



MORNING BRIEFING

May 30, 2019

Tapping the Brakes

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

(1) Are Transports hitting a speed bump? (2) What's shaking the movers? (3) Shipping hitting tariffs sand bar. (4) Truckers fear the growing Bezos transportation empire. (5) Rail traffic chu-chug-ging slower. (6) Air Freight & Logistics company warns supply chains are up in the air pending tariff resolution. (7) Suffering from senior moments? There are apps for that.

Transports: Speed Trap. On the surface, all seems well with the S&P 500 Transportation index. It's up 10.2% ytd through Wednesday's close, seemingly impervious to the escalating US-China trade war. But look a little closer, and you'll notice that the only reason the index is in positive territory is because the S&P 500 Railroads industry is up 23.2% ytd, helped by the trade deal with Mexico and Canada, agreed to in principle last year. The other three components haven't fared as well: The S&P 500 Airlines index has lost roughly 9.8% this month and is now up only 1.0% ytd. Air Freight & Logistics and Trucking both had been up 15%-20% ytd at different points this year; now, they're down 2.0% and 8.8% ytd, respectively.

The trade war that's slowing the global economy could be a speed trap for the US transportation industry. There's some evidence that transport companies' customers are tapping the brakes. Further wracking nerves, Amazon is entering the trucking and logistics business. I've asked Jackie to report back on what's shaking the movers. Here's her report:

(1) *Slower sailing.* AP Moller-Maersk may not be a member of the S&P 500 Transportation index, but as the world's largest shipper, its recent earnings report provides excellent insight into the world's economy and the transportation industry. The Danish company estimated that Q1 global container trade grew 1.7%, down from 3.6% last year and 5.6% in 2017. In its Q1 earnings [report](#), the company blamed the "broad-based, slowdown in all the world's main economies" and retailers that pushed forward purchases into Q4-2018 to prepare for a tariff hike.

Global container trade will increase by 1%-3% this year, AP Moller-Maersk estimated, but warned that an escalating US-China trade war could mean the low end. Risks may also arise from fiscal and monetary policy mistakes in major economies, like the US and China, as well as a messy Brexit.

The next round of tariffs President Trump has proposed could be particularly painful to the shipping industry because it affects finished products (e.g., electronics, furniture, and other retail goods) that large container ships carry, a 5/14 [WSJ article](#) explained. Dry-bulk carriers and tankers would be hurt less, as China would continue to import grain and oil from countries besides the US.

In the US, outbound container traffic from West Coast ports fell in April to the lowest pace since November 2016 based on the 12-month sum ([Fig. 1](#)). That's a bad omen for US real merchandise exports. Inbound container traffic, which is highly correlated with US real merchandise imports, has flattened recently in record-high territory ([Fig. 2](#)).

(2) *Truckers still on a roll?* So far, there's no indication that the volume of goods truckers are trucking has decreased. On the contrary, the ATA Truck Tonnage Index spiked 7.7% y/y in April to a new high ([Fig. 3](#)). However, prices for shipping are soft in the spot market. Volumes for dry van freight increased 2.4% in April y/y; however, "the national average spot van rate fell 35 cents per mile year over year due to readily available truckload capacity," according to a 5/14 [report](#) on FleetOwner.com. The Producer Price Index for truck transportation of freight rose 3.9% y/y during April, down from a recent peak of 8.2% during October ([Fig. 4](#)).

The three-month average of the ATA index is up 4.5% y/y through April, which suggests that the recent weakness in industrial production (up just 0.4% y/y through April) may be temporary ([Fig. 5](#)). On the other hand, unit sales of medium-weight and heavy trucks has stalled at a cyclical high over the past year ([Fig. 6](#)).

Payroll employment in the trucking industry has also stalled over the past three months through April at a record high ([Fig. 7](#)). This may reflect a shortage of available truck drivers given that average hourly earnings rose 4.5% y/y during March ([Fig. 8](#)).

Truckers are also under pressure because Amazon is cobbling together its own logistics and transportation operation. The online retailer recently opened "an online freight brokerage platform to connect shippers with available trucks, offering service in five Eastern states," a 4/30 [WSJ article](#) reported. At the time of the article, Amazon's rates appeared to be 4%-5% below the trucking spot market.

The trucking industry faced a similar threat a generation ago when Walmart built out its own transportation fleet, a 5/3 [Barron's article](#) noted. Walmart is now one of the largest US trucking operators, with more than 6,000 trucks, and it didn't kill the trucking industry.

Stock investors aren't waiting around for a slowdown to show up in the data. The S&P 500 Trucking stock price index, which only has one member, J.B. Hunt Transport Services, is 35.1% below the high it hit in June 2018 ([Fig. 9](#)). The index fell in December and rebounded in February, only to fall again in recent months. On Tuesday, the index broke below its December low.

Analysts expect the S&P 500 Trucking index's revenue will increase by 8.1% in 2019 and by 7.7% in 2020 ([Fig. 10](#)). However, earnings revisions have been decidedly negative, leaving estimates for earnings growth at 0.8% in 2019 and 12.7% next year ([Fig. 11](#) and [Fig. 12](#)).

The decline in the Trucking stock price index has pushed the industry's forward P/E down to 15.4, a much more reasonable level than it was in 2017, when it hit 25.5 ([Fig. 13](#)). However, the P/E is still far from the 2012 low of 8.7.

(3) *Railroad traffic slowing.* Railcar loadings are very seasonal, so Debbie and I monitor the 26-week moving average of the data to smooth it out a bit. The smoothed series does tend to weaken during the first few months of a year, but seems this year to have been doing so more than typical seasonality would account for, through the 5/25 week ([Fig. 14](#)). We blame the awful winter weather more than the trade war with China, especially since the West Coast port traffic hasn't been all that weak, as noted above.

Railcar loadings of intermodal containers was down 0.7% y/y through the 5/25 week. That's the weakest since 2/3/16. This series is highly correlated with the growth rate in industrial production, which was just 0.9% y/y through April ([Fig. 15](#)). The industry's analysts are remarkably sanguine about the

outlook for both revenues (3.0% this year and 4.4% next year) and earnings (14.6% and 12.7%) ([Fig. 16](#)).

(4) *Freight & logistics floundering too.* As global trade has grown in recent decades, the S&P 500 Air Freight & Logistics stock price index has soared. Since 1995, the index has climbed 478% compared to the 506% gain in the S&P 500 ([Fig. 17](#)). But since its record high on 1/12/18, the index has fallen 30.4%, underperforming the S&P 500's 0.1% decline.

As noted above, the industry is under threat of disruption by Amazon in addition to facing the impact of the US-China trade war. C.H. Robinson Worldwide's Q1 total revenue declined 4.4% y/y. However, the company buys capacity in the spot market, so its costs declined as well. As a result, net revenue increased 8.4% in the quarter, and net income jumped 13.7%.

CEO John Wiehoff noted that many customers built inventories in Q4 ahead of anticipated tariffs, leading to a weaker Q1. And while customers are "holding their breath and waiting for a resolution" of the US-China tariff dispute, they're also thinking about how supply chains may be redesigned if no resolution occurs; freight flows could be materially affected.

The S&P 500's Air Freight & Logistics industry is expected to grow revenue by 3.6% this year and 4.9% in 2020 ([Fig. 18](#)). Earnings are expected to increase 4.9% this year and 9.3% next year ([Fig. 19](#)). This year's earnings consensus has tumbled sharply from north of 11.0% at year-end. So far, 2020 estimates are holding steady. The industry's forward P/E has corrected sharply, standing at 12.2, near a two-decade low ([Fig. 20](#)).

Technology: Teaching Seniors New Tricks. Best Buy, retailer of mega TVs and the latest tech gadgets, is diving into health care technology. This month, it purchased Critical Signal Technologies (CST), which provides monitoring and other services to senior citizens. That follows the company's October purchase of GreatCall, another monitoring company, for \$800 million.

Monitoring services have been around for ages—recall the "I've fallen but can't get up" commercial. But a number of new tech gadgets and apps they offer can help seniors live at home. No need to hang a monitor from your neck anymore; monitoring can be done via cell phones, wearable devices, and more.

The GreatCall cell phone offers a simplified screen with large text and a button to push in case of trouble. Users can opt to get a daily, automated check-in call with questions relating to pain level and well-being, brain games, and daily health tips. Those opting for a more expensive plan can call a nurse or doctor 24/7. There's a fall-detection service for those who wear the device around their necks, and seniors can contact GreatCall to arrange a ride on Lyft.

CST offers monitoring but it also focuses on helping those with critical illnesses. CST has devices that dispense and provide reminders to take medication. Other devices can measure blood pressure, weight, glucose, pulse, and blood oxygen levels. It offers disease-specific monitoring protocols, appointment scheduling, and preventative-care compliance too. Call-center folks provide loneliness and social-isolation-calling services and outreach.

"The acquisition is a manifestation of the Best Buy 2020 strategy to enrich lives through technology by addressing key human needs. It is specifically focused on addressing the growing needs of the aging population with the help of technology products, services and solutions," a Best Buy 8/15 [press release](#) stated. "Today, there are approximately 50 million Americans over age 65, a number that is expected to increase by more than 50 percent within the next 20 years."

A quick web search revealed a 4/3 [article](#) by Allegro, a senior living developer, and a 1/21 Business Insider [article](#) that describe numerous innovative tech products for seniors. Here are a few:

- (1) ReSound has a hearing aid where volume can be controlled through an iPhone app.
- (2) Silver Mother sensors attach to pill dispensers, refrigerators, and doors, and allow family members to use an app to monitor daily activity. Notifications are sent if the senior forgets to take medication.
- (3) The Park 'N' Forget app helps you locate your car in parking lots and monitors the amount of time spent in metered parking. (Don't think you need to be a senior to like this app!)
- (4) Reminder Rosie looks like an alarm clock but records anything a senior wants to remember in the voice of a family member and will provide reminders.
- (5) Rendeвер is virtual reality designed to take seniors to places that they miss or had always dreamed of visiting. The goal is to help seniors avoid isolation and keep them engaged.
- (6) ElliQ is a robot companion by Intuition Robotics that has a moving head and acts like a voice-enabled home assistant. It facilitates video calls, sets medication reminders, arranges doctor appointments, and even plays bridge.
- (7) Noomi's wristband has artificial intelligence and sensors to monitor sleeping and eating and detect falls. Information about any changes are sent to a caregiver.
- (8) Mobile apps are providing many services. Papa connects elderly adults with college students who are paid to provide help, such as running errands, and companionship. Honor allows families to communicate with a senior's caregiver. Alzheimer Master lets families record reminders for Alzheimer's patients.

CALENDARS

US. Thurs: Real GDP & PCE 3.1%/1.2%, GDP Deflator & Core PCED 0.9%/1.3%, Jobless Claims 214k, Advance Merchandise Trade Balance -\$72.3b, Pending Home Sales 0.5%*m/m*/-0.2%*y/y*, Wholesale Inventories 0.1%, DOE Crude Oil Inventories, EIA Natural Gas Report, Clarida. **Fri:** Personal Income 0.3%, Personal Consumption Expenditures Nominal & Real 0.2%/-0.1%, Headline & Core PCED 1.6%/1.6% *y/y*, Consumer Sentiment Index 101.0, Chicago Purchasing Managers Index 54.0, Baker-Hughes Rig Count, Williams. (DailyFX estimates)

Global. Thurs: UK Gfk Consumer Confidence 012, Japan CPI Headline, Core, and Core-Core 1.2%/1.2%/1.0% *y/y*, Japan Jobless Rate 2.4%, Japan Retail Trade 0.6%*m/m*/1.0%*y/y*, Japan Industrial Production 0.2%*m/m*/-1.4%*y/y*. **Fri:** Germany Retail Sales 1.3% *y/y*, Germany CPI 0.3%*m/m*/1.6%*y/y*, Italy GDP 0.2%*q/q*/0.1%*y/y*, Canada GDP 0.7%*q/q*/1.2%*y/y*, Japan Consumer Confidence, Japan Housing Starts 984k, China IHS Markit M-PMI & NM-PMI 49.9/54.2. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) sank further below 3.00 this week, as bullish sentiment dropped further below 50.0% after being above the prior 13 months. The BBR slumped for the fourth week to 2.83 from 3.16 four weeks ago—which was the first reading above 3.00 since October. Bullish sentiment slid 7.4ppts the past four weeks, from 56.4% to 49.0%, with all moving to the correction camp, which climbed 7.9ppts (to 33.7% from 25.8%) over the period. Bearish

sentiment edged higher this week (to 17.3%) after edging lower last week—though has fluctuated in a very narrow range from 17.2% to 17.8% the past four weeks; it bounced in a range between 20.4% to 21.5% from late January through late March. The AAI Ratio declined for the second week last week to 40.6% after increasing the prior two weeks from 62.4% to 65.0%. Bullish sentiment sank to 24.7% over the two-week period, after rising the prior two weeks from 33.5% to 43.1%, while bearish sentiment slipped to 36.1% after climbing the previous three weeks from 20.2% to 39.3%.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): Consensus S&P 500 forward revenues remain stalled near a record high for a seventh week, and forward earnings rose for a sixth week to 0.3% below its record high in early December. Analysts expect forward revenues growth of 5.4% and forward earnings growth of 7.1%. Forward revenues growth is down 0.9ppt from a seven-year high of 6.3% in February 2018, but is up from a 31-month low of 5.0% in mid-February. Forward earnings growth is down 9.8ppts from a six-year high of 16.9% last February, but that's up from a 34-month low of 5.9% in late February. Prior to the passage of the Tax Cuts and Jobs Act (TCJA), forward revenues growth was 5.5% and forward earnings growth was 11.1%. Turning to the annual growth expectations, analysts expect revenues growth to slow from 8.3% in 2018 to 4.9% in 2019 and 5.3% in 2020. They're calling for earnings growth to slow sharply from 24.1% in 2018 to 3.3% in 2019 before improving to 11.1% in 2020. The forward profit margin was steady w/w at 12.1%, but is down 0.3ppt from a record high of 12.4% in mid-September. Still, that's up from 11.1% prior to the passage of the TCJA in December and compares to a 24-month low of 10.4% in March 2016. The S&P 500's forward P/E has moved higher in 16 of the past 21 weeks and peaked at an eight-month high of 17.0 in late April. It edged up less than 0.1 point to 16.5 in the latest week from an eight-week low. That's up from 14.3 during December, which was the lowest reading since October 2013 and down 23% from the 16-year high of 18.6 at the market's valuation peak in January 2018. The S&P 500 price-to-sales ratio of 2.00 is up from 1.75 during December, when it was the lowest since November 2016, and down 19% from its then-record high of 2.16 in January 2018.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins ([link](#)): Consensus forward revenues rose w/w for four of the 11 S&P 500 sectors and forward earnings for 4/11 sectors. Energy and Financials had both measures rise w/w. Forward revenues and earnings are at or around record highs for 4/11 sectors: Consumer Discretionary, Health Care, Industrials, and Tech. Energy's forward earnings is beginning to move higher now after tumbling about 25% from November to February. Forward P/S and P/E ratios are now well above their multi-year lows during December 2018 for all sectors, and are near or above their 2018 highs for four sectors: Communication Services, Real Estate, Tech, and Utilities. Due to the TCJA, the profit margin for 2018 was higher y/y for all sectors but Real Estate. The outlook for 2019 shows higher margins are expected y/y for just 4/11 sectors: Consumer Discretionary, Financials, Industrials, and Utilities. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since then, it has moved lower for nearly all of the sectors, but early signs of a bottom are appearing. During the latest week, the forward profit margin rose 0.1ppt for Energy, and dropped 0.1ppt for Utilities. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (22.2%, down from 23.0%), Financials (18.7, down from 19.2), Real Estate (15.6, down from 17.0), Communication Services (14.8, down from 15.4), Utilities (12.9, down from a record high of 13.0 in mid-May), S&P 500 (12.1, down from 12.4), Health Care (10.5, down from 11.2), Materials (10.3, down from 11.6), Industrials (10.2, down from a record high of 10.4 in mid-March), Consumer Discretionary (7.6, down from 8.3), Consumer Staples (7.4, down from 7.7), and Energy (7.2, down from 8.0).

US ECONOMIC INDICATORS

Regional M-PMIs ([link](#)): Five Fed districts now have reported on manufacturing activity for May—

Philadelphia, New York, Kansas City, Dallas, and Richmond—and show growth accelerated slightly this month. We average the composite, orders, and employment measures as data become available. The composite (to 7.6 from 5.7) index shows growth is holding near its high for this year, and was triple the pace at the end of 2018. The New York region's composite (17.8 from 10.1) measure posted its best growth this year, while Philadelphia's (16.6 from 8.4) rebounded back toward its 2019 high of 17.0 at the start of the year; the index had contracted in February. Meanwhile, Richmond's pace (5.0 from 3.0) was only slightly above April's rate, while Kansas City's (4.0 from 5.0) rate was slightly below—both are below their highs for 2019 of 16.0 and 10.0, respectively. In the meantime, Dallas' (-5.3 from 2.0) manufacturing sector was the only one of the five to contract this month, deteriorating steadily from February's 11.6. The new orders gauge (5.4 from 8.2) eased a bit from April's rate, but was identical to its average rate so far this year. Orders in the New York (9.7 from 7.5) region accelerated at its best pace of 2019 to date, while Philadelphia's (11.0 from 15.7) slowed, though beat New York's rate. Gauges for both Kansas City's (4.0 from 10.0) and Dallas (2.4 from 9.8) show orders growth heading back down toward zero, while Richmond's (0.0 from -2.0) moved back up to zero. The employment (11.3 from 10.2) index improved from April's rate—and also matched its ytd average so far this year. Regionally, it was a mixed bag: Factories in Philadelphia (18.2 from 14.7) added to payrolls at the best pace since the end of last year, while New York's (4.7 from 11.9) growth was among the weakest for the region in two years; Richmond's (17.0 from 18.0) held near its high for the year. Meanwhile, Kansas City's employment (5 from 2) measure improved slightly from April, though was roughly a third of March's pace, while Dallas' (11.6 from 4.6) was nearly double last month's rate.

Regional Manufacturing Price Indexes ([link](#)): Available May data show inflationary pressures remain on an easing trend for New York, Philadelphia, Kansas City, Dallas, and Richmond manufacturers, based on the prices-paid measures, while prices-received measures were a mixed bag. Here's a look at the prices-paid indexes for May versus their respective peaks during 2018: Philadelphia (to 23.1 from 60.0), Kansas City (13.0 from 52.0), New York (26.2 from 54.0), Dallas (7.4 from 54.2), and Richmond (2.2% from 5.7%)—with only Philadelphia showing a slight acceleration for the second month. Meanwhile, New York's prices-received measure eased for the third month, to 12.4, after accelerating the prior two months from 12.8 to 22.9—nearly matching its recent peak of 23.3 last June. The prices-received index for the Philly region eased for the second month, dropping to a 16-month low of 17.5 this month, after hovering in a flat trend around 26.0 the prior six months; it peaked at 35.0 last July. Kansas City's prices-received index has been more volatile than the rest; it accelerated for the second month in May to 15.0, after dropping from 23.0 to 7.0 the prior two months; it was at 8.0 at the end of last year. Meanwhile, Dallas' sank to 0.7 this month—the lowest since September 2016; it's been on a steep disinflationary trend since last June's 26.2 peak, while Richmond's (1.8 from 2.8) continued to ease from its 2018 peak. (Note: Richmond prices are not diffusion indexes but rather average annualized inflation rates.)

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