



MORNING BRIEFING

April 23, 2019

Tale of Two Countries

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

(1) Bull market appears in two recent cover stories. Time to worry? (2) Bull/Bear Ratio staged V-shaped recovery since last Xmas. (3) There was growth in the winter, and there will be more of it in the spring. (4) Will Trump save China? (5) China is getting less bang per yuan for its fiscal and monetary stimulus. (6) OECD report says China has some homegrown, structural problems that need to be fixed. (7) Chinese trade data was weaker than widely perceived during Q1-2019. (8) Latest Chinese GDP and production stats were strong thanks to government stimulus. (9) Explosion in Chinese bank loans is cushioning the decline in economic growth with less effect.

The Bull Market: Cover-Story Jinx. The bull market was the subject of two cover stories recently in two major financial magazines. Often when that has happened in the past, a bear market was just around the corner, as I reviewed in Chapter 15 of my book, [Predicting the Markets](#).

The 9/17/18 *Business Week* featured a story titled “A Very Long Bull Market.” A few days later, on 9/20, the S&P 500 peaked at a record-high 2930.75. It then proceeded to plunge by 19.8% through Christmas Eve, December 24. That almost made it a bear market. But the bull market recovered smartly starting the day after Christmas, and has continued to do so—recently approaching the 9/20 record high.

This year, the 4/8 *Barron's* featured a [story](#) titled “This Bull Market Has No Expiration Date.” The previous Friday (4/5), the S&P 500 closed at 2892.74. Nevertheless, the bull continues to roam in record-high territory.

Joe and I aren't concerned, and remain bullish. From a contrarian perspective, this bull market has lots going for it. Over the past year, the financial press has spilled lots of ink with stories about the increasing likelihood of a recession, which would cause a bear market. Trump's trade wars, tightening Fed policies, the flattening yield curve, and too much dodgy corporate debt were deemed the possible causes of the next recession. You've heard it before: This has been the most widely hated bull market, because the next recession has been the most widely anticipated one. This is all music to the bulls' ears.

By the way, another contrary indicator is the Bull/Bear Ratio compiled by Investors Intelligence. We've often observed in the past that the ratio works better as a bullish contrary indicator when the ratio is below 1.0, so most everyone is bearish, than as a bearish contrary indicator when it exceeds 3.0, so most everyone is bullish ([Fig. 1](#) and [Fig. 2](#)).

Sure enough, it worked great again when it plunged to a recent low of 0.86 during the last week of 2018. A 1/20 CNBC [article](#) reviewed my analysis in a story titled “A contrary indicator suggests the

market's win streak is just beginning, Wall Street bull Ed Yardeni says." Currently, i.e., as of the 4/16 week, it is 2.85, which is neither too hot nor too cold.

US Economy: Still Growing. Contrary to widespread fears of a recession, there was growth in the US economy over the winter. Real GDP rose 2.2% (saar) during Q4-2018. The Atlanta Fed's [GDPNow](#) forecast for Q1-2019 was recently raised to 2.8%.

As Debbie discusses below, the Index of Leading Economic Indicators (LEI) rose 0.4% during March to a record high ([Fig. 3](#)). Eight of the 10 components of the LEI were positive contributors to the overall index last month, which was up 3.1% y/y. The Index of Coincident Indicators edged up 0.1%, also to a record high, confirming the slow but steady growth in real GDP ([Fig. 4](#)).

Consumers remain in good shape, thanks to solid employment and real wage gains. In March, the former was up 1.7 % y/y, while the latter was up 1.6% over the same period. March preliminary data for retail sales and revisions for the previous two months boosted inflation-adjusted retail sales by 2.0% (saar) during the first three months of this year, based on the three-month average ([Fig. 5](#)). Core retail sales, which the Bureau of Economic Analysis uses to estimate personal consumption expenditures (PCE), rose 4.4% (saar) over the same period. That augurs well for PCE and GDP growth in Q1-2019.

China I: Less Bang per Yuan. Believe it or not, the 4/16 *NYT* had something positive to say about President Donald Trump in an [article](#) titled "Donald Trump, China Savior? Some Chinese Say Yes." Here is the gist of the piece:

"At dinner tables, in social media chats and in discreet conversations, some of the country's intellectual and business elite are half-jokingly, half-seriously cheering on the leader who has built a large part of his political career on China-bashing. 'Only Trump can save China,' goes one quip. Others call him the 'chief pressure officer' of China's reform and opening.

"Their semi-serious praise reflects the deepening despair among those in China who fear their country is on the wrong track. An aggressive outsider like President Trump, according to this thinking, can help China find its way again."

The latest batch of economic indicators suggests things are getting better, not worse. However, a closer look confirms that most of that recent improvement resulted from fiscal and monetary stimulus programs aimed at temporarily boosting China's economy rather than fixing its homegrown problems.

That was the message of the latest 4/16 [OECD survey](#) of China's economy: "Faced with a dampening of domestic demand and export orders, the authorities have resorted to stimulus measures involving taxes, access to credit and infrastructure investment. The stimulus risks increasing once again corporate sector indebtedness and, more generally, reversing progress in deleveraging."

China's fiscal stimulus could represent as much as 4.3% of GDP this year, according to the OECD, up from 2.9% in 2018!

China II: By the Numbers. Last week, China's National Bureau of Statistics (NBS) released GDP data for Q1-2019 along with industrial production, fixed asset investment, and property investment data for March. Like trade statistics for March, released the Friday before, these data appeared surprisingly strong. A closer look provides a mixed picture:

(1) *Exports.* The Lunar New Year holiday distorts China's trade data during the first three months of the year. It did it again this year. Merchandise exports (in yuan) increased 11.9% y/y during March,

reversing a 9.1% drop during February ([Fig. 6](#) and [Fig. 7](#)).

Because the holiday's timing shifts each year, looking at data for the first three months of the year collectively provides a clearer picture. For Q1-2019, China's merchandise exports increased just 4.9% y/y versus 8.3% y/y for the same period last year. Merchandise imports were flat y/y this year versus up 11.3% last year.

Therefore, we think that the latest trade data are not reassuring but rather suggest that China's economy is slowing. The weakness in exports growth is challenging because China relies heavily on external demand given its homegrown economic problems, as discussed in the OECD survey.

(2) *Real GDP*. For 2018, China reported real GDP growth of 6.6%, its slowest annual economic growth rate since 1990. The Chinese authorities have [reduced](#) the country's GDP growth target this year to 6.0%–6.5%.

Q1-2019 growth was 6.4% on a y/y basis, unchanged from the previous quarter ([Fig. 8](#)). However, the seasonally adjusted annual rate for the quarter was 6.8%, the best since Q2-2017. The NBS [release](#) on GDP attributed the “stable performance” during Q1 to the leadership of the CPC Central Committee, with Comrade Xi Jinping “as the core” having “spared no effort” putting “policies into effect.” In other words, the government did whatever it took to hit its growth target.

(3) *Industrial production*. China's industrial production [data](#) for March showed an increase of 8.5% y/y, the fastest pace since July 2014 ([Fig. 9](#)). The March jump seems mostly attributable to product areas that have been supported by government policies. Take, for example, the 22.2% y/y increase in cement production during March. China is by far the world's largest cement producer, [noted](#) a 7/6/18 *Forbes* article, and China's state-owned cement manufacturers “benefit from government support and access to cheap capital,” per a 2015 *Washington Post* [article](#). The latest growth rate runs counter to recent Chinese measures to curb overcapacity in the cement industry, noted a 4/18 [article](#) in Nikkei's Asian Review.

Likewise, new energy cars, up by 41.6% y/y in March, likely benefited from Chinese government policies that have “coaxed buyers and manufacturers into the electric vehicle market through subsidies and other incentives,” per a 1/11 BBC [article](#). The authorities disallow formation of new companies that manufacture only combustion-engine cars, thereby forcing the production of electric and hybrid cars. Existing companies also face quotas on the production of electric and hybrid vehicles.

(4) *Debt*. It's taking more and more debt to keep the economy growing. The ratio of industrial production to bank loans has dropped from a 2007 peak of 107 to 53 during March ([Fig. 10](#)).

Early this year, China's central bank [ordered](#) big banks to lend to small businesses. The aim is to stabilize economic growth and employment, as small private businesses represent about 80% of employment in China. Specifically, the three largest state-owned banks were told to allocate 30% of new lending to small businesses at low, close to benchmark, rates. The People's Bank of China also lowered the reserves it requires Chinese banks to hold by 1.0 percentage point, amounting to net new liquidity of 800 billion yuan (or \$116.6 billion). That was the fifth of such cuts to required reserves since the start of 2018 ([Fig. 11](#)).

The 12-month sum of China's social financing, a measure of lending that includes bank and nonbank credit, rose to a near record of 21.6 trillion yuan, or \$3.2 trillion during March ([Fig. 12](#)). Bank lending rose to a record 17.1 trillion yuan, or \$2.6 trillion ([Fig. 13](#)).

(5) *Fiscal policy*. Authorities also recently ramped up spending on infrastructure projects and lowered taxes for households and businesses, [noted](#) the 3/14 *WSJ*. (For more details, see the OECD survey linked above.) With this, fixed-asset investment (excluding that of Chinese rural households) rose 6.3% over the year-earlier three-month period, according to the NBS [release](#). Infrastructure investment (excluding electric power, heat power, gas & water) rose 4.4% y/y during the three months through March, accelerating from a recent low of 3.3% over the comparable period through September.

Interestingly, despite slower real estate sales, real estate developers also boosted investment via significantly increased borrowing. Property investment, including in commercial and residential real estate, rose 11.8% in the first three months of the year from a year earlier, compared with 10.4% in Q1-2018. The NBS [release](#) showed that the growth rate of sources of funds for real estate developers jumped 5.9% y/y in Q1-2019 compared to 3.1% for Q1-2018. Meanwhile, the National Real Estate Climate index, which measures the industry's business cycle, edged just above 100, deemed "moderate" for the first three months of the year.

The *WSJ* article quoted a Sealand Securities analyst saying that a modest pickup in infrastructure investment makes sense due to the government's support but that a rebound in property investment should be "short-lived" because of sluggish sales. Ding Zuyu, co-president of property consultancy E-House, [told](#) Bloomberg: "The government wants neither a surge nor a slump in real estate, only a stabilized one."

We question the sustainability of the Chinese government's initiatives. But they seem to be successful at maintaining some economic momentum for now.

CALENDARS

US. Tues: New Home Sales 647k, FHFA Home Price Index 0.6%, Richmond Fed Manufacturing Index 10. **Wed:** MBA Mortgage Applications, DOE Crude Oil Inventories. (DailyFX estimates)

Global. Tues: Eurozone Consumer Confidence -7. **Wed:** Germany Business Climate, Current Assessment, and Expectations Indexes 99.9/103.6/96.0, Australia CPI 1.5% y/y, BOC Rate Decision 1.75%, ECB Publishes Economic Bulletin. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index drop 0.1%, ranking 27th of the 49 global stock markets we follow in a week when 24/49 countries rose in US dollar terms. That compares to the prior week's 30/49 ranking, when the US MSCI gained 0.5% as 35 markets rose. The AC World ex-US index rose 0.3%; that performance compares to a 0.3% gain a week earlier. Nearly all of the regions rose last week, led by EMU (0.7%), EMEA (0.4), EM Asia (0.3), and EAFE (0.3). The regions underperforming last week: EM Latin America (-0.2), BRIC (0.1), and EM Eastern Europe (0.1). Indonesia was the best-performing country, rising 2.6%, followed by Ireland (2.4), Austria (2.2), Taiwan (2.2), Mexico (1.8), and New Zealand (1.8). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Colombia fared the worst, falling 3.6%, followed by Peru (-3.5), the Czech Republic (-3.2), and Argentina (-2.8). The US MSCI's ytd ranking dropped to 13/49 from 12/49 a week earlier, with its 16.1% ytd gain ahead of that of the AC World ex-US (12.5). All regions and 43/49 countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (16.6), EMU (14.7), EM Asia (14.4), and EM Eastern Europe (13.4). Regions underperforming the AC World ex-US: EM Latin America (7.4), EMEA (9.4), and EAFE (11.7). The best country performers ytd: Colombia (24.0), Belgium (23.2), Egypt (22.2), China (22.1), and Greece (19.8). The worst-performing countries so far in 2019: Argentina (-4.5), Turkey (-3.5), Malaysia (-3.2), Morocco

(-3.1), Jordan (-1.7), and Sri Lanka (-0.1).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell for the first time in four weeks as LargeCap's 0.1% decline was smaller than the drops recorded by MidCap (-0.6%) and SmallCap (-0.7). LargeCap ended the week 0.9% below its record high on September 20, with MidCap and SmallCap 4.7% and 12.4% below their August 29 records, respectively. Among the 33 sectors, 15 moved higher last week compared to 23 rising a week earlier. The biggest gainers in the latest week: LargeCap Industrials (1.3), LargeCap Tech (1.3), MidCap Consumer Discretionary (1.1), MidCap Industrials (1.0), and LargeCap Consumer Staples (1.0). MidCap Health Care (-5.1) was the biggest decliner, followed by SmallCap Health Care (-4.8) and LargeCap Health Care (-4.4). In terms of 2019's ytd performance, all three indexes are still off to a good start. MidCap leads with a gain of 17.5% ytd, ahead of LargeCap (15.9) and SmallCap (13.9). Thirty-two of the 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: MidCap Tech (28.9), SmallCap Energy (26.8), LargeCap Tech (25.5), MidCap Industrials (23.2), and SmallCap Materials (22.4). LargeCap Health Care (-0.8) is the sole decliner so far in 2019, followed by these underperformers: SmallCap Health Care (1.6), MidCap Health Care (5.5), SmallCap Utilities (6.3), and MidCap Utilities (7.0).

S&P 500 Sectors and Industries Performance ([link](#)): Six of the 11 S&P 500 sectors rose last week, and six outperformed the S&P 500's 0.1% decline. That compares to nine rising a week earlier, when five outperformed the S&P 500's 0.5% gain. Industrials and Tech were the best-performing sectors, both with gains of 1.3%, ahead of Consumer Staples (1.0%), Consumer Discretionary (0.8), Communication Services (0.7), and Financials (0.7). Last week's biggest underperformers: Health Care (-4.4), Real Estate (-3.2), Utilities (-1.6), Energy (-0.5), and Materials (-0.5). Ten of the 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 have outperformed the S&P 500's 15.9% rise ytd: Information Technology (25.5), Industrials (21.7), Consumer Discretionary (20.8), Communication Services (19.6), and Energy (17.2). The ytd laggards: Health Care (-0.8), Utilities (8.2), Consumer Staples (12.2), Real Estate (14.3), Materials (14.3), and Financials (14.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index lost 0.4% as 10 of the 24 commodities moved higher. That compares to a 1.2% gain a week earlier, when 15 commodities moved higher (that week, the index nearly climbed out of a correction, with a drop of just 10.0% from its high in early October after being down as much as 26.9% from that high on December 24). Feeder Cattle was the strongest performer for the week, as it rose 1.2%, ahead of Live Cattle (1.0%), Unleaded Gasoline (1.0), and Lead (0.9). Natural Gas was the biggest decliner, with a drop of 6.2%, followed by Zinc (-5.4), Wheat (-4.3), and Kansas Wheat (-3.5). The S&P GSCI commodities index is up 20.4% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (58.7), Unleaded Gasoline (56.1), Crude Oil (41.1), Brent Crude (32.8), and GasOil (24.5). The biggest laggards in 2019: Natural Gas (-13.8), Kansas Wheat (-12.9), Wheat (-10.9), Coffee (-8.8), and Lead (-4.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index edged down 0.1% last week and weakened relative to its short-term 50-day moving average (50-dma), but improved relative to its long-term 200-day moving average (200-dma). However, the index's 50-dma relative to its 200-dma improved for a tenth straight week to a 22-week high, and was in a Golden Cross for a fourth week after being in a Death Cross for 16 weeks. It had been in a Golden Cross for 137 weeks through late November, and its previous Death Cross lasted 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 Golden Cross reading of 2.0% is up from 1.5% a week earlier and 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 11th time in 12 weeks, after falling for 16 straight weeks in its

worst downtrend since before the 2016 election. The index dropped to 3.1% above its rising 50-dma from 3.7% 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 a 12th 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 dropped to 5.2% above its rising 200-dma from a 28-week high of 5.3% 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](#)): Ten of the 11 S&P 500 sectors traded above their 50-dmas, unchanged from a week earlier, as Health Care remained below for a second week. That's a dramatic improvement from early January when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows nine sectors trading above currently, also unchanged from a week earlier, as Energy was below for a 28th straight week and Health Care for a second week. Nine sectors are now in the Golden Cross club (with 50-dmas higher than 200-dmas), up from eight a week earlier and the highest count since early November, as Materials turned positive for the first time in 51 weeks. Among the two laggards, Financials has been out of Golden Cross territory for 27 straight weeks and during 38 of the past 42 weeks, and Energy for 23 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). Ten sectors now have rising 50-dmas, unchanged from a week earlier, as Health Care's 50-dma fell for a second week. Health Care's 200-dma started falling for the first time in 17 weeks after mostly rising since mid-2016. Energy and Materials are the only other sectors with falling 200-dmas, which compares to just two sectors with rising 200-dmas in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Retail Sales ([link](#)): Both headline and core retail sales—which excludes autos, gasoline, building materials, and food services—rebounded to new record highs in March. Core sales accelerated 1.0% in March and 2.5% during the three months through March, after sliding 2.2% during December. (The BEA uses this core retail sales measure to estimate personal consumption expenditures each month.) Meanwhile, total sales jumped 1.6% last month—the most since September 2017—after a 0.2% loss and a 0.8% gain the previous two months; these sales had contracted 1.6% in December. We estimate real core retail sales rebounded 0.4% in March after falling 0.5% in February and accelerating 2.1% in January, while total sales advanced 0.9% after a 0.4% loss and a 1.1% gain the prior two months. We calculate core retail sales accelerated 4.4% (saar) during Q1, much faster than Q4's 1.3% and the strongest since Q2-2018—indicating that Q1 GDP growth will likely be closer to 3.0% than Q4's 2.2% rate. In March, 12 of the 13 major nominal sales categories rose—with only sales at sporting goods stores (-0.3%) in the red. Seven of the 13 sales categories had monthly gains of 1.0% or above, led by gasoline (3.5) and motor vehicle (3.1) establishments, followed by clothing (2.0), miscellaneous (1.8), furniture (1.7), nonstore (1.2), and food & beverage (1.0) retailers.

Business Sales ([link](#)): Nominal business sales in February rose for the second month to within 0.8% of October's record high, while real business sales continued to soar to new highs in January. Nominal manufacturing & trade sales (MTS) expanded 0.5% during the two months through February after contracting 1.3% the final two months of 2018, while inflation-adjusted MTS increased 11 of the past 12 months, rising at a 16-month high of 0.7% in January and 3.0% y/y, nearly triple December's yearly pace. Real sales of wholesalers reached a new record high at the start of this year, while those of manufacturers hit a new cyclical high. Meanwhile, real sales of retailers remained stalled just below November's record high.

Leading Indicators ([link](#)): March's Leading Economic Index (LEI) posted its largest gain in six months, climbing to a new record high, though the Conference Board cautions, "Despite the relatively large gain in March, the trend in the US LEI continues to moderate, suggesting that growth in the US economy is likely to decelerate toward its long term potential of about 2 percent by year end." The LEI advanced 0.4% last month after holding just below the previous record high in September, the prior five months. The LEI is up 3.1% y/y, down from September's 6.6%—which was the strongest since February 2011. Eight of the 10 LEI components contributed positively last month, while the average workweek and building permits were unchanged. Jobless claims (0.11ppt), which is at 50-year lows, was the biggest contributor to the March's LEI, followed by consumer expectations (0.08), stock prices (0.07), and the leading credit index (0.07).

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) has continued to reach new record highs, though the pace has slowed in recent months. March saw the CEI tick up 0.1% for the second month, after showing no change in January; it has recorded only one decline since July 2013. The CEI is up 2.1% y/y, slowing from 2.4% in January. Three of the four components contributed positively in March, while industrial production was a drag on the LEI for the second time this year. Here's a look at the components: 1) Employment returned to the number-one spot, as March payrolls rebounded 196,000 after February saw the worst month for job creation since September 2017 (February's job count rose only 33,000, depressed by stormy weather and the government shutdown). 2) Real personal income—excluding transfer payments—in March was only fractionally below December's record high, expanding 0.5% during the two months through March after contracting 0.6% in January. 3) Real manufacturing & trade sales increased for the fifth straight month—by 0.3% in March and 1.6% over the five-month period—to a new record high. 4) Industrial production is stalled just below December's record high, depressed by weak factory output. Headline production ticked down 0.1% last month after ticking up 0.1% in February and contracting 0.3% in January, as factory output was unchanged in March after declines of 0.3% and 0.5% the prior two months.

Regional M-PMIs ([link](#)): Both Fed districts that have reported on manufacturing activity for April so far—Philadelphia and New York—show a slight acceleration in growth for the second month, though the rates remain sluggish. We average the composite, orders, and employment measures as data become available. The composite (to 9.3 from 8.7) index showed growth accelerated for the second month, after slowing to 2.4 in February—which was the slowest since October 2016; the index averaged 22.8 during H1-2018. The New York region's composite (10.1 from 3.7) measure posted its best growth so far this year, while Philadelphia's (8.5 from 13.7) slowed a bit after moving from contraction to expansion in March. The new orders gauge (11.6 from 2.5) picked up after holding near the breakeven point of zero the prior two months. Orders in both the Philadelphia (15.7 from 1.9) and New York (7.5 from 3.0) regions picked up this month, Philly's for the second month after sinking from 21.3 in January to -2.3 in February. Meanwhile, the employment (13.3 from 11.7) index shows hirings accelerating for the third month after slowing to a 17-month low of 8.5 at the start of this year. Factories in Philadelphia (14.7 from 9.6) and New York (11.9 from 13.8) added to payrolls at a similar pace, though the former's accelerated while the latter's decelerated.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): Business activity growth slowed to a 31-month low at the start of Q2, according to flash estimates, as a less robust service sector joined another weak manufacturing performance. April's C-PMI (to 52.8 from 54.6) signaled the slowest increase in overall business activity since September 2016, as the NM-PMI (52.9 from 55.3) slowed sharply this month, to a 25-month low, while the M-PMI (52.4) was unchanged at March's 21-month low. The modest expansion in the service sector was below the series trend as new business expanded at its weakest pace in two years. Consequently, the report notes that service providers "revised down their expectations for the year

ahead and signaled a slower rise in employment.” As for the manufacturing sector, underlying data indicated that growth for both output and new orders improved this month, but was generally offset by slower increases in employment and pre-production inventories. According to the report, “Companies’ expectations of future growth slid to one of the lowest levels seen since comparable data were first collected in 2012. Only mid-2016 has seen gloomier business prospects.” Meanwhile, inflationary pressures continued to slow.

Eurozone PMI Flash Estimates ([link](#)): The Eurozone economy lost momentum again in April, according to flash estimates, as manufacturing activity continued to contract and growth in the service sector cooled. The Eurozone’s C-PMI (to 51.3 from 51.6) continued to fall from its recent peak of 58.8 during January 2018, remaining in its worst growth spell since 2014. The M-PMI (47.8 from 47.5) remained below 50.0 for the third month, as new orders contracted for the seventh consecutive month and orders for the third month; these declines were the steepest in six years—with the exception of those seen in March. Meanwhile, the NM-PMI (52.5 from 53.3) reveals growth eased from March’s four-month high, as new business growth slowed and backlogs of work declined; employment growth was at a five-month high. The NM-PMI peaked at 58.0 at the start of last year. Looking at the top two Eurozone economies, Germany’s C-PMI (52.1 from 51.4) improved slightly from March’s 69-month low, as the NM-PMI (55.6 from 55.4) showed service-sector growth was marginally faster than March, while the M-PMI (44.5 from 44.1) revealed manufacturing’s growth contracted at a somewhat slower rate. Meanwhile, France’s C-PMI (50.0 from 48.9) returned to the breakeven point of 50.0, as the NM-PMI (50.5 from 49.1) moved from contraction to expansion, while the M-PMI (49.6 from 49.7) held just below 50.0. Outside the Eurozone’s two largest economies, the report notes, “the rate of output growth sank to the lowest since November 2013, with new orders and jobs growth likewise slackening. Only modest expansions were seen in both manufacturing and services during the month.”

Japan M-PMI Flash Estimate ([link](#)): “Japan’s manufacturing sector remained stuck in its rut at the start of Q2, with the factors which have prohibited any growth such as US-Sino relations, growth fears in China and the turn in the global trade cycle, all remaining prominent risks,” according to IHS Markit. Japan’s M-PMI (to 49.5 from 49.2) contracted for the third month in April, according to the flash estimate, as export orders fell at a steeper pace, while domestic demand remained weak.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

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