index dropped to 2.2% above its rising 50-dma from 4.0% a week earlier, and is down from 6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for an eighth 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 weakened to 1.8% above its rising 200-dma from a 23-week high of 2.7% above its rising 200-dma 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*): Eight of the 11 S&P 500 sectors traded above their 50-dmas, down from 11 a week earlier. Financials, Health Care, and Industrials all moved below their 50-dmas in the latest week. Still, that's a dramatic improvement from early January when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows eight sectors trading above currently, down from nine a week earlier as Financials moved back below in the latest week and joined Energy and Materials. 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 represented 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. Six sectors are now in the Golden Cross club (with 50-dmas higher than 200-dmas), up from four a week earlier. In the latest week, Consumer Staples rejoined the club for the first time in eight weeks and Industrials for the first time in 18 weeks. At the end of November, Consumer Discretionary and Tech left the Golden Cross club for the first time since April 2016. Among the laggards, Materials has been out of Golden Cross territory for 47 straight weeks, Financials for 23 straight weeks and during 35 of the past 39 weeks, Energy for 19 weeks, and both Consumer Discretionary and Tech for 17 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 have rising 50-dmas, unchanged since five weeks earlier when Utilities and Consumer Staples turned up. Six sectors have rising 200-dmas, down from seven a week earlier, as Consumer Discretionary turned down after rising for 10 weeks. Other sectors in the falling 200-dma club include Energy, Financials, Industrials, and Materials. 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*): February's Leading Economic Index (LEI) posted its first gain in five months, returning to September's record high. The LEI advanced 0.2% last month after holding just below September's high the prior four months. Before the recent declines, the LEI hadn't posted a loss since October 2016. The LEI is up 3.1% y/y, slowing from September's 6.6%—which was the strongest since February 2011. The Conference Board notes: "Despite the latest results, the U.S. LEI's growth rate has slowed over the past six months, suggesting that while the economy will continue to expand in the near-term, its pace of growth could decelerate by year end." Six of the 10 LEI components contributed positively last month, led by stock prices (0.22ppt), with the leading credit index (0.08) and consumer sentiment (0.06) rounding out the top three contributors. The interest rate spread (0.03), real core capital goods orders (0.02), and real consumer goods orders (0.01) were more modest contributors. The labor indicators—the average workweek (-0.13) and jobless claims (-0.02)—were the only negative contributors, while building permits and the new orders diffusion index showed no change.

Coincident Indicators (*link*): The Coincident Economic Index (CEI) in February continued to reach new record highs, posting only one decline since July 2013. The CEI advanced 0.2% last month after recording gains of 0.1% and 0.4% the prior two months; it's up 2.5% y/y—holding near last August's recent high of 2.6%. All four components contributed positively last month—with each continuing to reach new record high: 1) Real personal income—excluding transfer payments—replaced employment in the number-one spot, climbing for the fifth straight month, by 0.3% m/m and 2.2% during the five months through February. It's up 3.4% y/y—the fastest since October 2015. 2) Real manufacturing & trade sales increased for the 12th time in 13 months, by 0.2% m/m and nearly 3.0% over the period. 3) February's industrial production edged up 0.2% after a 0.4% decline in January, as weakening car sales during the first two months of the year depressed factory production, which fell 0.9% over the two-month period. 4) Employment was knocked from the number-one spot as weather and the government shutdown likely impacted last month's job count. February saw the worst month for job creation since September 2017, rising only 20,000 (160,000 below consensus expectations), following average monthly gains of 269,000 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 a slight acceleration in growth this month, though the rate remains anemic. We average the composite, orders, and employment measures as data become available. The composite (to 8.7 from 2.4) index showed growth was the slowest since November 2016 this month; the index averaged 22.8 during H1-2018. The Philadelphia region's composite (13.7 from -4.1) index shows growth expanding again this month after turning negative in February for the first time since May 2016, though is growing at roughly half the pace of H2-2018; New York's (3.7 from 8.8) gauge was the weakest since May 2017. The new orders gauge (2.5 from 2.6) remained near 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 (1.9 from -2.4) region moving from contraction to expansion, while New York's (3.0 from 7.5) showed a deceleration in growth. Meanwhile, the employment (11.7 from 9.3) measure shows hirings close to February's pace, with Philadelphia (9.6 from 14.5) factories adding to payrolls at a slower pace this month and New York's (13.8 from 4.1) at a faster pace.

Existing Home Sales (*link*): Existing home sales rebounded at a double-digit rate in February to an 11-month high. "A powerful combination of lower mortgage rates, more inventory, rising income and higher consumer confidence is driving the sales rebound," noted Lawrence Yun, NAR's chief economist. Existing-home sales—tabulated when a purchase contract closes—soared 11.8% (the biggest monthly gain since December 2015) to 5.51mu (saar), more than reversing the 5.6% slide the prior three months. Regionally, sales rose in three of the four regions last month, led by big gains in the two largest markets—the West (16.0%) and South (14.9)—with Midwest sales 9.5% higher. Northeast sales were flat with the January level, though it's the only region with sales above a year ago, up 1.5% y/y. February single-family sales jumped 13.3% to a one-year high of 4.94mu (saar) after declines of -2.0

and -3.9 the previous two months. Volatile multi-family sales were unchanged at 570,000 units (saar) after a 3.6% gain and a 5.2% loss the prior two months. The number of single-family homes on the market at the end of February increased to 1.44 million—2.9% above a year ago. “It is very welcoming to see more inventory showing up in the market,” said Yun. “Consumer foot traffic consequently is rising as measured by the opening rate of SentriLock key boxes.” NAR’s data for key access to unlock a home was measurably higher in January and February than in H2-2018.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): “US businesses reported a softer end to the first quarter, with output growth easing to the second lowest recorded over the last year. The PMI survey data nevertheless remain encouragingly resilient, indicative of the economy growing at an annualized rate in excess of 2% in the first quarter, suggesting some potential upside to many current growth forecasts,” according to IHS Markit’s report. Private-sector companies expanded at the slowest pace in six months this month, according to flash estimates, though the C-PMI (to 54.3 from 55.5) was still within 2.3 points of last May’s 37-month high of 56.6. Both the manufacturing and service sectors slowed, according to flash estimates. The M-PMI (52.5 from 53.0) shows growth for manufacturers was the slowest in 21 months, as softer growth in output, new orders, and employment all weighed on the headline PMI; production increased at the slowest pace since June 2016 and orders at the slowest in just under two years. The worry is that manufacturing woes are spreading to service providers; however, while the NM-PMI (54.8 from 56.0) eased to a two-month low in March, it remained well above the neutral 50.0 level, and signaled a solid overall upturn in business activity across the service economy. Input cost inflation was modest this month for service industries, with the latest survey pointing to the slowest rise in operating expenses in two years.

Eurozone PMI Flash Estimates (*link*): The Eurozone economy lost momentum again in March, according to the flash estimate, expanding only modestly as manufacturers reported their steepest contraction in six years. The Eurozone’s C-PMI (to 51.3 from 51.9) in March, has fallen fairly steadily since its recent peak of 58.8 during January 2018. The M-PMI (47.7 from 49.4) sank to a 71-month low as downturns in factory output and new orders were the weakest in nearly six years for the former and 75 months for the latter. The drop in orders was fueled by the largest fall in new export orders since August 2012. The services sector was more resilient, with the NM-PMI (52.7 from 52.8) easing only slightly, remaining above the rate at the start of the year. That said, the rate of expansion remained well below that seen at this time last year and subdued compared to the average recorded during 2018. Looking at the top two Eurozone economies, Germany’s C-PMI (51.5 from 52.8) showed its slowest rate since June 2013, with new orders contracting for a third successive month. The NM-PMI (54.9 from 55.3) indicates service-sector growth remained robust, while the M-PMI (44.7 from 47.6) revealed that manufacturing activity fell at the sharpest rate since August 2012. Meanwhile, France’s C-PMI (48.7 from 50.4) contracted for the third time in four months, as both the NM-PMI (48.7 from 50.2) and M-PMI (49.8 from 51.5) fell below the breakeven point of 50.0. Contributing to the downturn in France was the sharpest fall in new export business for nearly three years, with some panelists suggesting that the ‘gilets jaunes’ disruption and the postponement of Algerian elections were in part to blame. Outside the Eurozone’s two largest economies, the report notes, “the rate of output growth accelerated to its highest since last September as service sector growth hit an eight-month high. Manufacturing output stagnated, however, failing to grow for the first time since June 2013 in response to a third successive monthly drop in goods producers’ new orders.”

Japan M-PMI Flash Estimate (*link*): “Further struggles for Japanese manufacturers were apparent at the end of Q1, with latest flash PMI data showing a sustained downturn,” according to IHS Markit. Japan’s M-PMI remained at February’s 32-month low of 48.9, dropping precipitously since last November; it was at a cyclical high of 54.8 at the start of last year. Reduced demand from domestic and international markets caused the sharpest cutback in output volumes in almost three years. Firms appear to be anticipating further troubles in the short term, as weaker growth in China and prolonged global trade frictions kept business confidence well below its historical average this month.

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