



MORNING BRIEFING

May 8, 2019

Slowing But Growing

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

(1) A global soft patch, or something worse? (2) Still counting on a “peace dividend” and on a global productivity boom. (3) Neither boom nor bust in April global PMIs. (4) No recession in commodity prices or in global forward revenues. (5) US transportation indicators may be slowing, or stalling at record highs. (6) Is the US trucking industry downshifting? (7) The Q1 earnings recession has been called off.

Global Economy: Slow-Mo Mode. The bad news is that the global economy is still slowing. The good news is that similar soft patches in the past were followed by faster growth. They’ve been refreshing pauses, unless they led to recessions.

Debbie and I are assuming, of course, that the global economy isn’t heading in that widely feared direction. That’s consistent with the latest batch of global PMIs for April ([Fig. 1](#)). We are still betting that a US-China trade deal will be a done deal within the next few weeks. We expect that will boost global stock markets on expectations that the deal could provide a lift to global economic growth. Such a “peace dividend” could be long lasting.

Furthermore, although global growth is slowing, labor markets around the world have continued to tighten as a result of aging demographic trends. We expect that the result could be a global productivity boom. Let’s review the latest global PMIs and a couple of other relevant indicators of global growth:

(1) *Global composite PMIs.* In April, the JP Morgan Global Composite Output Index (C-PMI) fell back down to January’s reading of 52.1 after rising to 52.7 in March; it was the 79th straight month of expansion but the slowest since September 2016. The global service sector outpaced the manufacturing sector for the 13th straight month, though both slowed in April.

Last month’s C-PMIs showed growth in the emerging economies (52.4, down from 52.9) and advanced economies (52.0, down from 52.7) both slowed. They grew at roughly the same pace, though the former is near recent highs, while the latter has slowed to its weakest pace since September 2016.

(2) *Global M-PMIs.* The JP Morgan Global M-PMI fell steadily from December 2017’s seven-year high of 54.4 to 50.3 this April—the lowest reading since June 2016. The emerging economies’ M-PMI (50.5, down from 51.0) deteriorated slightly last month, after improving the prior two months from January’s 49.5 low—which was the first reading below 50.0 since mid-2016. Meanwhile, the M-PMI for the advanced economies (50.3, up from 49.9) improved slightly after a brief dip below 50.0 in March.

(3) *Global NM-PMIs.* Growth in the service sector eased to a three-month low in April. The headline index has signaled expansion throughout the past 117 months. The JP Morgan Global NM-PMI fell from 53.7 to 52.7 last month; it had peaked at 54.8 during February 2018.

The NM-PMI for the emerging economies eased to 53.2 in April, after jumping from 52.1 in February to

53.7 in March—which was just shy of its recent peak of 53.8. Meanwhile, the NM-PMI for the advanced economies (52.6, down from 53.7) was back down near January's 28-month low of 52.5.

(4) *Commodity prices*. By the way, our favorite indicator of global economic activity is the CRB raw industrials spot price index ([Fig. 2](#)). It's been going nowhere fast for the past year. It seemed to be rebounding earlier this year, but is meandering again in recent days, confirming the slow-go mode of global PMIs.

(5) *Revenues*. To track global growth, we also monitor weekly forward revenues of the US, Developed World ex-US, and Emerging Markets MSCI stock composites ([Fig. 3](#)). All three remained on uptrends that started in 2006 through the 4/25 week. There's no sign of a recession in these indicators.

US Transportation: Cruise Control. The global economic soft patch may be starting to weigh on several key US transportation indicators. They've all cruised to record highs during the current expansion, but may be starting to stall or to cruise at a slower speed. Consider the following:

(1) *West Coast port traffic*. There's a relatively good correlation between the trends in real US merchandise exports and the 12-month sum of outbound container traffic at the West Coast ports ([Fig. 4](#)). The fit is even better between real US merchandise imports and the 12-month sum of inbound container traffic at these ports ([Fig. 5](#)).

The outbound series has been weakening in recent months through March within a flat range since early 2017. That confirms that real exports have stalled over this same period. Meanwhile, the inbound series remains on an uptrend in record-high territory through March.

Not surprisingly, the difference between outbound and inbound container traffic at the West Coast ports (using 12-month sums for both) is highly correlated with the 12-month sum of the US real merchandise trade deficit ([Fig. 6](#)). The former series suggests that the trade deficit remains in a widening trend.

(2) *Railcar loadings*. The trend in the 12-month sum of outbound plus inbound container traffic at the West Coast ports is correlated with the trend in railcar loadings of intermodal containers (using the 52-week average of this series) ([Fig. 7](#)). That makes sense since the containers include goods that must be shipped to the ports for export or shipped from the ports for imports. Both series have stalled at record highs so far this year.

On a 26-week moving average basis, the weakness in intermodal rail car loadings so far this year appears to be in line with previous seasonal weakness this time of the year ([Fig. 8](#)).

By the way, we've found a close fit between auto sales in the US and US railcar loadings of motor vehicles ([Fig. 9](#)). Both have stalled out just below their 2016 cyclical highs.

(3) *Truck freight*. The ATA truck tonnage index fell 3.6% during the two months through March ([Fig. 10](#)). It is still up 1.8% y/y, but that's the slowest pace since April 2017 ([Fig. 11](#)).

Payroll employment in the trucking industry was flat during April at a record high of 1.52 million. Is that a sign of weakness or rather a shortage of truck drivers? Hard to say. We note that the average hourly earnings for truckers rose 4.5% y/y during March, well outpacing the 3.2% increase for all workers. On the other hand, the PPI for truck transportation of freight has dropped from a recent high of 8.2% y/y to 4.6% during March. (See our [ATA Truck Tonnage Index](#).)

S&P 500 Earnings: Dodging a Recession. We can safely say that the widely feared earnings

recession didn't start during Q1-2019. An "earnings recession" is defined as two consecutive quarters of negative earnings growth on a y/y basis. At the start of the Q1 earnings season, analysts had expected earnings growth to turn negative. But with nearly 83% of S&P 500 companies having reported revenues and earnings for the quarter, earnings continue to beat forecasts, and growth is trending net positive.

As they often have done in the past, industry analysts were too aggressive in cutting their numbers going into the latest earnings season. At the worst of it, analysts had S&P 500 earnings expectations down for Q1-2019 by as much as 2.5% y/y; that was during the 4/12 week ([Fig. 12](#) and [Fig. 13](#)). During the 5/2 week, the blended figure including reported results and estimates for yet-to-be-reported results was up 1.8%. Once again, the earnings season is ending with an upward "earnings hook."

Since the earnings season started at the beginning of April, the S&P 500 index is up 3.5% through Monday's close. Why hasn't the market reacted even more positively? Obviously, investors didn't really buy into the earnings recession scare in the first place, which explains why the S&P 500 rose to a record high of 2945.83 on 4/30. On the other hand, they now have to worry about whether a US-China trade deal will happen.

Although better than expected, Q1-2019 earnings results are still markedly weaker than Q4-2018's gain of 14.3% y/y. That's obviously a tough comparison due to the boost from last year's tax cut. Nevertheless, analysts' expectations for the full year of 2019 do not seem to be fully incorporating the quarter's better-than-expected results. For this year, earnings expectations have turned downward in the past several months, projecting subdued single-digit growth, perhaps anticipating a global slowdown ahead. Additionally, profit-margin pressures are rising.

The good news is that 2020 is expected to deliver double-digit growth after low single-digit growth in 2019. But 2020 expectations haven't much budged since the initial estimates first came out. So it may just be too early to tell what 2020 will look like. Let's have a closer look at this mixed bag of earnings results and expectations:

(1) *Earnings season's tough comparison.* According to Joe, of the 413 companies in the S&P 500 that have reported through mid-day Tuesday, 76% exceeded industry analysts' earnings estimates. Collectively, the reporting companies have averaged a y/y earnings gain of 3.4% and exceeded forecasts by an average of 6.8%. On the revenue side, 58% of companies beat their Q1 sales estimates so far, with results coming in 0.2% above forecast and 5.0% higher than a year earlier ([Fig. 14](#) and [Fig. 15](#)). Joe also reports that y/y earnings growth is trailing revenue growth for the first time since the energy-sector recession during H1-2016, and only the third time since the bull market started 40 earnings seasons ago.

Joe reports that the results for Q1 so far indicate a slowdown in revenue and earnings growth from Q4. Q1 earnings growth results are positive y/y for 65% of companies, vs a higher 73% at the same point in Q4, and Q1 revenues have risen y/y for 68% vs a higher 75% during Q4.

(2) *Forward revenues rise to fresh record high.* Analysts' consensus expectations for S&P 500 revenues growth have stabilized recently and were at 5.1% for this year and 5.5% for next year during the 4/25 week ([Fig. 16](#)). Weekly forward revenues rose to a new record high during the 4/25 week ([Fig. 17](#)). This series tends to be an excellent coincident indicator of quarterly S&P 500 revenues.

(3) *Forward earnings starting to recover, maybe.* During the 4/25 week, analysts' consensus expectations for earnings growth this year are down to 3.4%, while their estimate for 2020 is down to 11.4% ([Fig. 18](#)). The fall in 2019 earnings growth expectations has been steep, dropping from 10.3%

last September. That's about two-thirds of the drop that occurred from peak to trough in 2016 during the energy recession. For now, however, 2020 expectations have remained relatively stable.

The good news is that forward earnings per share, which dipped slightly late last year and early this year, is making a bit of a comeback as of 5/2 ([Fig. 19](#)). This weekly series tends to be a good leading indicator of actual quarterly S&P 500 earnings.

(4) *Profit-margin pressures*. By the way, projected profit margins have substantially weakened for 2019. They were up around 12.5% toward the end of last year but have fallen nearly a full percentage point to 11.8% as of the 4/25 week. Many companies are simply facing rising labor and materials costs, and are mostly biting the bullet rather than passing them on. Projected profit margins for 2020 also have dropped, from 13.3% to 12.4%, as of the recent week. Declining profit-margin projections aren't unusual, but they've been fairly significant for this year and next.

CALENDARS

US. Wed: MBA Mortgage Applications, DOE Crude Oil Inventories, Brainard. **Thurs:** Jobless Claims 220k, Trade Balance -\$51.1b, PPI-FD Headline & Core 2.3%/2.5% y/y, EIA Natural Gas Report, Powell. (DailyFX estimates)

Global. Wed: Germany Industrial Production -0.5%/m/m/-2.7%yy, Japan C-PMI & NM-PMI, China Trade Balance \$33.7b, Draghi. **Thurs:** Japan Household Spending 1.6% y/y, Japan Consumer Confidence 40.3, China CPI & PPI 2.5%/0.6% y/y, Mexico CPI 4.4% y/y. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Q1 Earnings Season Monitor ([link](#)): With nearly 83% of the S&P 500 companies finished reporting revenues and earnings for Q1-2019, the y/y growth rates in revenues and earnings have slowed substantially from Q4. The revenue surprise metrics have weakened substantially, but earnings continue to beat forecasts. Of the 413 companies in the S&P 500 that have reported through mid-day Tuesday, 76% exceeded industry analysts' earnings estimates. Collectively, the reporters have averaged a y/y earnings gain of 3.4%, and exceeded forecasts by an average of 6.8%. On the revenue side, just 58% of companies beat their Q1 sales estimates so far, with results coming in 0.2% above forecast and 5.0% higher than a year earlier. Earnings growth is trailing revenue growth for the first time since H1-2016. Q1 earnings growth results are positive y/y for 65% of companies, vs a higher 73% at the same point in Q4, and Q1 revenues have risen y/y for 68% vs a higher 75% during Q4. These figures will continue to change as more Q1-2019 results are reported in the coming weeks, but less markedly than they have recently. Looking at earnings during the same point in the Q4-2018 reporting period, a lower percentage of companies (71%) in the S&P 500 had beaten consensus earnings estimates by a lower 3.6%, but earnings were up a higher 14.6% y/y. With respect to revenues at this point in the Q4 season, a higher 62% had exceeded revenue forecasts by a higher 0.8%, and sales rose a greater 7.3% y/y. The results so far for Q1 indicate a slowdown in revenue and earnings growth from Q4, but that comes as no surprise to investors. It now appears Q1-2018 will mark the 11th straight quarter of positive y/y earnings growth and the 12th for revenue growth. Looking at the Q1 results ex-Financials and Real Estate, the earnings surprise improves to 7.0% from 6.8% and growth falls to 2.5% from 3.4%. The ex-Financials and Real Estate revenue surprise of 0.2% remains at the same rate as that with all sectors included, and revenue growth excluding Financials and Real Estate would edge down to 4.9% from 5.0%.

US ECONOMIC INDICATORS

JOLTS ([link](#)): Job openings in March rebounded 346,000 to 7.488 million to within 138,000 of November's record high of 7.626 million. Hirings fell for the fourth time in five months, by a total of 217,000, to 5.660 million, while total separations sank 142,000 in March to 5.434 million. The latest hiring and separations data yielded an employment advance of 226,000 in March, 37,000 above March's payroll increase of 189,000—overstating the increase for the fourth time in five months. Those quitting their jobs fell 74,000 through the two months ending March to 3.409 million—not far from last August's record high of 3.473 million. March's private industry job openings (5.0%) has been moving back toward its record high of 5.2% posted in October and November, while the quit rate remained at 2.5%, just below its cyclical high of 2.6%. The hire rate (4.1) fell to a 14-month low. March's ratio of unemployed workers per job opening was below 1.00 for the 13th month—at 0.83—falling for the first time since November's record low of 0.79.

GLOBAL ECONOMIC INDICATORS

Germany Manufacturing Orders ([link](#)): German factory orders took a minor step forward in March after plunging the first two months of this year. "Overall, the state of orders in manufacturing points to continuing subdued development in industry over the coming months," the economy ministry in Berlin said in a separate statement. Orders ticked up 0.6% after contracting 6.0% the first two months of 2019. Foreign orders rebounded 4.2% in March, following declines of 5.8% and 2.6% the prior two months, while demand for domestic orders continued to slide, plunging 6.9% during the three months through March. The increase in foreign orders in March was led by a rebound in billings from within the Eurozone, which soared 8.6%—driven by a 15.4% surge in capital goods orders. Orders from outside the Eurozone climbed 1.4% in March, after a two-month drop of 11.0%, led by a 16.6% jump in consumer goods orders; capital goods (0.6%) orders were fractionally positive, intermediate's (-0.5) fractionally negative. The drop in domestic orders the first three months of 2018 reflected a 10.9% plunge in capital goods orders. Intermediate goods orders fell 2.8% ytd, while consumer goods orders rose 2.4% during the two months through March. Looking ahead, April's IHS Markit M-PMI (to 44.4 from 44.1) remained near March's 80-month low, posting the second-sharpest rate of contraction in 6.5 years.

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